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# GOOD CORPORATE GOVERNANCE MECHANISM AND POLITICAL CONNECTION TOWARDS CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE

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A R T I C L E I N F O

***Keywords:*** *CSR Disclosure, Independent Commissioners, Board Commissioner Size, Political Connection, Firm Size.*

**Kata Kunci**: *CSR Disclosure, Independent Commissioners, Board Commissioner Size, Political Connection, Firm Size.*

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***Abstract.*** *This study aims to examine the effect of good corporate governance mechanisms by using the proportion of independent commissioners and board commissioner sizes and to examine the effect of political connection on corporate social responsibility disclosure using the GRI standard. The research population is 100 compass companies listed on the Indonesia Stock Exchange in 2018-2020. samples were selected using a purposive sampling method and obtained 267 samples. The analytical tool used is multiple regression. Based on the results of this study, the board commissioner size and political connection have a positive effect on CSR disclosure, while the independent board of commissioners found no evidence that the independent board of commissioners had a positive effect on CSR disclosure. This study contributes to the political connection, corporate governance mechanism, and CSR disclosure by identifying CSR disclosures based on the GRI standard to the most detailed level, which is 250 disclosure indicator items. Meanwhile, previous research only identifies CSR disclosure up to 77 GRI indicators without paying attention to the sub-indicators in detail.*

**Abstrak.** Penelitian ini bertujuan untuk menguji pengaruh mekanisme *good corporate governance* dengan menggunakan proporsi dewan komisaris independen dan *board commissioner size* serta menguji pengaruh *political connection* terhadap pengungkapan *corporate social responsibility* dengan menggunakan GRI standard. Populasi penelitian adalah perusahaan kompas 100 yang terdaftar di BEI tahun 2018-2020. Sampel dipilih menggunakan metode purposive sampling dan diperoleh 267 sampel. Alat analisis yang digunakan adalah regresi berganda. Berdasarkan hasil dari penelitian ini *board commissioner size* dan *political connection* berpengaruh positif terhadap pengungkapan CSR. sedangkan dewan komisaris independen tidak ditemukan bukti bahwa dewan komisaris independen berpengaruh positif terhadap pengungkapan CSR. Penelitian ini berkontribusi pada *political connection*, mekanisme tata kelola perusahaan, dan pengungkapan CSR dengan mengidentifikasi pengungkapan CSR berdasarkan GRI standard hingga tingkat yang paling rinci, yaitu 250 item indikator pengungkapan. sedangkan penelitian sebelumnya hanya mengidentifikasi pengungkapan CSR hingga 77 indikator GRI tanpa memperhatikan sub-indikator secara detail.

## INTRODUCTION

Annual business continuity creates numerous issues surrounding the company's business activities, leading to the issue of reporting on the company's sustainability performance. This issue arises from the demands of stakeholders, including investors, debtholders, the community, and the government, for the business sector to pay attention to the impact of their commercial actions in addition to focusing on economic success through profits.

In the last four decades, the issue of corporate social responsibility (CSR) has gotten more attention, as well as increased social awareness of the company's role in environmental and social issues. A lot of companies have had social and environmental incidents. As a result of the contamination of Bay Buyat in Minahasa South, PT. Newmont Minahasa Raya has prompted public concern regarding the company's role in environmental protection. In addition to the ongoing case, the government announced a ruling on the Law On Limited Liability Companies (PT) article 74 of Law Number 40 regarding social responsibility, which is a rule that is necessary, not voluntary, as a rule for a sustainable economic direction.

According to Fernando (2021), corporate social responsibility is a business model in which firms use self-regulation to assist them to be socially responsible for themselves, their stakeholders, and the general public. Corporate governance procedures have an impact on CSR disclosure. The corporate governance system, according to stakeholder theory, serves as a guarantee of stakeholders, idea states that a must be supported by the community in which it operates. CSR disclosures are one technique to increase credibility.

Companies that follow strong corporate governance are obligated to disclose information, ownership, and stakeholders following the National Committee on Governance Policy's core principles (KNKG), which include Transparency, Accountability, Responsible, independence, and Fairness. The adoption of GCG informs stakeholders that the organization has followed all requirements and is staying true to its vision and goal. The implementation of GCG will have an impact on the company's business activities being more transparent to help mtot CTO out risk mitigation more accurately. This will be relevant to the company's increased financial performance. GCG is expected to reduce conflicts of interest that occur which hamper the company's financial performance (Xu and Xia, 2012). In this study, the mechanism of strong corporate governance will be tested, which will be proxied by the proportion of independent commissioners and board size. The researcher chose two corporate governance mechanism indicators because researchers were interested in learning more about the indicators of independent commissioners and board size and because the researchers referenced earlier research employing the same proxy corporate governance system.

