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Independent board of commissioners moderates CSR disclosure relationship on financial performance

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ABSTRACT

Providing empirical evidence of the role of independent commissioners on the relationship between CSR disclosure and financial performance is the aim of this study. Companies listed on the Indonesian stock exchange are used as the population, but for the sample only companies in the agricultural sector. The sample was obtained using the purposive sampling method, the year of observation was from 2019 to 2021, so that 60 observational data were obtained. The data processing uses Warp PLS version 7.0. The research findings provide evidence that CSR disclosure and independent board of commissioners have an influence on the company's financial performance, besides that the independent board of commissioners also moderates the relationship of CSR disclosure on financial performance. The implication of this research is the importance of the role of independent commissioners in moderating the relationship of CSR disclosure on the company's financial performance.

Keywords: *CSR disclosure; independent board of commissioners; financial performance.*

INTRODUCTION

Investor confidence in the stock market has shown a decline, this can be seen in the phenomenon of the weakening of the Composite Stock Price Index (JCI) in the agricultural sector to reach 6.86% at the beginning of the current year 2020. This phenomenon is caused by the impact of the corona virus disaster which causes high uncertainty (business.com, 17/2/2020). This information shows that the company's performance has an influence on investors' decisions when investing. Therefore, companies should be able to continue to maintain their company's performance, by showing disclosure of company performance, both financial performance and non-financial performance. Financial performance can be influenced by several factors.

One of the factors that influence the financial performance is CSR disclosure, which is a form of concern from the company towards its stakeholders. CSR disclosure activities carried out by the company aim to show the company's care to stakeholders so that it will give a positive signal to the company and will improve the company's performance. This is in accordance with the research findings of Singh and Chakraborty (2021), (Permatasari and Widianingsih, 2020), Utomo, et. al. (2020a), Utomo, et. al. (2020b), and (Naek & Tjun, 2020), which state that CSR disclosure has an effect on financial performance. However, these findings are different from Wulandari, et al. (2016) and Angelia and Suryaningsih (2015) which state that financial performance is not influenced by CSR disclosure.

In addition to CSR disclosure, there are other factors that can affect financial performance and strengthen the influence of CSR disclosure on the company's financial performance, namely the independent board of commissioners. The independent board of commissioners is one part of the good corporate governance mechanism. According to Machmuddah, et al. (2017) on the basis of the OECD (2004) that good corporate governance is implemented through CSR activities, because the principle of good corporate governance is the recognition of the rights of stakeholders which are legally determined or based on mutual agreement so that the company's long-term survival is achieved.

There are two mechanisms in good corporate governance, namely internal mechanisms and external mechanisms. Internal mechanism is a form of control in the company that uses the structure and general meeting of shareholders (GMS, composition of the board of directors and board of commissioners). Meanwhile, external mechanisms are ways to exert influence other than internal mechanisms such as company control and market control. The company hopes that through this control, it can have a good impact on the wider community and be able to generate satisfactory profits for investors.

Good corporate governance is used to see whether it plays a role in improving the company's financial performance and can moderate CSR disclosure on financial performance. The independent board of commissioners has a role to oversee the work of the board of directors, so that if the independent board of commissioners works optimally, it can affect the company's financial performance due to the tight supervision carried out by the independent board of commissioners. This argument is strengthened by the findings of Intia and Azizah (2021) and Hidayat and Utama (2015) which state that independent commissioners have an effect on financial performance. However, the findings of Octosiva, et al. (2020) and Nathania (2014) provide different findings, namely financial performance is not influenced by independent commissioners.

In addition, the independent board of commissioners also has a moderating role in the relationship between CSR disclosure and financial performance. The optimal supervisory role of the independent board of commissioners can strengthen the relationship of CSR disclosure, where CSR disclosure is carried out by the board of directors so that it will have an impact on financial performance. This is in accordance with the findings (Naek and Tjun, 2017) which show that good corporate governance can moderate CSR disclosure on financial performance by 18.8%. In addition, the findings (Permatasari and Widianingsih, 2020) and (Lesmana, et al. 2016) state that good corporate governance projected by an independent board of commissioners is the only one capable of moderating CSR disclosure on financial performance.

