

# THE IMPACT OF GOOD CORPORATE GOVERNANCE AND DISCLOSURE OF CORPORATE SOCIAL RESPONSIBILITY FOR NON-FINANCIAL COMPANY PERFORMANCE IN INDONESIA

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## ABSTRACT

*This study aims to determine the impact of Good Corporate Governance (GCG) and Corporate Social Responsibility (CSR) toward Non-Financial Company's financial performance are listed in the Indonesia Stock Exchange (BEI). The sample is used in this study were 36 Non-Financial Companies listed on the Indonesia Stock Exchange (BEI) during 2010 and 2012. The data used are annual reports and sustainability reports (sustainability reporting), were analyzed by multiple regression model. The results showed that the degree of relationship between good corporate governance ( $X_1$ ) and corporate social responsibility ( $X_2$ ) with the Non-Financial performance of the company listed in Indonesia Stock Exchange has a weak relationship. While based on the coefficient of determination obtained with a value of 0.129 means that was amounted to 12.9% changes in the dependent variable (the financial performance of companies listed on the Indonesia Stock Exchange) can be explained by changes in the factors of good corporate governance ( $X_1$ ) corporate social responsibility ( $X_2$ ). While the rest of 87.1% is explained by other factors outside of the variable corporate social responsibility as above described, this is indicate that corporate social responsibility is not the only factor affecting the performance of Non-Financial Companies listed in the Indonesia Stock Exchange (BEI).*

*Keyword : Good Corporate Governance, Corporate Social Responsibility, Company Performance*

## 1. INTRODUCTION

Over a decade ago corporate governance has played an important role for the private sector around the world including companies in Indonesia. Integration of financial markets has been created competition and the risks faced by companies of capital mobilization flows so as to encourage confidence and interest of private sector companies to implement good corporate governance (GCG) included in Non-Financial sector.

The main objective application of the principles of good corporate governance of companies listed on the Indonesia Stock Exchange is to achieve optimization of the performance of the employees that essentially will improve the performance of the said organization, then the interests of management and employees should receive a balanced and fair treatment in accordance with their respective capacities.

Good corporate governance in companies listed on the Indonesia Stock Exchange implemented based on the principles of openness, fairness, and accountability in order to achieve the organization's goals, whether it is in the organization's internal mechanisms or

through an external mechanism. Internal mechanisms more focused on how leaders of an organization can set the course of the organization in accordance with the three principles. While external mechanism more emphasis on how the organization's interactions with external parties work in harmony without ignoring the achievement of organizational goals.

While the issue of Corporate Social Responsibility (CSR), discourse that is being raised in the world of multinational companies. The discourse used by the company in order to play the role of the face of the economy towards a free market. Various previous studies have shown that the number of companies doing social accountability information disclosure in its annual report growing. Many companies are increasingly aware of the importance of implementing CSR programs as part of its business strategy.

Global survey conducted by The Economist Intelligence unit showed that 85% of senior executives and investors from various organizations to make CSR as a primary consideration in the decision (the Economic News, 2006). From an economic perspective, the company will disclose the information if the information would increase the value of the company (Verecchia, 1983, in basamalah et al, 2005). By implementing CSR, it is expected the company will gain social legitimacy and able to maximize its financial strength in the long term (Kiroyan 2006, in Yosefa Sayekti et al, 2007).

## **1.2. Problem Formulation**

Based on the description above, then that becomes the formulation of the problem in this research are:

1. Is Good Corporate Governance affect the performance of the company on the Indonesian Stock Exchange (BEI).
2. Is the expression of corporate social responsibility influence the performance of the company on the Indonesian Stock Exchange (BEI).

