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FAKULTAS EKONOMI DAN BISNIS
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THE IMPACT OF CORPORATE SOCIAL RESPONSIBLITY AND FINANCIAL PERFORMANCE WITH QUALITY OF CORPORATE GOVERNANCE, AS MODERATING VARIABLE (Study on Go Public Companies Listed at IDX)

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Abstract

Topic of corporate social responsibility (CSR) has not been widely discussed in Indonesia. CSR is growing rapidly and discussed widely after the government issued Law No. 40 year 2007 regarding Proprietary Limited Company. Compared with other Asian countries, the implementation of CSR in Indonesia is still very low, ranked last among Southeast Asian Nations (Chappel & Moon, 2005). The number of CSR implementation in Indonesia is not so much while the potential targets are very huge, such as environmental damage, unemployment, school drop-out, and poverty etc. One of its implementations that are common now is community development, which the emphases are on social and community capacity development.

CSR is still widely discussed reasons for inconsistency of research results about the relationship of CSR to financial performance. Indonesian financial accounting standards not yet require companies to disclose social information, but non-financial reporting has been accommodated in Indonesia financial accounting standards (Generally Accepted Accounting Standards in Indonesia).

Superiorities and novelty of this study compared with other studies is adjunct CSR and financial performance, with variables moderating the quality of good corporate governance (GCG quality). Until now, there is no published research that discusses these variables simultaneously. So also internationally, studies of CSR has not been much associated with these. So a very big chance of the results of this study is useful and contributes to the academic, government and capital market issuers.

The population is all companies listed on the Indonesia Stock Exchange (IDX). In accordance with the IDX Fact Book 2010, there were 344 companies listed. The target population is taken based on the completeness of the data needed for analysis. Number of target population according to the criteria of final set was 44 companies.

The results of data analysis with SMART Partial Least Square software concludes that (a) CSR are positively correlated with financial performance, (b) the quality of the GCG and firm size can strengthen the relationship of CSR and its financial performance.

Keywords: Financial Performance, Corporate Social Responsibility (CSR), quality of Good Corporate Governance, Firm size and Industry Type.

1. Introduction

From the perspective of stakeholder theory was arising the term corporate social responsibility, better known as CSR. CSR more widely discussed in recent decades. Various studies have been conducted in various countries and published in various international journals (Ghozali and Chariri, 2007). CSR refers to an entity's responsibility towards all stakeholders, including communities in general and the physical environment where the entities operate. Many reasons (MA Daniri, 2008), have to support the opinion why the business world should respond to and develop CSR issues in line with its business operation that is:

1. The company is a part of the community, therefore its fair that companies consider the interests of society.
2. Businesses and communities should have a relationship that is symbiotic mutualism.
3. Social responsibility activities is one way to reduce or even avoid social conflict.

Besides that, businesses firms want to limit government intervention or other groups, so that businesses take action that will minimize the other party control of the company (Birth, 2005).

In general, CSR is the commitment of the business firm to contribute in sustainable economic development, with due regard to corporate social responsibility and focus on the balance of economic, social and environmental (Birth, 2005). In CSR idea, companies are no longer focus to the basic principle, that is single bottom line, is the value of a company that reflected its financial condition only. Corporate responsibility must rest on three basic principles (triple bottom line), other than financial (profit) is the social (people) and earth (planet), better known as the triple P. (Hubbart, G, 2009).

In Indonesia, the implementation of CSR began to flourish after the economic crisis of 1997-1998. It was as an answer to the company's efforts to survive in quickly changing of economic, social, legal and political conditions in those days. Implementation of CSR in Indonesia is still not much, while the potential target of CSR as a negative externality of corporate presence is huge (Sofyan S. Harahap, 2004), such as environmental degradation, unemployment, school dropouts and poverty. Furthermore, WALHI (Friends of the Earth Indonesia, 2004) states that Indonesia encountered many environmental problems, among others,

1. Pollution from mining and manufacture that have an impact on all levels of the food chain, including marine water pollution.
2. Air pollution, especially in industrial areas and big cities, which causes respiratory problems for millions of people.
3. Lack of good waste management that contributes to unhygienic conditions and health problems.
4. Fire problems that spread smoke into neighboring countries that cause acid rain and diplomatic problems.
5. Deforestation up to the level of 3.4 million hectares per year.

