The Effect of Profitability and Firm Size on Corporate Social Responsibility and Good Corporate Governance for Companies Listed on the Indonesia Stock Exchange

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Abstract: Good Corporate Governance (GCG) is an internal control system of a company that refers to laws and business ethics to move towards increasing business growth and corporate accountability, so that it can establish good relationships with stakeholders. CSR is to pay attention to the interests of corporate stakeholders which are interpreted as parties with an interest in the sustainability of the company, which includes employees, customers, consumers, suppliers, communities and the government. This study aimed to the effect of profitability and firm size on CSR and GCG, especially for companies that are listed on the Indonesia Stock Exchange (IDX) for the 2014-2017. The population in this study was 9 (nine) companies that are listed on the IDX and included in the ranking by SWA magazine. The data analysis technique used was path analysis. This study showed that profitability has a negative and significant effect on GCG, firm size has a positive and significant effect on CSR, CSR has a negative and significant effect on GCG. The result indicated that CSR and GCG are corporate obligations mandated by law, thus it is not influenced by the high-low profitability and firm size. Company must take notice on the financial conditions as indicated by the high-low profitability in carrying out CSR and GCG activities.

Keywords: good corporate governance, profitability, firm size, corporate social responsibility

1. Introduction

Company is always in the midst of society and has reciprocal relationships which results in a contribution to the success of a country's economic development. In Indonesia, many companies have implemented mutually beneficial relationships with stakeholders, such as by providing jobs to the community, fulfilling community needs through products produced as well as paying taxes to the government. This reciprocal relationship is not enough to shape the long-term value of a company. Hamdani (2016: 170), states that companies must balance the interests of all stakeholders in order to work together and to keep the company's image. Balancing all interests cannot be separated from the existence of good corporate governance. Good corporate governance is a procedure for implementing shareholder goals that is reflected in company policies and actions (Brigham and Dave, 2016).

Good corporate governance can overcome and reduce losses from the agency problems between stockholders and company management that can reduce the value of company shares (Brigham and Dave, 2016; Astika and Astiyani, 2014). Gandhi and Monica (2015) stated that companies cannot only contribute to economic growth, but also help solve problems that pose threats and risks to the company's sustainability in the economic, social and environmental spheres. Continuity(sustainability)companies need to be maintained for the sake of mutual relations of mutual benefit to all stakeholders, Thus making the company needs to have the awareness to reduce the threat and the risk through Corporate Social Responsibility (CSR). The principle of responsibility in CSR is to pay attention to the interests of corporate stakeholders which are interpreted as parties with an interest in the sustainability of the company, which includes employees, customers, consumers, suppliers, communities and the government (Untung, 2014: 10).

John Elkington (Effendi, 2016: 163), believes that companies that want to maintain their existence must pay attention to profit, people and the planet. This concept shows that there is a link between a company's financial performance and the implementation of overall GCG (Effendi, 2016: 163). Khan and Mohd (2017) state that corporate financial performance is the output of successful business operations in the form of higher profits, namely return on assets or return on equity. Profitability that allows it to be used as a proxy in measuring a company's ability to generate profits is return on equity (ROE). Companies with high GCG will have higher profitability, because investors have regulations and the ability to monitor company managers so as to reduce agency costs (Sanjeev and Singh, 2016). GCG implementation by companies will tend to form higher profitability, because it has lower equity costs (Rahadian et al., 2013).

In Indonesia, the implementation of GCG and CSR is still distinguished between the implementation of large, small and medium enterprises. Tan et al. (2016) states that large companies tend to get greater attention from the public and have greater public pressure to show social responsibility, because large companies generally operate on a large scale which can easily attract public attention. The size of the company has a positive impact on GCG practices given that large companies carry out better GCG mechanisms than small companies because they can bear the costs of monitoring (Amarullah et al., 2017). Total assets are used as proxies of firm size because they can reflect the amount of resources owned by the company (Tan et al., 2016). The choice of companies listed on the Indonesia Stock Exchange...
as samples in this study is due to the fact that the activities of these companies need management with a high level of effectiveness indicated by the profits generated and the amount of resources they have and have a large impact on the surrounding environment which is the principle from GCG and aspects of CSR disclosure.

