CORPORATE GOVERNANCE AND THE ROLE OF PROFITABILITY ON CSR DISCLOSURE (CASE STUDY: MANUFACTURING INDUSTRY COMPANIES IN INDONESIA IN 2014-2017)

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ABSTRACT

This study aims to examine the impact of Corporate Governance and profitability on CSR disclosure, the impact of Corporate Governance on profitability, and the impact of Corporate Governance on CSR disclosure through profitability. Corporate Governance of the company is proxied by an internal Corporate Governance mechanism consisting of board of commis-sioners, independent commissioners, and managerial ownership. The population in this study are all manufacturing industry companies that have been listed on the Indonesia Stock Ex-change (IDX) in 2014-2017. The sample selection method uses a purposive sampling method with several criteria to produce 136 companies as research samples. The analysis technique used is simple and multiple regression analysis using SPSS version 16. The results of this study provide empirical evidence that the number of board members and profitability can in-crease CSR disclosure, while independent commissioners and managerial ownership cannot increase CSR disclosure. The number of board members and managerial ownership can in-crease the company's profitability, while independent commissioners cannot increase the level of profitability of the company. Profitability can bridge the impact of the board of commis-sioners on increasing CSR disclosure, while the presence of profitability variables does not play a role in bridging the impact of independent commissioners and managerial ownership on increasing CSR disclosure.

Keywords: board of commissioners, independent commissioners, management ownership, profitability, CSR disclosure

INTRODUCTION

The company's relationship with the community is a very interesting issue to be discussed so far. Rapid population growth has contributed to the growth of industrial companies (Ilmi et al., 2015). Meanwhile, the growth of industrial companies also plays a role in creating nega-tive impacts on social and environmental aspects (Hadi, 2011: 39). Road blocking and the threat of company closure by the local community to PT Freeport Indonesia in Papua, PT Newmont in Lombok, and PT Inti Indorayon Utama in North Sumatra prove that the local community does not remain silent over the impact that the company has (Lako, 2010: 52) . The departure of a company deemed by the legal government to leave its concession due to the expulsion of people in the eastern part of Indonesia has also occurred (Kompasiana, Edi-tion 24 June 2015). Even though the management feels that it has done much to the Regional Government by donating funds for the construction of facilities and infrastructure and being active in carrying out CSR activities (Lako, 2010: 53). To avoid undesirable things the com-pany needs to consider making CSR disclosures. Although its existence is still voluntary. CSR reports are believed to be able to enhance the company's image to the public and have an impact on public acceptance, and avoid the risk of confrontations such as strikes and boycotts (Gunawan, 2015).

Based on data obtained from Global Reporting Initiatives (GRI), the number of companies that have published and published CSR reports in Indonesia amounted to 46 companies in 2013, 48 companies in 2014, 63 companies in 2015, and 85 companies in 2016 (wordpress .com accessed on May 20 at 10:40). This proves that awareness of CSR disclosure by compa-nies in Indonesia is still low. This is because companies are not sure about the benefits of car-rying out CSR disclosures, consideration of cost rationalization, and the notion that "serving the community" and "contributing" are sufficient to demonstrate corporate social responsibil-ity (Gunawan, 2015). Even though in the past few years there has been an increase in the de-mand for voluntary disclosure in the environmental and social fields (vlvarez, 2016). Stake-holders expect the company to disclose activities related to labor issues, human rights, the en-vironment and products (Lone, et al. 2015).

Pressure on companies to apply more socially makes management take into account social and environmental aspects when acting. Disclosure of CSR is considered to play an important role in communicating the company's behavior to society and the environment (Habbash, 2016). The practice of disclosing CSR is influenced by Corporate Governance (Harjoto, 2012; Liu & Zhang, 2016). Corporate Governance has evolved by accommodating the relationship be-tween business and the environment and business with the community, not only that an effec-tive Corporate Governance system is believed to increase transparency by increasing openness to material activities that affect society and the environment (Habbash, 2016). The internal mechanism of Corporate Governance is needed to accommodate the interests of various par-ties properly, the internal mechanism is an indispensable element and helps management of the organization (Linda & Febriyanti, 2010) which consists of several elements such as: board of commissioners, independent commissioners and managerial share ownership (Ariyoto , 2010). The board of commissioners can influence a company's governance, operational effi-ciency, and disclosure of corporate CSR information (Liu & Zhang, 2016). Independent Commissioners can put pressure on companies not only to integrate CSR into organizational policies but also to carry out CSR disclosures (Lone et al., 2016). With managerial ownership, company managers will disclose social information to improve the company's image, even though it must sacrifice resources for these activities (Gray and Maunders, 1988). Besides being influenced by the internal corporate governance mechanism, CSR disclosure is also in-fluenced by profitability.

Profitability has a positive effect on CSR disclosure (Ebiringa et al., 2013; Muttakin et al., 2015; Lu & Abeysekera, 2014; Giannarakis, 2014). Profitable companies tend to disclose so-cial and environmental information but companies with poor profitability tend to prioritize economic demands rather than spending on social and environmental activities (Ebiriga et al., 2013). As Lu & Abeysekera (2014) stated that when companies have good financial capacity, companies can do expensive programs related to social and environmental demands. The company's ability to commit to CSR activities will make the company voluntarily convey whatever social and environmental activities have been carried out, so that the company will be considered a better company than other companies. Giannarakis (2014) states that profita-ble companies tend to provide further information to show the company's contribution to so-ciety so that the company's existence is legitimized.

The main purpose of establishing a company is to generate profits. With the profit, the com-pany can maintain the survival of the company. To be able to achieve these goals, the owners (shareholders) usually entrust the management of the company to competent managers (Widyati, 2013). The separation between ownership and management of the company raises a conflict of interest in the form of interests to maximize the owner's profits and the desire to maximize manager's profits. The parties evaluated for their performance tend to be dysfunc-tional when managing the company (Ishak, 2002). As (Jensen & Mecklin, 1976) stated that in times of conflict of interest managers tend to push their utilities at the expense of company owners. Therefore, to oversee agency problems an internal Corporate Governance mechanism is needed. Internal mechanisms can reduce management freedom to be opportunistic so that company performance can increase. Rimardhani et al. (2016) stated that the management of a company depends on the performance and policies of the board of commissioners. The pres-ence of a board of commissioners is needed to oversee the activities carried out by the direc-tor. The independent commissioner has the role of contributing expertise and objectivity when evaluating the decisions of directors (Sheikh et al., 2013), and has a role to increase the level of profitability of the company (Abor and Biekpe, 2007). Managerial ownership is need-ed to harmonize manager's actions with company owners (Brigham & Houston, 2006: 27). Martsila & Meiranto (2013). This shows that profitability can act as an independent and bound variable.