Based on the different phenomena and findings, it is used as the basis that this research is still worthy of being re-examined. So the research questions are: 1) does CSR disclosure affect financial performance, 2) does independent board of commissioners affect financial performance?, 3) does independent board of commissioners moderate the effect of CSR disclosure on financial performance?

LITERATURE REVIEW

Legitimacy theory rests on the idea that there is a social contract between the organization in question and the society in which it operates. The social contract is not easy to define, but the concept is used to represent many of the implicit and explicit expectations that society has about how organizations should conduct their operations. This means that legitimacy theory asserts that organizations continue to strive to ensure that organizations are considered to operate within the boundaries and norms of their respective societies. This is in accordance with Dowling and Pfeffer (1975) which states that organizations seek to create harmony between the social values inherent in their activities and behavioral norms that exist in the social system of society where the organization is part of the system. As long as the two value systems are aligned, we can see this as the legitimacy of the company. When actual or potential dissonance occurs between the two value systems, there will be a threat to the legitimacy of the company.

The description of the owner of the information explaining the condition of the company which will later be used for the recipient (investor) was first disclosed by Spence (1973). According to Brigham and Houston (2011) this signal theory will affect investors' decisions about the company, the signal in the form of this information will bring changes to the company in accordance with the wishes of the owner, the information in question is the condition of the company in the form of financial or not. Financial information that can describe the condition of the company can be in the form of financial statements in which there is information that describes the condition of the company from the ratios presented in the financial statements, while one of the non-financial information is CSR disclosure which is usually disclosed in the company's annual report. This information is called an important indicator for investors in making decisions.

Stakeholder theory according to Ghozali and Chariri (2007) is that the company is not centered to meet the company's own interests, but also has an impact on all stakeholders. The company will not be separated from stakeholders because stakeholders have an influence either directly or indirectly on the existence of the organization. This theory aims to help companies increase value and minimize negative impacts on the company. Stakeholder theory can illustrate that companies must maintain the good name of the company and relationships with its stakeholders by meeting the needs of stakeholders (Ghozali and Chariri, 2007). One of the ways to maintain relationships with the implementation of CSR disclosure is that it is hoped that the wishes of stakeholders can be fulfilled and strengthen the relationship between the company and stakeholders on an ongoing basis into the future.

Disclosure is one of the company's strategies to get the attention of stakeholders, so this will give a reaction to the stakeholders on the company's performance. One type of disclosure that is able to provide a reaction to stakeholders is CSR disclosure. This means that the more CSR disclosures made by the company show evidence of the company's concern for stakeholders so that it will give a positive signal to stakeholders and is expected to be able to improve company performance. In addition, this will also strengthen the company's legitimacy in society. The arguments and theoretical support are strengthened by the research findings of Singh and Chakraborty (2021), (Permatasari and Widianingsih, 2020), Utomo, et. al. (2020)a, Utomo, et. al. (2020)b, Putu, et al. (2017), and (Naek & Tjun, 2017), which state that CSR disclosure has an effect on financial performance. So the first hypothesis is:
H_1: CSR disclosure has an effect on financial performance

Good corporate governance can provide a high level of trust for investors, this is a positive signal built by the company because they believe that good corporate governance can provide high returns for their

investments. An independent board of commissioners is one of the mechanisms contained in good corporate governance. The independent board of commissioners is a board from outside the company and has no relationship with the company is expected to be able to provide non-subjective input for the sustainability of the company, besides that the independent board of commissioners is an independent party that has no interest in the company, so that it can protect the interests of minority shares, thus it is expected an independent board of commissioners can oversee the running of the company properly so that in the end it can improve the company's performance. This is in accordance with research findings from Intia and Azizah (2021) and Hidayat and Utama (2015) which state that independent commissioners have an effect on financial performance. Then the second hypothesis is:
H_2: Independent commissioners have an effect on financial performance.

The independent board of commissioners acts as a supervisor in the company. This means that the independent board of commissioners also oversees the performance of the board of directors related to CSR disclosure. To maintain the company's legitimacy, the board of commissioners will optimize the role of their supervisors towards the board of directors in CSR disclosure. This is done because CSR disclosure is one of the signals given by the company to its stakeholders. The more CSR disclosures made by the company, the more it will signal the company's concern to its stakeholders and this will invite reactions from investors which will ultimately improve the company's performance. This argument is in accordance with (Permatasari and Widianingsih, 2020) and (Lesmana, et al. 2016) which states that good corporate governance projected by an independent board of commissioners is the only one capable of moderating CSR disclosure on financial performance. So the third hypothesis is:
H_3: Independent board of commissioners moderates CSR disclosure on financial performance.