2. Theoretical Study

Profitability is a ratio that measures a company's ability to generate profits from the normal business activities of a company and describes the company's ability to generate profits through all capabilities and resources owned by the company, namely from sales activities, total asset use and total capital use (Hery, 2015: 192). Companies with high-GCG will have higher profitability, because investors have regulations and the ability to monitor company managers so as to reduce agency costs (Sanjeev and Singh, 2016). According to Rahadian et al. (2013), the application of GCG by companies will tend to form higher profitability, because it has lower equity costs. Research conducted by Sanjeev and Singh (2016), Rahadian et al. (2013), Solikhah and Agus (2017), found that profitability had an effect on GCG practices. Based on several research findings that have been described, the hypothesis that can be proposed is as follows:

H1: Profitability has a significant positive effect on Good Corporate Governance.

The size of the company has a positive impact on GCG practices considering that large companies do better GCG mechanisms than small companies because they can bear the agency costs that arise and have greater resources, making it possible to adjust GCG practices for the better and the market has great attention in large companies and this encourages companies to carry out good GCG practices and shows greater pressure to perform well (Amirullah et al., 2017). According to Sugiartati et al. (2013), the value of GCG will increase if the company is consistent in its application and supported by the size of the company that has various resources, because investors assess this before investing. Research conducted by Amarullah et al. (2017), found that firm size has a significant effect on GCG practices. Based on several research findings that have been described, the hypothesis that can be proposed is as follows:

H2: Firm size has a significant positive effect on Good Corporate Governance.

The relationship between profitability and CSR disclosure is indicated by the direct economic benefits experienced by the company, namely the higher increase in the company's profitability will improve the company's reputation, stakeholders trust and the company's resources to meet CSR disclosure and indirect economic benefits of the company increase the commitment of employees who are part of the company stakeholders (Boonnual et al., 2017). Research conducted by Marchyta and Dewi (2015), Giannarakis (2014), Boonnual et al. (2017), found that profitability has a significant positive effect on CSR disclosure. Based on several research findings that have been described, the hypothesis that can be proposed is as follows:

H3: Profitability has a significant positive effect on Corporate Social Responsibility.

Firm size is a scale to classify the size of the company and from the size of the company will affect the ability to bear the risks that arise from various situations that will be faced by the company. Tan et al. (2016) found that the larger the company, the wider the disclosure of CSR must be assumed, thus this finding implies that the issue of CSR disclosure is an important factor for investors to manage their investments. Research conducted by Giannarakis (2014), Li et al. (2013), Giannarakis (2014), vlvaraz and Ivo (2016), Kilic (2016), Hanifa and Fitra (2016), Bowrin (2013), Tan et al. (2016), Chiu and Yi (2015), Wang et al. (2013), Halaby and Khaled (2015), obtained results that firm size had a significant positive effect on CSR disclosure. Based on several research findings that have been described, the hypothesis that can be proposed is as follows:

H4: The size of the company has a significant positive effect on Corporate Social Responsibility.

Good corporate governance is a system of internal control carried out by the company by referring to legislation and business ethics and managing the business towards increasing business growth and corporate accountability so that it can establish good relationships with the stakeholders of the company. A good corporate governance must have social and environmental concerns. According to Solihin (2015: 128), the implementation of CSR is also one of the principles of GCG, namely the principle of responsibility, so that companies that implement GCG should carry out the implementation of CSR. The greater the disclosure of CSR carried out by the company, the greater GCG is conducted by the company in question, therefore the company becomes trusted and even highly trusted. Research conducted by Kilic et al. (2015) and Naseem (2017), obtain results that GCG has a significant positive effect on CSR disclosure. Based on several research findings that have been described, the hypothesis that can be proposed is as follows:

H5: Corporate Social Responsibility has a significant positive effect on Good Corporate Governance.

3. Research Methods

This study uses an associative quantitative approach. The object of this research is profitability, firm size, corporate social responsibility and good corporate governance for companies listed on the Indonesia Stock Exchange (IDX) for the period 2014 to 2017. This research was conducted by accessing www.idx.co.id, SWA magazine from 2014 to 2017 and the website of each company. The data analysis technique used in this research is Path Analysis.

