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Corporate Governance and Corporate Social Responsibility: Evidence from Indonesian Mining Companies

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Abstract:
This research purpose is to analyze corporate governance mechanisms effect on the disclosure of corporate social responsibility in Indonesia mining companies. The commissioner board size, independent director, female director, ownership concentration and the independent commissioner is used as a proxy for the corporate governance mechanism. 41 companies from the mining sector were used as samples. The data was collected using documentation techniques and linear regression models were used to analyze. This study findings indicate that simultaneously the board of commissioner size, independent director, female director, independent commissioners and ownership concentration have a significant impact on the CSR disclosure, whereas partially only board of commissioner's size has a significant effect on social responsibility disclosure.

Keywords: *Corporate Social Responsibility (CSR), corporate governance, board of commissioner, independent director, female director, ownership concentration and independent commissioner*

1. Introduction

Society and company are two inseparable entities. In an effort to maintain its survival, the company is very dependent on the community. Apart from being a member of the environment where the company operates, the community is also a customer and provider of labor for the company. People also really need companies to meet their needs and a place to make a living. So, there is a reciprocal relationship between company and community. Harmonious relations between company and the community will make a tremendous contribution to the country development.

Two important aspects must be considered to create a synergistic condition between company and the community, so that the existence of the company can lead to changes in the direction improvement of people's lives. The first aspect is the economic aspect, namely the company must be profit oriented. The second aspect is social, where companies must contribute directly to society and the environment. One way to create synergistic conditions between company and the community is by implementing CSR.

CSR disclosure is a communicating's process of social and environmental impacts of an organization's activities on specific group. and to society as a whole, which extends corporate responsibility beyond its traditional role of seeking profit for shareholders.

There are two different views of its existence. The first is agency theory (Jensen, M.; Meckling, W., 1976) and the second is stakeholder theory. According to Barnea and Rubin (2010) CSR involvement is an agency relationship between management and shareholders. They stated that top management must have a concern in investing through CSR involvement, in activities to build a reputation as good and socially responsible citizens. Top managers who are sometimes overconfident can destroy the value of investment so proactive control using different corporate governance methods to reduce the possibility of over-investing in CSR involvement.

The second view is that, because it may not be easy to convince all relevant stakeholders, there is an increasing number of studies on conflict resolution based on stakeholder theory in which the corporate responsibility is to safeguard the welfare of stakeholders. Top management can use corporate governance mechanisms that are beneficial together with CSR involvement for conflict resolution among different stakeholders. If different corporate governance and control methods build CSR involvement as an effort to reduce the possibility of conflict resolution among stakeholders, it is hoped that there will be an affirmative relationship between CSR practices and corporate governance.

Along with the increasing concern for CSR disclosure, corporate governance has also developed to accommodate new relationships that were never considered necessary, namely business-environment and business-community relations. Claessens (2003) states that corporate governance is concerned with balancing economic and social goal, and between individual and community goals. '' Furthermore, Corporate Governance is developed to include ethics, accountability, disclosure, and reporting.

Thus, different corporate governance mechanisms are responsible for monitoring and controlling managers' decisions and activities of company that affect public. This may reveal correlation between the corporate governance system effectiveness and the CSR disclosure quality. An effective corporate governance system concern with disclosure and transparency, and in particular with disclosing activities that affect society and the environment. Empirically, Khan (2010) found a significant positive correlation of size of board, structure of ownership, and non-executive independent director with the disclosure CSR.

In Indonesia itself, the government has issued a Law regarding CSR reporting as contained in Law No. 40 of 2007 concerning Limited Liability Companies. This law states that companies must submit annual report containing the implementation of CSR. Although the government has issued regulations for corporate companies to disclose CSR reports in their annual reports, there is still no standard regulating the technicalities of CSR disclosure. Companies are only required to carry out CSR practices and provide accountability reporting for CSR practices that have been carried out, while the procedures for reporting social responsibility in company's annual report have not been regulated. This results in differences in disclosure made by companies in Indonesia.