This research was conducted with the aim of developing several previous studies on the effect of Corporate Governance on CSR disclosure because it still shows inconsistent results between one study and another. Renewal in this study lies in the addition of profitability variables as intervening variables because profitability variables are thought to play a role in bridging the influence between Corporate Governance and CSR disclosure. Based on the description of the relationship described above, it is known that CSR disclosure is not only influenced by Corporate Governance but also influenced by profitability.

THEORITICAL FRAMEWORK

Agency Theory

Based on agency theory, it is said that in general humans have self-interest, limited thinking about future perceptions (bounded rationality), and risk-averse (Eisenhardt, 1989). Agency theory is used as the basis for corporate governance practices, this theory discusses the agency relationship that occurs between the principal and the agent. Agency relations occur when the principal employs an agent to do services and gives authority to make decisions on behalf of the principal (Brigham and Houston, 2006: 26). Separation of ownership and management of the company causes agency problems between the principal and the agent due to differences in interests between the two so that the agent does not act on behalf of the principal (Hamdani, 2016: 31). The lack of information / information asymmetry makes the opportunity for agents to seek profits for themselves to increase. Managers as managers of the company do not always act in accordance with the interests of the owner of the company, but sometimes to prosper themselves (Solihin, 2011: 120). When running a business, the company does not only interact with shareholders. But it also interacts with various parties. Therefore, the agency relationship contract that might occur is as follows (IAI, 2015: 78): a. Creditors (principal) and management (agents). b. Non-controlling shareholders (principal) and controlling shareholders (agents) c. Government (principal) and management (agent) d. Employee (principal) and management (agent). e. Public (principal) and management (agent).

Legitimacy Theory

Gray et. al, (1996) stated that legitimacy is a system of corporate management that sided with society (society), government, and community groups. Petric medley (1996) describes the legitimacy theory by connecting internal and external stakeholders who have a direct or indirect influence on the company, the relationship between the two parties results in the legitimate potential of the company or the emphasis (ilegitimate) that occurs because of legitimate gaps (incongruence) between people's expectations of the company. The pressure that occurs is usually caused by the negative impact on the environment and the mismatch of community norms with the company. The parties that have the opportunity to put pressure on the company consist of: legislators, environmentalists, bankers, marked forces, employees, and shareholders (Hadi, 2011: 91). The legitimacy of the company can be obtained when there is a match between the values of the company and the values in the community and the absence of interference or a serious impact of the company on the community (Deegan et al, 2002). The shift towards legitimacy values makes the company make adjustments to products, methods, and objectives (Hadi, 2011: 89). A legitimacy can be seen from giving to something that is desired by the company, without the legitimacy of the company it will not be able to grow.

Stakeholder Theory

Stakeholders are internal and external parties that are affected and influence the company either directly or indirectly (Luk et al. 2005). Stakeholders consist of primary stakeholders and secondary stakeholders (Ince, 1997). The success and life of the company is affected by the success of the company in balancing the interests of the stakeholders around it (Lako, 2011: 5). Thomas and Andrew (1999) state that stakeholder theory bases itself on the following assumptions: 1) The corporation has a relationship of many constituenty groups (stakeholders) that are affected by its decisions. 2) The theory is concerned with the nature of these relationships in terms of processes and outcomes for the firm and its stakeholders. 3) The interest of all

(legitimate) stakeholders has intristic value, and no set of interests is assumed to dominate the others. 4) The theory focuses on managerial decission making.

Corporate Governance

Indonesia is a country that adheres to a dual board system (Hamdani, 2016: 111). In this system there is a clear separation between the supervisory function and the implementation function, where the supervisory function is carried out by the board of commissioners while the executive function is carried out by the board of directors not by executive directors or non-executive directors such as most Anglo Saxon countries IAI, 2015: 81).

HYPOTHESIS DEVELOPMENT

The Effect on the Board of Commissioners on CSR Disclosures

The presence of the board of commissioners can influence governance, operational activities, and disclosure of information on social responsibility (Liu and Zhang, 2016). Meanwhile, Lee and Chen, 2011; states that the performance of the board of commissioners is influenced by the size of the board of commissioners. There is a significant positive relationship between the board of commissioners and CSR disclosure (Esa & Ghazali, 2012; Liu & Zhang, 2016; Lone et al., 2016; Sadou et al., 2017). With the increasing size of the board of commissioners, monitoring activities become more stringent (Lone et al., 2016), the exchange of ideas and experience becomes wider (Jensen, 1993). Esa and Ghazali (2012) revealed that with more and more members of the board the level of CSR disclosure will increase because in a group of board members there are board members who have diverse experiences, knowledge, skills so that discussions about corporate social activities are more viable and thus the company becomes aware of its importance become a good corporate citizen. Based on the description above, hypothesis 1a is formulated as follows:

H-1a : The board of commissioners has a positive effect on CSR disclosure.

The Effect of Independent Commissioners on CSR Disclosures

Independent Commissioners can put pressure on companies not only to integrate CSR into organizational policies but also to carry out CSR disclosures (Lone et al., 2016). Independent commissioners have a role to minimize conflicts between management and stakeholders (Ienciu, 2012). Social pressure from the community to the company to be in harmony with the community makes independent commissioners take into account the company's social obligations so that the company's reputation is maintained (as and Stanton, 1988). Independent Commissioners can have a positive effect on CSR disclosure (Lone et al., 2016; Muttakin & Subramaniam, 2015; Khan et al., 2013). The greater the percentage of independent commissioners will result in increased awareness of the community and legitimacy of the organization (Haniffa and Cooke 2005). Based on the description above, hypothesis 1b is formulated as follows:

H-1b : Independent Commissioners have a positive effect on CSR disclosure.

