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The Effect of Good Corporate Governance on Profitability with Corporate Csr Disclosure as Intervening Variables

Havit Kurniawan Purnama [1], Sri Trisnaningsih [2]

[1] Faculty of Economics and Business, Universitas Pembangunan Nasional Veteran Jawa Timur, havit.kurniawan@gmail.com

[2] Faculty of Economics and Business, Universitas Pembangunan Nasional Veteran Jawa Timur, trisnahendrawan65@gmail.com

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Abstract

This study aims to understand the impact of "GCG (institutional ownership, managerial ownership, board of commissioners, audit committee) and profitability on CSR disclosure in LQ45 companies in 2016 – 2018". Research data were obtained from "the IDX (Indonesia Stock Exchange)". This study is using "quantitative research method". The population is consisted of "LQ 45 companies listed on the Indonesia Stock Exchange in 2016 – 2018 with number of 56 companies" while the samples is 37 companies. This study is using "Partial Least Square and t test as data analysis". The results showed that "the board of commissioners and audit committee had a significant effect on profitability", while "institutional ownership, managerial ownership and corporate social responsibility had no significant effect on profitability".

INTRODUCTION

The effectiveness of financial performance is in line with the level of profitability achieved by the company. Investors can analyze the company's achievements in generating profits by comparing the company's profit growth rate from year to year. Good and significant profit growth can attract investors to invest in the company, and conversely low-profit growth will make investors withdraw their funds from the company. There are several factors that can affect the company's performance, some of the ratios that are generally of concern to analysts and investors are profitability, liquidity and the company's dividend policy. Shareholders can understand and review the company's performance from financial reports that have been audited by a public accounting firm (Nugraha et al., 2020).

Several previous studies that looked at the relationship between the implementation of good corporate governance, disclosure of corporate social responsibility and profitability were used in this study for consideration. Nurfadilah and Sagara (2015) show that the audit committee has a significant effect on CSR disclosure while managerial ownership, board of commissioners' size, profitability, liquidity, company profile and government regulations have no effect on CSR disclosure. This study shows that the variable of good corporate governance that affects corporate social responsibility is only the number of audit committee variables. Wardoyo and Veronica (2013) revealed that the size of the board of directors, ROA and ROE had a significant effect on firm value, while the size of the board of commissioners, independence of the board of commissioners, number of audit committee members and CSR did not have a significant effect on firm value. Research by Istighfarin and Wirawati (2015) indicates that institutional ownership and CGPI have a significant positive effect on profitability. The research to see the influence relationship between the two variables was conducted by Putra and Wirakusuma (2015), the results of this study indicate that GCG shows that the board of directors has a significant direct effect on firm value, while for the indirect effect the number of audit committee meetings has a significant effect on firm value. through CSR. The size and type of company industry as control variables also have a significant effect on CSR, while company age does not have a significant effect on CSR.

This study takes the context of companies. Companies that are consecutively included in the LQ45 index in the 2016 - 2018 period were selected as the population because the LQ-45 company is a company consisting of 45 issuers with high liquidity, which were selected through several selection criteria. LQ-45 is a company that has good value in the eyes of investors and potential investors, besides that it is also a company whose shares are often traded on the IDX and many investors invest in LQ-45 companies. ILQ-45 is updated every 6 months, namely in early February and August.

The implementation of GCG is needed so that a company is managed in a trustworthy, efficient, professional manner and does not harm the interests of stakeholders. One type of company that needs to implement GCG is an insurance company. An insurance company is a business that promises protection to the insured or the policyholder and at the same time collects public funds. With these two roles growing, the need for strong and reliable insurance can be felt. In order to fulfill the obligations of insurance companies to their consumers, insurance companies consisting of insurance companies, reinsurance companies and insurance business supporting companies must adhere to insurance principles. In order for insurance companies to develop better, GCG also needs to be implemented properly by insurance companies.