As we known, CSR is a company's caring that is based on three basic principles of profit, people and planet (3P). If corporates are really implementing CSR, then it is not only the profit that the focus of them but also the other 2 Ps, people & planet. They must be concerned with human welfare, such as scholarships for students around the firm, the establishment of educational and health facilities, strengthening the capacity of the local economy, local tourism development and various social protection schemes for local residents, so that, poverty, unemployment and so on can be controlled. Likewise, firms should care about the planet, as doing environmental greening program, the provision of clean water, improved housing, and tourism development and so on, so all of these will be able to control the environmental damage mentioned above.

Several previous studies have examined the relationship between CSR and financial performance. The majority of studies showed a positive relationship between social and economic performance.

From meta-analysis of 52 studies conducted by Orlitzky et.al. (2003) with a total sample size of 33,878 observations, they found that the company which implementing CSR got a positive response from the community as reflected by the significant and positive relationship between social and financial performance. Researches in Indonesia such as performed by Suratno et al, (2005) took sample of companies listed on the IDX. They concluded that environmental performance has positive and significant impact on environmental disclosure; environmental performance also has a significant positive effect on economic performance. This is consistent with the results of Al-Tuwaijri, et al. (2004). Previously, Zuhroh As we known, CSR is a company’s caring that is based on three basic principles of profit, people and planet (3P). If corporates are really implementing CSR, then it is not only the profit that the focus of them but also the other 2 Ps, people & planet. They must be concerned with human welfare, such as scholarships for students around the firm, the establishment of educational and health facilities, strengthening the capacity of the local economy, local tourism development and various social protection schemes for local residents, so that, poverty, unemployment and so on can be controlled. Likewise, firms should care about the planet, as doing environmental greening program, the provision of clean water, improved housing, and tourism development and so on, so all of these will be able to control the environmental damage mentioned above.

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Based on the description above, this study sought to analyze the implementation of CSR in the go public companies in Indonesia because social and environmental problems are still many (WALHI, 2004), although the company was conducting CSR activities. In addition, this study tries to incorporate and consider the variables that can strengthen the relationship of CSR to financial performance. It has not been evaluated by previous studies.

In general, previous research only consider one of these variables separately (Sarumpaet, 2005; Anggraeni, 2006; Sayed & Wondabio; 2006 and others). Thus, the central theme of this research can be formulated as follows: CSR allegedly associated with the Financial Performance of the Company, and the quality of good corporate governance (GCG) could be the moderator effect that strengthened the relationship between CSR and financial performance. In other words, financial performance can be enhanced if companies implementing CSR in addition to GCG (vice versa).

2. Theoritical Background and hypothesis development

So far, the business firm is considered as an institution that can provide many benefits for society. It could provide employment opportunities, provide needed public goods for consumption, pay taxes, and give donations (Memed, 2001). But, behind all of those, the company's presence also has many negative impacts such as air pollution, toxicity, noise, discrimination, coercion, abuse, haram food production and other forms of negative externality (WALHI, 2004). Furthermore, the other negative impacts as a result of industrialization imbalance, like the case of Free Port in Papua, Newmont in Sulawesi, Caltex in Riau, Lapindo, as well as other cases (Yusuf Wibisono, 2007).

Due to the above situation, there is a paradigm shift of corporate responsibility recently which is from shareholder to stakeholder's orientation. Legitimacy and stakeholder theory provides the basic framework for this paradigm. The essence of legitimacy theory explains that in order to ensure and maintain the alignments (legitimacy) of both internal and external stakeholders, companies need to ensure congruence between the existence and purpose of corporate to the expectations of stakeholders (Freeman, 1984; Gray, et al., 1996; Deegan, 2000; Gary O 'Donovan, 2000).

From a strategic standpoint, a business needs to consider its social responsibility to the communities where the business is a part. History of business and community clearly shows that when a corporate ignores their responsibilities towards stakeholders, the community tends to respond through the government to limit the autonomy of the business. Business firms have to recognize all their social responsibility if they want to have autonomy which a very important influence to the effectiveness and efficiency of the organization (Hunger J David & Wheelen, 2003).