It is critical to investigate the political ramifications of corporate social responsibility disclosure and the mechanisms of good corporate governance, particularly in Indonesia. Political interactions are more widespread in developing nations and emerging markets (Boubakri et al., 2008), such as China, Malaysia, and Indonesia, where legal systems are weak and market support institutions are flawed (Bliss and Gul, 2012). Several trends in this country suggest that politically connected businesses have easier access to government benefits than politically disconnected businesses.

If a firm is an open system and all of its resources are not available internally, it must obtain them externally, according to resource dependency theory. The organization becomes more reliant on resource providers as the resources required to become more valuable. One of a company's most valuable resource suppliers is the government (Huang & Zhao, 2016). Companies with political ties to the government will be able to gain more easily from the government (Correia, 2014; Tao et al., 2017; Wu et al., 2012). Businesses will become very reliant on the government as a result of profits like these (Huang & Zhao, 2016). Sustainability disclosure is one way to retain good ties with the government.

## LITERATURE REVIEW

### *Grand Theory*

*Stakeholders* are theories that relate to all internal and external parties that can influence or be influenced by the company both directly and indirectly (Freeman, 1984; Gray et al., 1995). Entities with good implementation of *good corporate governance* have a high chance of applying non-mandatory disclosure of environmental and social responsibility as a way to fulfill stakeholders.

Companies with great firm performance are undoubtedly more well-known. Companies that do well will be relevant to initiatives to increase transparency (Indrianingsih & Agustina, 2020). This is to fulfill stakeholders. Stakeholder interests can be considered if the company's management has a moral commitment to stakeholders.

### *Resource Dependence Theory*

The resource dependence hypothesis emphasizes the idea that an organization, like a company, must engage in transactions with other individuals and organizations in the environment to gain access to resources. While these transactions may be advantageous, they may also lead to untrustworthy reliance. The entity's required resources may be limited, not always available, or controlled by uncooperative actors. Uneven change leads to power struggles and increased access to resources. Entities advocate methods such as enacting political measures, increasing production size, and diversification to increase their bargaining position in resource transactions from this dependence.

The more valuable the resources required, the more reliant the organization is on the resource providers. The government is one of a company's precious resource suppliers (Huang & Zhao, 2016). Companies with political ties to the government will be able to gain more easily from the government (Correia, 2014; Tao et al., 2017). Businesses will become very reliant on the government as a result of profits like these (Huang & Zhao, 2016). Because the government requires this activity, one way to maintain good relations with the government is to implement sustainability performance disclosure.

## HYPOTHESES DEVELOPMENT

### Influence of Independent Board of Commissioners on CSR

According to Pandya (2011), independent commissioners have a regulatory role to evaluate managers' decisions through competence, expertise, insight, and objectivity to reduce agency costs and prioritize the interests of shareholders. Independent commissioners are parties outside the company and are not related to the company. As a result, independent commissioners are thought to be able to operate honestly while also having a low likelihood of conflict of interest (Ahmed, 2015). Independent commissioners where parts of strong corporate governance implementation would encourage corporations to provide more information to their stakeholders, one of which is through the submission of sustainability reports. According to Badjuri (2011), the mechanism of excellent corporate governance, as measured by the proportion of independent boards of commissioners, has a beneficial impact on CSR disclosure. According to Prastiwi and Ratnasari (2019) research, the percentage of independent boards of commissioners has a beneficial impact on CSR disclosure. The independent board of commissioners had a good impact on CSR disclosure, according to academics Fahad and Rahman (2020).

**H1: Independent Board of Commissioners has a positive effect on the disclosure of Corporate Social Responsibility**.

**Influence of Board Commissioner Size on CSR**

The board of commissioners oversees the corporation's management and corporate governance standards. CSR disclosure demonstrates good corporate governance. Board commissioner size refers to the number of commissioners on the board. As each member of the commission has more work to do, the monitoring procedure becomes less efficient (Manzaneque et al., 2016). Meanwhile, resource dependence theory predicts that the company's huge board of commissioners will have an impact on its resources and competence (Jizi et al., 2014). As a result of these resources and talents, the company's quality in managing CSR disclosure will increase.

