International Journal of Science and Research (IJSR)
ISSN: 2319-7064
Impact Factor (2018): 7.426

The Effect of Corporate Governance on Corporate Performance and Corporate Social Responsibility

Yuli Dwi Yusrani Anugrah[1], Siti Maria Wardayati[2], Muhammad Miqdad[3]

[1, 2, 3]Department of Accounting, Faculty of Economics and Business, University of Jember, Jl. Kalimantan No. 37, Jember, East Java, Indonesia

Abstract: ***The purpose of this research is. 1) Test and analyze the influence of good corporate governance on corporate social responsibility in Companies Registered on the Stock Exchange 2) Test and analyze the influence of good corporate governance on corporate performance on Companies Registered on the Stock Exchange 3) Test and analyze the influence of corporate social responsibility on the corporate performance of the company on Companies Listed on the IDX. The analysis method uses path analysis. The results of the study show that good corporate governance influences social responsibility, good corporate governance does not affect the corporate performance, corporate social responsibility does not affect the corporate performance***

Keywords: Good Corporate Governance, Corporate Performance, Corporate Social Responsibility

1. Introduction

Implementation of corporate governance is indispensable in meeting the public and international confidence in order to create stakeholder value. Implementation of corporate governance requires commitment from all members of the organization from the top position to the bottom position by starting to form policies and regulations that must be adhered to by all parties (Murwaningsari, 2009). The five main principles compiled by the National Committee on Governance (2006) contained in Good Corporate Governance, namely; transparency, accountability, responsibility, fairness, and independency.

GCG implementation aims to meet social responsibility to the community and shareholders. Social responsibility it self as a company's moral responsibility to its stakeholders, especially the community around its operational work area. A company is said to be socially responsible if the manager is not only concerned with profitability but also concerned with the welfare of the community or the surrounding environment (Natalylova, 2013).

GCG theoretically practices can increase the value of the company by improving the company's financial performance, reducing risks that may be carried out by the board with decisions that benefit themselves, and generally corporate governance can increase investor confidence. Good corporate governance implementation and in accordance with applicable regulations will make investors respond positively to the company's performance and increase the company's market value (Nuswandari, 2009).

CSR is a principle element in good community governance. Not only aims to provide added value to shareholders. In essence, CSR actors should not separate CSR activities from Good Corporate Governance. Because both are one continuum.

Corporate social responsibility is one of the information that must be included in the company's annual report as stipulated in RI Law No. 40 of 2007, explains that companies in carrying out business activities related to natural resources must carry out social and environmental responsibilities. It aims to realize social welfare and improve the quality of life of the people around the work or operational area

Social responsibility is oriented to stakeholders, this is in line with one of the principles of the main principles of GCG, namely responsibility, the principle of responsibility here reflects stakeholders driven concept, while the implementation of corporate CSR is in line with the principles of transparency, accountability (Murwaningsih, 2009).

The company aims at implementing GCG to build a corporate image and fulfill its responsibilities to stakeholders, the community and the welfare of its employees. To fulfill these objectives, the company can implement Corporate Social Responsibility to create a positive relationship with company performance (Natalylova, 2013). Thus it can be concluded that GCG, Corporate Social Responsibility, and company performance are interrelated and constitute a continuous unity (Natalylova, 2013).

2. Good Corporate Governance,

Haniffa (2005) states that good corporate governance is broadly defined as how companies are controlled and how they are responsible for the company to the company's stakeholders. Good corporate governance will also affect how companies invest in capital markets, so that investors need sufficient and appropriate information to evaluate the potential risks and benefits of their investments. The reason underlying the capital market is that investors will provide capital to the organization in exchange for a potential return on investment. They also need assurance that all investors will be able to transact consistently and fairly.

The aim of good corporate governance is to create added value for all stakeholders (stakeholders), by fulfilling company responsibilities to all interested parties and adhering to the existing legal framework (KNKG, 2006).

Corporate Social Responsibility

According to The World Business Council for Sustainable Development, corporate social responsibility is the definition of business commitment to contribute to sustainable economic development, through collaboration with employees and their representatives, their families, local communities and the general public to improve quality life in a way that benefits both the business itself and for Development.

