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## Relationship Analysis of Corporate Governance, Corporate Social Responsibility Disclosure and Economic Consequences: Empirical Study of Indonesia Capital Market

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# RELATIONSHIP ANALYSIS OF CORPORATE GOVERNANCE, CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE AND ECONOMIC CONSEQUENCES: EMPIRICAL STUDY OF INDONESIA CAPITAL MARKET

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*The objective of this study is to investigate the relationship between corporate governance (CG), corporate social responsibility (CSR) disclosure, and economic consequences. Broadly speaking, the CG variables consist of ownership structure and management/control structure. The CSR disclosure variables consist of economic, environmental, social, human rights, societal, and product responsibility dimensions. The economic consequences variables consist of bid-ask spreads, trading volume, and share price volatility.*

*The hypotheses are tested using a structural equation modeling analysis with 210 samples of listed firms on the Indonesian Stock Exchange in 2014. The result of this study is as follows: (1) the effect of the proportion of board of directors from the board of commissioners and the audit committee on the CSR disclosure is positive and significant; (2) the effect of the proportion of independent commissioners and the audit committee from the board of commissioners, the audit committee, and the board of directors on CSR disclosure is positive and significant; and (3) the effect of CSR disclosure on trading volume is positive and significant.*

*The main implication of this study is that CSR disclosure activities have a very important role in meeting stakeholders' interests and ensuring the sustainability of the company long-term. In addition, CSR disclosure is considered to be an assertion of a company's brand differentiation, which means obtaining operating licenses both from the government and society, and the company's risk management strategy.*

*Keywords: corporate governance, corporate social responsibility, economic consequences*

*Tujuan dari penelitian ini adalah untuk mengetahui hubungan antara corporate governance (CG), corporate social responsibility (CSR) disclosure, dan konsekuensi ekonomi. Secara umum, variabel CG terdiri dari struktur kepemilikan dan struktur*

Abstract

Abstrak

*manajemen / pengendalian. Variabel pengungkapan CSR terdiri dari dimensi ekonomi, lingkungan, sosial, hak asasi manusia, masyarakat, dan produk. Variabel konsekuensi ekonomi terdiri dari spread bid-ask, volume perdagangan, dan volatilitas harga saham.*

*Hipotesis diuji dengan menggunakan analisis pemodelan persamaan struktural dengan 210 sampel perusahaan terbuka di Bursa Efek Indonesia pada tahun 2014. Hasil penelitian ini adalah sebagai berikut: (1) pengaruh proporsi dewan direksi dari dewan komisaris dan komite audit pengungkapan CSR bersifat positif dan signifikan; (2) pengaruh proporsi komisaris independen dan komite audit dari dewan komisaris, komite audit, dan dewan direksi mengenai pengungkapan CSR bersifat positif dan signifikan; dan (3) pengaruh pengungkapan CSR terhadap volume perdagangan adalah positif dan signifikan.*

*Implikasi utama dari penelitian ini adalah bahwa kegiatan pengungkapan CSR memiliki peran yang sangat penting dalam memenuhi kepentingan pemangku kepentingan dan memastikan keberlanjutan perusahaan dalam jangka panjang. Selain itu, pengungkapan CSR dianggap sebagai penegasan diferensiasi merek perusahaan, yang berarti memperoleh lisensi operasi baik dari pemerintah maupun masyarakat, dan strategi manajemen risiko perusahaan.*

*Kata kunci: tata kelola perusahaan, tanggung jawab sosial perusahaan, konsekuensi ekonomi*

Today, companies in Indonesia are facing challenges in implementing ethical standards in responsible business practices known as corporate social responsibility (CSR). In part, these challenges are due to the fact that CSR is no longer merely beneficial to external stakeholders, but it is also beneficial to the companies that implement it. Werther and Chandler (2011), Porter and Kramer (2006), and Sirsly and Lamertz (2008) stated that to date, CSR has only been seen as an effort to minimize risk; however, through its continued development, CSR has also become part of efforts to maximize opportunities. In other words, CSR disclosure is an effort by a company to meet the interests of its stakeholders and ensure the sustainability of the company long-term. CSR is considered to affirm the company brand differentiation, which

means obtaining licenses to operate from both the government and society, and its risk management strategy (Suharto, 2008).

The structure of corporate governance (CG) at a company can be used as the supporting infrastructure for the practices and disclosure of CSR in Indonesia. This concept is in line with Jo and Harjoto (2002), who stated that the CG variables positively affect firms' CSR engagement. A corporate governance structure is often a combination of various internal and external mechanisms. Internal mechanisms are the foremost sets of controls for a corporation. These controls monitor the progress and activities of the organization and take corrective actions when the business goes off track. The external mechanisms are controlled by factors outside an

organization and serve the company's objectives. External mechanisms include regulators, governments, trade unions, and financial institutions.