Four corporate responsibilities stated in its priority level (Carroll, 1991). Business firms, (1) first must make profits to satisfy its economic responsibilities. In order to continue to survive, (2) companies must meet legal responsibilities. After the basic responsibilities are met, firms must try to fulfill its social responsibility. (3) The company can then fulfill the ethical responsibilities by doing things that are valuable but except in the law. After meeting ethical responsibilities, (4) the company can focus on discretionary responsibility (freedom of choice), voluntary actions that are considered important by the community. However, discretionary responsibility in the future will probably be the responsibility of ethics.

Furthermore, Carroll (1991) stated that if the company failed to declare business discretionary or ethical responsibility, society (via government) will act, that is by making becoming the responsibility of the law. As a result, companies may be increasingly difficult to make a profit than if it voluntarily accepts the ethical and discretionary responsibilities. The corporate responsibility may be difficult to achieve if not supported by other factors that come from internal sources, such as good governance of the company or Good Corporate Governance (hereinafter referred to GCG).

CSR in Principles of Good Corporate Governance

The purpose GCG implementation was to protect all stakeholders. Corporate governance is a process and structure used to direct and manage the company in enhancing business prosperity and corporate accountability with the ultimate goal to realize the values of long-term shareholders while taking into account the interests of other stakeholders. Since 2000, BAPEPAM (Capital Market Supervisory Agency) and other parties are actively encouraging the implementation of GCG principles to all market participants. It is expected that with the efficient implementation of GCG principles, the GCG goal is achieved, corporate sustainability is realized. The purpose of the implementation of GCG principles is to fulfill the corporate responsibility as a business entity to stakeholders and protecting minority shareholders from unfair treatment. The difference with CSR is corporate governance is the control mechanism, which includes the measurement of CSR efforts. (Deegan, 2006).

There are 4 principles contained in corporate governance (MA Daniri, 2005). The first principle is fairness in relation to all shareholders and fairness in dealing with partners. The second is transparency of financial and company operations to shareholders and the government. The third is accountability in relation to the responsibility of board of commissioners and board of directors to the company. The last is corporate responsibility in implementing the legislation. That is the responsibility of business licensing and regulation, employees, social responsibility, responsibility towards the environment, surrounding communities, and ethics and moral responsibility. Ideally, corporate responsibility must be part of the company's philosophy. There is a fairly fundamental difference between the principles of responsibility and three other GCG principles. The first three principles of GCG give more emphasis to the interests of company shareholders so that all three principles are more representative of the shareholder-driven concept. For example, fair treatment of minority shareholders (fairness), presentation of financial statements accurately and timely (transparency), as well as the function and authority of the GMS, commissioners, and directors (accountability).

CSR in GCG principles is contained in the element of responsibility. In the principle of responsibility, a significant emphasis given to the interests of corporate stakeholders. Here the corporation must consider the interests of corporate stakeholders, creating value added of products and services to corporate stakeholders, and maintain continuity of the creation of added value. Therefore, the principle of responsibility here is more representation of stakeholder-driven concept. Thus one of the implementation of GCG in company is implementing CSR. Both are equally important and inseparable. So CSR in GCG are like two sides of a coin (Bhimani & Soonawalla, 2005).

Generally, the classical and neoclassical economists claimed that the company's business has no responsibility other than to maximize profit for shareholders and company management. So businesses should give priority to economic performance. (Steiner & Steiner, 2006). However, for the present, these principles will get a heated debate from various stakeholders. The dominant level and the number of company power that concentrated and the presence of multinational companies, led to the view that business firms should be asked to provide accountability to its various stakeholders. (Maghrabi, 2006). So in order to improve performance and value of the company, a company should not only consider the GCG and forgotten aspects of CSR. Since the two aspects are not a separate option, but rather go hand in hand to improve the sustainability of company operations. (Shahin A & M Zairi, 2007).

Jamali et al (2008) have explored the relationship between corporate governance and CSR. By conducting qualitative research and interviewing the top manager in Lebanon, Jamali et al concluded that the majority of top managers said that corporate governance as a main pillar for a sustainable CSR. These findings imply that corporate governance is important in developing countries which begin with the balance of the various parties who care about CSR. This will develop into an interrelated appreciation and need to move to corporate governance in accordance with voluntary CSR activities.

