The Disclosure of Corporate Social Responsibility and Good Corporate Governance toward Company's Financial Performance and Stock Price of Lq45 Company

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ABSTRACT: *The aim of the study is to analyze the effect of corporate social responsibility (CSR) disclosure, and corporate governance on financial performance, and stock price of LQ45 company. Its disclosure is based on Global Reporting Initiatives, the assessment of Good Corporate Governance (GCG) is based on Corporate Governance Perception Index, and financial performance reflected by current ratio, return on assets (ROA), return on equity (ROE), Tobin's Q and stock return. The finding has revealed that: 1) the disclosure of CSR in annual report affects company's financial performance significantly, which is reflected by current ratio indicator, ROA, and ROE; 2) the disclosure of CSR affects stock price significantly; 3) the implementation of Good Corporate Governance doesn't affect financial performance significantly; and 4) the application of good corporate governance affects stock price significantly.*
Keywords: *Corporate Social Responsibility, Good Corporate Governance, company's performance, stock price of LQ45*

I. INTRODUCTION

The company is not only expected to be a profit making organization as much as possible. But, it is also required to contribute directly to the public. Many companies are now increasingly aware of the importance of implementing Corporate Social Responsibility (CSR) as part of their business strategy and as the embodiment of the company's concern to the community. Companies can gain legitimacy by demonstrating social responsibility through CSR disclosure in the media including in the company's annual report [3],[8],[9].

In terms of the economy aspect, company needs to have a system of good corporate governance (GCG), which is able to provide effective protection to shareholders and creditors as to convince them about the profitability of the investment with a reasonable and high value. It also can ensure that company meets the interests of employees and the company itself. Based on this point of view, it appears that the application of GCG is very imperative for the company. [1],[6],[7].

The businesses assume that CSR and corporate governance disclosure is only to the extent of compliance with regulations.[8],[9],[13], which has less direct impact on the financial performance and stock price. Hence, this is one reason why the disclosure of CSR and GCG is less maximum in terms of its implementation among Indonesian companies.[6], [14]. One contradictory thing is that on the one hand, CSR and GCG implementation is believed to be very important in achieving the goal of sustainable companies, but on the other hand, many Indonesian companies are reluctant to apply them in earnest. Under this circumstance, the research issue of CSR and GCG implementation of the financial performance and stock price needs to be examined and analyzed.

II. REVIEW OF LITERATURE

2.1 Corporate Social Responsibility (CSR)

There is no universal definition of Corporate Social Responsibility accepted by various institutions. [5], [8] however, several definitions of CSR are elaborated as follows:

a. Word Business Council for Sustainable Development: an ongoing commitment among businesses to behave ethically and contribute to economic development while improving the quality of employees'life and their families, as well as the local community and society at whole.

b. International Finance Corporation: businesses commitment to contribute to sustainable economic development by cooperating with employees, their families, local communities and society to improve their lives in good ways for business and development.

c. Canadian Government: Business activities integrating economic, environmental and social aspects into the values, culture, decision making, strategy, and operations of companies that are transparent and accountable for creating a healthy developing society.

d. European Commission: A concept whereby companies integrate social and environmental attentiveness in their business operations and in their interaction with stakeholders based on the principle of volunteerism.
e. CSR Asia: The company's commitment to operate in a sustainable manner based on the principles of economic, social and environment, while balancing the interests of diverse stakeholders.

2.2 Good Corporate Governance

Good corporate governance is a system of corporate governance in order to become better and can enhance corporate value by promoting fairness for all stakeholders, and transparency regarding the condition of the company as part of the external environment. [11].[12].

2.3 Financial performance of company

Financial performance can be regarded as the results achieved by the company over a wide range of activities undertaken in the utilization of available financial resources. That financial performance is measured by many indicators, one of which is a financial ratio analysis. To perform the analysis of the financial ratios, the calculation of financial ratios is required to reflect certain aspects. [2],[3].