Many companies only carry out corporate social responsibility only as the implementation of obligations. The benefits of implementing and disclosing corporate social responsibility are more than the implementation of obligations but also to improve the company's financial performance. The principle of transparency in good corporate governance can also be reflected through the disclosure of corporate social responsibility and improving the company's financial performance through increasing profitability. This study is motivated to examine the effect of good corporate governance, disclosure of corporate social responsibility, and corporate profitability, supported by several previous studies.

METHODS

Population, Sample and Sampling Technique

The population used in this study are companies whose shares are listed on the Indonesia Stock Exchange during the 2016 – 2018 period. This study uses the 2016 – 2018 period with the consideration that the laws and regulations related to the disclosure of social responsibility began in 2007 (UUPT No. 40 of 2007). Companies that are consecutively included in the LQ45 index in the 2016 – 2018 period were selected as the population because the LQ-45 company is a company consisting of 45 issuers with high liquidity, which were selected through several selection criteria. The sampling technique was carried out using a purposive sampling technique.

The sample selection criteria used are as follows :

1. Companies that are consecutively included in the LQ45 index in the 2016 – 2018 period.
2. Has issued financial and annual reports for the period 2016 – 2018.

3. The company publishes complete and accessible financial reports.

Research Variables and Variable Operational Definitions

Variable Operational Definition

The operational definition is used to describe the definition of each variable analyzed in the study in order to avoid misinterpretation. The following will explain the operational definition of the variables used in this study, including :

1. **Good Corporate Governance**

The variable of good corporate governance referred to in this study is the mechanism of good corporate governance as measured by the following proxies :

a. **Institutional ownership**

Institutional ownership is shares owned by an institution in a company. Institutional ownership in this study is calculated using a ratio scale that can be measured using the following formula :

$$\text{KI} = \frac{\text{Number of institutional owned shares}}{\text{Number of outstanding shares}} \times 100\ \%$$

b. **Managerial ownership**

Managerial ownership is shares owned by company management within the company itself. The measurement of managerial ownership variables in this study uses the following formula :

$$\text{KM} = \frac{\text{Number of shares owned by the manager}}{\text{Total shares outstanding}} \times 100\ \%$$

c. **Independent board of commissioners**

The board of commissioners is part of the company in charge of overseeing the company's activities without being involved in management tasks and cannot represent the company in any transactions with third parties. The independent board of commissioners in this study will be measured using the proportion of independent commissioners, using the following formula :

$$\text{DKI} = \frac{\text{Number of independent board of commissioners}}{\text{Number of members of the board of commissioners}} \times 100\ \%$$

d. Audit committee

Based on the Financial Services Authority Regulation Number 29 /POJK.04/2016 concerning the Annual Report of Issuers or Public Companies regarding the form and content of financial reports that regulate corporate governance reporting, it is stated that: "The audit committee consists of at least three members who are independent commissioners and parties from outside the issuer or public company.“ In this study, the audit committee was measured by looking at the number of audit committee members in the company. In line with the audit committee that must be independent, the understanding of good governance by the audit committee has a significant effect on auditor independence, proven or supported by facts (Trisnaningsih, 2007).

2. Social responsibility disclosure

Social responsibility disclosure is a process of providing information designed to disclose matters related to social accountability that are disclosed and accounted for through annual reports or other media for delivering company information. Social responsibility disclosure in this study was measured using the following formula :

$$CSRDI = \frac{\sum Xij}{n}$$

Description :

CSRDI : Corporate Social Responsibility Disclosure Index of the j Company.

Xn : variable is measured using a dummy variable, namely 1 = if item i is disclosed, and 0 = if item i is not disclosed.

N : the number of disclosure items based on GRI, which is 79 social responsibility items.