The structure of CG is expected to reduce the information asymmetry. The results of a study by Cormier et al. (2010) showed that some formal monitoring attributes (board and audit committee size) as well as the extent of voluntary governance disclosure reduce information asymmetry. Information asymmetry leads to adverse selection and moral hazard, which ultimately leads to a lack of CSR practices being implemented. As a result, stakeholders may not be able to give a reward (punishment) for companies that implement CSR practices (do not practice CSR) (Utama, 2007).

CSR reporting initiated by Global Reporting Initiative (GRI) emerged as a result of the concept of sustainability development. GRI guidelines state that a company must explain the impact of its corporate activity on three dimensions: the economy, environment, and society as part of their standard disclosure. These three dimensions were later expanded into six dimensions, namely economic, environmental, social (labor practices), human rights, society, and product responsibility (Cheng & Christiawan, 2011).

According to Zeff (1978), economic consequences are the impact of accounting reports on the decision-making behavior of businesses, governments, unions, investors, and creditors. This concept asserts that, despite the implications of efficient securities market theory, accounting policy choice can affect firm value. Economic consequences are necessary to know the market's response to

changes in accounting policies despite the fact that the change in accounting policy has no direct influence on cash flow.

CSR practices and disclosure in developed countries are thought to produce fewer economic consequences compared to the practices and disclosure of CSR in developing countries because CSR is common for investors in developed countries. Therefore, researchers are motivated to prove whether investors in developing countries such as Indonesia are concerned about the disclosure of CSR information when they make a decision on the capital market, as it will have an impact on the economic consequences, namely in the form of a decrease in bid-ask spreads, an increase in trading volume, and a decrease in share price volatility (Hapsoro, 2006).

## LITERATURE REVIEW

### *Corporate Governance*

According to Lins and Warnock (2004), in general, the mechanism that controls management behavior is often called CG mechanisms. This mechanism can be classified into two groups. The first is firm-specific internal mechanisms, which consists of the firm's ownership structure and the firm's control structure. The second is country-specific external mechanisms, which consists of the rule of law and the market for corporate control.

In this study, the discussion of the CG mechanism is focused on the roles of firm-specific internal mechanisms rather than country-specific external mechanisms. The external mechanisms are not discussed because the study was conducted in a specific country

(Indonesia), and therefore there is no difference in the rules applicable to all companies operating in Indonesia, and the market for corporate control (hostile takeover) is very rare in Indonesia.

### *Firms' Ownership Structure*

Firms' ownership structure consists of managerial ownership, domestic institutional ownership, foreign institutional ownership, and public ownership. The following is a discussion of each form of firm ownership structure.

#### *Proportions of Managerial Ownership (PKMA)*

Managerial ownership is a condition wherein managers have a stake in the company or the managers are also corporate shareholders (Rustiarini, 2011). Managers are those who sit on the board of commissioners and board of directors of the company. The presence of managers and shareholders is expected to play a role in encouraging companies to perform CSR disclosure. Managerial ownership structure can be measured in accordance with the proportion of ordinary shares held by management and can be formulated as follows:

$$PKMA = \frac{\text{The number of share ownership by management}}{\text{The number of outstanding shares}} \times 100\%$$

#### *Proportion of Domestic Institutional Ownership (PKID)*

Domestic institutional ownership is ownership of the parties in the form of institutions, such as foundations, banks, insurance companies, investment companies, pension funds, corporate, and other institutions. Institutions usually control the majority stake because they have greater resources

than the other shareholders. The existence of domestic institutions as shareholders is expected to play a role in encouraging companies to perform CSR disclosure. The ownership structure of domestic institutions can be measured in proportion to the shares held by the owners of the institution and can be formulated as follows:

$$PKID = \frac{\text{The number of share ownership by domestic institutions}}{\text{The number of outstanding shares}} \times 100\%$$

#### *Proportion of Foreign Institutional Ownership (PKIO)*

Foreign institutional ownership is the number of shares held by foreign institutions. Foreign institutions in a company are parties that are considered to be concerned about the disclosure of CSR (Machmud & Djakman, 2008). The existence of foreign institutions as shareholders is expected to play a role in encouraging companies to perform CSR disclosure. The structure of foreign institutional ownership can be measured in accordance with the proportion of ordinary shares held by foreign institutions and can be formulated as follows:

$$PKIO = \frac{\text{The number of share ownership by foreign institutions}}{\text{The number of outstanding shares}} \times 100\%$$

### *Firms' Control Structure*

Firms' control structure consists of the proportion of the board of directors from the board of commissioners and the audit committee; the proportion of the board of directors from the board of commissioners, audit committee, and board of directors; the proportion of independent commissioners and the audit committee from the board of commissioners and the audit committee; and the proportion of independent commissioners and the

audit committee from the board of commissioners, audit committee, and board of directors.