**H2: *Board Commissioner Size* influential positive to disclosure *Corporate Social Responsibility***

**The Effect of Political Connection on CSR**

According to resource dependence theory, if a corporation is an open system and all of its resources are not available internally, it must receive them from outside sources. The company becomes more reliant on resource providers as the resources required to become more valued and precious (Pfeffer & Salancik, 1978). One of the few sources of restricted resources for firms is the government (Huang & Zhao, 2016). As a result, using political connections to profit from the government will be easier for businesses (Tao et al. 2017). The firm will become increasingly reliant on the government as a result of such revenues (Huang & Zhao, 2016).

Firms have a responsibility to all stakeholders, according to the stakeholder theory (Freeman 1984). One of the government's stakeholders. Its main task is to preserve social stability and welfare, as well as to safeguard the environment to meet future citizen needs. The government requires formal and financial support from the community to carry out its job. Compliance with CSR standards will help to maintain good ties between businesses and government officials. As a result, if a corporation has more political ties, its reliance on government benefits will be larger, and the company's CSR disclosure will also be bigger. As a result, political interactions can be said to have a favorable impact on CSR (Yeterina, 2021).

**H3: Political Connection has a positive effect on the disclosure of CSR.**

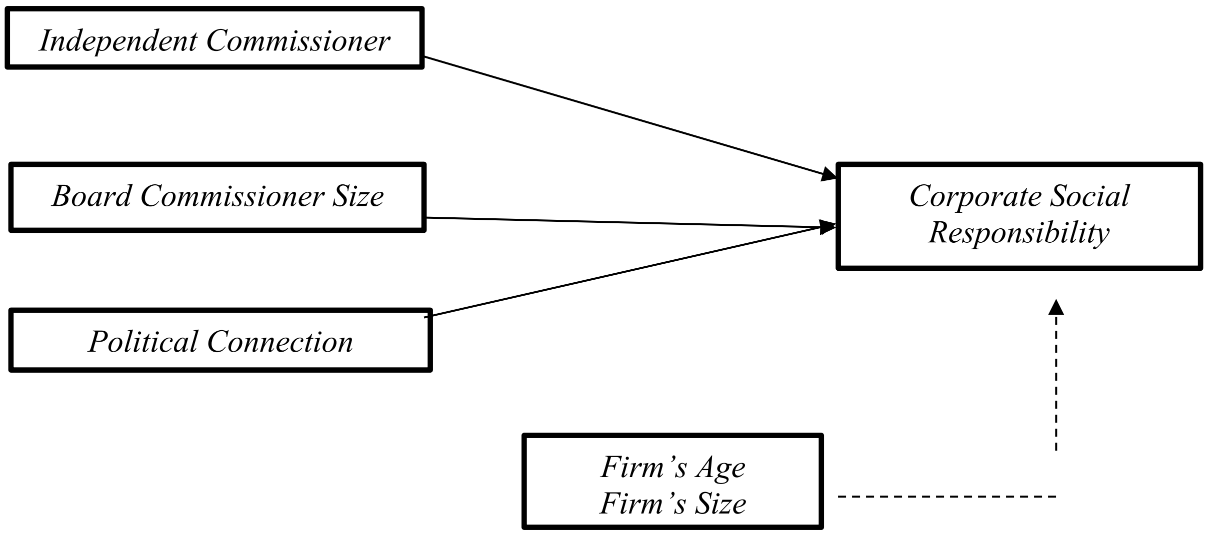


**Figure 1. Research Model**

## METHODOLOGY AND DATA ANALYSIS

### Sampling technique

The study's population is comprised of all Kompas 100 firms in Indonesia that are listed on the IDX between 2018 and 2020. Using the Stata 14 application for data processing. From 30 companies that had not been listed in the index for three years, 14 banking and financial companies, and 8 companies whose financial statements were not denominated in rupiah were removed from a total of 141 research samples, yielding a sample of 89, which was multiplied by three research periods to yield a sample of 267.

### Dependent Variable

The CSR disclosure variable in this study uses the method used by (Yeterina, 2021). However, the standard that will be used in this research is the 2016 GRI (Global Reporting Initiative) Standards.

$$CSRDI = Xij / Nj$$

Information:
CSRDI= *Corporate social responsibility disclosure index* company

X is = The number of CSR disclosures, which is given a value of 1 if the indicator is disclosed and 0 if the item is not disclosed
Nj = Number of company indications, where N=250 (maximum score)

**Independent Variable**

The Independent Board of Commissioners and the Size of the Board of Commissioners were employed as independent variables in this study, with the Independent Board of Commissioners serving as a proxy for Good Corporate Governance.

1. Independent Board of Commissioners

Independent commissioners are the percentage ratio between the number of commissioners who come from outside the company (independent commissioners) to the total number of members of the company's board of commissioners referring to Ria Aniktia's research (2015). This variable is calculated based on the number of independent commissioners in an entity throughout three years, from 2018 to 2020.