The Effects of Managerial Ownership on CSR Disclosures

Managerial ownership is the percentage of share ownership held by directors and commissioners in a company (Rachmad, 2012). With managerial ownership, company managers will disclose social information to improve the company's image, even though it must sacrifice resources for these activities (Gray and Maunders, 1988). The level of social information disclosure will be high when managerial ownership is high (Liu & Zhang, 2016). The mechanism of share ownership by managerial staff is expected to enable management to go hand in hand with the interests of shareholders so that the level of disclosure of information on corporate social responsibility will increase because shareholders and other stakeholders also need information about social activities carried out by the company with their respective objectives. This is reinforced by the research of Anggraini (2006) who found that managerial ownership has a positive effect on CSR disclosure because management has an interest in conducting productive activities so that the company's image increases. Based on the description above, the hypothesis is formulated as follows:

H-1c : Managerial ownership has a positive effect on CSR disclosure

The Effect of Profitability on CSR Disclosures

The relationship between profitability and CSR disclosure is based on legitimacy theory. Based on the legitimacy theory, it is said that the existence of the company will be supported when the company has the same value and is able to minimize the negative impact that the company produces. The company will express positive signals to external parties with the aim of reducing the information gap between management and external parties. Spence (1973); revealed that companies that have abundant resources tend to provide a lot of information to be received positively by recipients of information. Companies that have lots of resources tend to signal corporate governance and their performance through CSR disclosure (Muttakin et al., 2015). When a company benefits a company it will provide a lot of information about social aspects compared to when the company's performance is not good because when the company's performance is not good the company will prioritize economic demands rather than spending on social and environmental activities (Ebiringa et al. 2013). Management intentionally discloses information to external parties with certain objectives so that the overall performance of the company looks better than other

companies (Muttakin et al., 2015), to fulfill public expectations (Abeysekera, 2013), and to have the company's existence supported by society (Giannarakis , 2014). High levels of profitability make companies able to carry out expensive programs such as fulfilling social demands and carrying out social disclosures (Lu & Abeysekera, 2013). Based on the description above, the hypothesis is formulated as follows:

H-2 : Profitability has a positive effect on CSR disclosure

The Effect of the Board of Commissioners on Profitability

The full delegation of authority by the principal to the agent makes the principal unable to oversee all the actions of the manager / agent, so that the agent's decision is sometimes not in accordance with the wishes of the owner. Therefore, the presence of the board of commissioners is in charge and responsible for carrying out supervision and ensuring that the company has implemented good corporate governance. Van den Berghe and Levrau (2004) found that the greater the number of members of the board of commissioners, the greater the knowledge and expertise possessed than the small board of commissioners. Sulistyowati (2017) states that the greater the size of the board of commissioners will make supervision of the board of directors better, advice and more input so that management performance will be better and impact on the increase in the level of profitability of the company. Strict supervision makes management work harder and makes it possible for management to misuse company resources to be smaller (Martsila and Meiranto, 2013). Khan et al., 2013; Yasser & Seamer, 2017 found that board of commissioners had a positive effect on company performance as measured by profitability. Abor & Biekpe, 2007; found that the board of commissioners had a positive effect on the profitability of the company. Based on the description above, the hypothesis is arranged as follows:

H-3a : A Board of Commissioners has a positive effect on profitability.

The Effect of Independent Commissioners on Profitability

The existence of an independent commissioner is needed to encourage the implementation of Corporate Governance because of the demands of minority shareholders and the public so that the board of commissioners does not contain members who have a relationship with the majority shareholders so that the supervision of the board of directors is expected to be more objective (Kurniawan, 2012: 29). The independent commissioner is expected to be able to contribute expertise and objectivity in evaluating the director's decision. Brickley and James (1987) reveal that the presence of independent commissioners is believed to reduce management's opportunity to consume company resources for personal utility. Abor and Biekpe (2007) found that the greater the size of independent commissioners on the board of commissioners, the greater the profitability of the company. The presence of independent commissioners is believed to be able to help provide advice to companies based on expertise and experience gained outside the company both in the field of funding related to funding sources and the legal field to management (Abor and Biekpe, 2007). Based on the description above, the hypothesis is formulated as follows:

H-3b : Independent Commissioners have a positive effect on profitability.

The Effect of Managerial Ownership on Profitability

Jensen and Meckling (1976) stated that agency problems might occur when the manager of a company does not have 100% shares in the company it manages. Greater managerial ownership can make managers participate affected by the decisions they make, so with this they are expected to be more careful when making decisions (Martsila and Meiranto, 2013). The potential for conflict of interest occurs when management sells shares to other parties resulting in a decrease in managerial ownership, when that happens, managers may prefer to work a relaxed and reluctant work style for shareholders because they only get a small profit (Brigham and Houston, 2006: 26). Based on agency theory, it is said that managerial ownership can lead to better performance of the company due to reduced agency problems that occur between owners and management (Jensen and Meckling, 1976). Jaana and Niskanen (2012) found that the higher managerial ownership would increase the level of company profitability because managers were more interested in maintaining profits and avoiding risk. These results are reinforced by the findings of Martsila and Meiranto, 2013 which state that managerial ownership has a positive effect on profitability. Based on the description above, the hypothesis is formulated as follows:

H-3c : Managerial ownership has a positive effect on profitability.

The influence of the Board of Commissioners on disclosure of CSR through Profitability

The presence of the board of commissioners can influence a company's governance, operational efficiency, and disclosure of corporate CSR information (Liu and Zhang; 2016). Increasing public awareness of environmental and social aspects makes people begin to need information about social and environmental activities (Fariati and Segoro, 2013). The motivation to do company disclosures in Indonesia is to increase public trust in the company (Subiantoro and Mildawati, 2015). Therefore, with the authority of the board of commissioners, the board of commissioners can pressure the directors and manager staff to disclose CSR information. Subiantoro and Mildawati, 2015; Fariati & Segoro, 2013 found that the size of the board of commissioners affected CSR disclosure, the greater the size of the board of commissioners, the greater the level of CSR disclosure (Sadou et al. 2017; Lone, 2016; Susilo & Mildawati; 2015; Ale, 2014; Ghazali, 2012). Akantetapi Nur and Priantinah, 2012; found that the smaller the size of the board of commissioners, the better disclosure of corporate CSR, while Liu and Zhang 2016; Giannarakis,

2016; Said et. Al, 2009; Badjuri, 2011; produce results that the board of commissioners has no influence on disclosure of social responsibility.

The board of commissioners has a bias to protect minority shareholders, employees and stakeholders (Liu and Zhang, 2016). Therefore many things need to be considered by the board of commissioners before giving advice to the board of directors. The ability of the company to get a predicted profit can also influence the level of influence between the board of commissioners and social disclosure because the board of commissioners is certainly not only thinking about fulfilling the wishes of stakeholders for fulfilling CSR obligations but also thinking about fulfilling the welfare of even minority shareholders. Ebiringa et al. (2013) stated that when companies have good economic performance management will prioritize economic demands rather than spending on social activities. This is because the program related to social demands is an expensive program (Lu & Abeysekera, 2013) and there is a thought that fulfilling CSR is something that burdens the company which results in reduced profits for the company and owners / shareholders (Lako, 2010: 2) . This is reinforced by the results of the research by Tagesson et al., 2009 which found that there is a positive relationship between profitability and CSR disclosure, with the ability to get a profit a company will be able to pay the costs of disclosing CSR. Based on the description above, the hypothesis is formulated as follows:

H- 4a : Board of Commissioners has a positive effect on CSR disclosure through profitability.