2.4 Stock Return

Return of a stock is the result obtained from the investment by calculating the difference between the stock price for the present period and the previous period by ignoring dividends.[4].

III. RESEARCH METHOD

3.1 Research Design

This study was conducted to provide an overview of CSR disclosure practices and the implementation of GCG by the company. It is as well to analyze the influence of CSR and good corporate governance of financial performance (liquidity, profitability and leverage) and the stock price of LQ45 company. To facilitate understanding of the framework of the study, the following figure is described below:
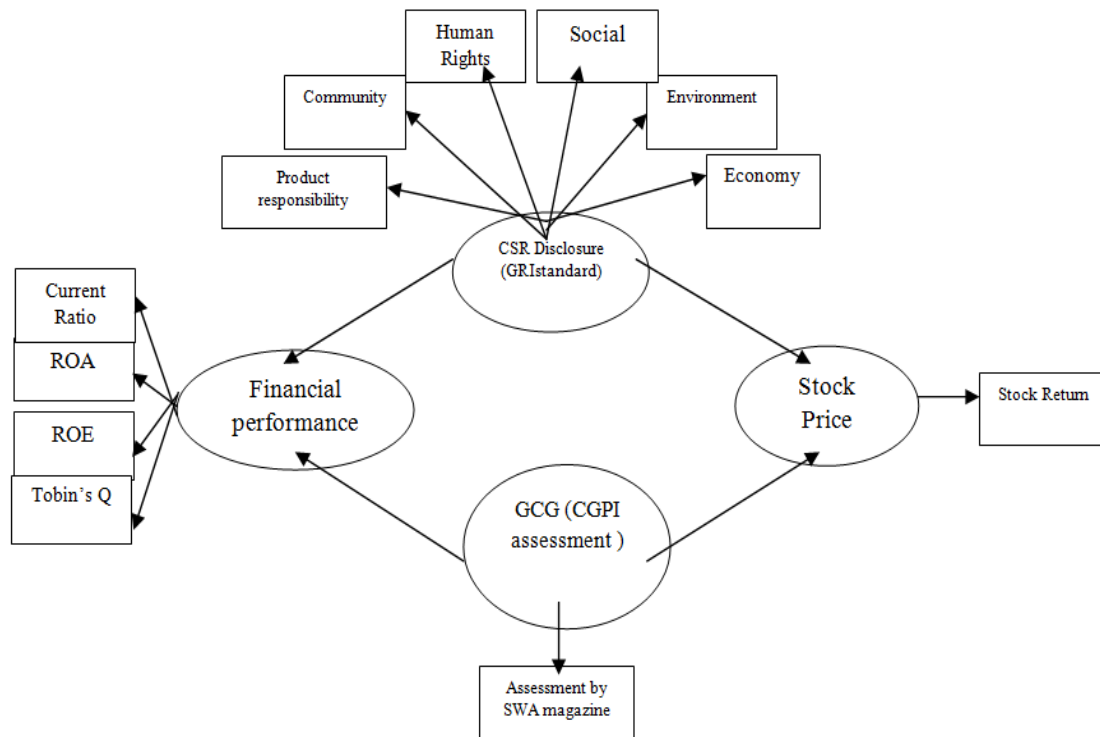

Figure 1. Research Framework

3.2 Population and Sample

The population in this study is the companies listed on the Indonesia Stock Exchange which publish its annual report. To select the sample, purposive sampling method is employed based on certain criteria as follows:
a. LQ45 company that published financial statements ending December 31 for 5 consecutive years, from 2011-2015 (including the notes to the financial statements).
b. LQ45 company in the period of February to July, 2015.

The variables of this research are: (1) CSR disclosure of Global Reporting Initiatives (GRI) based standards, which is composed of 79 indicators, (2) GCG rating of Corporate Governance Perception Index (CGPI) based assessment, which was published in the SWA magazine (3) performance finances, which is reflected by the current ratio, return on assets (ROA), return on equity (ROE), and Tobin's Q, as indicators, and (4) the share price, which is reflected by the stock return.