The World Commission on Environment and Development (WCED) in Marnelly (2012), Elkington packs CSR into three focuses: (3P), profit, planet and people. A good company not only pursues economic profit (profit) but also has a concern for environmental sustainability (planet) and people's welfare (people).

Corporate Performance

Corporates performance in this study is defined as the company value (value of firm). The value of the company is the perception of investors on the level of success of the company that is often associated with stock prices. High stock prices, the company's value is also high, and will also increase market confidence that will come. Maximizing the value of a company is very important for a company because improving a company also maximizes the company's main goals. The higher the stock price, the higher the prosperity of shareholders. A company can be said to have good value if the company's performance is also good. According to Riadi Muchlisin (2017), there are several ratios to measure company value, *Price to Earning Ratio (PER), Price to Book Value (PBV)* dan *Tobin's Q*

3. Conceptual Framework and Hypothesis

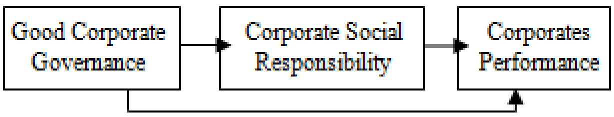

Figure 1: Conceptual

3.1. Development Hypothesis of a Good Corporate Governance and Corporate Social Responsibility

Good corporate governance will tend to encourage the company to carry out corporate responsibility to its stakeholders. This relates to stakeholder theory which says that a company is not an entity that only operates for its own interests but must provide benefits to its stakeholders (shareholders, creditors, consumers, suppliers, government, society, and other parties)

The application of Good Corporate Governance aims to fulfill corporate social responsibility to the community and shareholders. A company is said to be socially responsible if the manager is not only concerned with profitability but also concerned with the welfare of the community or the surrounding environment (Natalylova, 2013).

H1: Good Corporate Governance *(CGC)* effect Corporate Social Responsibility *(CSR)*

3.2. Development Hypothesis of a Good Corporate Governance and Corporate Performance

Good Corporate Governance (GCG) theoretically can increase the value of the company by increasing the company's financial performance, reducing risks that may be carried out by the board with decisions that benefit themselves, and generally good corporate governance can increase investor confidence. The implementation of good corporate governance and in accordance with applicable regulations will make investors respond positively to the company's performance and increase the company's market value (Nuswandari, 2009).

H2: Good Corporate Governance *(CGC)* effect Corporate Performance

3.3. Development Hypothesis of a Corporate Social Responsibility and Corporate Performance

Signal theory views CSR as a signal for high-value companies to external parties. Positive responses and public trust in companies with CSR actions carried out can increase shareholder confidence and as a result the value of the company will increase (Ilmi, 2017).

H3. Corporate Social Responsibility effect Corporate Performance

4. Method

This study uses a quantitative approach, namely research that draws closer to the testing of variables expressed in numbers as measuring instruments and requires analysis of data using statistics (Sugiyono, 2012). This research is explanatory research. The testing model in this study uses path analysis. The population of this study are companies registered with the CGPI for the 2014-2016 period. The selection of samples in this study used a purposive sampling method. The sample in this study was obtained as many as 33.

The good corporate governance mechanism in this study is proclaimed Corporate Governance perception index (GCPI), the Corporate Social Responsibility Mechanism in this study is proxied by the Corporate Social Responsibility Index (CSRI) which refers to GRI 4. The corporate performance is defined as the company value. The corporate performance mechanism in this study is proxied *Price to Book Value* (PBV).