*Proportion of the Board of Directors from the Board of Commissioners and Audit Committee (PDKA)*

The proportion of the board of directors from the board of commissioners and audit committee is formulated as follows:

$$PDKA = \frac{\text{The number of the board of directors}}{\text{The number of board of commissioners} + \text{The number of audit committee}} \times 100\%$$

*Proportion of the Board of Directors from the Board of Commissioners, Audit Committee, and Board of Directors (PDDK)*

The proportion of the board of directors from the board of commissioners, audit committee, and board of directors is formulated as follows:

$$PDDK = \frac{\text{The number of the board of directors}}{\text{The number of board commissioners} + \text{The number of audit committee} + \text{The number of boards of directors}} \times 100\%$$

*Proportion of Independent Commissioners and Audit Committee from the Board of Commissioners and Audit Committee (PKKA)*

The proportion of independent commissioners and audit committee from the board of commissioners and audit committee is formulated as follows:

$$PKKA = \frac{\text{The number of independent commissioners} + \text{The number of audit committee}}{\text{The number of board commissioners} + \text{The number of audit committee}} \times 100\%$$

*Proportion of Independent Commissioners and Audit Committee from the Board of Commissioners, Audit Committee, and Board of Directors (PKDK)*

The proportion of independent commissioners and audit committee

from the board of commissioners, audit committee, and board of directors is formulated as follows:

$$PKDK = \frac{\text{The number of independent commissioners} + \text{The number of audit committee}}{\text{The number of board commissioners} + \text{The number of audit committee} + \text{The number of the board of directors}} \times 100\%$$

***Disclosure of Corporate Social Responsibility***

Guthrie and Parker (1990) stated that the disclosure of CSR information in the annual report is one way that companies build, maintain, and legitimize their economic and political contributions. Various reasons for the company's voluntary disclosure of CSR information has been investigated in previous studies, and include compliance with existing regulations, to meet the expectations of society (Deegan & Blomquist, 2001) and gaining a competitive advantage through the implementation of CSR (Hasnas, 1998).

***The GRI Sustainability Reporting Guidelines***

The GRI Sustainability Reporting Guidelines offer Reporting Principles, Standard Disclosures, and an Implementation Manual for the preparation of sustainability reports by organizations, regardless of their size, sector, or location. The guidelines also offer an international reference for all those interested in the disclosure of governance approach and of the environmental, social, and economic performance and impacts of organizations. The guidelines are useful in the preparation of any type of document that requires such disclosure and were developed through a global multi-stakeholder process involving representatives from business, labor,

civil society, and financial markets, as well as auditors and experts in various fields. Those in close dialogue with regulators and governmental agencies in several countries also contributed. The guidelines were developed in alignment with internationally recognized reporting-related documents, which are referenced throughout the guidelines. Measurement of the value of CSR is performed using a dichotomy measurement system, namely by providing number 1 if there is an item of CSR disclosure in a company's annual report sample and the number 0 if there is no disclosure item in the company's annual report sample.

### ***Economic Consequences***

Zeff (1978), in the article "The Rise of Economic Consequences," defined economic consequences as the impact of accounting reports on the decision-making behavior of business, government, unions, investors, and creditors. In Leuz and Wysocki's (2008) study, the economic consequences translated as the impact of disclosure policy changes on a company's financial statements. Meanwhile, Gozali et al. (2002) indicated economic consequences were incurred by non-financial information, that is, environmental disclosures contained in the annual report. The essence of this definition is that the accounting report can affect real decisions by managers and others in spite of reports and changes in the accounting report not affecting cash flow.

### ***Asymmetric Information***

Asymmetric information is a situation in which one party in a transaction has more or superior information

compared to another, so certain consequences will only be known by one party. When there is asymmetric information, disclosure decisions made by the manager can influence share prices because the asymmetric information between more informed investors and less informed investors raises transaction costs and reduces the expected liquidity in the stock market (Komalasari, 2000).

### ***Bid-Ask Spreads***

Bid-ask spreads (BASP) are the difference between the selling price and the purchase price. High bid-ask spreads arise because of the cost of asymmetric information. The cost is incurred because the the informed traders and uninformed traders do not have the same information. This imbalance of information leads to the emergence of moral hazard behavior. To reduce the possibility of such losses, uninformed traders will tend to increase the spread to minimize losses. Therefore, the decreases in asymmetric information can reduce the spread between bid and ask prices. Alleged disclosure of CSR negatively affects BASP. The formula for bid-ask spreads is:

$$SPREAD_{i,t} = \frac{\{(bidi,t - aski,t) / (bidi,t + aski,t) / 2\} \times 100}{n}$$

Description:

- Spread<sub>i,t</sub> = Average difference between the highest buying price and the lowest selling price based on the daily price of firm i for one year.
- Ask = Lowest selling price (low) or price demand.
- Bid = Highest buying price (high) or offer price.
- n = Number of trading days during one year.