DKI = 100 percent of the number of independent commissioners / total number of commissioners

2. Size of the Board of Commissioners

It is the number of boards of commissioners in one entity for 3 years (2018-2020) referring to the research of Manzaneque et al 2016.

Board Size = Board of Commissioners

3. Political Connection

Political connection in this study is proxied by proxy for the presence or absence of an executive connected to the government. The determination of the dummy variable in this study refers to the research used previously by Ferdiawan and Firmansyah (2017), namely companies that have a director and commissioner who also serve as members of the DPR, executive cabinet members, officials in one government agency or political party are given a value of 1. Conversely, a value of 0 is given if it is not disclosed at all.

**Control Variable**

The age of the company (age) and the size of the company were employed as control variables in this study (size).

Company Age

displays how long the company has been in operation and how long it has been in business (Santioso & Erline, 2012). The longer a corporation has been around, the more knowledge about it is understood. The age of the company demonstrates its long-term viability and ability to compete. As a result, the company's age might be linked to its social responsibility. Older businesses have more experience and are more cognizant of the importance of company commitment than newer businesses. Yeterina's (2021) research is used as a proxy in this firm age study.

Firm's age = Year of research – the year of first listing on IDX

Company Size
shows the size of an entity which is expressed by total assets which are logarithmic. Large companies have more flexible stakeholders, therefore the authority of large companies will lead to a higher public interest than small companies. This firm size measurement uses Ln total assets which refers to the research of Widyaningsih (2018).

Firm's size= Total Assets

**Data analysis method**
In this work, Stata Programmer Version 14 was utilized to do multiple regression analysis. The experiment will be carried out using descriptive statistics. Traditional assumptions are also evaluated using normality tests, heteroscedasticity tests, multicollinearity tests, and hypothesis testing such as the r-square determination coefficient test, t-test, and F test.

## RESEARCH RESULTS AND DISCUSSION

**Descriptive Statistics test results**

| Nama Variabel | *Obs* | *Mean* | *Std. deviation* | *Min* | *Max* |
|---|---|---|---|---|---|
| **CSRD** | 267 | 0.73 | 0.55 | 0.59 | 0.78 |
| **KI** | 267 | 41.79 | 9.81 | 16.66 | 75 |
| **BOARD** | 267 | 5.51 | 0.9 | 4 | 7 |
| **POLCON** | 267 | 0.89 | 0.3 | 0 | 1 |
| **FAGE** | 267 | 18.04 | 10.61 | 3 | 44 |
| **SIZE** | 267 | 24.21 | 10.23 | 12.75 | 33.44 |

Descriptive statistics are used to statistically represent data and measure the mean., standard deviation, minimum value, and maximum value. Based on the table of descriptive statistical test results, it was found that the amount of data on each variable was 267 pieces from 89 samples of 100 compass companies listed on the IDX during 2018-2020.

Independent commissioners have an average value of 41.79, a standard deviation of 9.81, a minimum value of 16.66, and a maximum value of 9.72. The mean value for the Board Size Commissioner is 5.51, with a standard deviation of 0.90, a minimum of 4, and a maximum of 7. Political Connection has a mean value of 0.89, a standard deviation of 0.30, a minimum value of 0, and a maximum value of 1. A company's average age is 18.04 years, with a standard deviation of 10.61, a minimum of 3, and a maximum of 44, while its average size is 24.21 years, with a standard deviation of 10.23, a minimum of 12.75, and a maximum of 44.

## Hypothesis testing

$CSRD = \beta 0 + \beta 1\ KI + \beta 2\ BOARD + \beta 3\ POLCON + \beta 4\ FAGE + \beta 5\ FSIZE + e$

| Variabel | Prediksi Arah | Koefisien | P-value |
|---|---|---|---|
| Variabel Dependen | | | |
| CSRD (H1) | | | |
| Variabel Independen | | | |
| KI (H1) | - | 0.002159 | 0.504 |
| BOARD (H2) | + | 0.0056292 | 0.108 |
| POLCON (H3) | + | 0.0093755 | 0.195 |
| Variabel Pengendali | | | |
| AGE | - | 0.0005241 | |
| SIZE | + | 0.0017223 | |
| N | 267 | | |
| F (5, 261) | 5.65 | | |
| Prob > f = 0.000 | 0.0244 | | |
| R-Squared | 0.3471 | | |
| Adjusted R squared | 0.3274 | | |

### Coefficient of Determination Test

R-squared adjustments can be used to compare the expected and actual values, or fluctuations in the independent variable can be used to explain the dependent variable. The adjusted r-squared is 0.3274 (32.745 percent) and the r-squared is 0.3471 (34.71 percent) the independent and dependent variables have a strong relationship, as shown in the table above.

