THE RELATIONSHIP OF CORPORATE GOVERNANCE, CORPORATE SOCIAL RESPONSIBILITIES AND CORPORATE FINANCIAL PERFORMANCE IN ONE CONTINUUM

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Abstract: This study aims to identify the impact of Good Corporate Governance, represented by institutional ownership and managerial ownership, on Corporate Social Responsibility and Corporate Financial Performance. It examines 126 manufacturing companies listed at the Indonesian Stock Exchange (IDX) and have issued audited financial statements for 2006. The statistical method used to test the hypothesis is Path Analysis. The main results suggest that Good Corporate Governance has effects on both Corporate Social Responsibility and Corporate Financial Performance whereas Corporate Social Responsibility has significant effects on Corporate Financial Performance. The other results regarding controlling variables suggest that CEO Tenure, has significant effects on Corporate Social Responsibility. Yet, there is no strong evidence to support that types of industry serve as an influencing factor on Corporate Social Responsibility as well as no influence of Corporate Secretary and Nomination and Remuneration Committee on Corporate Financial Performance.

1. Introduction
It is necessary for companies to implement Good Corporate Governance to gain the confidence of the public and the international community. It is also a prerequisite for the industry sector to have sound and healthy growth and development, which ultimately contribute to stakeholder value. Importantly, all echelons of an organization should be committed to arranging and implementing Good Corporate Governance by, first of all, imposing a by-law and code of ethics that the organization's top management and all other members comply with. Good Corporate Governance consists of five key elements (Achmad Daniri, 2006), i.e. transparency, accountability, responsibility, fairness, and independency.

Furthermore, the other objective of Good Corporate Governance (GCG) is the administering of Corporate Social Responsibility (CSR). This is consistent with the result of the CSR Conference held by the Indonesia Business Links (IBL) on September 7-8, 2006 in Jakarta that “Responsible business is good business.” Coordinating Minister for the Economy Boediono (Republika, 2006) opened the conference by saying, among others, that “CSR is a principal element in good corporate governance, besides giving value-added to shareholders. Above all, CSR participants should not separate CSR activities from Good Corporate Governance, as both are of one inseparable continuum.” Therefore, Boediono's statement above implies that Corporate Social Responsibility (CSR) is closely correlated to Good Corporate Governance. Like a two-sided coin, CSR and GCG have their own strong points in the business world, yet both are closely related to each other. In addition, Corporate Social Responsibility is stakeholders oriented, which is in accordance with one of the four key principles of Good Corporate Governance, i.e. responsibility. Accordingly, the responsibility principle primarily reflects a stakeholders-driven concept. Reksodipuro (2004) suggests that “The concept of Corporate Social Responsibility is part of the guidelines on Good Corporate Governance. Besides, Business ethics and accountability have increasingly attracted public attention in a number of advanced countries. Seeing that “self-regulation” failed, people of these countries who are usually very liberal minded in dealing with companies have started to raise their voice that it is necessary to issue a new regulation that provides “higher standards for corporate practices” and “tougher penalties for executive misconduct.”

Today, the extended theoretical paradigm from agency theory to stakeholder theory perspective has shifted the paradigm of Good Corporate Governance. Consequently, Good Corporate Governance needs to consider and to deal with Corporate Social Responsibility issues in a broader
historical and philosophical context. The disclosure of social, ethical, environmental, and sustainability aspects has become companies' ways to communicate its accountability to stakeholders. Global Reporting Initiative recommended sustainability reporting that focuses on three aspects of performance, i.e. economic, environmental, and social. The three aspects are known as the Triple Bottom Line. This type of reporting is expected to generate a positive relationship between Corporate Social Responsibility and Corporate Financial Performance (CFP). Based on the description above, as our research objectives, we would like to know whether:

1. The corporate governance structures can serve as proxies for institutional ownership and managerial ownership have any effects on corporate social responsibility.
2. The corporate governance structures can serve as proxies for institutional ownership and managerial ownership have any effects on corporate financial performance.
3. The corporate social responsibilities have any effects on corporate financial performance.

2. Literature Review
A. The Notion of Good Corporate Governance
Good Corporate Governance is essentially correlated to stewardship theory and agency theory. Stewardship theory, on the one hand, was built on the philosophical assumptions concerning human nature that humankind is in essence trustworthy, responsible, and that they are individuals of integrity. In other words, the theory holds that a firm's management is worthy of trust to act on the best interests of the public and the shareholders. On the other hand, agency theory, which was developed by Michael Johnson and Achmad Daniri in 2006, maintains that a firm's management pursues its own best interests, as opposed to a dependable management assumed in the stewardship model.