Haniffa et al (2005) have studied the effect of GCG on CSR reporting in the Malaysian capital market. The review concluded that the role of non-executive directors is limited to CSR disclosure policy. This is due to of the limited experience and knowledge of non-executive directors. But, the executive director (chairman of the board) has a big impact compared to the other directors. This influence also includes how much information should be disclosed by the company. Because CSR is still a voluntary disclosure, so the company will disclose any information also influenced by other companies. Director who has the same position at another company (multiple directorships) will affect the number of CSR information disclosed by a company. The study by Haniffa found that multiple directorships positively correlated with disclosure of CSR. This relates to the reputation and management strategies for legitimacy (DiMaggio and Powell, 1983 in Haniffa et al, 2005; 398-400).

From the above phenomena and review of some previous research results, the hypotheses of this study are as follows:

- Hypothesis 1; Quality of good corporate governance, company size, industry type may affect the company's social responsibility.
- Hypothesis 2: Corporate social responsibility is positively associated with firm financial performance.
- Hypothesis 3; Quality of good corporate governance can be a moderating effect relationship of social responsibility with financial performance.

The results will be useful to business practitioners as guidance in conducting CSR activities. It will also contribute to the study of the development of social accounting studies (Social Responsibility Accounting), the theory of financial accounting and management accounting, so as to obtain the CSR models that will enhance the company's financial performance. The results can also be as a reference or benchmark for future research related to the variables studied. And to provide contributions to higher education in preparing accounting science curriculum, particularly the field of social responsibility accounting in college.

3. Research Methods

Research is a scientific curiosity or investigation of organized, systematic, data-driven, critical, to be objective about a certain problem with the aim of obtaining answers or solutions. Table 1 explained research method that used in this study.

This study used 5 variables which are measured using measurement instruments that are adopted from previous studies and has published in several research journals. Types of variables used in the study were as follows:

a. Latent Variables, consists of variables CSR, the quality of GCG and company size, financial performance as measured by accounting performance.
b. Observed Variables, which consist of a variable type of industry.

Table 1. Research Method

Research Object	Corporate Social Responsibility, Financial Performance, Firm Size, Corporate Governance Quality, Type of Industry.
Population Research	Corporate listed on the Indonesia Stock Exchange (IDX) in the period 2007-2008.
Target Population	Populations that meet four criteria: issuers who enter into the calculation of the index's 45 LQ BEI period February 2, 2007 until January 31, 2009. Issuer has published an annual report in the rupiah currency which has been audited as of December 31, 2007 and 2008, and its shares are not currently in-stock or in-suspends delist from the Exchange in that period. Ultimate target population numbered 44 issuers.
Research Type	Explanatory, to gain clarity phenomena empirically and tried to get answers to the relationship causality and correlation between variables by testing the hypothesis.
Data Type	Secondary data
Data collection method	Content analysis **o**f the Annual Report and document review
Data analysis method	Quantitative Analysis by Partial Least Square SMART model estimation & Qualitative Analysis.

Table 2 describes the boundaries of the study variables and determines the indicators and their measurement scales used in this study.

Figure 1 is the initial empirical model to test hypotheses developed based on the variables and indicators used in this study.

Table 2. Variable Operationalization

No.	Variables	Sub Variable	Indicator	Measurement Scale
1.	Financial Performance, ,Waddock and Graves (1997) Ruf, Bernadette M.et al, ,2001, Suratno.(2005), Wu et al (2006); Norhadi, (2009), Hubbard,G,(2009)	Accounting Based	*1.* ROE (*return on equity)* 2. ROA (*return on assets*) 3. NPM (Net Profit Margin) 4. EPS (*Earnings Per Share*)	Ratio
2.	Corporate Social Responsibility(CSR) (Juniati G. *et a*l (2008), Susi S. *et al* (2007) , Joko S. *et al*,(2007)	1. PROPER	1. 1= if the firm participated in PROPER, 0= if the firm not participated in PROPER.	Nominal
		2.ISRA	2. 1= if the firm participated in ISRA,0= if the firm not participated in ISRA.	Nominal
		3. Index of CSR implementation GRI 2006.	3. Index disclosure of CSR implementation acoording to GRI.	Ratio
3.	Good Corporate Governance (GCG), Dodi H. (2005), Deni D. *et al*, (2004), Dwi Novi, (2007). *Khomsiyah, 2005*)	1. PKM. 2. PKIA 3. PKP 4. PDD	1. The proportion of management ownership 2. The proportion of foreign institution ownership 3. The proportion of public ownership 4. The proportion of members of	Rasio Rasio Rasio Rasio