3.3. Data collection methods
The data used is secondary data consists of qualitative and quantitative data. Qualitative data were the general description of the company as well as legislation. While quantitative data used is the company's annual financial statement data for the period of 2009-2013, including the disclosure of CSR information, the assessment of Corporate Governance Perception Index (CGPI) published in SWA magazine, liquidity (current ratio), profitability (ROA, ROE) and the stock price dataobtained from:1) Indonesia Stock Exchange (www.idx.co.id); 2) b. Finance.yahoo.com; and 3) SWA.co.id.

3.4. Data Analysis Techniques
Data were analyzed by using Partial Least Square (PLS) and tools SmartPLS. PLS, [15],[16], is one of SEM (structural equation modeling) alternative methods that can be used to overcome the problems in the relationship. The small sample size and the use of reflective indicators make PLS become more appropriate to have compared with other analysis tools.

IV. RESEARCH RESULT
Assessing Outer Model
The first step of using the freeware SmartPLS 2.0is to assess the three criteria in the use of data analysis techniques, namely assessing outer model through Convergent Validity, Discriminant Validity and Composite Reliability

a. Convergent Validity
Convergent validity of the measurement model with a reflective indicators were assessed based on the correlation among the score item/ component score estimated by PLS software. This study used the boundary loading factor of 0.40. The factor loading value above 0.4 indicates that the indicators have the power to reflect the interrelation of the construct. From the analysis by operating calculate-PLS algorithm, the obtained results are as shown below:
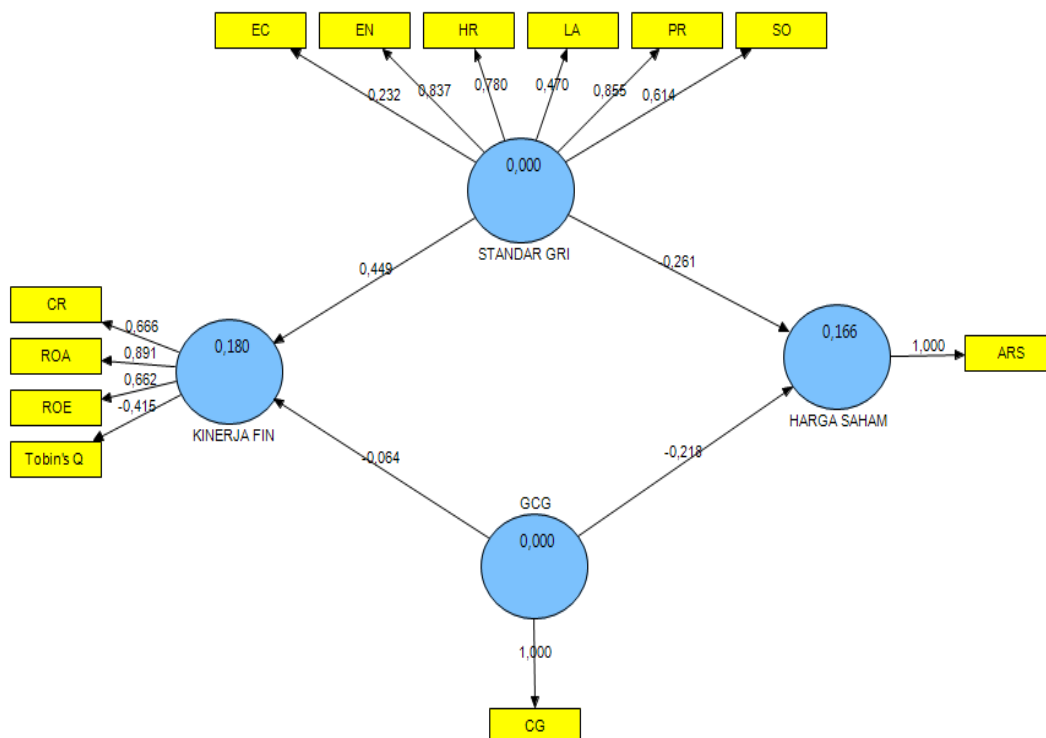
Source: Data processingResult of SmartPLS 2.0
Figure 2. Beginning Model of Algorithm PLS calculation