The Letter of Public Notification No. SE.03 IPM/2000 issued on May 5 2000 sets down that in order to promote Good Corporate Governance companies are required to have independent commissioners, audit committees, and corporate secretaries. Accordingly, this study uses internal mechanisms that include managerial ownership, institutional ownership, CEO tenure, corporate secretary and nomination and remuneration committee, which are described as follows:

Managerial Ownership
Downes and Goodman (1999) define managerial ownership as management
that holds a portion of shares in a firm and is an active participant in the firm's decision making. Agency theory maintains that a conflict of interests may exist between a firm's management and shareholders. This occurs as the shareholders view the management as risk-averse, self-interested executives whose discretionary power could bear more costs on the firm, leading to decreased profits and dividends.

Institutional Ownership
Institutions here are defined as entities involved in investment activities, including investing in firms' stocks. Institutions typically delegate investment tasks to certain divisions to manage their investments. Since institutions monitor their investment growth and managements' actions professionally, potential managerial manipulation can be minimized. Pozen (1994) suggests that institutional investors can be categorized into passive and active institutional investors. Active institutional investors are eager to actively get involved in managerial decision-making, while passive institutional investors are not. The presence of institutional ownership in a firm serves as the firm's effective monitoring instrument.

Corporate Secretary
Laws on Limited Companies and Capital Markets do not include Corporate Secretary in their articles. However, Capital Market Supervisory Agency (Bapepam) Chairperson Decree No. 63/1996 expounds on Corporate Secretary. The decree maintains that to improve services to investors, emitters and public companies are required to have corporate secretaries on January 1, 1997 to the latest.

The decree specifies four main roles a corporate secretary plays in a company. First, a corporate secretary is required to keep the company informed of capital market regulatory development. Second, a corporate secretary is required to inform the public about the publicly held company. Third, a corporate secretary is required to provide input for directors into complying with Bapepam Law and Regulations. Finally, a corporate secretary is required to act as a mediator between the company and the Bapepam and between the company and the public.

The Bapepam Chairperson Decree was strengthened by Jakarta Stock Exchange (BEJ/JSX) Directors Decree No. 339/2001 that extends the functions of a corporate secretary. First, a corporate secretary is required to provide a special list that gives detail to stock ownership, business relations, and other roles of the company's directors, commissioners, and their families that may raise conflict of interests. Second, a corporate secretary is
required to make a list of shareholders, including those who hold 5% of shares or more. Third, a corporate secretary is required to attend meetings of the board of directors and to note down the minutes of the meetings. Finally, a corporate secretary is responsible for the holding of the company's general shareholders meetings.

Therefore, the two decrees of the capital market's authorities imply that corporate secretaries have key roles in administering corporate governance (Sutawinangun, 2008).

Nomination/Governance Committee
A nomination committee consists of three to five external members representing influential stakeholders plus several independent commissioners responsible to the board of commissioners and assists the commissioners in determining candidates' profiles for membership of the board of commissioners and the board of directors. The committee should be presided over by one of the independent commissioners.

The nomination committee is required to make recommendation to the board of commissioners concerning: 1) candidates for membership of the board of directors and the board of commissioners to be selected at the general shareholders meeting and also directors to be selected by the board of commissioners to fill in the board's vacant seats 2) commissioners to be selected for various committees' membership. The committees are responsible for making recommendation to the board of commissioners or the shareholders in selecting members of directors.

The Remuneration/Compensation Committee
A remuneration committee consists of two to three external professional members of the executive compensation system. The committee is responsible to the board of commissioners and assists the board of commissioners in determining an executive compensation package and the commissioners' remuneration proposed to the shareholders. The remuneration committee should be chaired by a member of the independent commissioners.

The main functions of a remuneration committee according to Corporate Governance and Corporate Ethics issued by the Ministry of State-Owned Enterprises in 1999 are: 1) to examine and recommend improvement in the remuneration system of directors, commissioners, and employees in order to make the system show a closer relationship between achieving firm performance/corporate financial performance targets and rewards and punishments received; 2) to examine and recommend
improvement in the way benefits are given to and used by the directors, commissioners, and employees in order to prevent them from misusing the benefits that may lead to overspends; 3) to report the results of the examinations and recommendations to the board of commissioners to be passed to the general shareholders meeting for approval.

CEO Tenure
Shen (2003), as cited by Zubaedah (2003), suggests that CEO characteristics play an essential role in corporate governance as they have relevance to corporate governance reporting. CEO tenure may impact the way CEOs run firms and control firms' management. Also, CEOs' long tenure and their performance may have impacts on corporate governance reporting. Despite its apparent importance, there have been few studies conducted on the field. Shen (2003) argues that the longer a CEO keeps her post, the less likely she reports corporate governance activities, as such reporting may jeopardize her position and power. A study by Barnea and Rubin (2006) on the relationship between CEO tenure and corporate social responsibility disclosure finds that CEO tenure is positively associated with corporate social responsibility disclosure.