The influence of the Independent Commissioner on disclosure of CSR through Profitability

The presence of independent commissioners plays an important role in improving the image of the company and has a role in ensuring that the company is well managed by its management. Independent Commissioners can put pressure on companies not only to integrate CSR in organizational policies but also in carrying out CSR disclosures (Lone et al., 2016). This is reinforced by the results of research conducted by Muttakin & Subramaniam, 2015; Sheikh et al., 2013; who found that the greater the percentage of independent commissioners on the board of commissioners would increase CSR disclosure. But Azhar, 2014; found that independent commissioners had a negative influence on CSR disclosure, while in the research conducted by Liu and Zhang, 2017; Subiantoro & Mildawati; 2015; Esa and Ghazali, 2012; Said et, al. 2009; found that there was no relationship between independent directors and the level of CSR disclosure. Haniffa and Cooke, 2002 stated that agents have a tendency to make voluntary disclosures when there are adequate incentives. A profitable company has a tendency to make a positive signal by carrying out CSR disclosure with the aim of getting a positive impression that differentiates it from other companies (Muttakin & Subramaniam, 2015;). Company profitability is influenced by the size of independent directors (Abor and Biekpe, 2007; Martsila and Meiranto, 2013). On the other hand, the pressure to behave socially and care for the environment makes the independent directors feel the need to implement a corporate social responsibility program so that the company is legitimized and conducts CSR disclosures so that the company's reputation is maintained (Muttakin & Subramaniam, 2015). Based on the description above, the hypothesis is formulated as follows:

H- 4b : Independent Commissioners have a positive effect on CSR disclosure through profitability.

The Effect of Managerial Ownership on CSR disclosure through profitability

Increasing community demands for better implementation of social responsibility made the company readjust the company's performance index by interpreting society and the environment as the goal of the business (Ebiringa, 2013). Disclosure of CSR is considered important to communicate what social and environmental activities have been carried out by the company. Therefore management will disclose social information to improve the image of the company, even though it must sacrifice resources for these activities (Gray and Maunders, 1988). Large managerial ownership will encourage management to fulfill corporate social responsibility. However, Dewi and Priyadi (2013) concluded that managerial ownership has a negative direction. This is reinforced by the results of the study of Sheikh et al. (2013) which found that managerial ownership has a negative effect on CSR activities because management feels that the cost of carrying out CSR exceeds benefits so that the level of CSR reports is also lower. Said et al. (2009) who found that managerial share ownership had no effect on CSR disclosure. Good economic performance allows companies to be able to carry out expensive programs related to social demands so that companies with high profits are found to more quickly solve the social and environmental problems they face (Lu and Abeyskra, 2013). In addition, large and successful companies have more resources so that they are able to commit to CSR so that they voluntarily disclose their activities to send positive signals to the market as superior players (Muttakin, 2014). Tagesson et al. (2009) found that there was a positive relationship between profitability and disclosure because with high profits the company would be able to pay the costs for CSR disclosure. Profitability is influenced by managerial ownership. The higher managerial ownership will increase the level of profitability of the company because managers are more interested in maintaining profits and avoiding risk (Jaana and Niskanen, 2012) and making managers more careful when making decisions (Martsila and Meiranto, 2013). Based on the description, the hypothesis is arranged as follows:

H- 4c : Managerial ownership has a positive effect on CSR disclosure through profitability.

METHODOLOGY

The population in this study are all Manufacturing Industry Companies that have been listed on the Indonesia Stock Exchange (IDX) in 2014-2017. The sampling method uses a purposive sampling method, the sampling criteria are as follows:

Table 1: Sample Selection Criteria

No.	Criteria	Total
1.	Manufacturing companies listed on the Indonesia Stock Exchange in 2014-2017.	146
2.	Manufacturing companies that are not listed consistently starting from 2014-2017.	(4)
3.	Manufacturing companies that use currencies other than rupiah (US $).	(27)
4.	Manufacturing companies that do not publish company annual reports consistently from 2014 - 2017 (annual report).	(18)
5.	Manufacturing companies that do not have managerial share ownership.	(59)
6.	Manufacturing companies that do not have independent commissioners	(2)
	Manufacturing companies selected as samples	34
	Total company observed = (35x4)	136

Source: Data processed

Independent Variable (X)
The independent variable in this study is Corporate Governance. Corporate Governance is a process and structure that is used to run the company so that the main goal of the company is to increase shareholder value in the long run and while still paying attention to other stakeholders achieved (IIGC). Corporate Governance is also a set of relationships between company management (board of directors, board of commissioners, managers), shareholders, and other stakeholders (OECD). In Corporate Governance there is an internal mechanism whose presence is needed to accommodate the interests of various parties well, the internal mechanism is an indispensable element and helps manage the organization (Linda & Febriyanti, 2010) which consists of several elements such as: board of commissioners, independent commissioners, and ownership managerial shares.

A board of Commissioners
The board of commissioners is an organ of a company that has duties and is responsible for overseeing and providing advice to directors and checking whether the company has carried out management activities properly (IAI, 2015: 128). Board of commissioners is measured by summing all commissioners in a company (Said et al., 2009; Esa et al., 2012; Lone et al., 2016; Giannarakis, 2014; Faranti & Segoro, 2016; Sulistyowati & Fidiana, 2017).

Independent Commissioner
An independent commissioner is a commissioner who is not a member of the company's management, who does not have good relations with the majority shareholders, directors, or other commissioners (Surya & Yustiavandana, 2008). Independent commissioners are measured by dividing the overall number of independent commissioners with the overall number of commissioners in the company (Habbash, 2016; Esa et al., 2012; Lone, et al., 2016; Liu & Zhang, 2016; Giannarakis, 2014).

Managerial ownership
Managerial ownership is the percentage of share ownership held by directors and commissioners in a company (Rachmad, 2012). Managerial share ownership is done with the aim of (Bigham & Houston, 2006: 27): attracting and retaining capable managers and aligning management actions with shareholders. Managerial ownership is measured by dividing the number of shares held by management with the total shares outstanding (Liu & Zhang, 2016; Said et al., 2009).