3. Profitability

The company's profitability will show the company's ability to earn profits. In this study, profitability will be measured using a net profit margin (NPM) proxy. Through the calculation of NPM, it can be seen the company's ability to generate profits in order to provide returns to shareholders. This calculation aims to provide information about the company's ability to provide returns to shareholders. In this calculation, the net profit used is the company's profit that is ready to be distributed to shareholders, namely net profit after tax (earnings after tax or EAT), so the formula used is as follows :

$$NPM = \frac{\text{Net. Income (EAT)}}{\text{Sales}} \times 100\ \%$$

Data Analysis Method

This study will use statistical analysis in the form of validity and reliability tests as well as hypothesis testing compiled in the study. Data processing to analyze the relationship between research variables will use Partial Least Square (PLS) analysis with SMART PLS software. PLS is useful for predicting the effect and explaining the relationship between variables. The PLS approach is distribution free (it does not assume certain data, it can be nominal, category, ordinal, interval and ratio) (Ghozali, 2013: 17). PLS uses bootstrapping method or random multiplication where the assumption of normality will not be a problem for PLS. The path diagram or model in this study which is formed based on the theoretical relationship between variables is as follows :

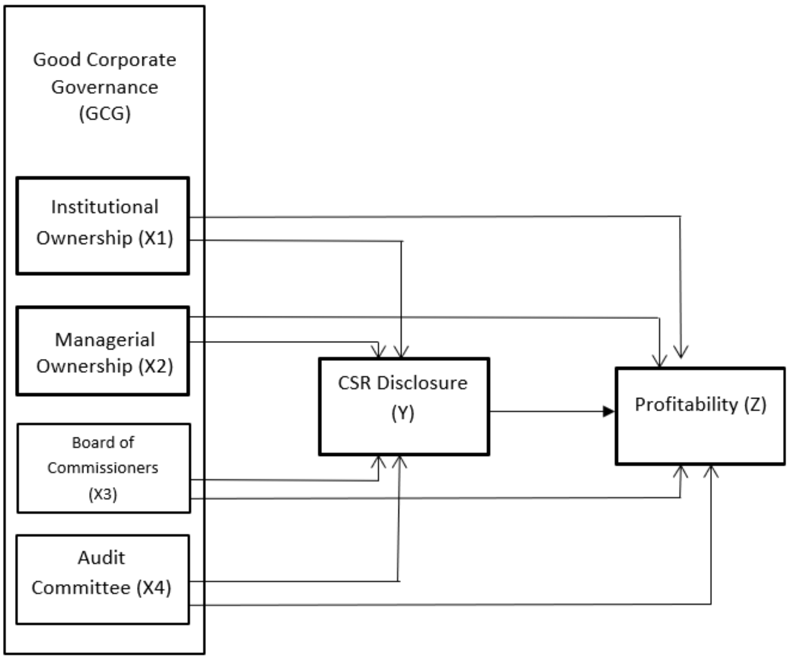

Figure 1. Research Model

Hypothesis Testing

This study conducted hypothesis testing to see how the direct influence between variables. In testing to determine the effect that occurs between variables, either directly or indirectly, a Partial Test (t test) is performed. Partial testing (t test) aims to determine how the influence of each independent variable on the dependent variable partially. The other independent variables are considered constant. This test is done by comparing the level of significance (a <a = 10%). If the results show above 10%, it can be concluded that there is no significant effect between institutional ownership, managerial ownership, independent commissioners and committee boards on the disclosure of social responsibility and corporate profitability.

RESULTS AND DISCUSSION

This study uses secondary data provided by the IDX in the form of financial statements of LQ 45 companies. The LQ 45 company reports that are used as data sources come from 45 companies that are included in the LQ 45 index during 2016-2018.

Measurement Model Evaluation (Outer Model)

Convergent Validity

Convergent validity is a set of indicators that represent one latent variable that underlies the latent variable. An indicator can be said to have convergent validity if the loading value is > 0.5. In this study, the indicators used to measure the latent variables are based on financial statements for 3 years.

Table 1. Outer Loading Results

Variables	Indicator	Outer Loading Value	Conclusion
Institutional Ownership	X1	1,000	Significant
Managerial Ownership	X2	1,000	Significant
Independent Board of Commissioners	X3	1,000	Significant
Audit Committee	X4	1,000	Significant
CSR	Z	1,000	Significant
Profitability	Y	1,000	Significant

Source: Data Processing Results

Discriminant Validity

The purpose of the discriminant validity test is that the indicators used to be combined are not unidimensional.