### F Test

The F test determines if the independent and dependent variables have the same effect. The F value is 5.65, which is significant with a sig at prob 1 percent, according to the f test results in the table above. As a result, both the dependent and independent factors have an impact on the dependent variable.

### Statistical Test Results t

The one-tailed test shows no evidence that the Independent Board of Commissioners affects CSR disclosure because the p-value (p | |) is above 0.1, which is the limit of the p-value that influences the dependent variable (CSR disclosure). It can be inferred that hypothesis 1 is acceptable based on hypothesis testing and research findings. These findings support Yeterina's (2021) research and contradict Pratiwi and Ratnasari (2019) findings. Independent commissioners are generally wary of taking risks that could harm their reputation. This occurs because they rely on managers for CSR information, which increases the danger of receiving inaccurate information (Bansal & Song 2015). Due to their lack of experience and knowledge of CSR, as well as their ignorance of social and environmental issues, independent commissioners have a limited influence in shaping CSR policies and practices (Shamil et al., 2014). Independent commissioners are chosen purely based on their proximity to the company's CEO (Gosal et al., 2018, Tulung & Ramdani, 2015). As a result, the board of commissioners lacks objectivity, and they support the manager's choice to reduce CSR costs to increase profits. The independent board of commissioners is appointed by the stockholders to represent their interests and to make it easier for them to obtain company information directly from the independent board commissioners.

According to the p-value (p | |), Board Commissioner size has a positive effect on CSR disclosure because it is less than 0.1, which is the upper limit of the p-value that affects the dependent variable (CSR disclosure). Hypothesis 2 is approved based on hypothesis testing and study findings. These findings are consistent with Jizi et al. (2017), and Naseem et al., (2017). The board of commissioners' high size allows for an effective division of labor among the commissioners, allowing for a more effective monitoring process of management, including oversight of CSR disclosure. The size of a company's board of commissioners will have an impact on the number of resources and experience it has (Jizi et al., 2014). The quality of CSR disclosure supervision will improve as resources and experience are added, leading to increased credibility and support from firm stakeholders. The board of commissioners also serves as an agent for shareholders in the company's management structure. A large board of commissioners will be able to persuade executives to make CSR disclosures, lowering the knowledge asymmetry problem that shareholders face (Lopatta et al., 2016, Tulung & Ramdani, 2018).

According to the results of testing hypothesis 3 based on the p-value (p | |), Political Connection has a positive effect on CSR disclosure since it is at 0.09, which is less than 0.1, which is the p-value limit that affects the dependent variable (disclosure CSR). Hypothesis 3 is approved based on hypothesis testing and study findings. The results of evaluating this hypothesis are consistent with research completed by Yeterina (2021), although they contradict Muttakin's research (2018). Tax benefits (Wu et al., 2012); regulatory relief (Correia, 2014); access to bailout money (Tao et al., 2017); and the ease of obtaining government contracts have all been shown to be easier to obtain and benefit from the government for politically connected firms (Goldman et al., 2013). Because of these benefits, the corporation will be very reliant on the government (Huang & Zhao, 2016); as a result, they will continue to maintain positive relationships with the government. Because the government requires the execution of CSR, it is one way to strengthen the relationship. As a result, the greater a company's political affiliations, the more CSR actions, and disclosures are required.

## Conclusion

The following conclusions are drawn from the results of the tests carried out:

1. no evidence having an independent board of commissioners improves CSR disclosure.
2. The number of commissioners on a board has a beneficial impact on CSR disclosure.
3. Political ties have a beneficial impact on CSR reporting.

## Implications and Limitations

The findings show that having a political connection and a large board of commissioners both help to increase CSR transparency. As a result, investors are encouraged to put their money into enterprises with a large board of commissioners and strong political ties. Through CSR disclosure, investors can see how a company uses its assets to maintain good relations with all stakeholders. This collaboration has been shown to improve the company's performance and long-term viability.

The researcher had several limitations during this research, namely, among others, the researcher did not meet directly with correspondents related to the company understudy to obtain more accurate information, then there were still some arguments that the researcher presented that could not be accepted by the reader due to one particular reason.

Based on these limitations, the researcher has several suggestions that can be used for the next researcher. First, further research is expected to measure the quality of CSR that is adjusted to each sector so that the results can be analogous. Second, it is better if the sample used includes a wider study, especially for BUMN companies that have high political connections so that the results can be representative and describe the actual situation.

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