B. Corporate Social Responsibilities (CSR)
Gray et.al. (1987) points out that firms are socially responsible when the managements translate their visions into operational performance, taking into account not only business profits but also the environment where their businesses operate. Thus, corporate social responsibilities include, among others, (a) Basic Responsibility, that is, responsibility that comes with the inception of a firm such responsibility involves paying taxes, complying to laws and regulations, meeting the required working standards, and increasing shareholder value; b) Organizational Responsibility the firm's responsibility to act in the best interests of stakeholders, which include the firm's employees, consumers, shareholders and the public; c) Societal Responsibility the interactions between the firm and the society that enable the firm to have sustainable growth.

In Indonesia, the corporate social responsibility practices are regulated under the authority of the Indonesian Accountants Association (IAI) in Finance Accounting Standards Statement No. 1 Article 9 that: "Firms may submit additional statements such as environmental and value added statements, especially for those industries where environmental factors play a key role as well as for industries that view employees as important statement users". Moreover, the corporate social responsibility
disclosures are found in the Capital Market Regulatory Agency (Bapepam) Chairperson Decree No. kep-38/PM/1996 Regulation No. VIII.G.2 on Annual Reports. The regulation stipulates that firms are allowed to freely provide public announcements concerning their corporate conditions, as long as the announcements are not misleading and not contrary to the information given in other places. The public announcements may contain firms' involvement in social service activities, community outreach programs, and the firms' plans in the development of human resources.

C. Corporate Financial Performance (CFP)
Performance assessment is a periodical determination of the operational effectiveness of an organization, parts of the organization and employees based on the objectives, predefined standards and criteria. Several models are found effective in measuring firm value. There are three types of Tobin's Q ratio such as:

a. White et.al. (2002): \[ Q = (MVE + D)/(BVE + D) \]

Where:

\[ Q \] : firm value
\[ MVE \] : Market Value Equity measured by year-end Closing Price × year-end stock outstanding
\[ D \] : Total debt
\[ BVE \] : Equity Book Value
\[ PS \] : Preferred Stock
\[ DEBT \] : (current liabilities + current assets) + current stock + long-term liabilities
\[ TA \] : Total Assets

D. Framework

![Diagram of Framework](attachment:image.png)
E. Hypothesis Development

1a. Managerial Ownership and Firm Performance
Managerial ownership may mitigate agency problems (Jensen and Meckling, 1976), leading to decision-making and risk dispersion. Managers tend to behave opportunistically and use much of their firms' resources to grow their wealth, instead of increasing their firms' value. This opportunistic behavior may increase debt interest, as the risk of bankruptcy increases, leading to higher agency cost of debt, and finally resulting in lower firm value. Consequently, this insiders' stock ownership directly benefits the insiders if the decisions they made are sound and directly bear the risks if otherwise. Thus, insider ownership may serve as an incentive to increase firm performance. Suranta and Machfoedz (2003) show that managerial ownership has a negative effect on firm value, suggesting that the higher managerial ownership the lower firm value. Similarly, Faizal (2004) finds similar results that managerial ownership has a negative effect on firm value. The findings indicate that managerial ownership fails to serve as a firm value increasing mechanism. In contrast, Euis Soleha and Taswan (2002) find that insider ownership has a positive and significant effect on firm value. Therefore, the hypothesis that the higher insider ownership the higher firm value is supported. This study's findings are consistent with Leland & Pyle's (1977). The description above leads to the following hypothesis:

\[ H_{a1} : \text{Managerial ownership has positive and significant effects on firm performance} \]

1b. Institutional Ownership and Firm Performance
Jensen and Meckling (1976) suggest that institutional ownership plays an important role in minimizing the agency conflicts between managers and shareholders. Institutional investors may serve as an effective monitoring mechanism in each decision made by managers. This is made possible as institutional investors are involved in making strategic decisions and highly inquisitive about earnings management.

