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The effect of implementing corporate governance studies on manufacturing companies listed on the IDX in the 2008 period on disclosure of social responsibility

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ABSTRACT

The objectives of this research observed the influence of corporate governance implementation on corporate social responsibility disclosure. Management ownership, independent board of commissioners, audit committee, and external auditors are used as proxies for corporate governance, with firm size and leverage as control variables. Corporate social responsibility disclosure as a dependent variable. The population in this study is 138 manufacturer companies, which are listed at Indonesian Stock Exchange in 2008 based on Indonesia Capital Market Directory, such us basic industry & chemicals, miscellaneous industry, and consumer goods industry. The sample was taken using the method of purposive sampling and those meeting the selection criteria were also taken. The criteria are listed companies at the Indonesian Stock Exchange in 2008 whose annual reports disclose CSR activities and can access at the Capital Market Reference Center (CMRC). The sample used was from 84 manufacturer companies. This study observed three categories of corporate social responsibility disclosure items from Hackston & Milne (2006) research. These categories are environment, product, and linkage in community. The results indicate that only an external and firm size auditor has a significant positive influence on the disclosure of corporate social responsibility. On the other hand, the percentage of management ownership, the proportion of independent commissioners, audit committees, and leverage failed to show its significant effect.

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1. INTRODUCTION

Issues regarding corporate governance began to surface, especially in Indonesia in 1998 when Indonesia was experiencing a prolonged crisis. One of the factors exacerbating the crisis that hit Indonesia was the low level of corporate governance implementation, such as the lack of transparency in company management which resulted in very weak public control. The lesson from the economic crisis is the growing awareness of the importance of good governance. Since then, both the government and investors have begun to pay significant attention to corporate governance practices.

Transparency International's 2005 survey on the Corruption Perception Index placed Indonesia in 140th place out of 159 countries surveyed with a score of 2.2. While the 2005 CLSA Asia Pacific Markets survey, the Asian CG Association placed Indonesia at the bottom (ranked 37th out of 40th in 2004) among 10 other Asian countries after Malaysia, Thailand and the Philippines.

This indicates that countries and companies that implement good corporate governance will have better access to international funding sources than those that do not implement good corporate governance. A harmonious relationship between fund owners and fund users based on trust that grows from the existence of GCG practices will guarantee both in terms of easy access to funds to support investment and business activities for companies as well as support for development and economic growth in a country.

The Indonesian government has made several efforts to encourage the implementation of GCG, including in 1999 forming the National Committee on Corporate Governance Policy (KNKCG) which issued Guidelines for Good Corporate Governance. Since 2001, The Indonesian Institute for Corporate Governance (IICG), a private institution, has conducted research on the process of implementing GCG in public companies. The results of his research, in the form of ranking the top 10 companies that have implemented GCG.

Corporate governance is a system that directs and controls the company, or regulations that regulate the relationship between the rights and obligations of the company's internal and external stakeholders. Corporate governance is a way to ensure that management acts in the best interest of stakeholders. The implementation of good corporate governance requires strong protection of the rights of shareholders, especially minority shareholders. There are two things that are emphasized in this concept, first, the importance of the rights of shareholders to obtain information correctly (accurately) and in a timely manner and secondly , the company's obligation to make accurate, timely and transparent disclosures of all information on company performance, ownership and stakeholders.

Lately there has been a trend of increasing public demand for corporate transparency and accountability as a form of good corporate governance (GCG) implementation. Presentation of quality and complete accounting information in the annual report is one of the real manifestations of its implementation. With transparent disclosure, it will provide optimal benefits for users of financial statements in making decisions. One type of disclosure is social disclosure, which is closely related to corporate social responsibility (CSR).

The application of corporate social responsibility (CSR) is a form of implementation of one of the GCG principles in a company, namely responsibility. Social responsibility can be interpreted that companies have a responsibility for actions that affect consumers, society, and the environment. Awareness of the importance of implementing CSR in this globalization era, in line with the increasing public concern for products (goods) that are environmentally friendly and policies to increase economic growth have led to the choice to carry out the development process.