**Table 3.1: Number of Research Samples**

<table>
<thead>
<tr>
<th>No</th>
<th>Criteria</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Company listed on the Indonesia Stock Exchange until 2017</td>
<td>566</td>
</tr>
<tr>
<td>2</td>
<td>Companies that did not become research participants in the SWA magazine for the period of 2014 to 2017</td>
<td>545</td>
</tr>
<tr>
<td>3</td>
<td>Companies that did not participate in SWA magazine research consecutively from 2014 until 2017</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: Indonesia Stock Exchange, the company's website and SWA magazine 2014-2017 period
4. Results and Discussion

### Table 4.1: Summary of Coefficients

<table>
<thead>
<tr>
<th>Regression</th>
<th>Standardized coefficients</th>
<th>Standard Error</th>
<th>t Count</th>
<th>P. Value</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PR → CSR</td>
<td>-0.444</td>
<td>0.003</td>
<td>-2.877</td>
<td>0.007</td>
<td>Significant</td>
</tr>
<tr>
<td>UP → CSR</td>
<td>0.449</td>
<td>0.011</td>
<td>2.969</td>
<td>0.006</td>
<td>Significant</td>
</tr>
<tr>
<td>PR → GCG</td>
<td>-0.832</td>
<td>0.010</td>
<td>-9.389</td>
<td>0.000</td>
<td>Significant</td>
</tr>
<tr>
<td>UP → GCG</td>
<td>-0.207</td>
<td>0.033</td>
<td>-2.336</td>
<td>0.026</td>
<td>Significant</td>
</tr>
<tr>
<td>CSR → GCG</td>
<td>-0.328</td>
<td>0.157</td>
<td>-10.690</td>
<td>0.000</td>
<td>Significant</td>
</tr>
</tbody>
</table>

Source: SPSS Output Data.

**Profitability on Good Corporate Governance**

The results of statistical tests show that the value of the beta coefficient profitability of -0.832 proved to have a negative effect on GCG. The results of statistical tests of profitability are significant at the level of 5% (p value = 0.000 <0.050). Therefore, based on these statistical tests, profitability has a negative and significant effect on GCG. It can be concluded that hypothesis 1 is rejected. This shows that the size of the company's profitability is not able to provide added value to GCG. The size of the company's profitability will not affect GCG because the company will continue to try to keep GCG practices running regularly and continuously to maintain the category as a highly trusted company. The results of this study explain that low profitability will improve GCG of the company and versa, because GCG is an important thing to realize an increase in corporate performance through monitoring management performance and ensuring management accountability to shareholders so as to reduce the level of efficiency of the company in issuing costs in order to monitor, examine and evaluate the company's interests, this will have an impact on the company's ability to make profits.

This significant negative effect is inseparable from the existence of company profitability data shown by negative value data. Agency theory states that each company will issue agency costs to reduce agency problems, thus high GCG will reduce the company's profitability. The results of this study are in accordance with those of Sulistyawati et al. (2016), Singhania and Gagan (2015), Li et al. (2013), Alvarez and Ivo (2015), Anas et al. (2015) and Bowrin (2013).

**Firm Size on Good Corporate Governance**

The results of the tests statistically show that the beta coefficient of firm size of -0.207 has proven a negative effect on GCG. The results of the statistical test of firm size are significant at the level of 5% (p value = 0.026 <0.050). Therefore, based on these statistical tests, the size of the company has a negative and significant effect on GCG. It can be concluded that hypothesis 2 is rejected.

The size of the companies listed on the IDX for the 2014-2017 period does not guarantee that GCG will be high. Based on the results of the study, it is indicated that GCG is not influenced by the size of the company. This shows that the greater the size of the company will require more operational and human resource burdens, because it impacts on increasingly complex governance that can reduce GCG. Larger companies will make the principal add agents to be placed in the company's organizational structure. In line with the agency theory which states that GCG is the core of the application of agency theory, therefore the more agents are in the company, the more complex the application of GCG and the higher the agency cost would be. These results are consistent with the research conducted by Singhania and Gagan (2015), Anas et al. (2015) and Sundarase (2016).

**Profitability on Corporate Social Responsibility**

The results of the tests statistically show that the value of the beta coefficient of profitability of -0.444 has proven a negative effect on CSR. The results of statistical testing of profitability are significant at the level of 5% (p value = 0.007 <0.050). Thus, based on these statistical tests, profitability has a negative and significant effect on CSR. Therefore it can be concluded that hypothesis 3 is rejected.

High or low profitability values do not affect CSR disclosure because companies will continue to disclose CSR in accordance with Law number 40 of 2007 concerning limited liability companies, Law number 25 of 2007 concerning investment, Law number 32 of 2009 concerning protection and environmental management and Government Regulation number 47 of 2012 concerning limited liability social and environmental responsibility imposed by the government. Disclosure of CSR can provide business continuity in the long term and strengthen brand positioning and brand image in the eyes of the public so that it becomes a distinct advantage for companies that although the main purpose is to seek profits, the company cannot be separated from the community and surrounding environment. The results of this study are in accordance with those of Sulistyawati et al. (2016), Singhania and Gagan (2015), Li et al. (2013), Alvarez and Ivo (2015), Anas et al. (2015) and Bowrin (2013).