Variable Intervening (I)
The intervening variable in this study is profitability. Profitability is a ratio that reflects the ability of a company to generate profits either by using assets or shares owned by the company (Rofiqkoh & Priyadi, 2016). Profitability can be measured by the Return on Assets Ratio (Muttakin & Khan, 2015; Sadou et al., 2017; Yasser et al., 2017), the formula for calculating ROA is as follows:

$$ROA = \frac{Earningaftertaxes}{TotalAssets} x100\%$$

Dependent Variable (Y)

The dependent variable in this study is CSR disclosure. Disclosure of CSR is a dialogue between companies and stakeholders who have an interest in social and environmental activities of the company, which is done to show the fulfillment of social responsibility that has been done by the company to stakeholders (Lu & Abeysekera, 2014). CSR disclosure is measured by summing all categories of socially responsible items according to the GRI G4 guidelines. Score 1 is given to companies that disclose all indicators in each category of disclosure items and if the company does not make full disclosures the amount of the score is given by dividing value 1 by the number of indicators in each aspect of disclosure. The total score for the disclosure of CSR for each company is obtained by summing all items of disclosure of social responsibility in accordance with the GRI G4 Formula guidelines for calculating CSRD as follows:

$$\text{CSRD} = \frac{\text{TotalItemyangDiungkapkanPerusahaan}}{\text{TotalItemyangdiharapkan}}$$

Data analysis method

In this study the data analysis method was done by simple and multiple linear regression methods to know the direct influence between the independent variables and the dependent variable, while the influence between the dependent and independent variables indirectly / through the intervening variables was seen using the sobel test. The following is a step-by-step to see the significance of direct and indirect influences:

a. The Effect of Corporate Governance on CSR disclosure. Y = α + βX1 X1 + βX2 X2 + βX3 X3 + e …………… (1)

Noted:

α = Constanta
X2 = Independent Commissioner
Y = CSRI
X1 = A board of Commissioners
X3 = Managerial ownership
e = Error

b. The Effect of profitability on CSR disclosure.

Y = α + βX1 X1 + e …………… (2)

Noted:

α = Constanta
Y = CSRI
X1 = Profitability
e = Error

c. The Effect of Corporate Governance on profitability. Y = α + βX1 X1 + βX2 X2 + βX3 X3 + e …………… (3)

Noted:

α = Constanta
X2 = Independent Commissioner
Y = Profitability
X1 = A board of Commissioners
X3 = Managerial ownership
e = Error

d. The Effect of Corporate Governance and profitability on CSR disclosure. Y = α + βX1 X1 + βX2 X2 + βX3 X3 + βX4 X4 + e …………… (4)

Noted:

α = Constanta
X3 = Managerial ownership
Y = Profitability
X1 = A board of Commissioners
X4 = Profitability
e = Error
X2 = Independent Commissioner

Indirect effects with the sobel test are seen by entering the results of the unstandardized Coefficients (beta) and standard errors resulting from the testing of the same regression equation 3 (the effect of profitability on CSR disclosure) and equation 2 (the effect of Corporate Governace on profitability) into the formula to see significance indirect influence.

$$\text{T-count}= \frac{ab}{\sqrt{b2sa2+a2sb2+sa2sb2}}$$

b. T-count > nilai t table (1,96), it can be concluded that there is an influence of mediation.

RESULTS

The descriptive statistical testing is done to obtain an overview of the characteristics of the data distribution of each variable studied. Data distribution characteristics can be seen from the minimum value, maximum value, average value, and standard deviation magnitude. Based on the results of the descriptive statistical tests that have been done, the following results are obtained:

Table 2: Descriptive Statistics Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
A board of Commissioners	136	2.00	12.00	3.7647	1.91770
Independent Commissioner	136	0.33	0.75	0.3913	0.08839
Managerial ownership	136	0.01	83.95	11.7960	19.16307
Profitability	136	-9.71	26.40	3.9012	5.44826
CSR Disclosures	136	1.75	22.04	12.1866	4.10105

Source: Data processed

The analysis used to test the hypothesis that has been proposed is using simple and multiple linear regression. From the results of multiple linear regression it will be produced unstandardized beta coefficient values that can be used for the direction of the influence of relationships between variables, significance values which can later be used as a basis for acceptance / rejection of the hypothesis. Because the hypothesis in this study has been determined / one tail, the significance value is divided into two. Meanwhile, to see the significance of indirect effects can be used unstandardized Coefficients (beta) and standard errors as a result of testing the 3 and 2 equation into the formula provided.

Table 3: The Results of Direct Effect Hypothesis Testing

Equation	Variables	Beta	Std. Error	Sig
Equation 1 (Effect of Corporate Governance on CSR Disclosures)	A board of Commissioners	0.894	0.175	0.000
	Independent Commissioner	-2.104	3.777	0.578
	Managerial ownership	0.156	0.128	0.228
Equation 2 (Effect of Pofitability on CSR Disclosures)	Profitability	0.420	0.054	0.000
Equation 3 (Effect of Corporate Governance on Pofitability)	A board of Commissioners	0.532	0.249	0.034
	Independent Commissioner	-2.227	5.368	0.679
	Managerial ownership	0.313	0.183	0.088
Equation 4 (Effect of Corporate Governance on	A board of Commissioners	0.692	0.150	0.000

Pofitability)	Independent Commissioner	-1.258	3.193	0.694
	Managerial ownership	0.036	0.110	0.740
	Profitability	0.380	0.052	0.000

DISCUSSION

The Effect of Independent Commissioners on CSR Disclosures

The board of commissioners influences the sustainability report. The test results show that hypothesis 1a states that the board of commissioners has a positive effect on CSR disclosure received. This result supports agency theory that explains the relationship that occurs between the principal and the agent. In relation to CSR disclosure obligations that act as agents are management while those acting as principals are stakeholders in general including the public, potential investors, environmentalists, and others. Inequality of information / information asymmetry makes management have an obligation to disclose information needed by stakeholders. In terms of legitimacy theory also states that the existence of the company will be supported by the community when there is a match between the value between the company and the community and there is no interference or serious impact from the company on the community. To get support from stakeholders, the company needs to carry out various strategies by not only focusing on the company's goal to generate profits, but also to be balanced by carrying out CSR to carry out CSR disclosures. Because by disclosing CSR, stakeholders can find out what activities have been carried out by the company so that the company's image will increase. The results of the study are in line with the findings of Esa & Ghazali (2012) who found that board size positively and significantly affected the level of CSR disclosure because the larger the size of the board of commissioners led to a diversity of experiences, diversity of knowledge, and diversity of skills which would influence discussion and exchange livelier ideas about social activities, good involvement in social activities and ultimately on CSR disclosure in annual reports. Meanwhile Subiantoro and Mildawati (2015) also found that the greater the size of the board of commissioners also play a role in increasing the magnitude of supervision and play a role in increasing pressure on management to increase CSR disclosure.