2. Literature Review and Hypothesis

2.1. Agency Theory

Jensen and Meckling (1976) stated that agency theory is a version of the game theory that creates a contractual model between two people (parties) or more, where one party is called an agent and the other is called a principal. With the development of companies or business entities that are getting bigger, conflicts often occur between the principal, in this case the shareholders (investors) and the agents represented by management (directors). The assumption that the management involved in the company will always maximize firm value is not always fulfilled. Management has personal interests that conflict with the company owners, so that a problem is called the agency problem. To reduce the existence of agency problems, it is necessary to have an independent party who can mediate in handling the conflict.

The purpose of separating the management from company ownership is that the company owner gets the maximum profit possible at the most efficient cost possible by being managed by the company by professional staff. Professional staff are tasked with the company's interests and have flexibility in carrying out company management.In this case these professionals act as agents of the shareholders. The greater company is managed to get a profit, the greater profits that the agents get. Meanwhile, company owners (shareholders) are only tasked with supervising and monitoring the running of the company which is managed by management and developing an incentive system for management managers to ensure that they work in the company's interests

2.2. Stakeholder Theory

The basic stakeholder theory's premise is that the stronger of corporate relationship, the better of corporate business. Conversely, the worse the corporate relationship, the more difficult it will be. Strong relationships with stakeholders are based on trust, respect and cooperation. Stakeholder theory is a concept of strategic management, the goal of which is to help corporations strengthen relationships with external and to develop competitive advantage (TotokMardikanto, 2011).

Stakeholder theory stated that a company is not an entity that only operates for its own interests but must provide benefits for its stakeholders. Thus, its existence is strongly influenced by the stakeholders support. Therefore, the company's survival depends on the support of stakeholders so that the company's activities are to seek that support. The more powerful the stakeholders are, the greater the company's efforts to adapt. Disclosure of social responsibility is considered as the dialogue between its stakeholders and the company.

2.3. Good Corporate Governance

According to Sutedi (2012) Good Corporate governance (GCG) is a process that used by company organization (capital owners, commissioners or with supervisors and directors) to increase the success of business and company accountability to make a reality long-term shareholder value while still paying attention to other stakeholder interests, based on law and regulation and aesthetic values.

Corporate governance is a set of regulations that govern the relationship between company managers, shareholders, creditors, government, employees, and other stakeholders with regard to their rights and obligations or in other words a system that controls company. The term corporate governance arises because of the agency theory, where the management is separate from ownership.

The system that regulates the balance in company management needs to be set out in the principles that must be obeyed in order to get to the average good corporate governance. Based on the Minister of BUMN decision No:117of 2002, The principles of GCG are:

- Transparency (Information Disclosure). Transparency in carrying out the decision-making process and disclosing relevant material company information.
- Independence. The company managed in a professional manner without interests conflict and pressure from any party.
- Accountability. Clarityof functions, implementation, and company management accountability of which carried out economically and effectively.
- Responsibility.the suitability of company management with the prevailing laws, regulations and corporate principles sound.
- Fairness.fairness and equality in the stakeholder's rights that arise as a result of agreements, regulations and applicable laws.

2.4. Corporate Social Responsibility Disclosure

CSRdisclosure which is a communicating process of social and environmental impacts of activities of economic's organization on specific groups, who have interests. It extends the responsibilities of organizations beyond their role of providing financial reports to owners of capital, particularly shareholders. This expansion is made with the assumption that the company has broader responsibilities than just seeking profits for shareholders (Gray et. al., 1987).

According to Grayet. al., (1995) there are two significantly different approaches in conducting research on CSR disclosure. First, CSR disclosures treated as a conventional accounting activities supplement. This approach generally considers the financial community as the main user of CSR disclosures and tends to limit perceptions of reported social responsibility. The second alternative is to place CSR disclosure on a test of the information role in public and organizational relations. This view has been a major source of progress in understanding CSR disclosure and at the same time it has increased the criticism of CSR disclosure.

2.5. Corporate Governance Characteristics and CSR Disclosure

2.5.1. Commissioner Board Size

Commissionerboard is one of the control functions contained in a company. The control function performed by the commissioner board is agency theory practical form. In a company, the commissioner board represents the main internal mechanism to carry out the supervisory function of the principal and control the opportunistic behavior of management. The commissioner board bridges the interests among the principal and manager in the company.