RESEARCH METHOD

This study uses secondary data that has been provided by the Indonesian stock exchange through its website. The population in this study are companies listed on the Indonesian stock exchange and the sample is agricultural companies that meet the following criteria: 1) agricultural companies registered during the 2019-2021 period, 2) consecutively presenting financial statements for that period, 3) companies disclose CSR in the annual report. Agricultural companies are used as samples in this study because agricultural companies in carrying out production processes are related to nature, the environment and the surrounding community so that they require special attention related to awareness of corporate social responsibility.

The dependent variable in this study is the company's financial performance which can be assessed using ROA (Soemarso S.R, 2018). ROA is a comparison between net income and assets, a high ROA value can indicate that the company is in good condition because the profit generated is high and the return is also large. ROA can be formulated as a ratio of net income after tax compared to the total assets owned by the company.

This study uses an independent variable, namely CSR disclosure, by adhering to the guidelines used by the Global Reporting Initiative (GRI), which has been internationally recognized as a standard in reporting worldwide. CSR measurement uses GRI-4 which is divided into 3 components, namely economic (13 items), environmental (32 items), social (40 items) with a total indicator performance reaching 85. Disclosures made by companies are rated according to the check list provided by the indicator. GRI-4, the more disclosures made by the company in accordance with the GRI-4 indicator, the more the company's disclosure value, with a maximum value of 85.

In addition to CSR disclosure, the other independent variable is the independent board of commissioners. The independent board of commissioners is one of the good corporate governance mechanisms that has a role as a supervisor in the company. Independent board of commissioners is measured by dividing the independent board of commissioners to the total board of commissioners. The independent board of commissioners in this model not only acts as an independent variable but also acts as a moderating variable.

In general, research methods include framework, data collection method, data analysis method, location and time of research. The research method describes the type, data source, and variable definition. The method also provides detailed descriptions so that other authors can assess and duplicate the procedure.

RESULT AND DISCUSSION

Based on the results of observations and purposive sampling determined, there are 15 companies that can be used as research samples. So the total observation data is 60 data. The results of data processing using WarpPls showed an APC of 0.406 with a p-value < 0.001. The ARS index value is 0.277 with p-value < 0.005. Referring to the rules, APC and ARS have met the criteria because p value < 0.001 and < 0.005 is smaller than 0.05. While the AVIF value of 1.128 is less than 5. So the model can be accepted. Based on the data listed, the R square coefficient value is 0.28 or equal to 28%. The number of factors that may affect financial performance can be explained by 28% with CSR disclosure and an independent board of commissioners while the remaining 72% can be explained outside the model.

Based on figure 1 and table 1, the results of data processing show that there is an influence between CSR disclosure on financial performance as proxied by ROA. The results of testing CSR disclosure on financial performance obtained a coefficient of 0.39 p-value <0.01 which means less than 0.05, it can be interpreted that CSR disclosure has a positive effect on financial performance. This means that a good and complete CSR disclosure can improve the company's financial performance. Companies that carry out CSR disclosures with the aim of giving a positive signal related to their concern for social responsibility to their stakeholders, so that this can improve the company's image and strengthen the company's legitimacy and ultimately have an impact on increasing the company's financial performance. This finding is in line with research by Singh and Chakraborty (2021), (Permatasari and Widianingsih, 2020), Utomo, et. al. (2020)a, Utomo, et. al. (2020)b, Putu, et al. (2017), and (Naek & Tjun, 2017), which state that CSR disclosure has an effect on financial performance. But it is not in line with the research of Wulandari, et al. (2016) and Angelia and Suryaningsih (2015) who state that CSR disclosure has no effect on financial performance.

