THE EFFECT OF GOOD CORPORATE GOVERNANCE AND EARNINGS MANAGEMENT TO CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE

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ABSTRACT

This study aims to investigate the effect of good corporate governance and earnings management towards disclosure of corporate social responsibility of 17 stated-owned companies listed on the Indonesia Stock Exchange in 2013 to 2015 by using the guidelines of Global Reporting Initiative (GRI). The data used in this study is secondary data and purposive sampling method is employed. The first independent variable of this study is the good corporate governance and it is measured by the composition of the board of commissioners, managerial ownership, state ownership, foreign ownership and audit committee. The second independent variable of this study is earnings management. The dependent variable is the level of disclosure of corporate social responsibility undertaken by the company and disclosed in the company's annual report. A multiple linear regression is employed to analyse the data of this study using SPSS version 17.0 software. The results indicate that managerial ownership, state ownership and audit committee have significant positive effects on the disclosure of corporate social responsibility in state-owned companies in Indonesia. The results also demonstrate that the composition of the board of commissioners, foreign ownership and earnings management do not have any effects on CSR disclosure.

Keywords: GCG, Earnings Management, CSR, Indonesia.

INTRODUCTION

Corporate Social Responsibility (CSR) is one of the responsibilities of a company to stakeholders, a person or a group who can affect or be affected by various decisions, policies and operations of that company (Waryanto, 2010). According to Waryanto (2010), Corporate Social Responsibility is defined as a business commitment to give contribution to sustainable economic development through cooperation with employees and their representatives, their families, local communities or general public in order to improve quality of life in a beneficial way for both the business itself and the development.

The concern of a company can be seen from its commitment to be responsible for any impacts from its operation that is reflected on three main dimensions, namely economic dimension, social dimension and environmental dimension. Those three dimensions are manifested in what is called Corporate Social Responsibility (CSR). According to Tommy (2010), the main motivation of a company in implementing CSR is to create a positive image for general public. Companies realize that the implementation and disclosure of CSR will give a positive value in terms of financial aspect, brand image and the sustainability of those companies (Nugroho, 2011). Without CSR disclosure, general public is likely to doubt the sustainability of a company and therefore no investors are willing to invest in that company (Sari & Mimba, 2015).

The commitment of a company to contribute in the development of the nation by considering financial or economic, social and environmental aspects becomes the main issue from the concept of CSR (Priantana & Yustian, 2011). CSR is directed toward developing the economy of the society along with improving their quality of life. CSR is expected to make a company acceptable and sustainable. In order to achieve sustainability and going concern, the company must implement the principles of GCG and CSR consistently by keeping the balance between the desires from inside and outside of the company. CSR disclosure will create added value and improve the image of that company among investors. In Indonesia, companies are also expected to take part in CSR.

As known, earnings are critical for companies since it can provide information for stakeholders regarding companies' profitability. Therefore, managers are expected to be able to manage the companies' earnings well. Earnings management can be defined as: 'the use, by managers, of judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers' (Healy & Wahlen, 1999).

Managers' concerns over current performance could motivate them to engage in earnings management, which is a manipulation of current period earnings at the expense of future period earnings (Stein, 1989; Graham, Harvey & Rajgopal, 2005; Kim & Sohn, 2013). Earnings management can make the financial statement biased, meaning that the statement is written using certain accounting methods to fulfil investors' need or manager's desire (Praditia, 2010).

Increasing or decreasing profit in profit measurement does not reflect the actual condition. Companies with a reward system for managers who can accomplish high profit target may cause them to do earnings management in order to maximize the reward. Earnings management is conducted to attract investors interested in large and stable profit. However, Earnings management has a negative consequence in the long term. If this practice is known, a company may lose the trust and support from stakeholders. To prevent this, managers conduct CSR as a compensation for stakeholders. In other words, CSR is used to conceal earnings management and distract stakeholders' attention (Terzaghi, 2012).

According to Terzaghi (2012), there are two aspects of CSR: positive and negative. The positive aspects that affect the society include social contribution, voluntary activities, philanthropy, etc. that are done not merely for complying with the regulation. Optimizing those positive aspects increases a company's competitiveness. The negative aspects include fraud, violation of regulations and deviation from the social norms. Therefore, controlling these negative aspects is the minimum requirement for companies to maintain trust and relationship with the society and thus integrated roles between corporate governance and CSR is required.

The structure of corporate governance in this study consists of the composition of the board of commissioners, managerial ownership, state ownership, foreign ownership and audit committee. These elements of corporate governance affect the management of a company in earning expected profit financially and non-financially. Good corporate governance (GCG) is a corporate management system that connects managers, supervisors, shareholders and stakeholders by emphasizing five principles of GCG, namely Transparency, Accountability, Responsibility, Independence and Fairness (the Indonesian National Committee on Governance Policy, 2008).

The principle of responsibility in GCG can be manifested in CSR since GCG and CSR is closely related. CSR is defined as a management effort done by a business entity to achieve sustainability with economic, social and environmental balance by minimizing negative impacts and maximizing the positive ones (csrindonesia.com, 2015). The implementation of GCG in a company will encourage the management to manage the company well, including implementing its social responsibility.