### Trading Volume

Trading volume (TRVO) reflects the strength of supply and demand, which is a reflection of investor behavior. The increasing volume of supply and demand for a stock increases TRVO. A high TRVO indicates that a company's stock is attractive to investors. By engaging in CSR disclosure practices, it is expected that a company's shares are more attractive to investors. Therefore, the alleged disclosure of CSR positively affects TRVO (Zidni, 2014). The trading volume calculation formula is as follows:

$$VPS_i = \frac{\sum_{t=1}^n VPS_{i,t}}{n}$$

Description:

$VPS_i$  = Average daily stock trading volume of firm i for one year.

$VPS_{i,t}$  = Volume of daily stock trading firm i from the beginning of the year until the end of the year.

$n$  = Number of transactions a day for a year.

### Share Price Volatility

Firmansyah (2006) stated that share price volatility (SPV) is a statistical measurement of fluctuations in stock prices over a certain period. These measurements do not measure the level of prices, but rather the degree of variance within a short period. The SPV is often equated with risk. The higher the SPV, the higher the stock price will rise and drop so that it will apply "high risk high return" and vice versa. In general, companies that have a high SPV are companies that are unstable, whereas companies with lower SPV are stable companies. Companies that

disclose CSR are assumed to be more stable, since stable companies are better able to practice CSR. Therefore, in this study, CSR is alleged to have a negative influence on SPV. The share price volatility formula is as follows:

$$\sigma_i^2 = \frac{\sum_{t=1}^n (X_{i,t} - \bar{X}_i)^2}{n-1}$$

Description:

$\sigma_i^2$  = Variance.

$\sigma_i$  = Standard deviation.

$X_{i,t}$  = Each daily stock price of firm i for one year.

$\bar{X}_i$  = Average daily stock price of firm i.

$n$  = The number of trading days during one year.

### Hypothesis Formulation

#### *Effect of Managerial Ownership on CSR Disclosure*

According to agency theory, the greater the managerial ownership in the company, the more information the manager has than the investors. This means managers will act only in their personal interests, i.e., not doing CSR voluntarily for the benefit of the company. Greater CSR disclosure allegedly would harm managers as the party who has more information. Research conducted by Rustiarini (2011) showed that managerial ownership negatively affects CSR disclosure. Managerial ownership is generally relatively small. This causes the manager to not be able to maximize the value of the company. Based on the above explanation, the hypothesis can be formulated as follows:

$H_1$  : The proportion of managerial ownership negatively affects CSR disclosure.

#### *Effects of Domestic Institutional Ownership on CSR Disclosure*

According to Matoussi dan Raida (2008), institutional investors have the power and experience to be responsible for applying the principles of corporate governance in order to protect the rights and interests of all shareholders, so they require companies to communicate transparently. Susanti and Riharjo's (2013) research showed that domestic institutional ownership positively affects CSR disclosure. Based on the above explanation, the hypothesis can be formulated as follows:

H<sub>2</sub> : The proportion of domestic institutional ownership positively affects CSR disclosure.

#### *Effect of Foreign Institutional Ownership on CSR Disclosure*

Countries in continental Europe and the United States pay more attention to environmental problems and social issues. In other words, if a company has a contract with foreign stakeholders in both ownership and trade, the company will be supported fully in the implementation and disclosure of CSR (Machmud & Djakman, 2008). Aini and Cahyonowati's (2011) research showed that foreign ownership has a positive effect on CSR disclosure. Based on the above explanation, the hypothesis can be formulated as follows:

H<sub>3</sub> : The proportion of foreign institutional ownership positively affects CSR disclosure.

#### *Effect of Public Ownership on CSR Disclosure*

Hasibuan (2001) explained that the company whose shares are mostly held by the public will make greater disclosures. Research by Lamia et al. (2014) showed that public ownership has a positive effect on CSR disclosure.

Based on the above explanation, the hypothesis can be formulated as follows:

H<sub>4</sub>: The proportion of public ownership positively affects CSR disclosure.

#### *Effect of Proportion of the Board of Directors on CSR Disclosure*

Chen and Jaggi (2000) stated that the size of the board of directors affects the level of voluntary disclosure, which is a strategic decision made by the board of directors. As the top management, the board of directors formulates policies and strategies to be followed by the manager. Chen and Jaggi (2000) stated that the board of directors may reduce the possibility of asymmetric information. Iswadi's (2013) study showed that the size of the board of directors negatively affects CSR disclosure. Based on these explanations, the following hypotheses can be formulated:

H<sub>5</sub> : The proportion of the board of directors from the board of commissioners and audit committee negatively affects CSR disclosure.