Regarding the commissioner board size, Coller and Gregory (1999) stated that the greater of commissioners, the easier it will be to control the CEO and the more effective monitoring will be. Associated with CSR disclosure, the pressure on management will also be greater to reveal it. Therefore, accordance with the opinion of Coller and Gregory (1999), Beasley (2000) and Arifin (2002), the following hypothesis is put:

- H_1: The board of commissioner size has a positive effect on CSR disclosure

2.5.2. Independent Director

The director board is a board elected by shareholders, in charge of overseeing the work carried out by management in managing the company. The director board in the company acts as agent in the company. The directors carry out the company's operational activities and are also based on the authority received from shareholders and this is also directly responsible for the running of the company's operational activities.

In a corporate governance perspective, independent director tends to perform observing functions to ensure that shareholder interests are taken into account while making board decisions. However, the influence of independent director to CSR reporting is unclear. Cheng, and Courtenay (2006) and Donnelly, R.; Mulcany, M (2008) found a positive influence of independent director to CSR reporting. Meanwhile Eng, L.L. and Mak, Y.T. (2003) and Barako, D.G. and; Hancock, P. (2006) obtained contradictory results.

- H_2: The independent Director has a positive effect on CSR disclosure.

2.5.3. Female Director

From the literature, it has been shown that board diversity has turned into an important component of corporate governance arrangements in recent years. Past research has shown that board diversity is associated with corporate social reporting and results in high-intensity social performance. Carter et al. (2003) advocating board diversity would increase board independence. They further expose experimental evidence of a sizeable positive relationship between board diversity in terms of the percentage of female on the board of directors and firm values.

- H_3: The proportion of female director has a positive effect on CSR disclosure

2.5.4. Ownership Concentration

Previous studies from Saidet. al (2009) reported quite positive results on the relation between ownership concentration and CSR disclosure in Malaysian public companies. This particular job makes use the percentage of shares held by the five major shareholders to calculate and assign ownership concentrations to impact CSR reporting

- H_4: Ownership concentration has a positive effect on CSR disclosure

2.5.5. Independent Commissioner

Ratnasari and Prastiwi (2010) argue that the independent commissioners are expected to be neutral towards all policies made by the directors. The independent commissioner existence is not influenced by management; therefore, they tend to encourage companies to disclose broader information to their stakeholders. Thus, the greater proportion of independent commissioner in the companies, can encourage a wider disclosure of social information.

- H_5 = Independent Commissioner has a positive effect on CSR disclosure

3. Research Methods

3.1. Sample

All companies listed (go-public) at the Indonesia Stock Exchange (IDX) is used as a population in this study. These companies use as a population because they have an obligation to submit annual reports to parties outside the company, thus enabling the annual report data to be obtained. In this research. 41 companies in the mining sector were used as samples because this sector is explicitly stated as companies that run their business in the sector and / or are related to natural resources (article 74 of Law No: 40 Year 2007 regarding Limited Liability Companies.

3.2. Variable Operationalization

3.2.1. Dependent Variable

The checklist is carried out by looking at the CSR disclosure in seven categories, namely: environment, energy, workforce health and safety, other labor, products, community involvement, and the general public. This category was adopted from the research of Sembiring (2006). Seventy-eight CSR items are expected to be disclosed by the mining sector.

3.2.2. Independent Variable

- Board of Commissioners Size: The commissioner board size is consistent with Beasley (2000), namely the number of commissioner board member.
- Independent Directors: Percentage of Independent Directors
- Female Directors: percentage of female directorr
- Ownership Concentration: Percentage of shares owned by the 3 largest shareholders
- Independent Commissioners: Percentage of independent commissioners.