The Effect of Independent Commissioners on CSR Disclosures

Independent Commissioners have no effect on CSR disclosure. The test results show that Hypothesis 1b states that independent commissioners have a positive effect on the disclosure of CSR rejected. This is because the proportion of independent commissioners in the board of commissioners of companies in Indonesia is still very small, although the average percentage of independent commissioners in the overall sample is 0.39%, but 59% of the companies (80 out of 136 samples) are found to have only 1 commissioner independent in the board of commissioners or around 33.3% of minimum composition requirements of 30% (KNKG). Independent Commissioners cannot increase CSR disclosure because the role of independent commissioners in influencing disclosure of CSR is very weak and the function of independent commissioner supervision in companies is also limited (Liu and Zhang, 2017). The low proportion of independent commissioners influences the quality of supervision by independent commissioners on management (Nugroho and Yulianto, 2015). Meanwhile, Muntoro (2006) states that a number of independent commissioners who are comparable to company commissioners are needed to avoid losing debates and decision-making based on voting (Muntoro, 2006). Nussy (2010) also found that independent commissioners had no effect on CSR disclosure because: a) it was possible that the board of directors did not provide much information to the commissioners, b) less effective selection and appointment mechanisms that had an impact on the lack of independence in carrying out supervisory functions which ultimately had an impact on the ability of independent commissioners to influence the board of commissioners' decisions regarding CSR disclosure. Whereas Susilo and Mildawati (2015), and Djuitaningsih and Marsyah (2012) found that; Independent commissioners have no effect on CSR disclosure because independent commissioners are not involved in the company's daily activities so they do not influence the decision-making process.

The Effects of Managerial Ownership on CSR Disclosures

Managerial ownership does not affect CSR disclosure. The test results show that Hypothesis 1c which states that managerial ownership has a positive effect on disclosure of CSR is rejected. This is because the average managerial ownership in the sample companies is very small at 73.5% of the sample companies (100 of 136 companies) have managerial ownership below the average of 11.8%. This makes the management objectives less aligned with the objectives of the company owner. In addition, management was found to be more focused on increasing the value of the company by increasing economic performance rather than making CSR disclosures (Rahman and Widyasari, 2008; Trisnawati, 2014). Indonesian companies were found to be inclined to ignore and be a little wary when making CSR reports because (Gunawan, 2015): a) companies are not sure about the benefits of CSR disclosure and feel reluctant to do CSR disclosures if there is an increase in disclosure costs, b) some companies argue that "serving community "and" giving a contribution "is enough to show corporate social responsibility. Rustiarini (2009) concluded that the small percentage of managerial ownership made the relationship between owners and managers of the company not yet aligned, managers could not maximize the value of the company by conducting CSR disclosures. Meanwhile, the costs for disclosure are not cheap so management does not rely on CSR disclosure information in making decisions (Ghozali, 2007). On the other hand, company management only conducts CSR disclosures for the first time because insiders / management can easily obtain information about the company's CSR activities regardless of CSR disclosures in the company's annual report (Subiantoro and Mildawati 2015).

The Effect of Profitability on CSR Disclosures

Profitability influences CSR disclosure. Hypothesis 2 which states that profitability is positively related to CSR disclosure accepted. These results support the legitimacy theory of companies that have high profitability which appear more credible and can be faster to solve the social and environmental problems they face (Cormier and Magnan, 1999). The greater the company's ability to gain profits will make management have the freedom to integrate social programs and CSR utilization to show the company's positive contribution and impression (Giannarakis, 2014). High levels of profitability companies can do expensive programs related to social activities such as conducting CSR activities and paying fees to report CSR activities. Ebiriga et al., (2013). there is a positive and significant relationship between profitability and disclosure of corporate CSR because companies that have poor performance will prioritize economic demands rather than do social and environmental responsibility. Conversely, when a company has good financial capabilities the company will reveal more information to meet the needs of various corporate stakeholders. As Lu & Abeysekera (2013) stated that when companies have good financial capacity, companies can do expensive programs related to social demands. Meanwhile Tagesson et al. (2009) found that companies would be able to pay for disclosure costs when supported by profitability.

The Effect of the Board of Commissioners on Profitability

The board of commissioners has an effect on profitability. The test results show that the hypothesis Hypothesis 3a suggests that the board of commissioners has a positive effect on acceptable profitability. These results support agency theory which states that the separation between management and ownership of the company has the opportunity to cause agency problems between the owner of the company / shareholders and the management of the company. Therefore a mechanism is needed to oversee corporate management practices carried out by management. The board of commissioners is the highest organ in the internal mechanism whose presence is expected to be a mediator and agency problem solver in an organization. The results of the study are in line with Martsila and Meiranto (2013) who find that the board of commissioners positively influences financial performance as measured by ROA because the larger number of board members can tighten supervision of management so that the possibility of fraud against company resources can be minimized, broadening the knowledge of the commissioner regarding the industrial climate and the condition of the company so that later results will be found in the form of better advice to management. Meanwhile Yasser, Mamun, Seamer (2017) also found that the larger members of the board of commissioners made it possible to increase expertise, access to resources, and experience that had an impact on improving performance.

