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Analysis of Effect of Good Corporate Governance and Corporate Social Responsibility on the Company Performance: Case Studies of Manufacturing Company in Indonesia

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Abstract: ***This study aims to determine whether there is influence the mechanism of Good Corporate Governance (GCG) and Broad Disclosure of Corporate Social Responsibility (CSR) and Corporate Performance. The number of samples in this study were 60 companies in the manufacturing industry listed in Indonesia Stock Exchange during the period 2014-2016.SEM-PLS analysis is used to test the proposed hypothesis formulation. The result of the research shows that (1) GCG internal mechanism has no influence to company performance (2) CSR Disclosure has influence to company performance***

Keywords: Good Corporate Governance, Corporate Social Responsibility, Company Performance, Indonesia Stock Exchange

JEL Classification: M41

1. Introduction

Good corporate governance (GCG) is currently being driven by the Indonesian government to be developed by the business world. The reason, this is very influential on the development of a company in the era of free competition market. By having good governance, then this will have a positive impact on the growth of the company's own capital. That's because investors and potential investors will increasingly glance at the company if it has good information disclosure through professional governance.

By having excellent governance, then this will have a positive impact on the growth of the company's own capital. The reason, investors will increasingly glance at the company if it has good information disclosure through professional governance. By having excellent governance, then this will have a positive impact on the growth of the company's own capital (Shaukat, Trojanowski and Qiu, 2016). The reason, investors will increasingly glance at the company if it has good information disclosure through professional governance.

GCG has become an increasingly popular topic of discussion in both developed and developing countries. GCG consists of several elements of government structure along with its regulatory mechanisms (Chan, Watson and Woodliff, 2014; Palaniappan, 2017). GCG is the structure of a process and system to direct and control organizational functions through rules and procedures for managing organizational decisions(Choi, Han and Lee, 2014) through a set of rules and procedures that distribute rights and responsibilities among stakeholders (including shareholders, management, creditors, government and the public) (Cormier and Magnan, 2014). Therefore, GCG issues are still interesting to be examined in the context of Indonesia.

Today, corporate concerns are not only profit-oriented but also increasingly leading to social issues and accountable to the public interest as a whole (Rodriguez, 2016). Over the last few years many researchers in the field of corporate governance are increasingly paying attention to research related to corporate social responsibility (CSR). This is in line with the agency's theoretical framework that the extent of the GCG scope is no longer seen to be limited only to how to align the interests of managers with shareholders but also widen to other stakeholders (Jensen and Meckling, 1976).

Most previous studies have focused on the impact of GCG and CSR on corporate performance (Ahmed and Hamdan, 2015, Azeez, 2015;de la Cuesta, Fernandez-Feijoo and Garcia-Torea, 2016; Giannarakis, Konteos and Sariannidis, 2014;Leila and Walid, 2018) that there is still no clear limit on how the GCG mechanism impacts the company's performance (Habbash, 2016, Husted and Sousa-Filho, 2017; Palaniappan, 2017). Considering the dynamics of the relationship between GCG and CSR mechanisms as well as their impact on corporate performance, this appears to be a significant and interesting research gap for further investigation.

This research focuses on GCG reflected on CGG mechanism such as Board Size, Board Independence, Institutional Ownership which is one of the mechanisms of GCG (Habbash, 2016; Palaniappan , 2017). GCG can affect corporate performance through good governance mechanisms (Griffin and Shao, 2014; Mallin, Michelon and Raggi, 2013).

With regard to CSR, this study focuses on the extent of corporate social responsibility disclosure that refers to the extent to which the company presents information on its social responsibilities. Based on research conducted by

(Khan, Muttakin and Siddiqui, 2013), CSR is measured using the GRI index.

Furthermore, the purpose of this research is to know whether there is influence between GCG and CSR on company performance. The subjects of the research are the companies in the manufacturing industry listed on the Indonesia Stock Exchange (BEI).