Table 2. Cross Loading Results

	X1_KPI	X2_KPM	X3_DKM	X4_KA	Y_PROF	Z_CSR
X1_KPI	**1.000**	0.613	0.617	0.691	0.707	0.715
X2_KPM	0.613	**1.000**	0.637	0.537	0.656	0.561
X3_DKOM	0.617	0.637	**1.000**	0.614	0.719	0.666
X4_KA	0.691	0.537	0.614	**1.000**	0.771	0.827
Y_PROF	0.707	0.656	0.719	0.771	**1.000**	0.731
Z_CSR	0.715	0.561	0.666	0.827	0.731	**1.000**

Source: Data Processing Results

Based on the table, it can be seen that each indicator has a cross loading on other variables, so that the indicator can be said to be valid.

Reliability Test

Reliability test can be used to measure the internal consistency of the measuring instrument. The reliability coefficient must be greater than 0.7 with the following results :

Table 3. Reliability Measurement Results

	Composite Reliability	Cronbach Alpha
X1_KPI	1.000	1.000
X2_KPM	1.000	1.000
X3_DKOM	1.000	1.000
X4_KA	1.000	1.000
Y_PROF	1.000	1.000
Z_CSR	1.000	1.000

Source: Data Processing Results

Based on table 3, it shows that the Composite Reliability for each variable is 1,000 in addition to Cronbach's Alpha for each variable in this study is also 1,000 so it can be concluded that all variables passed the reliability test.

Structural Model Testing (Inner Model)

R-Square

This measurement examines the effect between variables using R Square which is classified into a model. The influence between variables in the system built in the study is calculated using predictive relevance aiming to assess the effective validity of the independent variables with the following results :

Table 4. ***R Square*** **(R^2) Value**

	R Square	R Square Adjusted
Y_PROF	0.728	0.718
Z_CSR	0.744	0.736

Source: Data Processing Results

Table 5. ***Q-Square predictive relevance*** **(Q^2)**

Q-square predictive relevance (Q^2)	
$(Q^2) = 1 – (1\text{-}R1^2)\ (1\text{-}R2^2)$	(Q^2)
= 1 – (1-0.728) (1-0.744)	0.9303

Source: Data Processing Results

Hypothesis Test

This hypothesis testing is used to determine the causality developed in the model, namely the effect of exogenous variables on endogenous variables. The research hypothesis can be accepted if the value of t-count (t-statistic) t-table at an error rate (α) 5%, namely 1.96. The following is the path coefficient value (original sample estimate) and the t-count value (t-statistics) in the inner model.

Table 6. ***Path Coefficients***

	Original Sample (O)	**Sample Mean (M)**	**Standard Deviation (STDEV)**	**T Statistics (|O/STDEV|)**	**P Values**
X1_KPI -> Y_PROF	0.152	0.158	0.111	1.361	**0.174**
X1_KPI -> Z_CSR	0.199	0.202	0.100	1.995	**0.047**
X2_KPM -> Y_PROF	0.173	0.181	0.123	1.404	**0.161**
X2_KPM -> Z_CSR	0.017	0.024	0.090	0.185	**0.853**
X3_DKM -> Y_PROF	0.252	0.242	0.110	2.300	**0.022**
X3_DKM -> Z_CSR	0.185	0.179	0.091	2.040	**0.042**
X4_KA -> Y_PROF	0.391	0.398	0.119	3.284	**0.001**
X4_KA -> Z_CSR	0.568	0.564	0.089	6.401	**0.000**
Z_CSR -> Y_PROF	0.033	0.022	0.132	0.250	**0.802**

Source: Data Processing Results

Institutional Ownership has no effect on Company Profitability

Based on the results of table 6, it is known that the path coefficient value of the effect of institutional ownership on profitability is 0.152 with t-count 1.361 which is smaller than t-table (<1.96). This shows that institutional ownership has no effect on profitability, which means that the number of institutional ownerships does not affect the increase in profitability. The path coefficient value of the effect of institutional ownership on CSR is 0.199 with t-count 1.995 which is greater than t-table (<1.96). This shows that institutional ownership has an effect on CSR, which means that the number of institutional ownerships has an effect on the increase in CSR.