**Firm Size on Corporate Social Responsibility**

The results of the tests statistically show that the beta coefficient of firm size of 0.449 is proven to have a positive effect on CSR. The results of the statistical test of firm size are significant at the level of 5% (p value = 0.006 <0.050). Thus, based on these statistical tests, the size of the company has a positive and significant effect on CSR. Therefore it can be concluded that hypothesis 4 is accepted.

The greater the size of a company, the higher the CSR disclosure would be. Companies that have large sizes can overcome the additional costs of developing CSR disclosures and the greater the size of the company, the higher the quality of CSR disclosure would be. In line with the CSR concept, the greater the size of the company, the greater the responsibility of the company in carrying out business practices that are ethical and economically, socially and environmentally sustainable. The results of this study are consistent with the research conducted by Giannarakis (2014), Li et al. (2013), Giannarakis (2014), Alvarez and Ivo (2016), Kilic (2016), Hanifa and Fitra (2016), Bowrin (2013), Tan et al. (2016), Chiu and Yi (2015), Wang et al. (2013), Halaby and Khaled (2015) and Amarrullah et al. (2017).
Corporate Social Responsibility on Good Corporate Governance

The results of the tests statistically show that the beta coefficient value of CSR of -0.328 is proven to have a negative effect on GCG. The results of statistical testing of CSR statistics are significant at the 5% level (p value = 0.000<0.050). Thus, based on these statistical tests, CSR has a negative and significant effect on GCG. Therefore it can be concluded that hypothesis 5 is rejected. The greater the disclosure of CSR, the lower the GCG would be. The high index of GCG implementation does not only depend on how much disclosure of CSR is carried out by the company but also on the principles that exist in GCG, namely transparency, accountability, responsibility, independence, fairness and equality, because responsibility is one of the principles of GCG. GCG will make it easier for prospective investors to know the performance and prospects of the company in a specific and in-depth manner and can give investors confidence in the funds that have been invested. The results of this study are in accordance with the study of Giannarakis (2014), Li et al. (2013), Sundarasen et al. (2016) and Bowrin (2013).

5. Conclusion

The results of this study provide empirical contributions that profitability is not the main factor that influences good corporate governance. Low profitability will improve corporate GCG and vice versa because GCG is an important factor to realize an increase in corporate performance through monitoring management performance and guaranteeing accountability of management of stock winners so as to reduce the company's efficiency level in issuing costs for monitoring purposes, examination and company valuation, this will have an impact on the company's ability to make a profit. Profitability is also not the main factor that influences corporate social responsibility. High or low profitability values do not affect CSR disclosure because companies will continue to disclose CSR in accordance with Law number 40 of 2007 concerning limited liability companies, Law number 25 of 2007 concerning investment, Law number 32 of 2009 concerning protection and environmental management and Government Regulation number 47 of 2012 concerning limited liability social and environmental responsibility imposed by the government.

Firm size is not the main factor that influences good corporate governance. The larger the size of the company, the higher the disclosure of CSR would be. Companies that have large sizes can overcome the additional costs for monitoring purposes, examination and company valuation, this will have an impact on the company's ability to make a profit. Profitability, firm size, corporate social responsibility and good corporate governance therefore next researcher should incorporate company value as a dependent variable which is the core of the implementation of GCG. Further researchers could also add non-public companies to increase the research population and the study period and use companies that have positive profitability.

6. Suggestion

This study still has limitations in measuring the variables of profitability, firm size, corporate social responsibility and good corporate governance therefore next researcher should incorporate company value as a dependent variable which is the core of the implementation of GCG. Further researchers could also add non-public companies to increase the research population and the study period and use companies that have positive profitability.

For company, this study found that corporate social responsibility (CSR) and good corporate governance (GCG) are corporate obligations mandated by Government Laws and Regulations so that they are not influenced by the company's low profitability and size. Companies should not only disclose CSR to improve GCG. Companies must pay attention to financial conditions as indicated by the high and low profitability in carrying out CSR and GCG activities. For the government, it is better to give a percentage threshold in charging CSR costs for each company that experiences profits and tolerates if the company does not experience profit in the current period so that the company's sustainability is maintained.

References