This is supported by the findings in Rajgopal et.al. (1999) that institutional investors are more sophisticated and better informed than other types of investors, enabling them to minimize earnings management or manipulation by managers by conducting active monitoring. Furthermore, Shiller and Pound (1989) find that institutional investors use much of their time to analyze their investments and have access to information that other investors find too expensive. Findings in Steiner (1996), as cited by
Machfoedz (2003), provide evidence that institutional ownership and firm value (Tobin's Q) are significantly correlated. Besides, Suranta and Machfoedz (2003) show that institutional ownership has positive effects on firm value. Larasanti (2003), however, finds that institutional ownership has no significant effects on firm value and firm performance. In addition, Faizal (2004) suggests that institutional ownership is not an effective monitoring device to increase firm value. These findings indicate that managerial ownership fails to serve as a firm value-improving mechanism. Consequently, a corresponding hypothesis follows that:

\[ H_{a1b} : \text{Institutional Ownership has positive and significant effects on firm performance} \]

2a. Managerial Ownership and CSR

Jensen and Meckling (1976) argue that the lower managerial ownership, the larger the conflicts of interests between managers and owners, and vice versa. Thus, the higher managerial ownership the more productive managers are in maximizing firm value. This is consistent with Gray et al. (1988) that managers who are also owners will tend to disclose firms' social responsibility activities to boost the firms' image, even if such activities should spend much of the firms' resources. Anggraini (2006) finds a correlation between managerial ownership and CSR. Contrary to Anggraini, Widyasari and Rahman (2007) find no correlation between managerial ownership and CSR. Similarly, Barnea and Rubin (2006) show that managerial ownership is not correlated with CSR.

\[ H_{a2a} : \text{Managerial ownership has positive effects on CSR} \]

2b. Institutional Ownership and CSR

Barnea and Rubin (2006) employ a sample of 3,000 firms obtained from the KLD database. The sample is categorized into socially responsible and socially irresponsible firms. The results show that institutional ownership has no correlation with CSR.

\[ H_{a2b} : \text{Institutional Ownership has effects on CSR} \]

3a. Corporate Social Responsibility and Corporate Financial Performance

Lajili and Zeghal (2006) find that firms with high human capital information disclosure (which is part of CSR) has higher corporate financial performance than firms with low human capital information disclosure. Preston (1978) reports higher return on equity for firms disclosing such information than those that do not. Hackston and Milne (1996) document
that social responsibility disclosure has no significant effects on profitability. The hypothesis, hence, goes as follows:

\[ H_a : \text{Corporate Social Responsibility (CSR) has effects on firm performance} \]

3. Research Methodology
   A. Variables and Measurements
   1. Dependent Variables
      Firm performance is measured using Tobin's Q as developed by Klapper & Love 2002
      \[ \text{Tobin's } q = \frac{\text{MVE} + \text{DEBT}}{\text{TA}} \]
      Where
      \[ \text{MVE} = \text{stock prices at the close of a year-end trading day} \times \text{X common stock outstanding} \]
      \[ \text{PS} = \text{Liquidating value of preferred stock outstanding} \]
      \[ \text{DEBT} = (\text{Current Liabilities} \times \text{Current Assets}) + \text{BV of current stock} + \text{long-term debt} \]
      \[ \text{TA} = \text{Book value of Total Assets} \]

2. Independent Variables
   a. Managerial Ownership
      Managerial ownership is the amount of shares held by a firm's management. Its proportion is measured by its ownership percentage. The equation is:
      \[ \% \text{managerial ownership} = \frac{\text{Amount of management's stocks}}{\text{Amount of stocks outstanding}} \]

   b. Institutional ownership
      Institutional ownership is the amount of stocks in a firm held by an institution. Its proportion is measured by its ownership percentage. The equation is:
      \[ \% \text{Institutional Ownership} = \frac{\text{Amount of institutional stock}}{\text{Amount of stock outstanding}} \]

3. Intervening Variable
   The intervening variable used in the study is corporate social responsibility by looking into firms' fundamental data of annual financial statements. The data consist of statements of corporate social responsibility disclosure related to the firm's corporate social responsibility categorization. The corporate social responsibility categorization used in the study refers to that
employed by Hackston and Milne (1996) that includes: environment, energy, employees' safety and health, work force, products, and community outreach. The seven categories are divided into 90 disclosure items. Based on Bapepam Regulation No. VIII.G.2 on annual reports and the applicability of the items for Indonesian business context, 12 items were found unsuitable to be implemented in Indonesia, leaving us with 78 disclosure items. The 78 disclosure items were then readjusted for each industry sector to obtain varied expected disclosure items. The model used to calculate corporate social responsibility disclosure index is:

$$\text{CSRI}_{j} = \frac{\sum X_{ij}}{n_j}$$

CSRI\(_j\) : Corporate Social Responsibility Disclosure Index of firm \(j\)

\(n_j\) : Number of items of firm \(j\), \(n_j \leq 78\)

\(X_{ij}\) : dummy variable : 1 = if item \(i\) is disclosed; 0 = if otherwise

4. Control Variables

a) Corporate Secretary

Corporate secretary is measured using a nominal scale and dummy variable, 1 if a firm has corporate secretary, and 0 if otherwise.