3.3. Research Model

The equations for testing the overall hypothesis are as follows:

CSRD = β0 + β1DK + β2DI + β3DP + β4KK + β5KI + e

Where:

CSRD = index of social responsibility disclosure

DK = Board of Commissioners

DI = Independent Director

DP = Female Director

KK = Ownership Concentration

KI = Independent Commissioner

β0 = constant

β1,…, β5 = Regression coefficient

e = Error

3.4. Hypothesis Testing

To test the proposed hypothesis, the following hypothesis formulations are used:

- H0: β1, β2, β3, β4, β5 ≤ 0 (Board of Commissioners, Independent Directors, Female Directors, Concentration of Ownership, and Institutional Ownership partially do not have a positive effect on CSR Disclosure)
- H1: β1, β2, β3, β4, β5> 0 (Board of Commissioners, Independent Directors, Female Directors, Concentration of Ownership, and Institutional Ownership partially have a positive effect on CSR Disclosure)

T test criteria:

- If the significance level > 0.05 at α = 5%, H0 is accepted and H1 is rejected.
- If the significance level <0.05 at α = 5%, H0 is rejected and H1 is accepted.

4. Results and Discussion

4.1. Result

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.580[a]	.336	.241	16.72398	1.497

a. Predictors: (Constant), KI, DI, KK, DK, DP

b. Dependent Variable: CSR

Table 1

From the table above, it can be seen that r square is 0.336. This value indicates that the contribution of commissioner boardsize, independent director, female director, the ownership concentration and independent commissioners to the CSR disclosure is 33.60%, while 66.40% is determined by other variables.

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4954.865	5	990.973	3.543	.011[a]
	Residual	9789.200	35	279.691		
	Total	14744.065	40			

a. Predictors: (Constant), KI, DI, KK, DK, DP

b. Dependent Variable: CSR

Table 2

From the table above, it can be seen that the significance value of 0.011 is smaller than 0.05. This indicates that together the variable commissioner board size, independent director, female director, ownership concentration and independent commissioner have a significant effect on CSR disclosure at the 5% significance level.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.701	21.307		.361	.720
	DK	6.727	1.781	.571	3.776	.001
	DI	.336	.177	.284	1.896	.066
	DP	.127	.194	.102	.656	.516
	KK	.165	.159	.153	1.034	.308
	KI	-.340	.310	-.170	-1.097	.280

a. Dependent Variable: CSR

Table 3

Based on the multiple regression output table above, the regression equation can be formulated as follows:
CSRD = 7,701+ 6,727DK + 0,336DI + 0,127DP + 0,165KK - 0,340KI

4.1.1. Hypothesis Testing 1

At the level of $\alpha = 5\%$, the Commissioner Board size has a positive significant effect on CSR disclosure because the significance value is 0.001 less than 0.05 and the β (+) value is 6.727. Thus, hypothesis 1 which states that the Commissioner Board size has a positive effect on CSR disclosure cannot be rejected at the 5% significance level.

4.1.2. Hypothesis Testing 2

At the level of $\alpha = 5\%$, independent director has no positive significant effect on CSR disclosure because the significance value is 0.066 is greater than 0.05 and the β (+) value is 0.336. Thus, hypothesis 2 which states that the independent director has a positive effect on CSR disclosure can be rejected at the5% significance level.

4.1.3. Hypothesis Testing 3

At the level of $\alpha = 5\%$, the female director has no positive significant effect on CSR disclosure because the significance value of 0.516 is greater than 0.05 and the β (+) value is 0.127. Thus, hypothesis 3 which states that the female director has a positive effect on CSR disclosure can be rejected at the 5% significance level.

4.1.4. Hypothesis Testing 4

At the level of $\alpha = 5\%$, ownership concentration has no positive significant effect on CSR disclosure because the significance value of 0.308 is greater than 0.05 and the β (+) value is 0.165. Thus, hypothesis 4 which states that ownership concentration has a positive effect on CSR disclosure can be rejected at the level of $\alpha = 5\%$.

4.1.5. Hypothesis Testing 5

At the level of $\alpha = 5\%$, the independent commissioner has a negative and insignificant effect on disclosure of corporate social responsibility because the significance value of 0.280 is greater than 0.05 and the value of β (-) is 0.340. Thus hypothesis 5 which states that the independent commissioner has a positive effect on CSR disclosure can be rejected at 5% significance level.