Managerial Ownership has no effect on Company Profitability

Based on the results of table 6, it is known that the path coefficient value of the effect of managerial ownership on profitability is 0.173 with t-count 1.404 which is smaller than t-table (<1.96). This shows that managerial ownership has no effect on profitability, which means that the number of managerial ownerships does not affect the increase in profitability. The path coefficient value of the effect of managerial ownership on CSR is 0.017 with a t-count of 0.185 which is smaller than the t-table (<1.96). This shows that managerial ownership has no effect on CSR, which means that the number of managerial ownerships has no effect on the increase in CSR.

Corporate Social Responsibility has no effect on Company Profitability

Based on the results of table 6, it is known that the path coefficient value of CSR's effect on profitability is 0.033 with t-count 0.250 which is smaller than t-table (<1.96). This shows that CSR has no effect on profitability, which means that the number of CSR does not affect the increase in profitability.

The Independent Board of Commissioners has an effect on Company Profitability

Based on the results of table 6, it is known that the path coefficient value of the effect of independent commissioners on profitability is 0.252 with a t-count of 2.300 which is greater than t-table (<1.96). This shows that the independent board of commissioners has an effect on profitability, which means that the number of independent commissioners has an effect on the increase in profitability.

The Audit Committee has an effect on Company Profitability

Based on the results of table 6, it is known that the path coefficient value of the audit committee's effect on profitability is 0.391 with a t-count of 3.284 which is greater than t-table (<1.96). This shows that the audit committee has an effect on profitability, which means that the number of audit committees has an effect on increasing profitability.

The Independent Board of Commissioners has an effect on Company Profitability through Corporate Social Responsibility as a Mediating Variable

Based on the results of table 6, it is known that the path coefficient value of the independent board of commissioners' effect on profitability is 0.252 with a t-count of 2.300 which is greater than t-table (<1.96). This shows that the independent board of commissioners has an effect on profitability, which means that the number of independent commissioners has an effect on the increase in profitability. The path coefficient value of the independent board of commissioners' effect on CSR is 0.185 with a t-count of 2.040 which is greater than t-table (<1.96). This shows that the independent board of commissioners has an effect on CSR, which means that the number of independent commissioners has an effect on the increase in CSR. The path coefficient value of CSR's effect on profitability is 0.033 with t-count 0.250 which is smaller than t-table (<1.96). This shows that CSR has no effect on profitability, which means that the number of CSR does not affect the increase in profitability.

The Audit Committee has an effect on Company Profitability through Corporate Social Responsibility as a Mediating Variable

Based on the results of table 6, it is known that the path coefficient value of the audit committee's effect on profitability is 0.391 with a t-count of 3.284 which is greater than t-table (<1.96). This shows that the audit committee has an effect on profitability, which means that the number of audit committees has an effect on increasing profitability. The path coefficient value of the audit committee's effect on CSR is 0.568 with a t-count of 6.401 which is greater than the t-table (<1.96). This shows that the audit committee has an effect on CSR, which means that the number of audit committees has an effect on the increase in CSR. The path coefficient value of CSR's effect on profitability is 0.033 with t-count 0.250 which is smaller than t-table (<1.96). This shows that CSR has no effect on profitability, which means that the number of CSR does not affect the increase in profitability.

CONCLUSION AND SUGGESTIONS

Conclusions

It can be concluded that the board of commissioners and the audit committee have a significant effect on profitability while institutional ownership, managerial ownership and corporate social responsibility do not have a significant effect on profitability, and corporate social responsibility is proven unable to strengthen the indirect effect between variables.

Suggestions

This study uses data from LQ 45 companies listed on the Indonesia Stock Exchange from 2016 – 2018. The next research should consider the limitations of this research, which include: 1) Expanding the object of research by adding to the sector of the company being studied, which is expected to increase the objectivity of the research results. 2) Using a longer research period with the aim of obtaining better results by taking or selecting another variable. 3) Add proxies for research variables, because proxies cannot be used as benchmarks/inaccurate whether the company's profitability is really good, it is necessary to add a PER (Price Earnings Ratio) variable.

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