Besides social economic growth, social economy, and reduced unemployment rates, it can cause social problems, such as the emergence of monopoly and oligopoly practices, environmental pollution and destruction as a result of industrial activities that do not heed the ecological balance. If these social problems are not addressed, they can hinder and even threaten the business world itself. Therefore, the business world must make real efforts to overcome these social problems as the implementation of its social responsibility in society.Because the company has a role besides providing positive benefits to the economy, it also contributes to the social conditions of the community, it is hoped that the company will not only prioritize the interests of management and owners of capital (investors and creditors) but also employees, consumers and the community. In other words, the company has a social responsibility towards parties outside the management and owners of capital.

Research related to the effect of good corporate governance on corporate social responsibility disclosure has been conducted by Nurkhin (2009), where the results stated that there was no significant effect between institutional ownership and CSR disclosure, whereas for the structure of the board of commissioners and profitability it was proven to have a significant positive effect on disclosure. CSR. Meanwhile, according to research conducted by Hidayat (2009), partially only the size of the board of commissioners has a significant effect, while the ownership structure, composition of the board of commissioners, and audit quality have no significant effect on CSR disclosure. This is in line with the results of Sulastini's research (2007) which states that the size of the board of commissioners has a significant effect on CSR disclosure.

2. RESEARCH METHOD

The object of this research is companies that are included in the manufacturing industry which are listed on the Indonesia Stock Exchange in 2008 as listed in the Indonesia Capital Market Directory which includes stock groups of basic and chemical industries, various industries, and consumer goods industries and have met the criteria to be sampled. . The reason for choosing one industry group, namely the manufacturing industry as the object of research, is because the manufacturing industry is a company that sells products to consumers, so it is important to disclose product safety and security issues to the public.

Data Collection Methods: 1). Population and Research Sample. The population in this study were all manufacturing companies listed on the Indonesia Stock Exchange in 2008 as listed in the Indonesia Capital Market Directory which includes stock groups of basic and chemical industries, various industries, and consumer goods industries and have met the criteria for sampled, 2). Data, this study uses cross-sectional data (one year), namely 2008. The type of data used is secondary data, where the data is obtained indirectly through a third party, namely the IDX Capital Market Reference Center (PRPM). The data used in this study is in the form of annual reports of manufacturing companies obtained through the IDX Capital Market Reference Center (PRPM).

Data Analysis Methods: 1). Regression Analysis. After obtaining the data needed in this study, the researcher changed the raw data into predetermined proxies. 2). Classical Assumption Test. In order for the regression analysis model used in this study to theoretically produce valid parametric values, a classical regression assumption test will be carried out first. a). Normality test, the normality test aims to test whether in the regression method, the dependent variable and independent variable both have a normal distribution or not, 2). Multicollinearity Test, Multicollinearity occurs if there is a perfect or almost perfect linear relationship between some or all of the independent variables in the regression model, 3). Heteroscedasticity Test, The heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from one residual observation to another, 4). Autocorrelation test. The aim of the autocorrelation test is to test whether in the linear regression model there is a correlation between the confounding errors in period t and the confounding errors in the t-1 period (previously).

Hypothesis Testing Techniques, to test the hypotheses in this study, the individual parameter significant test method (t test statistic), simultaneous significant test (f statistic test), coefficient of determination test (R2) was used. a). Test the coefficient of determination R2. R2 testing is carried out to determine the extent to which the ability of the independent variables to explain the dependent variable. R2 b). contains a fundamental weakness where there is a bias towards the number of independent variables included in the model. b). Simultaneous significance test (F statistical test), the F statistical test basically shows whether all the independent variables referred to in the model have a simultaneous effect on the dependent variable. c). Test the significance of individual parameters–one tail (test statistic t), According to Ghozali (2009) the t statistical test basically shows how far the influence of one independent variable individually explains the dependent variable. The basis for accepting or rejecting the hypothesis for each variable is as follows:

3. RESULTS AND DISCUSSIONS

General description of research object. the results of data analysis based on the observation of a number of variables used by governance affect the disclosure of social responsibility in manufacturing companies listed on the IDX in 2008. The sampling method used in this study is the judgment sampling method, which is a form of purposive sampling by taking a sample predetermined based on the aims and objectives of the research.