4.2.Discussion

In simultaneous testing, the level of influence of the independent variables (DK, DI, DP, KK, KI) on social responsibility disclosure (CSR) was found to be quite low at 33.60% (r-square = 0.336). This means that simultaneously, the board of commissioner size, independent director, female director, ownership concentration and independent commissioner are able to influence the level of CSR disclosure by 33.60%. The remaining 66.40% is influenced by other variables outside the variables used.

This low level of r-square indicates the need for further research by adding other variables as predictors of CSR disclosure. However, seen from its significance, simultaneously the variables used have a significant effect with an F value of 3.543.In a partial test, only the board of commissioner size has a significant effect on CSRdisclosure. Meanwhile, independent director, female director, ownership concentration and independent commissioner have insignificant influence. The discussion of each variable in partial testing is made specifically in the following subsections below.

4.2.1. Board of Commissioner

In the agency theory perspective, the commissioner board is considered the highest internal control mechanism, which is responsible for controlling the top management actions. Assosiated with the disclosure of information by the company, many studies have shown a positive relationship between the commissioner board characteristics and the information disclosure by the company.In this study, the commissioner board size, shows a significant positive effect on CSR disclosure with a value of $t = 3.776$ and $p = 0.001$ ($p <0.05$). This means that the CSR disclosure made by the company will be wider if there are more members of the commissioner board in a company.

These results successfully support agency theory and are in accordance with the opinion of Coller and Gregory (1999) which state that CEO control and monitoring will be easier and more effective if the number of members of the commissioner board increases. Thus, the pressure on management will also be greater to disclose social responsibility information. These results also successfully support the results of Sembiring (2006) which found that the commissioner board has a positive significant effect on the CSR disclosure in manufacturing companies in Indonesia.

4.2.2. Independent Director

The director board is a board elected by shareholders, in charge of overseeing the work carried out by management in managing the company, with the shareholders aim. In the agency theory perspective, the directors board acts as an agent in the company who knows more operational information than the owner (principal).

From a corporate governance perspective, independent director tends to perform the function of ensuring that shareholder interests are considered in making board decisions. However, the relationship between CSR reporting and independent director is unclear. Cheng, and Courtenay (2006) and Donnelly, R.; Mulcany, M (2008) found a positive influence. Meanwhile Eng, L.L. and Mak, Y.T. (2003) and Barako, D.G. and; Hancock, P. (2006) obtained contradictory results.

In this study, independent director who are proxied by the independent director percentage on the directors' board, show a positive and insignificant effect on CSR disclosure with a value of $t = 1.896$ and $p = 0.066$ ($p> 0.05$). This positive effect that the CSR disclosure made by the company will be wider if there are more independent director on the director board. These results are in accordance with the findings of Cheng, and Courtenay (2006) and Donnelly, R.; Mulcany, M (2008).

4.2.3. Female Director

Carter et al. (2003) states that board member diversity will increase board independence. They expose experimental evidence of a sizable positive relationship between board diversity in terms of the percentage of female on the director board and firm values.

In this study, female director who were proxied by the percentage of female on the directors' board showed a positive and insignificant effect on the CSR disclosure with a value of $t = 0.656$ and $p = 0.516$ ($p> 0.05$). This positive influence can be interpreted that the CSR disclosure made by the company will be wider if there are more female on the director's board.

4.2.4. Ownership Concentration

Said, et. al. and Sadia Majeed et. al. were found the positive effect of ownership concentration on CSR disclosure. The same was found in this study where the ownership concentration proxied by the percentage of shares owned by the three largest shareholders was found to have a positive insignificant effect on CSR disclosure with a value of $t = 1.034$ and $p = 0.308$ ($p> 0.05$). This positive influence can be interpreted that the CSR disclosure made by the company will be wider if there the higher ownership concentration.

4.2.5. Independent Commissioner

Ratnasari and Prastiwi (2010) argue that the independent commissioner existence is expected to be neutral towards all policies made by the directors. The existence of an independent commissioner is not influenced by management; therefore, they tend to encourage companies to disclose broader information to their stakeholders.