It is shown that indicators / variables that have a loading factor under 0.40are economic performance (EC) and Tobin's Q.Since those variablesare discarded, the model can be said to be stable. The measurement results using smartPLS can also be seen in the below table:

Table 1. The last calculation of Algorithm PLS

No	Construct	Interrelation strength values	Indicator
1	GRI Standard	0.826	EN
		0.783	HR
		0.486	LA
		0.862	HR
		0.618	SO
2	GCG	1.000	CGPI
3	Financial performance	0.684	CR
		0.899	ROA
		0.692	ROE
4	Stock price	1.000	ARS

Source: The data processing result ofSmartPLS 2.0

b.   Discriminant Validity

Discriminant validity is used to ensure that every concept of latent / constructvariableis different from the other latent variables. The model has good discriminant validity if any loading value of each indicator of a latent variable has the greatest value loading against other latent variables. The test results of discriminant variability can be seen in the below table:

Table 2. The calculation value of Cross Loading Indicator

	GCG	Stock Price	Financial performance	GRI Standard
CG	10.000	-0,3343	0,1332	0,4382
ARS	-0,3343	10.000	0,0506	-0,3736
CR	0,0452	0,1433	0,6842	0,3080
ROA	0,1516	-0,0049	0,8987	0,3909
ROE	0,1111	-0,0931	0,6924	0,1248
EN	0,4001	-0,3271	0,3755	0,8257
HR	0,3736	-0,3275	0,2894	0,7825
LA	0,2359	-0,3388	0,0802	0,4861
PR	0,2695	-0,2157	0,4061	0,8617
SO	0,3014	-0,1566	0,2661	0,6182

Source: The data processing result ofSmartPLS 2.0

Based on the above table, it can be seen that the correlation value of indicators toward construct is higher than the correlation of these indicators with other constructs. This shows that the model of the construct in this study is valid.

c.   Composite Reliability

Criterion validity and reliability can also be seen from a reliability value of each indicator of latent variables. An indicator of the latent variable is said to have a high reliability if the value is 0.70. The resultis as shown in table 3:

Table 3. Composite Reliability

	Composite Reliability
The application of GCG	1.000
Stock price	1.000
Financial performance	0,8061
CSR disclosure	0,8449

Source: The data processing result ofSmartPLS 2.0

According to the table, it is shown that all the variables are reliable because the composite reliability value is above 0.70 as recommended criteria.

Inner Model Testing (Structural Model)