		5. PKID 6. PAKA 7. Corporate Governance Perception Index (CGPI)	the board of directors, 5. The proportion of independent commissioner 6. The proportion of audit committee members. 7. 0= If the company does not include in the rankings made by FCGI, 1= = If the company include in the rankings made by FCGI.	Rasio Rasio Nominal
4.	Firm Size	1. Total Asset 2. Total Equities 3. Total Income	*1. Log Natural Total Assets* *2. Log Natural Total Equities* *3. Log Natural Income*	Ratio
5.	Industry type, [Zuhroh & Sukmawati 2003, Utomo, 2000; Hackston & Milne, 1996]	*High profile & low profile*	1= if the firm is high profile and 0= if the firm is low profile.	Nominal

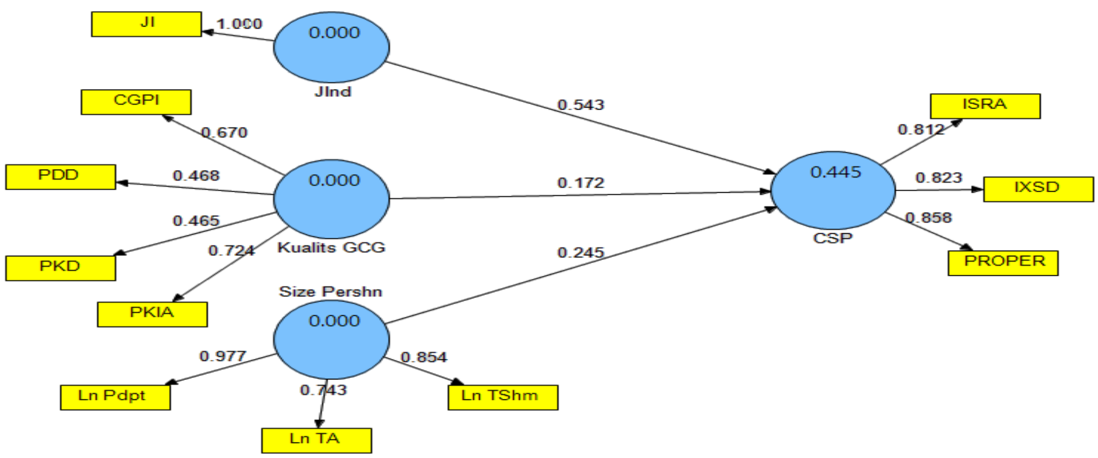
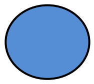


Fig. 1. Initial Empirical Model

Image Explanation

CSP	= *Corporate Social Performance.*	*ROA*	= *Return on Assets*
GCG	= *Good Corporate Governance.*	*ROE*	= *Return on Equity*
IXSD	= *Index Sustainability Disclosure.*	PM	= *Profit Margin*
PROPER	= Rating Program for Environmental Management.	*Size* JI	= Company size = Type of industry
EPS	= *Earnings Per Share.*	Ln TA	= *Natural logarithm of* Total Assets.
ISRA	= *Indonesia Sustainability Awards.*	LnPdpt	= *Natural logarithm of* Income
CGPI	= *Corporate Governance Perception Index.*	LnTShm	= *Natural logarithm of* Total Equity.
PKM	= The proportion of management ownership.	PKP	= The proportion of public ownership.

PKIA	= The proportion of foreign institutional ownership.	PDD	= The proportion of board of directors.
PKID	= The proportion of independent commissioners.	PAKA	= The proportion of audit committee.
	= Latent variable in PLS		= indicator of latent variable in PLS.

4.Results

Based on the results of data analysis, table 3 is the summary of results of hypothesis testing. Variable Quality of GCG , IndustrY type & Firm size shown to have positive and significant influence on corporate social performance (CSP). Based on the results of statistical tests for assessment of the value of R2 exceeds the limit (> 10%), so an acceptable hypothesis.