b) Nomination and Remuneration Committee Members of the committee are measured using a nominal scale and dummy variable, 1 if a firm has such a committee, and 0 if otherwise.

c) CEO Tenure

A CEO is an individual who is in charge of managing a firm's operational activities. In Indonesia, CEO appointment is conducted once every five years. In this study, CEO Tenure indicates term of office a CEO has spent in his post, starting from his appointment to CEO post to the end of 2006.

d) Types of Industry

Patten (1991) identifies firms in the oil, chemical, and paper industries as high profile. Meanwhile, Robert (1992) groups firms in the automobile, airline, and oil industries as high profile. Hackston and Milne (1992) add communications media to the category. The classification above constitutes a basis for industry classification in the study. This is dummy variables, which range from 0 (low profile) to 1 (high profile).

B. Data and Sample

The study uses secondary data obtained from publicly held companies' 2006
annual reports available at the Capital Market Reference Center (PRPM) of the Indonesian Stock Exchange (BEI/IDX), Trisakti University's BEI Corner, JSX Statistic Quarterly, the Bapepam, and the Internet. The study uses 126 sample firms that meet purposive sampling criteria as shown below:

<table>
<thead>
<tr>
<th>No</th>
<th>Classification</th>
<th>No. of Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>BEI's (IDX's) listed manufacturing companies</td>
<td>150</td>
</tr>
<tr>
<td>2</td>
<td>Firms not issuing annual reports and CSR disclosures for December 31 2006 period</td>
<td>(12)</td>
</tr>
<tr>
<td>3</td>
<td>Firms using currencies other than rupiah (dollar) in the December 31 2006 annual reports</td>
<td>(6)</td>
</tr>
<tr>
<td>4</td>
<td>Firms not providing complete data used in the study</td>
<td>(6)</td>
</tr>
<tr>
<td></td>
<td><strong>TOTAL</strong></td>
<td><strong>126</strong></td>
</tr>
</tbody>
</table>

C. Data Analysis Methods
Path analysis is used in the study to find whether a simultaneous relationship exists in the variables tested (Hair, 1995). The relationship between theoretical phenomena, empirical research and hypotheses development are presented in the path diagram, while the structural equations are shown below.

Equation: Hypothesis Test (1,2,3)

Tobin's Q = β_{11} MGROWN + β_{12} INST + β_{13} CS + β_{14} KNR + e_{1}
CSR = β_{21} MGROWN + β_{22} INST + β_{23} CEO + β_{24} JI + e_{2}
Tobin's Q = β_{31} CSR + e_{3}

Where
CSR = Corporate Social Responsibility Disclosure Percentage
Tobin's Q = Firm Performance/Corporate Financial Performance
INST = Institutional Ownership
MGROWN = Managerial Ownership
CEO = CEO Tenure
JI = Types of Industry
CS = Corporate Secretary
KNR = Nomination and Remuneration Committee

AMOS (Analysis of Moment Structures) program version 7 is used for data processing, covering stages described below.
1. Normality Test

Structural Equation Modeling requires that normality assumptions is satisfied. Normality test includes univariate and multivariate. Data distribution is normal if both C.R. skewness and kurtosis values are less than the table critical value of ± 1.96 with significance level of 0.05 (p-value 5%). (Hair, 5ed) suggests that if a variable is normal in the multivariate test, so is it in the univariate test, but not otherwise.

2. Multicollinearity and Singularity Test

To find whether multicollinearity and singularity exist in a variable combination, one needs to observe determinant matrix covariance. Multicollinearity is detected by generating low valued determinants without absolute numbers.

3. Goodness-Of-Fit Model Test

Goodness-of-fit model test should be conducted before analyzing the proposed hypotheses. The test is run in reference to several measurement criteria:

a) Absolute fit measure, that is, measuring fit models as a whole (both the structural and simultaneous measuring models), which covers these criteria:
   - $X^2$ or Chi Square Statistics. The test seeks insignificant values; the less the values, the better.
   - Profitability. The best value stands at a minimum of 0.05 or above 0.05.
   - Goodness-of-fit index (GFI). The required value for GFI is of > 0.90; the closer it is to 1, the better.
   - Root mean square error of approximation (RMSEA); the response < 0.08.

b) Incremental fit measures. These measures compare the proposed model to other models as specified by researchers. The criteria are based on:
   - normed fit index (NFI). The acceptance level is of 0.90 or close to 1.
   - adjusted goodness-of-fit index (AGFI). The acceptance level is of > 0.90.
   - comparative fit index (CFI). This index is not affected by the sample, making a very good model measure. The acceptance level is of > 0.90 or close to 1.

c) Parsimonious fit measures, making the adjustment of fit measures to enable comparison between models and number of different coefficients. The criteria are based on the values of normed $\chi^2$square The minimum sample discrepancy function CMIN divided by degree
of freedom equals normed $\chi^2$ square index CMIN/DF. The index has lower limit acceptable fit of 1 and upper limit of 2, 3, or 5.