H<sub>6</sub> : The proportion of the board of directors from the board of commissioners, board of directors, and audit committee negatively affects CSR disclosure.

#### *Effect of Proportion of Independent Commissioner and Audit Committee on CSR Disclosure*

Fama and Jensen (1983) stated that the greater the number of commissioners, the easier it is to control the CEO, and the control will be more effective. Badjuri's (2011) study showed that independent commissioners positively affect CSR disclosure. This suggests that the presence of independent directors in the company provides positive control in overseeing management's CSR disclosing

activities. The audit committee consists of individuals who are independent and not involved with the daily tasks of the board of commissioners and has the experience to conduct effective oversight function. Research by Iswandika et al. (2014) showed that the audit committee positively affects CSR disclosure. This shows that the larger the size of the audit committee, the more effective the audit committee's role is in controlling and monitoring the top management. Based on the above explanations, the following hypotheses can be formulated:

$H_7$  : The proportion of independent commissioners and the audit committee from the board of commissioners and audit committee positively affect CSR disclosure.

$H_8$  : The proportion of independent commissioners and the audit committee from the board of commissioners, board of directors, and audit committee positively affect CSR disclosure.

#### *Effect of CSR Disclosure on the Bid-Ask Spread*

Krinsky and Lee (1996) suggested that the desire to reduce the asymmetry of information can be implemented by testing and examining the bid-ask spreads of the company. He showed that when the bid-ask spread decreased, the asymmetry of information is also decreased. The smaller bid-ask spreads that occurred indicated reduced information asymmetry and reflected the positive market response to the information contained in the publication of the financial report. Therefore, disclosure of CSR has an alleged negative effect on the bid-ask spreads. Based on the above explanations, the hypothesis can be formulated as follows:

$H_9$  : CSR disclosure negatively affects the bid-ask spread.

#### *Effect of CSR Disclosure on the Trading Volume*

High trading volume indicates that the stock is attractive to investors. Companies that perform CSR disclosure are expected to be increasingly in demand by investors. Therefore, CSR is thought to have a positive influence on trading volume (Zidni, 2014). Vijaya's (2012) study showed that CSR disclosure has a positive and significant effect on trading volume. This means that the company's CSR disclosure in the annual report is able to influence the market reaction. Based on the above explanations, the hypothesis can be formulated as follows:

$H_{10}$  : CSR disclosure positively affects trading volume.

#### *Effect of CSR Disclosure on Share Price Volatility*

A lower of share price volatility indicates a smaller asymmetry of information. In general, a company that has low volatility is a stable company. Companies that disclose CSR well are assumed to be stable companies and have a lower information asymmetry. CSR is expected to have an impact on the low share price volatility. Therefore, disclosure of CSR allegedly negatively affects the share price volatility. Based on the above explanations, the hypothesis can be formulated as follows:

$H_{11}$  : CSR disclosure negatively affects the share price volatility.

## **RESEARCH METHOD**

### *Population and Sample*

In this study, the population consists of all public companies listed on the Indonesia Stock Exchange in 2014. The selection of the 2014 study period

Table 1. Sample Determination Procedure

Description	Amount
The company is listed on the Indonesia Stock Exchange (BEI) in the period Reporting of 2014	505
The company is the industry's low profile	228
The company conducted an IPO in 2013-2014	36
The company does not have a complete stock price data and the value of the stock price individuals	2
The company does not publish an annual report or not disclose social responsibility information in annual reports	17
The company has the value of the bid-ask spreads, trading volume and share price volatility equal to zero	12
Total company sample	210

Source: Data processing results

was chosen because the G4 GRI Disclosure Guideline was published in 2013, and it was expected that the data obtained and the results of the study reflect the current state of affairs. To obtain the answers to the research questions, the researchers used annual reports, sustainability reporting, and daily stock prices as their data sources. The data was obtained through the IDX website and the website of each company.

The sample determination procedure is shown in Table 1 above.

### ***Data Analysis Techniques***

This study used Structural Equation Modeling (SEM) and the analytical tool used in this method is the software Partial Least Squares (PLS). SEM-PLS is a causal modeling approach that aims to maximize the variance of the latent variable criterion that can be explained (explained variance) by latent predictor variables.

The PLS software used is called WarpPLS. Some of the advantages

of the WarpPLS program are: (1) estimates the p-value for the path coefficient automatically; (2) provides an indicator of fit model that can be useful when comparing the best model among various different models; (3) delivers coefficient results and p value for moderation models directly; (4) gives effect size value, i.e., f-squared effect size; (5) provides full collinearity test value that can be used to analyze the problems of vertical and lateral multicollinearity; and (6) provides an output of the predictive validity value in the form of the Stone Geisser Q-squared Coefficient (Solihin & Ratmono, 2013).