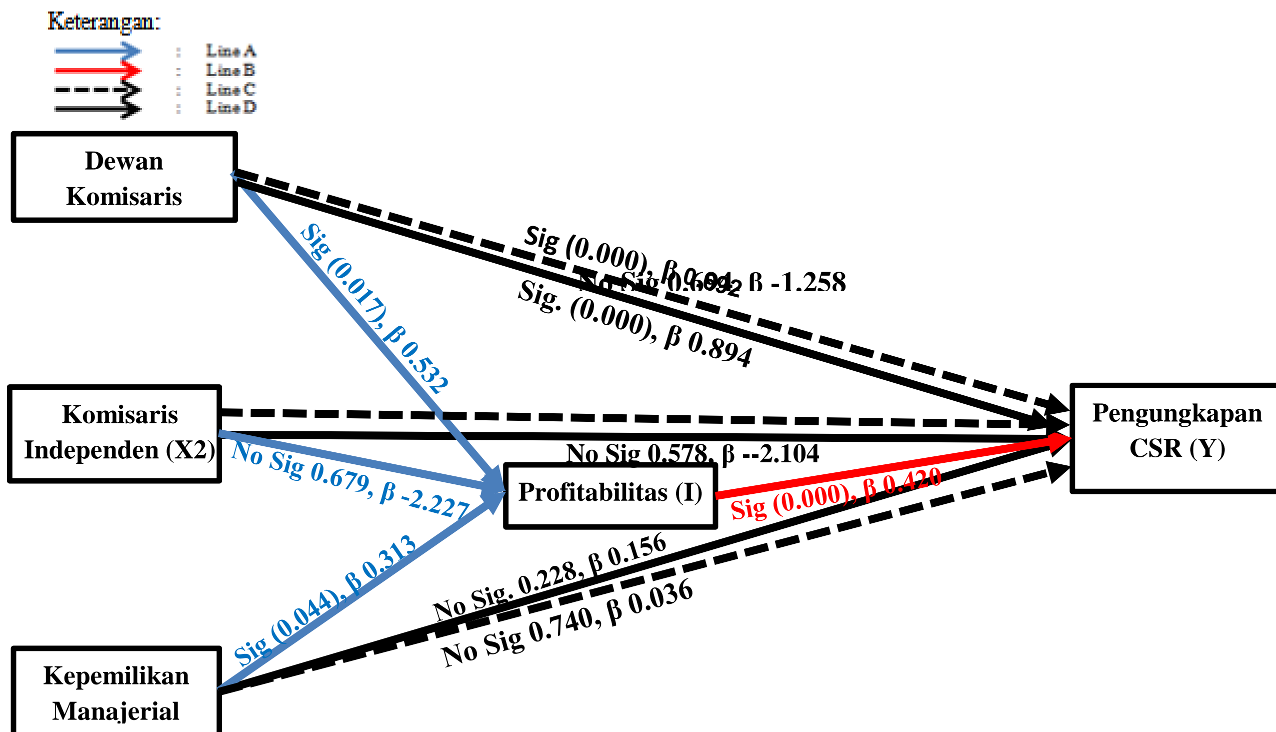
The Effect of Independent Commissioners on Profitability

Independent Commissioners have no effect on CSR disclosure. The test results show that Hypothesis 3b states that independent commissioners have a positive effect on rejected profitability. This is because the proportion of independent commissioners in the board of commissioners of companies in Indonesia is still very small, although the average percentage of independent commissioners in the overall sample is 0.39%. Most of the samples or 59% of the sample (80 out of 136 samples) were found to have only 1 independent commissioner in the board of commissioners or equal to 0.33%, while under the regulations in the company KNKG in the form of limited liability companies required to have a minimum proportion of independent commissioners to the board of commissioners is 0.30%. Thus, it is not surprising that the supervisory and advisory function of management is not independent because it is predicted that there may be an independent commissioner when voting decision making with the company's commissioner (Noviawan, 2013). Independent commissioners cannot increase the level of profitability of the company because they still cannot function independently in supervising management (Rimardhani, Hidayat, and Dwiatmanto, 2016) and are still founders in holding an important role in a company (Dervish, 2009). A large number of companies in Asia, including in Indonesia, are owned and controlled by families even though the company has become a public company, so this is not surprising if information disclosure for making a decision is also lacking (Surya and Yustiavandana, 2008: 3). Boediono (2005), states that the magnitude of the control of the company's founder and majority share ownership makes the role of the board of commissioners not independent and supervisory activities to be less effective. In addition, the adoption of the two board system management system in Indonesia also has the disadvantage of not having direct access for the board of commissioners, especially independent commissioners to access company information independently but must rely on the information provided by the board of directors (IAI; 82).

The Effect of Managerial Ownership on Profitability

The board of commissioners has an effect on profitability. The test results show that the hypothesis Hypothesis 3c suggests that managerial ownership has a positive effect on accepted profitability. This result supports agency theory which states that there is a contractual relationship between the principal / company owner and the agent / management. When a dikeola company is certain there is a difference in desire between the principal's and agent's wishes. Principals want to get a refund on the funds they invest, as well as the managers who want to get a bonus for the business they have been doing so far on behalf of the owner of the company. This agency problem can be reduced by a managerial ownership mechanism. High managerial ownership is believed to be used to align management interests with shareholders so that agency conflicts that usually arise can be minimized (Jensen and Meckling, 1976). The results of this study are also supported by research conducted by Intan Candradewi and Sedana (2016) who found that the greater the proportion of managerial ownership will make management indirectly act as the owner of the company so that management will act with caution so as not to harm the company thus increases the company's performance as measured by ROA. And reinforced by Martsila and Meiranto (2013) who concluded that the greater managerial ownership, management also feels ownership of the company so that management will make careful decisions (tend to develop strategies to improve performance in the long term) considering they will be affected by decisions that they take.

Picture1. Influence Testing Path Diagram Is Not Available



The Effect on the Board of Commissioners on CSR Disclosure Through Profitability
The 8th hypothesis which states that the board of commissioners has a positive effect on CSR disclosure through accepted profitability. Baron and Kenny (1886) state that the condition of a variable can mediate the influence between variables x and y is if there is a significant effect between the x variable and the mediating variable (line a), and there is a significant influence between the mediating variable and the y variable (line b).

Based on the picture above it is known that both lines a and b both have significant results. In Figure 1 above it is known that both lines c and d are equally significant, but it can be seen that the regression coefficient value of c is lower than path d so that the profitability variable can be assumed to act as a partial mediation variable (Baron and Kenny, 1886) To find out whether the profitability variable has a significant partial mediation effect, a sobel test is performed.

Table 4. Sobel Hypothesis 4a Results

Variable	Value z	T table
The influence of the board of commissioners on CSR disclosure through profitability	2.0446	1.96

Based on Table 4 above it is known that the value of z (2.0446)> T table (1.96) so that hypothesis 4a states that the board of commissioners has a positive effect on CSR disclosure through accepted profitability. The presence of the board of commissioners was found to have a positive and significant effect on the profitability and disclosure of CSR directly and indirectly. So that it can be concluded that the profitability variable can act as a variable that mediates the relationship between the board variables of the commission and partial disclosure of CSR.

The presence of the board of commissioners was found to have a positive and significant effect on the profitability and disclosure of CSR directly or indirectly. This mediation / interening relationship signifies that the company does not have to have the ability to earn profits in a certain period / good profitability so that the board of commissioners discloses CSR. However, with the increasing ability of companies to gain profits, management will have the freedom to integrate social programs and avoid CSR to show the company's positive contributions and impressions (Giannarakis, 2014).