5. Results and Discussion

The results of this study using path analysis relating to the study of the influence of good corporate governance on company performance and social responsibility are as follows:

a) The result of hypothesis 1 test states that good corporate governance (GCG) has an effect on social responsibility (CSR). this is indicated by the test results with the value of the Standardized Coefficients Beta of -0.378 and significance 0.006 <0.05 (α = 0.05), the significance of which is less than 0.05 proves there is an influence between good corporate governance (GCG) and responsibility social (CSR).
b) The result of hypothesis 2 test states that good corporate governance (GCG) does not affect the corporate performance (PBV). This is indicated by the test results with the value of Standardized Coefficients Beta of 0.023 and significance of 0.916> 0.05 (α = 0.05), the significance of which is higher than 0.05 proves there is no influence between good corporate governance (GCG) on corporate performance (PBV).
c) The result of hypothesis 3 test states that social responsibility (CSR) does not affect the company's performance (PBV). This is shown by the test results with the value of Standardized Coefficients Beta of 0.228 and significance of 0.223> 0.05 (α = 0.05), the significance of which is higher than 0.05 proves there is no influence between social responsibility (CSR) on corporate performance (PBV).

6. Discussion

6.1. Effect of Good Corporate Governance on Social Responsibility

Testing of hypothesis 1 aims to determine the effect of good corporate governance (GCG) on social responsibility (CSR), by looking at the relationship between the level of the Corporate Governance Preception Index (CGPI) of a company towards corporate social responsibility disclosure. Based on the results of the analysis it can be concluded that good corporate governance influences social responsibility.
Companies that are included in the Corporate Governance Preception Index (CGPI) are companies that have been assessed through research to measure the level of corporate governance applied in Indonesian companies, for which the company is considered good in performance and disclosure of its social responsibility. Implementation of Good Corporate Governance (GCG) or good corporate governance whose purpose is to fulfill social responsibility to the community and shareholders.

This research was supported by Haniffa's research, R.M. &, T.E. Cooke (2005); Setianto (2013); Murwaningsih (2009); Ramdhaningsih (2013) who stated that Good Corporate Governance has an effect on Corporate Social Responsibility

6.2. Effect of Good Corporate Governance on Corporate Performance

Hypothesis 2 testing aims to determine the Effect of Good Corporate Governance (CGC) on Company Performance, by looking at good corporate governance relationships with company performance (PBV). Based on the results of the analysis it can be concluded that good corporate governance (GCG) has no effect on company performance (PBV).

There is no influence between GCG and company performance, this is also thought to be caused due to differences in the types of industries included in the study sample. The sample in this study is a diverse type of industry. We must not compare between banking companies and mining companies.

The results of this study support the research conducted by Setianto (2013); Luthan E., I. Satria & Ilmainir, (2016); Carvalhal da Silva, A. L., & R. P. C Leal (2005)

6.3. Effect of Corporate Social Responsibility on Corporate Performance

Testing hypothesis 3 aims to determine the effect of social responsibility on company performance by looking at the relationship of social responsibility and corporate performance. Based on the results of the analysis it can be concluded that social responsibility does not affect the corporate performance.
The results of this study mention corporate social responsibility (CSR) does not affect the company's performance, this indicates that it is indicated that investors do not respond to the disclosure of CSR that has been done by the company. Investors do not need to see the disclosure of CSR that has been done by the company, this is because clearly stated rules governing disclosure of social responsibility for companies, especially for limited liability companies, namely Law No. Limited Liability Company. 40 of 2007. The law clearly requires the legal entity to disclose its corporate social responsibility, if the company does not implement CSR, the company will be sanctioned in accordance with the provisions of the applicable legislation
This research is in line with the research conducted by Wardoyo (2013); Mulyadi, M. S., & Anwar, Y. (2012) (Ilmi, 2017) which revealed that corporate social responsibility (CSR) did not affect the corporate performance.

7. Conclusion

Based on the results of the analysis, several conclusions can be drawn in this study, as follows:
a) The hypothesis 1 (H1) which states that good corporate governance (GCG) has an effect on corporate social responsibility (CSR) is accepted. So it can be concluded that good corporate governance influences corporate social responsibility
b) Hypothesis 2 (H2) which states that good corporate governance (GCG) influences corporate performance (PBV) is rejected. So it can be concluded that good corporate governance (GCG) has no effect on corporate performance (PBV).
c) Hypothesis 3 (H3) which states corporate social responsibility (CSR) has an effect on corporate performance (PBV) rejected. Then it can be concluded that corporate social responsibility does not affect the corporate performance

8. Suggestion

Suggestions that can be given in connection with the research that has been done are:

a) Subsequent research is expected to expand the scope of research, not only in companies that are included in CGPI, further research is suggested to be classified based on industry type and period of study plus the time to obtain accurate research results in the long term
b) Variables should be added to other variables that can influence further research based on existing theories.
c) Suggestions for companies that CSR disclosures are applied consistently to increase company value.