Testing of inner model was conducted to see the significance value of each indicator by T-test, the relationship significance between latent variables by T-testin line with parameter structural lines and R-square value of the research model. The tests are carried out through SmartPLS 2.0 ,[15],[16], by performingthe steps of calculate –boostrapping. Thefollowingobtained resultis:
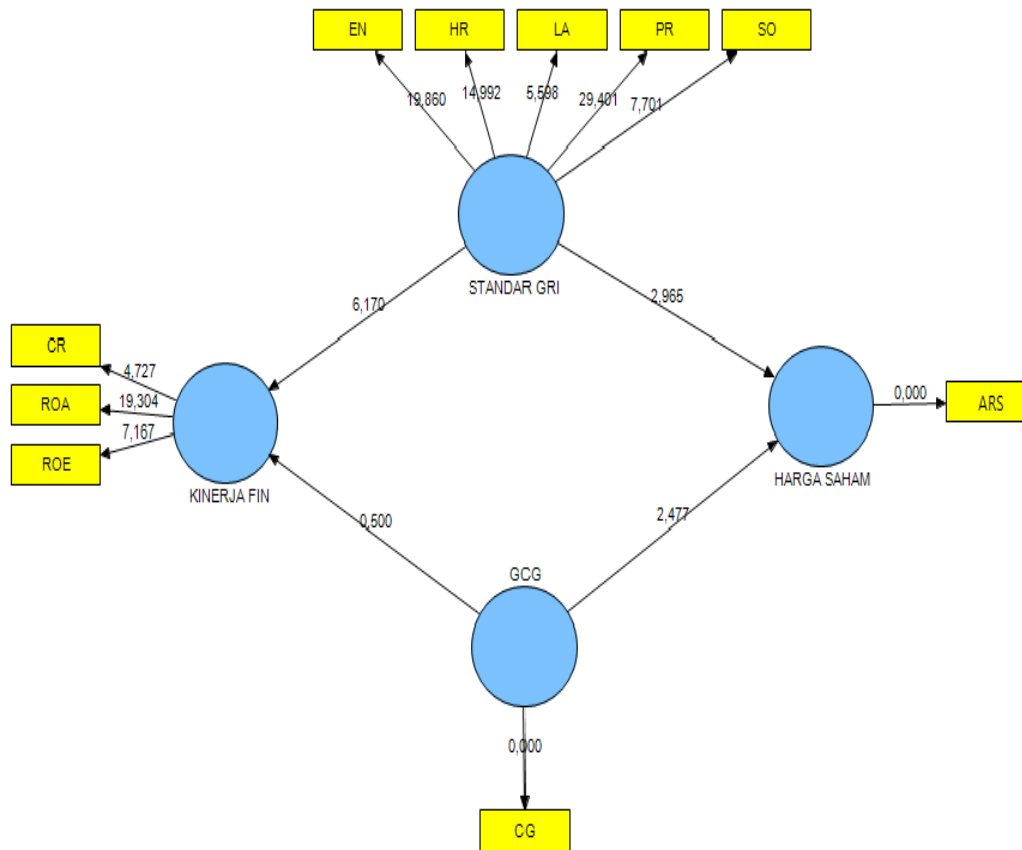
Source: The data processing result of SmartPLS 2.0
Figure 3. The result of Bootstrapping

Assessment and testing the results of the bootsrappingcalculation on SmartPLS 2.0 are as follows:
a. Significance valueof each indicator.
From the calculation of the t-statistic for each indicator in each group of latent variable,it is obtained that these indicators are considered significant if the value of tis > 1.96 (at alpha 5%).Based on the results of data processing, all the indicators have a value of t> 1.96, which means that all the indicators have significant value.

b. Significance Value of relationship between latent variables.
The significance of inter-indicator latent variables can be assessed by seeing the coefficients and significant value of tin thebelow table.

Table 4. Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (|O/STERR|)
GCG ->stock price	-0,2112	-0,2358	0,0853	0,0853	2.477
GCG ->financial performance	-0,0567	-0,0493	0,1134	0,1134	0,4995
CSR ->stock price	-0,2811	-0,2680	0,0948	0,0948	2.965
CSR ->financial performance	0,4333	0,4437	0,0702	0,0702	6.170

Source: The data processing result ofSmartPLS 2.0

The hypothesis testing ofbootstrapping analysis at Path Coeffisients is conducted by comparing the t-value and t-table. If the t-value is higher than t-table, that is 1.96, the hypothesis is accepted

1. The effect of CSR disclosure on financial performance.
Table of Path Coefficient indicates thatCSR disclosure has a high and positive correlation on financial performance. The coefficient value of 0.4333 means that CSR has a strong correlation and a positive value on financial performance.Thus, the increased CSR disclosure leads to a significant increase of financial performance.Thehypothesis testing shows that the disclosure of CSR, [5],[8], significantly affects financial performance. It can be proved that the t-value > t-table. This means that the higher CSR disclosure is the better company's financial performance is.