This article is divided into five sections, the first is contains a literature review, framework and formulation of hypotheses. The second part is about the research methodology shows that explains the study sample and the operational definition of variables. The third section presents the empirical results. The fourth section presents the analysis and discussion and conclusion. The last part is a limitation of the study and suggestions for future research.

2. Literature Review and Hypotheses Formulation

The size of the board of directors and the Company's Performance

The responsibility of the board of directors is set a strategic goal of the company, providing leadership to achieve the goals of the organization, overseeing the management and governance report (Cadbury, 1992). Research on the effect of the size or number of boards of directors on company performance has many contradictions. The number of boards of directors is an important variable but there is no agreement on the impact on the company's performance (Palaniappan, 2017).

The size of a large board of directors is not necessarily a benefit that is directly proportional to the performance of the company (Azeez, 2015). This is in line with research conducted by Khan, Muttaqin and Shiddiqui (2013) which says that keeping the size of the board of directors can improve their performance and conclude that when the number of board sizes exceeds seven or eight members, they will tend to be ineffective and more easily controlled by the CEO.

The complexity of management control, the accuracy of financial information requires the existence of a large number of boards of directors through the diversity and experience required to support this function (Alvarez, Domínguez and Sánchez, 2011). From the above description, the first hypothesis is formulated as follows:

H1: The size of the board of directors has an influence on the performance of the company

Proportion of Board of Independent Directors and Company Performance

The independent board of directors is considered an important mechanism for controlling the activities of managers with a view to ensuring shareholder objectives are achieved (Fama and Jensen, 1983). Palaniappan (2017) said that with the existence of an independent board of directors in the structure of the board of directors will be an effective mechanism to reduce the difference in interests between management and shareholders.

Based on the agency theoretical framework and stakeholder theory, it is seen that a high independent board of directors ratios can be an important component of the GCG structure which can then assist in resolving agency issues (Habbash, 2016) and can advance the interests of other stakeholders (Arora and Sharma, 2015). Based on the above description, the second hypothesis can be formulated as follows:

H2 : The proportion of independent board of directors has an influence on the performance of the company

Proportion of Institutional Ownership and Company Performance

Another variable that may affect company performance is institutional ownership. Substantially, institutional shareholders have less capacity to remove their holdings, without affecting changes in the company's stock price (Gillan and Starks, 2000; Romlah and Zaleha, 2016).

Some previous studies have examined the relationship of institutional ownership to company performance. Results of research conducted by Al-Fayoumi, et.al (2010) which examines the effect of institutional ownership in the context of oversight and disclosure. Institutional investors are investors with experience and resources (Romlah and Zaleha, 2016). The jam based on the agency's theoretical framework suggests that institutional investors have extra incentives in providing supervision and control for management (Jensen and Meckling, 1976). Based on the above explanation, then the third hypothesis can be formulated as follows:

H3 : The Proportion of Institutional Ownership has an influence on company performance

CSR Disclosure and Company Performance

Stakeholder theory becomes a framework in explaining the relationship between CSR on corporate performance. Assuming that implicitly firms need appropriate behavior such as policies concerning environmental concerns and fair working relationships (Rodriguez, 2016). In this case, if the company does not have activities that reflect CSR activity, it will result in much more significant cost consequences and tends to reduce earnings. Conversely, if the company implements a CSR policy more profit increase then it will provide incentives to then increase investment in CSR programs (Chiara and Silvia Dal, 2017; Samuel, 2017).
Samuel (2017) found that CSR activity has a significant positive effect on company performance. The findings are supported by research conducted by Chiara and Silvia Dal (2017) who found that companies with high CSR activity will have the capability to increase profitability. Based on the explanation above, the fifth hypothesis can be formulated as follows.

H4: CSR Disclosure have influence on the performance of the company

In accordance with the explanation of the theoretical basis and the formulation of hypotheses previously, Figure 1 depicts the research model with the relationship between size of the Board of Directors, Independent Director of the Board Proportion, proportion of Institutional Ownership,

Ownership Proportion Government Size and Performance company's CSR disclosure. There is a direct influence in the depiction of the relationship between variables as follows.