4. Analyses and Discussions
1. Descriptive Statistics

The result of Descriptive Statistics used in the study is as follows.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Min.</th>
<th>Max.</th>
<th>Mean</th>
<th>Deviation Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>MGROWN</td>
<td>0.00</td>
<td>7.62</td>
<td>0.7356</td>
<td>1.8047</td>
</tr>
<tr>
<td>INST</td>
<td>0.00</td>
<td>59.80</td>
<td>11.5298</td>
<td>13.5297</td>
</tr>
<tr>
<td>CEO</td>
<td>0.00</td>
<td>5.00</td>
<td>3.1270</td>
<td>1.6149</td>
</tr>
<tr>
<td>JI</td>
<td>0.00</td>
<td>1.00</td>
<td>0.5952</td>
<td>0.4928</td>
</tr>
<tr>
<td>CS</td>
<td>0.00</td>
<td>1.00</td>
<td>0.7698</td>
<td>0.4226</td>
</tr>
<tr>
<td>KNR</td>
<td>0.00</td>
<td>1.00</td>
<td>0.2698</td>
<td>0.4456</td>
</tr>
<tr>
<td>CSR</td>
<td>1.10</td>
<td>17.69</td>
<td>5.5431</td>
<td>4.0991</td>
</tr>
<tr>
<td>Tobin's Q</td>
<td>-0.56</td>
<td>2.75</td>
<td>0.7885</td>
<td>0.6807</td>
</tr>
</tbody>
</table>

The table shows managerial ownership has an average value of 0.7356% with a minimum value of 0% and a maximum value of 7.62%. Since some of the sample firms have no managerial ownership (0%), the average values tend to be low. Furthermore, institutional ownership (INST) has an average value of 11.5298% with a maximum value of 59.80 and a minimum value of 0% (a firm has no institutional ownership).

As a control variable, CEOs run their firms' business operations for 3 years on average. The average CEO tenure is 5 years. The minimum value of 0 indicates that CEOs have just been appointed to their posts. The study also examines types of industry (JI) as a dummy variable whose measurement ranges from 1 (high profile) which includes oil, chemical, and paper companies to 0 (low profile) which covers other types of industry. Similarly, corporate secretary serves as a dummy variable whose maximum value of 1 indicates that a firm has a corporate secretary and a minimum value of 0 indicates that a firm does not have a corporate secretary.

Corporate Social Responsibility (CSR) has an average value of 5.5431. CSR has a minimum index of 1.10 and a maximum index of 17.69. Firm performance measured by Tobin's Q has an average value of 0.7885. The minimum value of -0.56 signifies low firm performance, while the maximum value of 2.75 indicates fairly high firm performance.

2. Normality Test
Data distribution is normal when C.R. skewness and kurtosis values are
lower than table critical value of ±1.96 with a significance level of 0.05 (p-value 5%).

<table>
<thead>
<tr>
<th>Variables</th>
<th>Min</th>
<th>max</th>
<th>skew</th>
<th>c.r.</th>
<th>kurtosis</th>
<th>c.r.</th>
</tr>
</thead>
<tbody>
<tr>
<td>KNR</td>
<td>0,000</td>
<td>1,000</td>
<td>1,037</td>
<td>4,752</td>
<td>-0,925</td>
<td>-2,118</td>
</tr>
<tr>
<td>CS</td>
<td>0,000</td>
<td>1,000</td>
<td>-1,282</td>
<td>-5,875</td>
<td>-0,356</td>
<td>-0,816</td>
</tr>
<tr>
<td>JI</td>
<td>0,000</td>
<td>1,000</td>
<td>-0,388</td>
<td>-1,778</td>
<td>-1,849</td>
<td>-4,238</td>
</tr>
<tr>
<td>CEOT</td>
<td>0,000</td>
<td>5,000</td>
<td>-0,401</td>
<td>-1,839</td>
<td>-0,999</td>
<td>-2,289</td>
</tr>
<tr>
<td>INST</td>
<td>0,000</td>
<td>59,800</td>
<td>1,567</td>
<td>7,182</td>
<td>1,866</td>
<td>4,277</td>
</tr>
<tr>
<td>MGROWN</td>
<td>0,000</td>
<td>7,620</td>
<td>2,491</td>
<td>11,413</td>
<td>4,851</td>
<td>11,116</td>
</tr>
<tr>
<td>CSR</td>
<td>1,100</td>
<td>17,692</td>
<td>1,049</td>
<td>4,809</td>
<td>0,309</td>
<td>0,708</td>
</tr>
<tr>
<td>TOBINSQ</td>
<td>-0,559</td>
<td>2,747</td>
<td>0,791</td>
<td>3,626</td>
<td>-0,095</td>
<td>-0,218</td>
</tr>
<tr>
<td>Multivariate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3,756</td>
<td>1,667</td>
</tr>
</tbody>
</table>