In this study, independent commissioners, proxied by percentage of independent commissioner on the commissioner board, showed a negative and insignificant effect on the CSR disclosure with a value of $t = -1.097$ and $p = 0.280$ ($p> 0.05$). This negative effect means that the lower the social responsibility disclosure made by the company if there are higherpercentage of independent commissioners on the board of commissioners.

This finding is difficult to explain because it is expected that independent commissioners will put greater pressure on CSR disclosure. However, the same research results were also found by Waryanto (2010) who found a negative and insignificant effect between independent commissioners on CSR disclosure. This finding may be the result of ineffective selection and appointment of independent commissioners (FCGI, 2002 in Waryanto, 2010). This also means that the independent commissioners are not able to show its independence or is actually not independent.

The following statement in Kompasiana (June, 2015) could also be the cause of the unclear influence of independent commissioners on social responsibility disclosure. In Indonesia, it was stated that there were indeed several problems related to the company's board of commissioners. One of the concerns is the role of commissioners that is too strong and there is also a role of commissioners who are weak in carrying out functions. There is bias in the implementation of independence due to several trends such as the too strong role of the commissioners in the company. If this happens, the commissioners may become too interfering with the directors in carrying out duties. So that the board of directors' effectiveness in making technical decisions is hampered, and may even not involve the directors board at all in the company's decision-making process. In addition, there is also the role of commissioners who are weak in carrying out their functions. This could be caused by several factors, such as the very strong position of director board, the weak competence and integrity of the commissioners, and the commissioners holding the same position in several companies.

There have been a lot of researches on CSR in the last two decades. Most studies focus on what factors influence the extent of CSR in annual reports. Research related to the content of CSR is still quite rare, so the disclosure items used have not been standardized.

Related to the research results are also very diverse. Many variables have been tested as determinants of CSR disclosure. However, the results are still very mixed. Not only the significance problem, but also the influence direction on CSR disclosure. There are those who find a positive direction of the influence of a positive variable, but there are also those who find a negative direction. Sometimes logically the theory of the influence of a variable is stated positive, but the test results are negative.

The aforementioned matters need to be of more intense attention from parties who pay attention to corporate social responsibility. In addition, of course, it returns to the company regarding motivation in implementing its social responsibility. This also needs to be a concern because sometimes it is rather difficult to distinguish between activities that are really the implementation of social responsibility and promotional activities. There are also many promotional activities that are wrapped up as if they were a social responsibility.

From various research results, there are several things that can be stated as factors that motivate the company to carry out its social responsibility, although this of course can still be studied further. What is especially important, of course, is the existence of regulations from the government that oblige companies to carry out their social responsibility towards stakeholders. The existence of this regulation will greatly affect the CSR implementation because if it is not implemented, the company will be subject to sanctions by the government. In addition, companies also usually carry out their social responsibility to improve the good name and reputation of the company in the community, so that it can affect potential investors, and the possibility of obtaining long term profits.

The improvement of social problems faced by the community due to the existence of the company is of course a factor that motivates the company to carry out its social responsibility. The improvement of these social problems will be able to keep the company going in the long run. A good relationship between the local community and the company needs to be a concern because apart from being the parties directly in contact with the company, the surrounding community is also a provider of labor and consumers for the company.

5. Conclusions and Recommendations

5.1. Conclusion

- Simultaneously the variable of the commissioner board size, independent director, female director, ownership concentration and independent commissioners have a significant effect on CSR disclosure.
- Partially only the commissioner board size has a significant effect on CSR disclosure, while independent director, female director, ownership concentration and independent commissioners have insignificant effects.
- The low r square value, which is 0.336, indicates that other variables which are not in this study have a greater influence, namely 64.40%, on the CSR disclosure.

5.2. Suggestions

The theoretical implication as a future research agenda from these findings, namely the low level of r square indicates that other variables not this study have a much greater influence on CSR disclosure, so future research is expected to add other variables from corporate. governance to find a better model in estimating CSR disclosure. Likewise, items of CSR disclosure should always be updated in accordance with existing conditions in society.

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