References

[1] Carvalhal da Silva, A. L., & R. P. C Leal. 2005. "Corporate Governance Index, Firm Valuation and Performance in Brazil". *Revista Brasileira de Finanças, vol. 3, núm. 1, 2005, pp. 1-18 ISSN: 1679-0731*

[2] Haniffa, R.M. &, T.E. Cooke. 2005. "The impact of culture and governance on corporate social reporting". *Journal of Accounting and Public Policy*. 24 (2005). 391–430

[3] Ilmi, M., A. S. Kustono., & Y. Sayekti. 2017. Effect Of "Good Corporate Governance, Corporate Social Responsibility Disclosure And Managerial Ownership To The Corporate Value With Financial Performance As Intervening Variables: Case On Indonesia Stock Exchange" . *International Journal of Social Science and Business.* Vol.1 (2) pp. 75-88

[4] Komite Nasional Kebijakan Governance (KNKG). 2006. *Pedoman Umum Good Corporate Governance di Indonesia*. Jakarta.

[5] Luthan E., I. Satria & Ilmainir, 2016. "The effect of Good Corporate Governance Mechanism to Earnings Management Before and After IFRS Convergence. "*Procedia - Social and Behavioral Sciences 219 (2016) 465 – 471*

[6] Marnelly T., & Romi. 2012. Review of Theory and Practice in Indonesia. *Jurnal Aplikasi Bisnis.* Vol. 2 : No. 2, April 2012

[7] Muchlisin Riadi , 2017. Measurement of company value.(https://www.kajianpustaka.com/2017/11/pengertian-jenis-dan-pengukuran-nilai-perusahaan.html, acess 5 Mei 2018)

[8] Mulyadi, M. S., & Anwar, Y. 2012. "Impact of corporate social responsibility toward firm value and profitability". *The Business Review, Cambridge, 19(2), 316-322.*

[9] Murwaningsari, E. 2009. "Relationship between Corporate Governance, Corporate Social Responsibilities and Corporate Financial Performance in One Continuum." *Journal of Accounting and Finance*. Vol. 11 : No. 1. Mei 2009: 30-41

[10] Natalylova. K. 2013. "The Influence of Corporate Social Responsibility and Company Performance that Obtained the Indonesian Suicide Services Reporting Awards". *Scientific articles*. STIE trisaksi. Jakarta.

[11] Nuswandari, C. 2009. "The Effect of Corporate Governance Perception Index on Company Performance on Companies Listed on the Jakarta Stock Exchange." *Journal of Business and Economics*. 16 (2):70-84.

[12] Ramdhaningsih, A., & I. M. K. Utama. 2013. "The Effec Of Indicator *Good Corporate Governance* and Profitability of disclosure *Corporate Social Responsibilit." E-journal Accounting at Udayana University*. 2013 :65-82 Issn: 2302-8556

[13] Setianto, D. 2013. "Effect of Corporate Governance Perception Index on Corporate Financial Performance with Corporate Social Responsibilities as Intervening Variables." *Accounting Journal, Faculty of Economics, Dian Nuswantoro University, Semarang*. 15 April 2013

[14] Sugiyono, 2012. Business Research Methods. Bandung: Alfabeta. ISBN: 978-979-8433-24-5

[15] The Law of Republic of Indonesia Nomor 40 tahun 2007. *Limited liability company. State Gazette of the Republic of Indonesia in 2007* Nomor 40. Jakarta.

[16] Wardoyo & T. M. Veronica. 2013. "The Effec Good Corporate Governance, Corporate Social Responsibility and Financial performance Against Company Values." *Jurnal Dinamika Manajemen*. Vol.4 No. 2. pp. 132-149