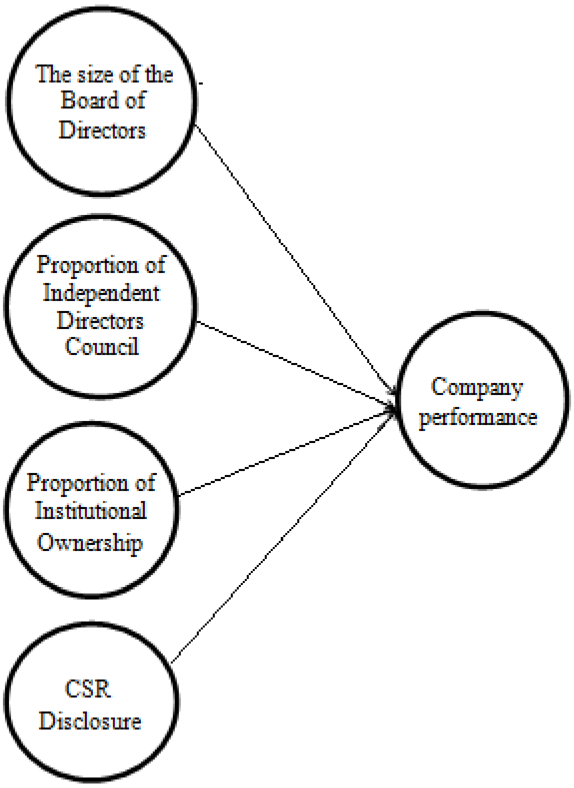

Figure 1: Research Model

3. Research Methodhology

Population and Sample Research

Research formulated models tested with secondary data obtained from the database of the Indonesia Stock Exchange (BEI). (Http://www.idx.co.id). The secondary data in the form of summaries of corporate performance (Indonesian Capital Market Directory / ICMD) and information obtained from the company's official website.

The population used in this research is the company in the financial services industry sectors listed on the Indonesia Stock Exchange (BEI). The sampling technique in this research is purposive sampling method. The study population was obtained from a sample of 60 companies during the period 2014-2016. Criteria for the determination of the samples used in this study are as follows:

1) Companies that have an official website.
2) Companies that have a complete financial overview of data over the period 2014-2016.
3) Companies that have positive financial data

Operational Definition and Variable Measurement

Dependent Variables
Company performance

Dependent variable in this research is company performance. The performance of companies referred to in this research is financial performance. Financial performance is measured through return on assets (ROA) and return on equity (ROE). ROA and ROE are chosen because it has become an established measure in reflecting the company's financial performance. So it is considered to represent the construct of financial performance.

Independent Variables

Board size

The first independent variable in this study is the Board of Directors Size. The size of the Board of Directors is the number of members of the company's board of directors (Azeez, 2015). The method of measurement is to calculate the accumulated number of board members owned by each company. The information is obtained through the company's annual report.

Proportion of Independent Board of Directors

The second independent variable in this study is the Proportion of Independent Board of Directors. The proportion of the Independent Board of Directors is measured by the ratio of the number of independent directors' boards to the total number of directors in the company (Habbash, 2016).

Proportion of Institutional Ownership

The third independent variable in this study is the Proportion of Institutional Ownership. The Proportion of Institutional Ownership is measured by the ratio of share ownership held by institutional investors compared to the total number of company stock ownership (Mallin, Michelon and Raggi, 2013)

Extensive CSR Disclosure

The fifth independent variable in this study is the area of CSR disclosure. The CSR Disclosure area is measured by the ratio of CSR items disclosed by the firm compared to the total item of disclosure in the prepared checklist (Eyad and Mohammed, 2016)

Control Variables

In order to obtain good internal validity, researchers should control other variables that are not hypothesized but may influence endogenous latent variables (Ratmono and Sholihin, 2013). The control variable used in this study is firm size. Company size can be seen through total assets owned by the company. To make the data of the total assets normally distributed, the total asset value is converted by using the log of the total assets of the firm.