The results of this study support the stakeholder theory which states that the success and life of the death of the company is influenced by the success of the company in balancing the interests of the stakeholders around it (Lako, 2011: 5). The company's

ability to earn profits can also influence the level of influence between the board of commissioners and social disclosure because the board of commissioners is certainly not only thinking about fulfilling the wishes of stakeholders for fulfilling CSR obligations but also thinking about fulfilling the welfare of even minority shareholders. The board of commissioners plays a role in providing oversight and advice on organizational activities so that management does not only focus on seeking profit for shareholders but is also committed to CSR activities, starting from conducting CSR activities to disclosing CSR activities in the interest of stakeholders. As Wahyudi and Azhari (2011: 135) state that company success is not only based on profit aspects but also based on social and environmental aspects because if the company only emphasizes on one aspect, the company will accept resistance from various parties so that the company will not be able to move in a continuous manner.

The Effect of the Independent Commissioner on CSR Disclosure Through Profitability

4b hypothesis which states that independent commissioners have a positive effect on CSR disclosure through rejected profitability. Based on Figure 1 above, it is known that full mediation variables according to Baron and Kenny (1886) are not fulfilled because the influence between independent commissioners and profitability (path a) is not significant. To prove again the presence or absence of the influence of the median, in table 5.10 a repeat test was performed using the sobel test.

Table 5. Sobel Hipotesis 4b Results

Variable	Value z	T table
The influence of the board of commissioners on CSR disclosure through profitability	-0.41090418	1.96

Based on Table 5 above it is known that the value of t count (-0.41) <T table (1.96) so that hypothesis 4b which states that independent commissioners have a positive effect on CSR disclosure through profitability is again rejected. The results of this study do not support stakeholder theory, Greenly and Foxal (1998) state that companies cannot be separated from stakeholders and their carrying capacity towards the company's economic and social performance. This mediating / intervening relationship indicates that independent commissioners do not influence the profitability of the company and do not increase CSR disclosure even though the company has good profitability. The presence of independent commissioners was found not to increase objectivity in supervising and giving advice to management to carry out CSR disclosures. This is possible because the proportion of independent commissioners (the number of independent commissioners to the board of commissioners) is very low (only above the maximum provision of the proportion of independent commissioners according to KNKG). The low proportion of independent commissioners has an impact on the suspicion of often losing votes when voting in decisions with commissioners affiliated in the company, lacking influence on the company, constrained in receiving information, and absent in the company's daily activities.

The Effect of Managerial Ownership on CSR disclosure through profitability

Based on Figure 1 above it is known that both lines a and b both have significant results. Whereas it is known that both lines c and d are equally insignificant, but it can be seen that the path c regression coefficient is lower than path d so that the profitability variable can therefore act as a partial mediation variable (Baron and Kenny, 1886). To find out whether the profitability variable has a significant partial mediation effect, a sobel test is performed.

Table 6. Sobel 4c Results

Variable	**Value z**	**T table**
Effect of managerial ownership on CSR disclosure through profitability	1.657452134	1.96

Based on Table 6 above it is known that the value of t count (1.657452134) <T table (1,660) so that hypothesis 4c which states that managerial ownership has a positive effect on CSR disclosure through profitability is rejected. This mediating / intervening relationship indicates that profitability does not cause management to increase CSR disclosure.

Professional variables cannot act as mediating variables because the effect of CSR disclosure variables indirectly by adding mediation variables in the form of profitability produces regression coefficients which are almost the same as the regression coefficient results on the effect of managerial ownership on direct CSR disclosure. This is because the percentage of managerial ownership of the manufacturing industry is small so that the alignment of objectives between management and small stakeholders. Management tends to focus on increasing the value of the company by increasing economic performance so management tends to ignore and be a little wary when making CSR reports because (Gunawan, 2015): companies are less confident about the benefits of doing CSR disclosures while the costs of disclosure are not cheap.

The results of this study do not support stakeholder theory, Greenly and Foxal (1998) state that companies cannot be separated from stakeholders and their carrying capacity towards the company's economic and social performance. The managerial

ownership mechanism turns out to be unable to improve the image of the company through commitment to social activities and disclosing social information because management is too focused on the company's financial performance and is doubtful about the benefits generated by disclosing CSR.

CONCLUSION

Based on the results of research and discussions that have been conducted on the effect of Corporate Governance on CSR disclosure both directly and indirectly in manufacturing industry companies that have been listed on the Indonesia Stock Exchange (IDX) in 2014-2017 that:
1. The number of board members and profitability can increase CSR disclosure, while independent commissioners and managerial ownership cannot increase CSR disclosure. Independent commissioners cannot increase CSR disclosure because the role of independent commissioners in influencing disclosure of CSR is very weak and the independent supervisory function in the company is also limited (Liu and Zhang, 2017), while managerial ownership cannot increase CSR disclosure because management focuses more on economic performance for increasing the value of the company which is considered more profitable than fulfilling CSR activities (Rahman and Widyasari, 2008; Trisnawati, 2014).
2. The number of board members and managerial ownership can increase the company's profitability, while independent commissioners cannot increase the level of profitability of the company. Independent commissioners cannot increase the level of profitability of the company because they still cannot function independently in supervising management (Rimardhani, Hidayat, and Dwiatmanto, 2016) and are still founders in holding an important role in a company (Dervish, 2009).
3. The impact of Corporate Governance on increasing CSR disclosure through profitability leads to different conclusions. Where the profitability variable can bridge the impact of the board of commissioners on increasing CSR disclosure, while the presence of profitability variables does not play a role in bridging the impact of independent commissioners and managerial ownership on increasing CSR disclosure. Profitability variables do not bridge the impact of independent commissioners on increasing CSR disclosure because independent commissioners have a low proportion and limited authority to manufacturing industry companies in Indonesia. Meanwhile the profitability variable does not bridge the impact of managerial ownership on increasing CSR disclosure because management is too focused on the company's financial performance and is doubtful about the benefits generated by disclosing CSR.

LIMITATION

The limitation in this study is that most manufacturing industry companies only carry out CSR disclosures in general / less detailed annual reports so that researchers must open a web or other news sites in the hope of obtaining additional information on detailed CSR disclosures from a sample company. Based on the limitations above, the next researcher is advised to look for samples in the form of companies that carry out CSR disclosures based on applicable standards or in accordance with standards issued by the Global Reporting Initiative. This is done in order to reduce the subjectivity of the researcher in giving an assessment of the social disclosure activities carried out by the company.

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