Figure 1 and table 1 show the results of data processing that there is an influence between independent commissioners on financial performance as proxied by ROA. The test results of the independent board of commissioners on financial performance obtained a coefficient of 0.38 p-value <0.01 which means less than 0.05, meaning that the independent board of commissioners has a positive effect on financial performance. This means that optimal oversight of the independent board of commissioners can improve the company's financial performance. The independent board of commissioners who carry out optimal supervision has the aim of providing a positive signal related to the company's performance to its stakeholders, so that this can increase the trust of stakeholders and ultimately have an impact on increasing the company's financial performance. This finding is in line with the findings of Intia and Azizah (2021) and Hidayat and Utama (2015) which state that independent commissioners have an effect on financial performance. But not in line with the findings of Octosiva, et al. (2020) and Nathania (2014) who stated that financial performance was not influenced by independent commissioners.

Independent commissioners can moderate CSR disclosure on financial performance. This can be seen in the coefficient value of -0.45 and the acquisition value of p-value <0.01, which indicates that the independent board of commissioners moderates the effect of CSR disclosure on financial performance. This means that the role of the independent board of commissioners as a company supervisor can be carried out optimally so that it can strengthen the influence of CSR disclosure on financial performance. With optimal supervision, the implementation of CSR disclosure will also be more optimal in giving signals to its stakeholders, which in turn will have an impact on increasing company performance. This result is in accordance with (Permatasari and Widianingsih, 2020) and (Lesmana, et al. 2016) which states that good corporate governance projected by an independent board of commissioners is the only one capable of moderating CSR disclosure on financial performance.

Table 1. Model Fit and quality indices

Model Fit	Value	Criteria Fit	Model Fit and Quality Indices Results
APC	0,406	Accepted if p < 0,05	p<0,001
ARS	0,277	Accepted if p < 0,05	P=0,005
AARS	0,238	Accepted if p < 0,05	P=0,012
AVIF	1,128	Accepted if ≤ 5	Ideally
AFVIF	1,130	Accepted if ≤ 5	Ideally
GoF	0,526	Small > 0.1, Medium > 0.25, Large > 0.36	Large
SPR	1,000	Accepted if ≥ 0.7	Ideally
RSCR	1,000	Accepted if ≥ 0.9	0.989
Statistical suppression ratio		Accepted if ≥ 0.7	0.600
Nonlinear bivariate causality direction ratio (NLBCDR)		Accepted if ≥ 0.7	0.900

Source: *(secondary data processed, 2022*

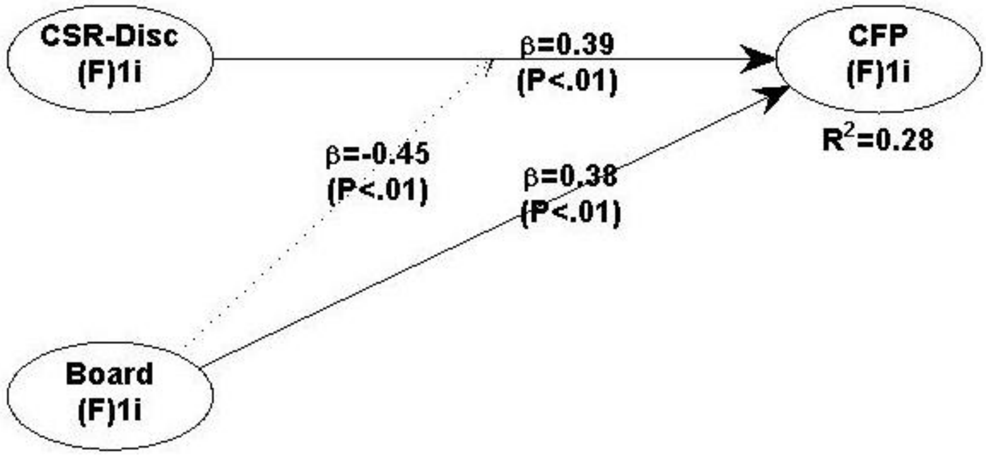

Figure 1. Research Result

Source: *secondary data processed, 2022*

CONCLUSION

Based on the results of hypothesis testing, it can be concluded that CSR disclosure and independent board of commissioners have a positive effect on financial performance. In addition, the independent board of commissioners can also moderate the effect of CSR disclosure on the company's financial performance.

This study has limitations on a small R square value of 28%. So suggestions for future research are to modify the research model used in order to obtain better results, and can add independent variables that are very likely to affect the company's performance such as external environmental conditions, unstable political conditions, and so on.

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