4. Results and Discussion

Statistical analisisis technique used in this research is Structural Equation Modeling (SEM) Which is one type of multivariate analysis (Ratmono and Sholihin, 2013), Software or applications as test equipment used is warppls 3.0. PLS estimation methods used to test hypotheses and test the effect of indirect influence in the research model that has been proposed.

Reasons to use SEM-Pls as the estimation method, among others, SEM-Pls capable of testing complex research models simultaneously and be able to analyze the variables that can not be measured directly (Henseler, Hubona and Ray, 2016as well as taking into account the measurement error(Hair Jr, Hult, Ringle and Sarstedt, 2016)

5. Evaluation Measurement Model (Outer Model)

This model specifies the relationship between latent variables with the indicators or it can be said that the outer model defines how each indicator relates to the latent variables. Measurement model evaluation is performed to test the validity and reliability. The test results PLS stage measurement model will be presented in tables 1 and 2 below, as follows:

1. Validity Test

Assessment in testing the validity can be seen from the results of the combined loading and cross loading and Variances Average Extracted (AVE), as follows:

Table 1: Results of ValidityTest

Indicator	Construct						
	CSR	FP	SIZE	BS	BI	IO	P value
CSRD	1,000	0000	0000	0000	0000	0000	<0.001
ROA	0204	0966	- 0.034	0035	- 0009	- 0.040	<0.001
ROE	- 0.204	0966	0034	- 0035	0009	0040	<0.001
SIZE	0000	0000	1,000	0000	0000	0000	<0.001
BS	0000	0000	0000	1,000	0000	0000	<0.001
BI	0000	0000	0000	0000	1,000	0000	<0.001
IO	0000	0000	0000	0000	0000	1,000	<0.001

Source: Output WrapPLS 6.0, 2018

There are two criteria to assess whether the model qualifies outer convergent validity for loading must construct a value above 0.70 and a significant p value (<0:05) It also should have a value AVE Issuer 0:50 (Hair Jr, Hult, Ringle, & Sarstedt, 2016), Terms loading value should be above 0.70 for the latent variables can explain the variance should have a minimum of each indicator by 50% (Ratmono and Sholihin, 2013),

Table 2: Results of Validity Test

CONSTRUCT	AVE
CSRD	1. 000
FP	0966
SIZE	1. 000
BS	1. 000
BI	1. 000
IO	1. 000

Source: Output WrapPLS 6.0, 2018

Tables 1 and 2 show that the variable Broad Disclosure of CSR (CSRD), Corporate Performance (ROA and ROE), firm size (Size), size of the Board of Directors (BS), Proportion Board of Independent Directors (BI), Proportion of Institutional Ownership (IO) has have convergent validity criteria because it has a loading value above 0.70 and a significant p value (<0.001). Then, when comparing the value of AVE for each construct is worth over 0:50 So it can be said to have a good discriminant validity.

2. Reliability Test

Assessment in testing the validity can be seen from the presentation of the two sizes, namely Composite reliability of research instrument reliability coefficients and Cronbach's alpha coefficient. Both must be valued above 0.70 as a condition of reliability(Hair Jr et al., 2016), The results obtained as follows:

Table 3: Results Reliability Test

	CSR	FP	SIZE	BS	BI	IO
composite Reliability	1,000	0966	1,000	1,000	1,000	1,000
Cronbach's Alpha	1,000	0929	1,000	1,000	1,000	1,000

Source: Output WrapPLS 6.0, 2018

Table 3 shows the values of composite reliability coeficient bring CSR of 1000, the FP of 0966, SIZE amounted to 1,000, BS of 1000, the central bank amounted to 1,000, and IO of 1,000. Value Composite reliability coefficients of each construct has been qualified is worth over 0.70. While the value of Cronbach's alpha coefficent CSR of 1000, the FP of 0929, SIZE amounted to 1,000, BS of 1000, the central bank amounted to 1,000, and IO of 1,000. It can be concluded that the respective values for each of these constructs has met the requirements reliably.