### ***Research Model***

The research framework is shown in Figure 1 below.

## **RESULT AND DISCUSSION**

### ***Descriptive Statistics***

CSR disclosure scores are shown in Table 2 below:

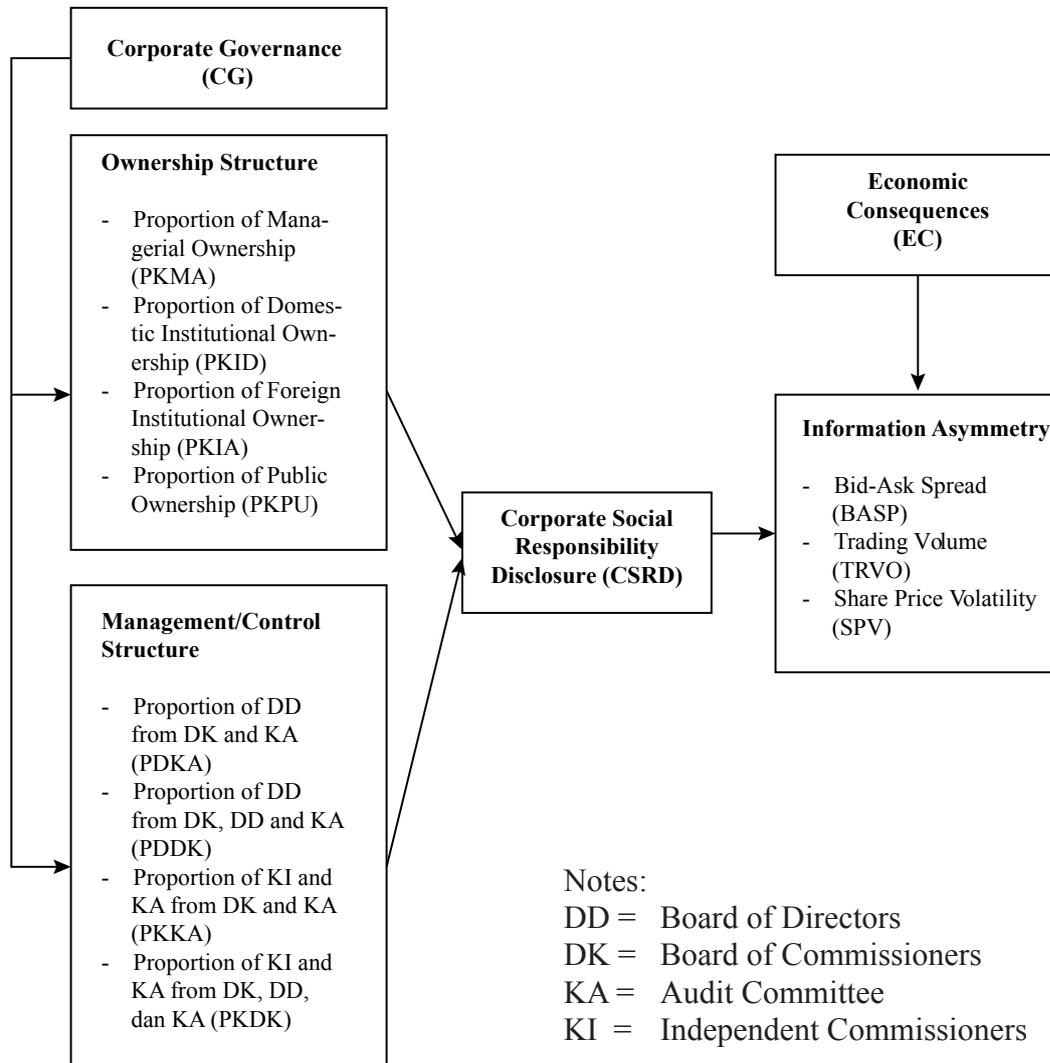


Figure 1. Research Framework

Table 2. CSR Disclosure Scores

Yes	No	% Total Score Disclosure
877	14,261	6%

Source: Results of data processing

CSR disclosure is based on GRI G.4, which consists of the economic, environmental, social, human rights, society, and product responsibility dimensions. From all CSR dimensions, the percentage of the total score of CSR by high profile companies in Indonesia amounted to 6%. This indicates that the disclosure of CSR in Indonesia is still very low. CSR

disclosure in Indonesia, especially for high-profile companies, is not fully connected to actual corporate social responsibility. The low CSR also indicates that investors do not pay attention to CSR as an element in decision-making for the company. It also shows that not many companies are doing CSR activities in detail according to GRI.