As for the criteria used in the sample research; Manufacturing companies that include basic and chemical industry stocks, various industries, and consumer goods industries listed on the IDX and whose shares were actively traded in 2008. The manufacturing company published an annual report (annual report) in 2008 and disclosed its social responsibility information to the company's annual report in 2008. Manufacturing companies whose annual report (annual report) for 2008 can be accessed at the IDX's Capital Market Reference Center (PRPM).

The manufacturing companies that were sampled in this study were 84 manufacturing companies. The manufacturing companies that became the research sample are presented in Appendix 1.

Table .1 Sample Selection

Total manufacturing companies listed on the IDX in 2008	138
Companies with incomplete annual reports	(54)
Total firms in the sample	84

Discussion of Research Results.

Descriptive statistics. In this section, we will describe or describe the data for each variable that has been processed in terms of the minimum value, maximum value, average value (mean), and skewness of each variable.

Table .2 Descriptive Statistics

	N Statistics	Minimum Statistics	Maximum Statistics	Means Statistics
INDEX	84	0.00	0.87	0.3554
KPM	84	0.0000	0.7000	0.027197
BOC	84	0.25	1.00	0.418
SIZE	84	24.48	32.02	27.8592
Lev	84	0.09	2.88	0.6128
Valid N (listwise)	84			

descriptive statistics of each variable. his. The minimum score for the social responsibility disclosure index for the smallest manufacturing company is 0.00 by PT Mayora Indah Tbk and the maximum value for the index for disclosure for social responsibility for the largest manufacturing company is 0.87 by PT Holcim Indonesia Tbk. The average social responsibility disclosure index of 84 samples of manufacturing companies listed on the IDX in 2008 was 0.3554 or 35.54%.

1. Classic assumption test.

In order for the regression analysis model used in this study theoretically to produce valid parametric values, a classical regression assumption test will be carried out first.

a. Normality test

The normality test aims to test whether in the regression method, the dependent variable and independent variable both have a normal distribution or not. A good regression model is data that is normally distributed or close to normal. In this study, to detect whether the data is normally distributed or not, we use normal graph analysis, probably a plot of standardized residuals and statistical analysis of the Kolmogorov-Smirnov test table for unstandardized residuals.

b. Multicollinearity Test

The multicollinearity test aims to test whether the regression model found a correlation between the independent (independent) variables. To test for multicollinearity, it can be done by analyzing the correlation between variables and calculating the tolerance value and variance inflation factor (VIF). A good regression model should not have a correlation between the independent variables.

Table.3 Multicollinearity Test

Model	Collinearity Statistics	
	tolerance	VIF
(Constant)		

KPM	0.863	1.159
BOC	0.946	1,057
AUDCOM	0941	1,062
AUDITS	0.802	1,247
SIZE	0.862	1,160
Lev	0.923	1,084

c. Heteroscedasticity Test,

The heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residuals of one observation to another. If the variance from the residual of one observation to another observation remains, then it is called homoscedasticity and if it is different it is called heteroscedasticity.

d. Autocorrelation Test,

Table.4 Autocorrelation Test

Summary model b					
Model	R	R Square	Adjusted R Square	std. Error of the Estimate	Durbin-Watson
1	.399a	0.159	0.094	0.20291	2008

a. Predictors: (Constant), LEV, SIZE, BOC, AUDCOM, KPM, AUDIT

b. Dependent Variable: INDEX

Hypothesis test.

a. Test the Coefficient of Determination R2

This test aims to determine how much the independent variables in this study are able to explain the dependent variable.

Table 5. Adjusted R Square

Summary model b				
Model	R	R Square	Adjusted R Square	std. Error of the Estimate
1	.399a	0.159	0.094	0.20291

The R2 value indicates a value of 0.094, this means that 9.4% of social responsibility disclosures for manufacturing companies listed on the IDX in 2008 can be explained by variations in the four main independent variables, namely management ownership (KPM), independent commissioner (BOC), audit committee (AUDCOM), and the external auditor (AUDIT) as well as the control variables, namely firm size (SIZE) and leverage (LEV).

b. Simultaneous Significance Test (F statistic test).