Evaluation Model (Inner Model)

Based on the analysis Partial Least Square to test structural models (inner model) with 6.0 WarpPLS program following analysis of the results obtained.

Table 4: Results of ModelEvaluation (Inner Model)

Model	*R-Squared*	*Q-Squared*
Company Performance (FP)	0716	0688

Source: Output WrapPLS 6.0, 2018

Goodness of fit a model of structural models (inner model) is indicated by the value of R-squared. Table 4 above shows that the value of R-Squared for Corporate Performance (ROA and ROE) of 0.716 which means that the variable size of the Board of Directors (BS), Proportion Board of Independent Directors (BI), Proportion of Institutional Ownership (IS), Broad Disclosure of CSR (CSRD), firm size (SIZE) explains 71.60% of the variable performance of the company, while the remaining 28.40% influenced by other factors that are not included in the research model.

*Q-squared*is a non-parametric measure obtained through blindfolding algorithm. Q-squared aimed at measuring how well the predictions generated by the model construct(Hair Jr et al., 2016), Based on the results in the table above, it can be seen that the Q-squared value for the company's performance for 0688. This shows that the model in this study has predictive relevance (match prediction) for Q-squared value> 0(Sholihin & Ratmono, 2013), Variable-exogenous variable among others such as the variable size of the Board of Directors (BS), Proportion Board of Independent Directors (BI), Proportion of Institutional Ownership (IS), Broad Disclosure of CSR (CSRD), firm size (SIZE) are relevant predictive variable of company performance.

Hypothesis testing

Hypothesis testing is done by looking at the value of the path coefficient to determine the influence between the latent variables by means of bootstrapping can be seen in Table 5 and 6 and the structural model study resulting from WarpPLS 3.0 can be seen in Figure 2.

Table 5: The results of Hypotheses

path	path Coefficient	P-Values	Standard Error	Information
BS→FP	0069	0275	0115	Weak and not significant
BI→FP	0053	0325	0116	Weak and not significant
IO→FP	-0012	0458	0117	Weak and not significant
CSRD→FP	0816	<0.001	0091	And significant

Source: Output WrapPLS 6.0, 2018

Table 6: Relationship variable control

path	path Coefficient	P-Values	Standard Error	Information
SIZE → FP	0085	0232	0115	Weak and not significant

Source: Output WrapPLS 6.0, 2018

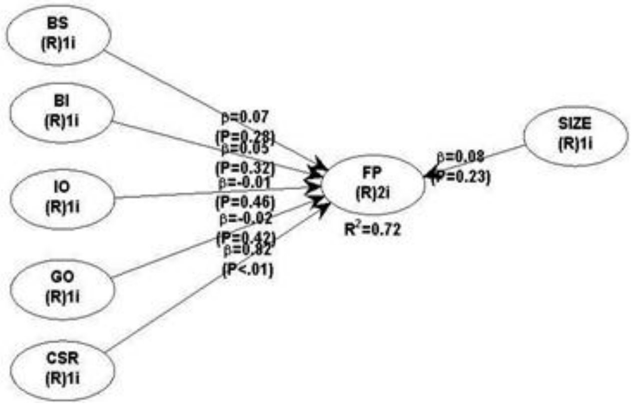

Figure 2: Structural Model

Effect size can be grouped into three categories: weak (0:02), medium (0:15) and large (0.35) (Hair Jr et al., 2016; Kock, 2014), Value effect size under 0:02 shows that the effect is very weak predictor of latent variables despite having a significant p value(Sholihin & Ratmono, 2013),

H1: The size of the board of directors has an influence on the performance of the company

From Table 5, the results of hypothesis test Board size (BS) have no effect on company performance (FP). Test the hypothesis can be seen from the path coeficient of 0.069 with a p-value of 0.275> 0.01, this means that BS has a weak and insignificant influence or can be said to have no influence on the FP means that the higher the size of the Board of Directors which is owned by the company will not significantly improve the company's performance. Based on these results it can be stated that the first hypothesis is rejected.