Table 3. CSR Disclosure Level

Dimension	% Level of Disclosure
Economic	14%
Environmental	4%
Social	9%
Human rights	1%
Society	7%
Product responsibility	6%

Table 4. R-Square

Description	R-Square
CSR disclosure	0,98
Bid-ask spread	0,98
Trading volume	0,98
Share price volatility	0,28

Source: PLS Output (Data processed)

Details of the results of CSR disclosure level based on GRI G.4 consisting of the economic, environmental, social, human rights, society and product responsibility dimension are shown in Table 3 above:

**Goodness of Fit Test**

Goodness of fit test results are shown in Table 4 above:

Based on the above table, the value of Q2 is as follows:

$$Q2 = 1 - (1 - CSR D2) (1 - BASP2) (1 - TRVO2) (1 - SPVO2)$$

$$Q2 = 1 - (1 - 0,98) (1 - 0,98) (1 - 0,98) (1 - 0,28)$$

$$Q2 = 1 - (0.02) (0.02) (0.02) (0.72)$$

$$Q2 = 1 - 0.00000576$$

$$Q2 = 0.99999424 = 99.99\%$$

*The Proportion of Managerial Ownership and CSR Disclosure*

The test results show that H1 is not supported. The path coefficient of 0.090 (positive sign) and the p-value

of 0.162 (p 0.162 > 0.05) mean that the proportion of managerial ownership has no effect on CSR disclosure. This study supports the agency theory, which states that the conflict of interest between management and owners will be larger when managerial ownership gets smaller. When the managerial ownership is small, then the manager’s actions are not productive.

*The Proportion of Domestic Institutional Ownership and CSR Disclosure*

The test results show that H2 is not supported. The path coefficient of 0.082 (positive sign) and the p-value of 0.286 (p 0.286 > 0.05) means that the proportion of domestic institutional ownership has no effect on CSR disclosure. This indicates that domestic institutional investors are not pressing the company to disclose CSR in detail in the company’s annual report because domestic institutional investors do not consider CSR as a consideration in making investments.

*The Proportion of Foreign Institutional Ownership and CSR Disclosure*

The test results show that H3 is not supported. The path coefficient of -0.287 (negative sign) and the p-value less than 0.001 ( $p < 0.001 < 0.05$ ) means that the proportion of foreign institutional ownership has a negative and significant effect on CSR disclosure. There is the possibility that foreign investors pay little attention to CSR because CSR activities require considerable cost and may reduce corporate profits, while investors generally expect a substantial profit from the company.

*The Proportion of Public Ownership and CSR Disclosure*

The test results show that H4 is not supported. The path coefficient of 0.515 (positive sign) and the p-value of 0.190 ( $p > 0.05$ ) means that the proportion of public ownership has no effect on CSR disclosure.

*The Proportion of the Board of Directors from the Board of Commissioners and Audit Committee and CSR Disclosure*

The test results show that H5 is not supported. The path coefficient of 0.136 (positive sign) and the p-value of 0.054 ( $p < 0.10$ ) means that the proportion of the board of directors from the board of commissioners and audit committee have a positive and significant effect on CSR disclosure.

*The Proportion of the Board of Directors from the Board of Commissioners, Board of Directors and Audit Committee and CSR Disclosure*

The test results indicate that H6 is not supported. The path coefficient of 0.310 (positive sign) and the p-value less than 0.01 ( $p < 0.05$ ) means that the proportion of the board of directors

from the board of commissioners, audit committee, and board of directors has a positive and significant effect on CSR disclosure. The board of directors, as part of the corporate governance structure, can lead management to better disclose CSR. High disclosure of CSR describes that the board of directors has been carrying out its obligations to investors by providing as much information as possible.

*The Proportion of Independent Commissioner and Audit Committee from the Board of Commissioners and the Audit Committee and CSR Disclosure*

The test results show that H7 is not supported. The path coefficient of 0.026 (positive sign) and the p-value of 0.338 ( $p > 0.05$ ) means that the proportion of independent commissioners and audit committee from the board of commissioners and audit committee has no effect on CSR disclosure. The results of study indicate that the existence of independent directors in corporate governance has not been able to play an important role in affecting the determination of company policies and affecting the duty of the audit committee to focus on maintaining the credibility of financial reporting, so that CSR is often overlooked.

*The Proportion of Independent Commissioner and Audit Committee from the Board of Commissioners, Audit Committee and Board of Directors and CSR Disclosure*

The test results show that H8 is supported. The path coefficient of 0.140 (positive sign) and the p-value of 0.03 ( $p < 0.05$ ) means that the proportion of independent commissioner and audit committee from the board of commissioners, audit

Table 5. SEM Testing Results

No	Variable Relationships	Path Coefficient	P-Values
1	PKM → CSR	0,090	0,162
2	PKID → CSR	0,082	0,286
3	PKIA → CSR	-0,287	<0,001*
4	PKPU → CSR	0,515	0,190
5	PDKA → CSR	0,136	0,054
6	PDDK → CSR	0,330	0,106
7	PKKA → CSR	0,026	0,388
8	PKDK → CSR	0,169	0,095
9	CSR → BASP	0,992	<0,001*
10	CSR → TRVO	0,990	<0,001*
11	CSR → SPVO	0,532	0,064

Source: PLS Output (Data processed)

committee, and board of directors has a positive and significant effect on CSR disclosure.