For industry types, these results are consistent with Diekers & Perston (1977), Cowen et al (1987) in Hackson and Milne (1996). Cowen said that according to the theory of legitimacy to enhance corporate image and affect sales, consumer-oriented company is expected to provide information about social responsibility. Meanwhile, Diekers & Perston (1977) in Hackson and Milne, (1996) says that companies that have economic activities that modify the environment such as, industrial extrative, more likely to reveal information about the environmental impact compared to other industries.Thus, it can be concluded that the type of industry may affect the company's social performance.

Firm size has positive and significant impact on CSR. However, Cowen et. al., (1987) found that the relationship is only possible with several categories of social responsibility. Influence of firm size on CSR is still diverse (Wu, ML, 2006), although in theory a large company will involve and affect many people (Watts & Zimmerman, 1986). That is, the larger firm size, the better the company's social performance. This study supports the argument work by Watts and Zimmerman (1986).

The quality of GCG has positive and significant effect on the CSP. These results are consistent with Jamali et al (2008), Bhimani, A & Soonawalla, K., (2005), Haniffa et al (2005). Jamali et al, (2008) concluded that the GCG is the main pillar of sustainable CSR activities. They also imply GCG positively related to CSR. Haniffa et al using multiple directorship as a proxy for GCG. Haniffa et al concluded that the GCG is positively correlated with CSR disclosure. Corporate governance as an essential element for sustainable CSR can be a source of competitive advantage for companies (Shahin A & M Zairi, 2007). This is because when viewed from the goal, GCG is a form of social responsibility, which is to protect the minority of the company. So in essence, the perpetrator should not separate CSR CSR activities with GCG. Because they are a continuum (unity), and is not a union of some parts of the integral. As the two sides of a coin, both have a strong foothold in the business world and relate to one another (Shahin A & M Zairi, 2007; Jamali D, et al, 2008). Oriented social responsibility to its stakeholders in line with one of the principles of the four main principles of good corporate governance is responsibility. Therefore, the principle of responsibility here better reflect stakeholder driven concept. So it can be concluded and in accordance with the results of this study, that CSR is linked to the GCG.

Table 3. Hypothesis Testing Results Summary

No	Hypothesis	Description	Correlation coef	Partial (T Stat)	R^2	Sign Test	Notes
1	H 1	Quality of GCG, Firm Size, and industry type can impact social performance (CSP). Partial : (1) GCG & CSP (2) Ind tYPE& CSP (3) Firm Size & CSP	-	(1) 2.3586	44,46% .	Sig	Accepted
			-	(2) 14.472		Sig	
			-	(3) 3.0953		Sig	
2	H 2	CSP have correlation with CFP	+ 25,41.	-	20,86%		Accepted
3	H3	GCG Quality Moderation of Social Performance to strengthen the relationship of CSP and CFP Partial : (1) CSP*GCG & CFP (2) GCG & CFP (3)Iind Type& CFP (4) Firm Size & CFP	+29,11	(1) 2.4091	25,60%	Sig	Accepted
				(2) 1.9953		Sig	
				(3) 0.8501		Not sig	
				(4) 1.9904		Sig	

Source: Secondary data are processed.

5.Conclusion

Based on the formulation of the problem and hypotheses that have been built and the analysis results, it can be concluded as follows:

1. The quality of good corporate governance, company size, industry type significantly influence CSR. That is, type of industry may affect the company's social activities, a high-profile industry will actively conduct CSR activities as compared with a low profile industry. Firm size is one determinant companies do CSR. Because large firms tend to attract the attention of the public. GCG significantly affect the quality of CSR. That is, if companies implement quality GCG GCG or the implementation of CSR is also good.
2. CSR, in this study proxy with social performance is positively associated with financial performance. That is, if corporate social performance is good then financial performance is too and vice versa. These results can prove that the legitimacy of the company through its social activities could improve the financial performance, and vice versa.
3. The results of this study can prove that the moderation of the GCG quality could strengthen the relationships of social performance and financial performance. If GCG-quality is good then the relationship of corporate social performance with its financial performance increase and this is true vice versa.

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