H2: The proportion of independent board of directors has an influence on the performance of the company

From Table 5, the results of hypothesis testing Proportion of Independent Directors Council (BI) had no effect on company performance (FP). Test the hypothesis can be seen from the path coeficient of 0.053 with a p-value 0.325> 0.01, this means that BI has a weak and insignificant influence or can be said to have no influence on the FP means that the higher the proportion of Independent Directors Council held by the company it will not increase the company's performance significantly. Based on these results it can be stated that the second hypothesis is rejected.

H3: The proportion of institutional ownership has an influence on the performance of the company

From Table 5, the results of hypothesis testing Proportion of Institutional Ownership (IO) had no effect on company performance (FP). Test the hypothesis can be seen from the path coeficient value of -0.012 with p-value 0.458> 0.01, this means that the IO has a weak and insignificant influence or can be said to have no influence on the FP means that the higher the proportion of Institutional Ownership owned by the company then it will not significantly degrade the performance of the company. Based on these results it can be stated that the third hypothesis is rejected.

H4: Broad Disclosure of CSR have influence on the performance of the company

From Table 5, the results of hypothesis testing showed that the area of CSR Disclosure (CSRD) has an influence on the performance of the company. Test the hypothesis can be seen from the path coeficient of 0.816 with a p-value 0.000 <0.01, this means that the CSRD have large and significant influence on the FP means that the higher the Broad Disclosure of CSR which is owned by the company, the higher the performance of the company. Based on these results it can be stated that the hypothesis 4 is accepted.

This study focuses on how to test the effect of the mechanism of corporate governance (GCG), which is reflected in the mechanism CGG among which the size of the Board of Directors (Board Size), Proportion Board of Independent Directors (Board Independence), stock ownership Institutional (Institutional Ownership) owned by the company against the company's performance as reflected by profitability (ROA and ROE) to conduct testing using panel data on a sample of 72 companies in the manufacturing industry listed in Indonesia Stock Exchange (BEI) in the period 2014-2016.

The results showed that the size of the Board of Directors, Independent Director of the Board proportion has a positive influence and insignificant while the proportion of Institutional Ownership owned by the company has a negative effect and no significant effect on the company's performance. This is consistent with the results of research conducted by(Ben Barka & Dardour, 2015)(Azeez, 2015)which found that the size of the board of directors and the proportion of independent board of directors does not have a significant influence on the performance of the company. There is a possibility that the size of the number of board of directors only a formality seen without the support application that works effectively function(Mallin, Michelon, & Raggi, 2013), Furthermore, the results show that institutional ownership has a negative and significant impact on the performance of the company. This finding is contrary to the framework of agency theory suggests that institutional investors should give a strong GCG mechanisms that have a positive impact on the performance of the company(Griffien et.al, 2014). The results of this study confirm the results of research conducted by Habbash

(2016); Al-Fayoumi et.al (2010) which found that institutional stock ownership has a negative effect and no significant effect on the company's performance.

The findings of the latter is that the area of CSR disclosure has a positive and significant impact on the performance of the company. The research result is in line with research conducted by Chiara and Silvia (2017) which found that the area of CSR Disclosure coined influence on the performance of the company. CSR activity will create a capability for the company to improve its performance.

6. Conclusions

From the explanation on the analysis and discussion of the above discussion it can be concluded that the variable size of the Board of Directors, Independent Director of the Board Size, Proportion of Institutional Ownership does not have a significant effect on the performance of the company, while the variable area of CSR disclosure has a positive and significant impact on the performance of the company.

7. Research Limitations and Suggestions

There is no research that has no limitations. There are limitations to this study among which the number of samples in this study only to companies in the financial services industry sectors. The study period is only a three year period. The lack of indicators used to describe the constructs in this study. Suggestions for further research is to increase the number of indicators used to describe the construct, the study period should be extended for at least 5 years and a selected sample should not only companies on the single industry types only.

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