2. The effect of CSR disclosure on the stock price.

Table of Path Coefficient indicates that CSR disclosure (GRI Standard) has a fairly high correlation and negative value on stock price.The coefficient value of -0.2811 means that CSR disclosure has a fairly high correlation on stock prices. Thus, increased GRI standard causesthe decrease of stock price.The hypothesis testing shows that the disclosure of CSR has a very significant effect on stock prices. It can be proved that the t-value > t-table. The results are consistent with Anwar, Haemi and Pagalung (2009), and Barus (2011). This means that the higher or broader company discloses CSR activities the higher the stock price is.

3. The effect of GCG application on stock prices.

Table of Path Coefficient indicates that the correlation is very weak and negative between GCG application and stock price. The coefficient value of -0.2112 means that the application of GCG has a weak negative correlation on stock prices. So, the increased GCG application causesa little decline in stock prices.The hypothesis testing shows that the application of GCG has a very significant effect on stock price which can be proved by the t-value > t-table.

4. The effect of GCG application on financial performance.

Table of Path Coefficient indicates that the correlation is very weak and has negative value between GCG application and financial performance. The coefficient value of -0.0567 means that the application of GCG has a weak negative correlation on financial performance. Thus, increased application of GCG leads a very little decline in financial performance. The hypothesis testing shows that the application of GCG has a very significant effect on financial performance which can be proved by the t-value < t-table.

c. R-square

Tests on the inner model was conducted by the value of R-square which is a test for goodness-fit model. [15].[16], The results of the R-square is summarized in Table 5:

Table 5. R-square

	R Square
The application of GCG	0,0000
Stock price	0,1756
Financial performance	0,1695
CSR disclosure	0,0000

Source: The data processing result ofSmartPLS 2.0

The above table shows that R-square values for latent variableof financial performance obtained a value of 0.1695. Itindicates that the latent variables of CSR disclosure and GCG application are correlatedfor 16.95% on financial performance. While the rest is explained by other variables, which are not included in this study. Low R-square value is due to factors that encourage companies to disclose the information of CSR and GCG application whichis still a trend. The company carrying out information disclosure and application of GCG simply complies with regulations or because of market pressure, especially international market. It can be seen from the disclosure of CSR and GCG application conducted by the company.

The categories disclosed in the implementation of CSR is merely a contribution such as the contribution of education, health and natural disasters. In addition, the company is still hesitant in implementing or disclosing CSR because it assumes that the CSR will drain profits and dividends for shareholders. [10] Whereas the application of GCG in this study is based on the assessment CGPI that cooperates with SWA magazine. Not all companies are willing to be rated or they are voluntary to do.Consequently,the benefit of GCGapplication is not visible.

While the R-square value for the stock price variable gained 0.1756 value.It indicates that the latent variables of CSR disclosure and GCG application are correlated, which areamounted to 17.56% of the stock price. While the rest is explained by other variables, which are not included in this study. R-square value is low because the stock price is not simply influenced by information of CSR disclosure and application of GCG. The share price is more influenced by fundamental ratios of the company itself.

V. CONCLUSIONS

1. Disclosure of CSR in the annual report has a significant effect on the company's financial performance as reflected by the indicator current ratio, ROA and ROE. Companies that have high levels of liquidity and high profitability will send a signal to other companies that they're better in term of activities related to social environment.
2. Disclosure of CSR has a significant effect on stock prices. This means that stakeholders have started to consider the social aspects in investment.

3. Application of GCG has no significant effect on financial performance. This means the company has not sighted aspects of GCG in improving its financial performance.
4. Implementation of GCG has a significant effect on stock prices. This means investors or stakeholders have started to notice aspects of GCG in buying shares.

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