## **II. FRAMEWORK THEORY**

### **2.1. Good Corporate Governance**

Corporate governance or corporate governance is a system used in directing and controlling the activities of the company's business. Corporate governance also implies the arrangement on the division of tasks and responsibilities between the parties or the "key players" participating and owns different interests in said the company. The parties concerned to the direction and control of the company include: the board of directors, managers, shareholders, and other stakeholders. Therefore, corporate governance can also be defined as a set of relationships between the board of commissioners, board of directors board of executive directors, stakeholders, and shareholders of a company (Darwin, 2006: 34). Refer to Archanti (2005: 6), Good Corporate Governance in the narrow sense is a system of official accountability of directors to shareholders, whereas in a broad sense covering all formal-informal network of the corporate sector and its consequences for the general public.

## **2.2. Corporate Social Responsibility**

Corporate social responsibility or Corporate Social Responsibility (CSR) is a mechanism for an organization to voluntarily integrate social and environmental concerns into their operations and their interaction with stakeholders, which exceeds the responsibilities of organizations in the fields of law (Darwin, 2006: 45).

Improving the quality of life has meaning their human capabilities as an individual member of the community to respond to the social circumstances exist, may enjoy and utilize the environment, including changes in existing as well as maintaining. Or in other words Corporate Social Responsibility is the way companies organize business processes to produce a positive impact on society, (Darwin, 2006: 47).

Darwin (2006: 46) says that the Corporate Sustainability Reporting is divided into three categories: economic performance, environmental performance and social performance. While Zhegal & Ahmed (2004: 32) identify issues relating to corporate social reporting, which is as follows:

1. Environment, includes the control of pollution, prevention or repair of the damage of the environment, nature conservation, and other disclosures relating to the environment issues.
2. Energy, including energy conservation, efficiency waterwheel, etc.
3. Fairness of business practices, including, empowerment of minorities and women, support for minority businesses, and social responsibility issues.
4. Human resources, covering activities in the community, in terms of health care, education and the arts.
5. The products, covering security, pollution reduction, etc.

## **2.3. Financial Performance**

Rate performance by Indonesian Institute of Accountants (IAI) (2004: 17), namely: "Net income (profit) is often used as a measure of performance or as the basis for other measures such as payments for investment (return on investment or ROI), or earnings per share (earnings Pershare), elements are directly related to the measurement of net (income) and expense was income, net income and therefore also depend partly to capital and maintenance of capital used in the preparation of financial statements.

To measure aspects of the company's financial performance is required financial statements. Harahap (2004: 106) says the financial statements describe the company's financial position, results of operations of the Company during the period, and the flow of funds (cash) company within a certain period. Meanwhile, according to Murtanto and Yuridya (2004: 88) the financial statements are statements that describe the financial condition and results of operations of a company at a certain time or a certain period of time and for the analysis of media is the most important to assess the achievements in the economic condition of a company.

This study uses financial indicators that measure variables of profitability in the company's financial performance. Reasons for using measures of profitability, namely: (1)

The financial performance with profitability approach is often used by researchers to measure the performance of companies. (2) The company's profitability can measure overall performance and to measure efficiency in managing the assets, liabilities and equity. (3) The shareholders of more tends to look at profitability, since the stock price stability depends on the level of profits and dividends in the future, Yuridya (2004: 89)

#### 2.4. Definition of Return On Equity (ROE)

According to Brigham and Houston (2001: 91) ROE is the ratio of net income to common stock equity, measures the rate of return on investment of shareholders. Return on Equity (ROE) explicitly analyze the profitability of the company for common stock owners. That means interest and dividends included in the analysis of profits derived by an enterprise can be divided into owners of capital such as debt (credit) preferred stock and common stock.

The understanding of ROE by Shamsuddin (2003: 64) is a measurement of earnings (income) available to the owners of the company (both common shareholders and preferred shareholders) on the capital that they invested in the company. In general, of course, the higher the return or revenue earned, the better the position of the owner of the company. Return On Equity (ROE) is calculated as follows:

$$ROE = \frac{\text{Net profit after taxes}}{\text{stockholder equity}} \times 100\%$$

### III. Research Methodology

The number of samples used in this study were 36 companies that have a Non-Financial disclosure criteria of good corporate governance and corporate social responsibility.