Simultaneous significance test (F statistical test) was conducted to find out whether all the independent variables included in the model had a joint effect on the dependent variable (Ghozali, 2009). This statistical test was carried out by looking at the significance value of F in the results of ANOVA (Analysis of Variance) processing. If the significance value of F ≤ 0.05, then the alternative hypothesis cannot be rejected or in other words the independent variables statistically affect the dependent variable together

Discussion.

The significance level of management ownership (KPM) is 0.910, greater than the significance level of 0.05. So, the H1 hypothesis is rejected. So it can be concluded that the effect of management ownership on the disclosure of social responsibility of manufacturing companies (INDEX) listed on the IDX in 2008 was positive and not significant. This is due to the small percentage of management ownership of manufacturing companies listed on the IDX in 2008.

This study provides the same results as previous research, namely Barnea and Rubin's (2005) research which found no relationship between managerial ownership and CSR, due to the small share ownership of individual management, so it has no effect on the company's decision-making process. Barnea and Rubin (2005) state that if insider ownership is at a low level (□ 25%), then there is no influence between insider ownership and CSR. Conversely, if insider ownership is at a level above 25%, then the influence between insider ownership and CSR is negative and significant.

The significance level of the independent commissioner (BOC) is 0.751, which is greater than the significance level of 0.05. So, hypothesis H2 is rejected. So it can be concluded that the influence of independent commissioners on the disclosure of manufacturing company social responsibility (INDEX) listed on the IDX in 2008 was positive and not significant. The significance level of the independent commissioner (BOC) is 0.751, which is greater than the significance level of 0.05. So, hypothesis H2 is rejected. So it can be concluded that the influence of independent commissioners on the disclosure of manufacturing company social responsibility (INDEX) listed on the IDX in 2008 was positive and not significant.

The external auditor's significance level (AUDIT) is 0.044 (□ □ 0.05). So, hypothesis H4 is accepted. So it can be concluded that the influence of external auditors on the disclosure of social responsibility of manufacturing companies (INDEX) listed on the IDX in 2008 is positive and significant. Companies that are audited by external auditors affiliated with the Big Four KAP are proven to be able to increase the disclosure of social responsibility of manufacturing companies. The level of significance in the control variable company size (SIZE) as measured by the natural logarithm of the company's total assets is 0.041, which is less than the significance level of 0.05.

The level of significance in the leverage control variable (LEV) is 0.348 (□ □ 0.05). So it can be concluded that the effect of the coefficient value of the leverage variable on the disclosure of manufacturing company social responsibility (INDEX) listed on the IDX in 2008 is a positive and insignificant relationship.

4. CONCLUSION

Partially, management ownership (KPM) has no significant effect on the disclosure of social responsibility of manufacturing companies (INDEX) listed on the IDX in 2008. Due to the small shareholding of individual management, it does not affect the company's decision-making process, the board of commissioners (BOC) did not significantly influence the social responsibility disclosures of manufacturing companies (INDEX) listed on the IDX in 2008. Because what the independent commissioner considers is competence, not composition. The competence of an independent commissioner in question is the ability (skills) possessed, knowledge (knowledge), background (background), the audit committee (AUDCOM) has no significant effect on the disclosure of social responsibility of manufacturing companies (INDEX) listed on the IDX in 2008. Because the most important thing is the quality and ability of the audit committee in internal control, not the number, external auditors (AUDIT) have a significant positive effect on the disclosure of social responsibility of manufacturing companies (INDEX) listed on the IDX in 2008. Basically, Big Four KAPs have better audit quality than non-Big Four KAPs. If the audit quality of the external auditor is good, it will be able to increase the CSR rating. This argument is based on good management in a company can increase CSR rating. Simultaneously or together, the independent variables have the ability to influence the dependent variable.

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