The table, using a univariate analysis, shows the research variables distributed abnormally, indicated by higher C.R. skewness and kurtosis values compared to the table critical value of ±1.96. If the test is conducted using a multivariate analysis, the C.R. kurtosis value of 1.667 is less than the table critical value of 1.96. This shows that the data distribution is normal using a multivariate analysis.

It is thus concluded that the data in the study are normally distributed for some variables using both univariate and multivariate analyses. Therefore, the normality assumptions are supported. Hair (5th ed., p. 71) suggests that if a variable is normal using a multivariate analysis, then it is also normal using a univariate analysis, but not otherwise.

3. Multicollinearity and Singularity Test
To find whether multicollinearity and singularity exist in a variable combination, one needs to observe determinant matrix covariance. Very low determinants indicate the existence of multicollinearity. In the model used in the study, the value of determinant matrix covariance obtained using AMOS is of 44.540. The value is a far cry from zero, denoting the research model is free from multicollinearity and singularity problems.

4. Goodness-Of-Fit Model Test
Before analyzing the proposed hypotheses, a goodness-of-fit model test is conducted whose results are presented below:
The results of goodness-of-fit model test

<table>
<thead>
<tr>
<th>Goodness-of-fit Measurement</th>
<th>Recommended Acceptance Limit</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-square</td>
<td>Tends to be lower</td>
<td>4,998</td>
</tr>
<tr>
<td>p-value</td>
<td>&gt; 0.05</td>
<td>0.288</td>
</tr>
<tr>
<td>GFI</td>
<td>&gt; 0.90</td>
<td>0.990</td>
</tr>
<tr>
<td>RMSEA</td>
<td>&lt; 0.08</td>
<td>0.045</td>
</tr>
<tr>
<td>NFI</td>
<td>&gt; 0.90</td>
<td>0.949</td>
</tr>
<tr>
<td>AGFI</td>
<td>&gt; 0.90</td>
<td>0.912</td>
</tr>
<tr>
<td>CFI</td>
<td>&gt; 0.90</td>
<td>0.986</td>
</tr>
<tr>
<td>Normed chi-square</td>
<td>Lower limit : 1.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Upper limit : 2.0 ; 3.0 or 5.0</td>
<td>1,249</td>
</tr>
</tbody>
</table>

The table shows that chi-square value, which is mainly required in the goodness-of-fit model test, stands at 4.998 with p-value of 0.288. The chi-square value obtained indicates that the goodness-of-fit model test provides the expected results. In addition, the goodness-of-fit model test conducted using other absolute fit measure criteria, such as GFI and RMSEA, met the recommended criteria. Similarly, the goodness-of-fit model test conducted using incremental fit measure criteria, such as NFI, AGFI, and CFI, also measured up to the recommended criteria. Meanwhile, the parsimonious fit measure criteria of 1.249 stands at a lower limit of 1.0 and an upper limit of 2.0.

5. Hypothesis Test

<table>
<thead>
<tr>
<th>Hypothesis Test Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Path Analysis</td>
</tr>
<tr>
<td>-------------</td>
</tr>
<tr>
<td>$H_{a1}$: MGROWN $\rightarrow$ TOBINS'Q</td>
</tr>
<tr>
<td>$H_{a2}$: INST $\rightarrow$ TOBINS'Q</td>
</tr>
<tr>
<td>$H_{a3}$: MGROWN $\rightarrow$ CSR</td>
</tr>
<tr>
<td>$H_{a4}$: INST $\rightarrow$ CSR</td>
</tr>
<tr>
<td>$H_{a5}$: CSR $\rightarrow$ TOBINS'Q</td>
</tr>
</tbody>
</table>

$H_{a1}$ test result shows p-value of $0.000 < \alpha 0.05$, which indicates that $H_{a1}$ is supported. The regression coefficient value of 0.379 shows that managerial ownership has a positive effect on corporate financial performance (TOBIN'S Q). This signifies that a 1% climb in managerial ownership increases firm performance by 0.379.

$H_{a2}$ test resulted in p-value of $0.045 < \alpha 0.05$, showing that $H_{a2}$ is supported. The regression coefficient value of 0.155 shows that institutional ownership (INST) has a positive effect on corporate financial
performance (TOBIN'S Q). This signifies that a 1% climb in managerial ownership increases firm performance by 0.155.