Table 4.1. Criteria Sample

| Criteria Sample                               | Total     |
|---|-----------|
| Total company listed on the JSE for 2010-2012 | 340       |
| Financial sector and insurance companies      | (60)      |
| Companies that do not publish reports         | 280       |
| Detailed annual observations during the year  | (161)     |
| Companies that do not disclose GCG and CSR    | 119       |
|   | (83)      |
| <b>Total Sample</b>                           | <b>36</b> |

The data were analyzed using multiple linear regression model are as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

Dimana:

- Y = Company Performance
- A = Constanta
- $\beta_{1,2}$  = Regresion Coefficient
- $X_1$  = *Good Corporate Governance*
- $X_2$  = *Corporate Social Responsibility*
- E = Error term,

#### IV. RESULTS

Hypothesis testing is done by using multiple linear regression analysis, which is to determine the effect of variable Good Corporate Governance ( $X_1$ ), and Corporate Social Responsibility ( $X_2$ ) on the financial performance of companies listed on the Indonesia Stock Exchange;

Tabel 5.1. The Impact of Good Corporate Governance and Corporate Social Responsibility of Non-Financial Company Performance

| Nama Variabel                        | B     | Standar Error | $t_{hitung}$ | $t_{table}$ | Sig   |
|--------------------------------------|-------|---------------|--------------|-------------|-------|
| Konstanta (a)                        | 2.899 | 0.172         | 16.835       | 2.022       | 0.000 |
| Good Corporate Governance (x1)       | 0.120 | 0.055         | 2.183        | 2.022       | 0.035 |
| Corporate Social Responsibility (x2) | 0.163 | 0.070         | 2.314        | 2.022       | 0.026 |

Source: Primary Data, 2014 (processed)

From the results of statistical calculations using SPSS as shown in the above table, the obtained multiple regression equation as follows.

$$Y = 2,899 + 0.120x_1 + 0.163x_2 + e$$

From the regression equation above can be seen the following results:

Regression coefficient ( $\beta$ ):

1. Constant amounted to 2,899. Its means that if the factor of Good Corporate Governance ( $X_1$ ) and Corporate Social Responsibility ( $X_2$ ), assumed to be constant, then the amount of the company's financial performance Non-Financial in Indonesia Stock Exchange (BEI) amounted to 2,899.
2. The regression coefficient of Good Corporate Governance ( $X_1$ ) of 0.120. This means that every 1% increase in Good Corporate Governance, the relative will improve the financial performance of the company amounted to 0.120%, thus Good Corporate Governance affect the company's financial performance Non-Financial in Indonesia Stock Exchange.
3. Regression coefficients Corporate Social Responsibility ( $X_2$ ) of 0163. This means that every every 1% increase in Corporate Social Responsibility, the relative would affect its financial performance amounted to 0.163%, so with the Corporate Social Responsibility, the relative would affect its financial performance Non-Financial in Indonesia Stock Exchange.

Based on the above analysis it can be seen that both variables studied, it turns out the variable corporate social responsibility ( $X_2$ ) has dominant influence on the financial performance of companies Non-Financial with regression coefficient of 0.163 percent.

## V. CONCLUSION

1. The regression models were used to prove the hypothesis shows that good corporate governance ( $X_1$ ) and Corporate Social Responsibility ( $X_2$ ) partially have a significant effect on the performance of Non-Financial Companies listed on the Jakarta Stock Exchange.
2. Meanwhile, based on the coefficient of determination obtained with a value of 0.129 at 12.9% This means that changes in the dependent variable (the financial performance of companies listed on the Jakarta Stock Exchange) can be explained by changes in the factors of good corporate governance ( $X_1$ ) corporate social responsibility ( $X_2$ ). While the rest of 87.1% is explained by other factors this is indicated that outside of the corporate variable social responsibility as above described, this indicates that corporate social responsibility and not be the only factor affecting the performance of non-financial companies listed on the Jakarta Stock Exchange (BEI).

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