#### *CSR Disclosure and Bid-Ask Spread*

The test results show that H9 is not supported. The path coefficient of 0.992 (positive sign) and the p-value less than 0.001 ( $p < 0.001 < 0.05$ ) means that CSR disclosure has a positive and significant effect on the bid-ask spread. The researchers guess that there is a high information asymmetry between management and investors, which results in a high bid-ask spread, thus giving a negative response to the market. The results of this study do not support the signaling theory, which states that companies providing information or signals can reduce information asymmetry.

#### *CSR Disclosure and Trading Volume*

The test results show that H10 is supported. The path coefficient of 0.990 (positive sign) and the p-value less than 0.001 ( $p < 0.001 < 0.05$ ) means that CSR disclosure has a positive and significant effect on trading volume.

#### *CSR Disclosure and Share Price Volatility*

The test results show that H11 is not supported. The path coefficient of 0.532 (positive sign) and the p-value of 0.064 ( $p < 0.10$ ) means that CSR disclosure has a positive and significant effect on the share price volatility. The results of this study show that the higher the disclosure of CSR in the company's annual report, the more positive increase the share price volatility experienced, meaning that investors pay attention to CSR disclosure together in the annual report as a consideration of their investment decision.

Summaries of all the hypotheses testing results are shown in Table 5 above:

## **CONCLUSION**

### ***Conclusions***

Based on the findings and discussion set forth above, a number of conclusions can be made.

First, in Article 1, Paragraph 3 of Company Law Republic of Indonesia

No. 40/2007, social responsibility is a commitment of the company to participate in the sustainable economic development to improve the quality of life and environment is beneficial, both for the company itself, the local community, and society in general. The research results showed that the total score of CSR disclosure of public companies in Indonesia amounted to only 6%. This means that most companies do not have a strong commitment to implementing CSR activities. This also means that CSR is still viewed as a burden rather than an opportunity that will provide many benefits for companies and communities.

Second, the results showed that the proportion of the board of directors from the board of commissioners and audit committee positively and significantly affected the disclosure of CSR. This indicates that the board of directors of public companies in Indonesia under the supervision of the board of commissioners and the audit committee have strong commitments to disclosing CSR. In other words, the presence of the board of commissioners and audit committee plays a very important role in encouraging the board of directors to provide transparency of CSR to the public.

Third, the results also showed that the proportion of independent commissioners and the audit committee from the board of commissioners, audit committee, and the board of directors positively and significantly affect the disclosure of CSR. This suggests that the independent commissioner and audit committees of public companies in Indonesia, which have the function of oversight for the board of directors, have a strong commitment to disclosing

CSR. In other words, the presence of independent commissioners and the audit committee plays a very important role in improving the transparency of public company CSR.

Fourth, the disclosure of CSR positively and significantly affects stock trading volume. This suggests that CSR disclosures made by public companies in Indonesia give a signal that is responded to positively by investors in the capital market.

Fifth, results showed that among the several dimensions of CSR, the human rights dimension is the dimension that is at least disclosed by the public companies in Indonesia, at only 1%. The dimension most disclosed was the economic dimension, with 14%. This indicates that most public companies in Indonesia are still oriented toward economic interest rather than public interest (environmental, social, human rights, society, and product responsibility).

### ***Implications***

CSR disclosure activities play a very important role in meeting the stakeholders' interests and ensuring the sustainability of the company long-term. In addition, CSR disclosure is also considered to be an assertion of the brand differentiation of a company, which means to obtain a license to operate from both the government and society, as well as the company's risk management strategy. The findings showed that the total score of CSR disclosure of public companies in Indonesia amounted to only 6%. Therefore, public companies in Indonesia should be encouraged to have a higher awareness of aspects of CSR and also to disclose their CSR activities.

### *Limitations*

This study has several limitations.

1. The existence of an element of subjectivity in assessing the CSR disclosure in the annual report.
2. The number of research samples is relatively small, with only 210 companies.
3. The type of company used as a sample in this study only included companies engaged in high-profile industries, which are companies with close ties to the community. Therefore, it does not reflect the overall stock market reaction.

### *Suggestions*

Some suggestions need to be considered for further research. To increase the level of objectivity in the measurement of CSR disclosure, assessment from other parties (i.e., the second and even third party) is required. Also, future studies should improve the generalization of the results by increasing the sample size. To improve the specification of the characteristics of the studied companies, future research is recommended to distinguish a sample of companies by sector, such as manufacturing and mining.

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