$H_{2a}$ test resulted in p-value of $0.019 < \alpha 0.05$, showing that $H_{2a}$ is supported. The regression coefficient value of 0.203 shows that managerial ownership (MGROWN) has a positive effect on Corporate Social Responsibility Index. This signifies that a 1% climb in managerial ownership increases Corporate Social Responsibility Index by 0.203.

$H_{2b}$ test resulted in p-value of $0.030 < \alpha 0.05$, showing that $H_{2b}$ is supported. The regression coefficient value of 0.189 shows that institutional ownership (INSTIT) has a positive effect on Corporate Social Responsibility Index. This signifies that a 1% climb in institutional ownership increases Corporate Social Responsibility Index by 0.189.

$H_{3}$ test resulted in p-value of $0.000 < \alpha 0.05$, showing that $H_{3}$ is supported. The regression coefficient value of 0.358 shows that Corporate Social Responsibility (CSR) Index has a positive effect on firm performance/corporate financial performance (TOBIN'S Q). This signifies that a 1% climb in Corporate Social Responsibility Index increases firm performance by 0.358.

### Control Variable Test Results

<table>
<thead>
<tr>
<th>Path</th>
<th>Std. Estimate</th>
<th>C.R. (t-value)</th>
<th>p-value</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO T → CSR</td>
<td>0.174</td>
<td>1.986</td>
<td>0.047</td>
<td>positive, significant</td>
</tr>
<tr>
<td>JI → CSR</td>
<td>0.006</td>
<td>0.064</td>
<td>0.949</td>
<td>positive, insignificant</td>
</tr>
<tr>
<td>CS → TOBIN'S Q</td>
<td>-0.043</td>
<td>-0.573</td>
<td>0.567</td>
<td>positive, insignificant</td>
</tr>
<tr>
<td>KNR → TOBIN'S Q</td>
<td>0.015</td>
<td>0.199</td>
<td>0.843</td>
<td>positive, insignificant</td>
</tr>
</tbody>
</table>

The proposed research model has four control variables, i.e. CEO Tenure (CEOT), Types of Industry (JI), Corporate Secretary (CS), and Nomination and Remuneration Committee (KNR). Findings in the table above show that CEO Tenure has a positive and significant effect on Corporate Social Responsibility Index ($p$-value $0.047 < \alpha 0.05$). Other control variables have no significant effects on dependent variables as $p$-value $> \alpha 0.05$. 
5. Conclusion And Direction For Future Research

A. Conclusion

1. The majority of manufacturing companies listed at the Jakarta Stock Exchange in 2006 have conducted corporate social responsibility disclosures, as the study finds that of 150 listed manufacturing companies, 138 disclosed their corporate social responsibility activities. The most frequently disclosed social theme is employment related, such as 'in-house employee training programs.' This indicates that firms care for their employees' improved performance, since employees are assets in achieving the firms' goals.

2. Path analysis on good corporate governance shows that managerial ownership and institutional ownership have positive effects on firm performance/corporate financial performance (TOBIN'S Q). This is consistent with prior studies by Leland & Pyle (1977), Euis Soliha & Taswan (2002).

3. Furthermore, the study's results support the hypotheses that good corporate governance observed through managerial and institutional ownership has positive effects on corporate social responsibility disclosures. This finding is consistent with Anggraini's (2006). However, the study's finding is inconsistent with those in Widyasari and Rahman (2007), and Barnea and Rubin (2006). Also, Barnea and Rubin (2006) find no significant effects of institutional ownership on corporate social responsibilities.

4. The finding also shows that corporate social responsibilities have significant and positive effects on firm performance/corporate financial performance. This is consistent with Lajili and Zeghal (2006) and Preston (1978), but inconsistent with Hackston and Milne (1996).

5. The control variable test indicates that CEO Tenure has positive effects
on corporate social responsibility. Types of industry, however, have no effects on corporate social responsibility. Moreover, Corporate Secretary and Nomination and Remuneration Committee have no effects on firm performance.

**B. Limitations**

1. Since this study is based on one-year observation, it is likely that the corporate social responsibility disclosure practices of the sample firms are less actual than if the observation had been conducted longer.
2. The sample firms are limited to manufacturing companies.

**C. Direction for Future research**

1. Take longer period of observation and not limit their samples to manufacturing companies.
2. Use ever-updated corporate social responsibility items that reflect recent public conditions by, for example, involving social activists.

**References**


Daniri, Mas Achmad. (2005), Good Corporate Governance, Concept and Implementation in the Indonesian Context. PT Ray Indonesia: Jakarta.