State-owned companies in Indonesia are important for the nation's economy. The main goal of Indonesian government in implementing good corporate governance in state-owned companies is to improve professional management in making decisions and carrying out actions based on moral values and compliance with laws and regulations and awareness of the social responsibility of state-owned companies towards stakeholders and environmental sustainability, as well as improving the climate which is conducive to the development of national investment (Regulation of the Minister of State-Owned Companies Number 01, 2011). In recent years state-owned companies in Indonesia are in the public spotlight regarding their cases, where the image of some state-owned companies involved in the case is quite negative. For example, in 2001 Kimia Farma, a pharmaceutical manufacturer and one of the biggest state-owned companies in Indonesia, proved to engineer their financial statements (Syahrul, 2003). Kimia Farma's management reported a net profit of 132 billion rupiahs and the financial statements were already audited by a well-known accounting firm in Indonesia. However, the Indonesian Ministry of State-Owned Companies considers the net profit was too large and contained engineering elements. After a re-audit was conducted, Farma's 2001 financial statements were restated, as fundamental faults have been found. In the new financial statements, the profit presented is only 99 billion rupiahs or 33 billion rupiahs lower the original reported net profit. Another case is from the Indonesian Railways Company. The Indonesian Railways Company was also proven to manipulate its financial statements in 2005 (Liputan, 2006). The Indonesian Railways Company recorded a profit of 6.9 billion rupiahs, whereas it should have reported a loss of 63 billion rupiahs.

Despite the importance of state-owned companies in Indonesia, previous studies from Indonesia (Mutmainah & Mulia, 2009; Praditia, 2010; Waryanto, 2010; Nugroho, 2011; Suryono & Prastiwi, 2011; Priantana & Yustian, 2011; Djuitaningsih & Marsyah, 2012; Sefrilia & Saftiana, 2012; Setyawan, 2012; Terzaghi, 2012; Putri, 2013; Wirawan, 2013; Fajrina, 2014; Sari & Mimba, 2015; Tommy, 2015) rarely investigated GCG, earnings management and CSR in state-owned companies. Hence, this study contributes to literature by investigating the effect of GCG and earnings management towards CSR disclosure in state-owned companies in Indonesia.

This study makes the following contributions: 1) to complement previous studies in the literature by investigating the effect of good corporate governance and earnings management to corporate social responsibility disclosure in state-owned companies in Indonesia; 2) to help investors in making their investment decisions; 3) to help businesses in general and state-owned companies in particular, to better understand the effect of good corporate governance and earnings management towards the disclosure of CSR.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Agency Theory

Anthony and Govindarajan (2007) explained that agency theory is the relationship between principals and agents. The principals employ the agents to work according to their interests, including delegating the authority of decision making from the principals to the agents. In a company with shared capital, shareholders act as the principals and CEOs (Chief Executive

Officers) as their agents. Shareholders employ CEOs to act according to their interests. Generally, shareholders want to increase their wealth, while managers want the same thing for themselves. Thus, there is a conflict of interest between investors and managers. Shareholders are more interested in optimizing rate of return from their investment, while managers have many psychological and economical needs, including maximizing their compensation. Jensen and Meckling (1976) stated that the relationship of agency theory is a contract between managers (agents) and investors (principals). The separation of ownership and control makes the agents work according to the interest of the principals.

Different interests of the agents and the principals make both parties attempt to increase profit for themselves. The principals want as many returns for their investment as possible, which are reflected in the increase of dividend in each of the shares they own. The agents want their interest to be accommodated with adequate compensation or bonus for their work. The principals assess the agents' performance based on their ability in increasing profit to be allocated to dividend. The more the profit, share price and dividend are, the more successful the agents are so they deserve higher incentive.

The agency relationship can cause various problems when the related parties have different purposes. Managers of a company know more information on the internal affairs and the prospect of the company than the owners do. Therefore, the management is responsible for signaling information related the company's condition to the owners. The signal can be accounting information disclosure such as a financial statement. Imbalanced information acquisition leads to a condition called information asymmetry. Information asymmetry between management and owners creates a possibility for the managers to do earnings management, which will give the shareholders misleading information about the company's economic performance (Sari & Mimba, 2015).

Signaling Theory

According to Setyawan (2012), financial information disclosure may provide good news or bad news of a company to the users of such information. Signalling theory explains that managers conduct signalling in order to reduce the possibility of information asymmetry. Managers can give information about their performance through a financial statement by applying accounting conservatism policy that can provide more reliable information since this principle can prevent companies from earnings management and prevent users of financial statements from overstated profits and assets. Signalling theory can reduce information asymmetry between agents and principals and parties from outside by creating reliable financial statements with good integrity. To ensure that the financial statements from the agents are reliable, it is necessary to have opinions from other independent parties about the information stated in the statements.

Setyawan (2012) also explains that managers as agents have an incentive for voluntarily conduct corporate environmental disclosure as a signal to attract current investors and/or potential investors to improve the image of a company, especially when they are trying to be involved in earnings management. CSR is a signal for investors and other stakeholders that a company is actively involved in CSR practices, indicating that the corporate value is in a good position in the market. Good social performance of a company can help that company gain reliable reputation in the stock exchange market. From the managerial perspective, CSR can be used as a signal for distracting shareholders' attention from any problems in which managers may be punished if they are found manipulating profits. Thus, signalling theory in this context explains the relationship between CSR and earnings management.

Hypotheses Development

The board of commissioners according to the Indonesian National Committee on Governance Policy (2008) is a corporate body that is responsible collectively for supervising and giving advice for board of directors and ensuring that the company conducts the practice of corporate governance. Based on the agency theory, board of commissioners is considered as a mechanism of the highest internal control, which is responsible for monitoring the top management's performance. The composition of the board of commissioners can be seen from the number of its independent members. The more independent members in the board of commissioners, the easier they can control the CEOs and consequently, the more effective the monitoring process is (Priantana & Yustian, 2011).

A meta-analysis study by Ortas, Alvarez and Zubeltzu (2017) using various countries – both developed and developing countries - shows that the independence of a company's board is positively connected with CSR practices and that the more independent the board is the higher their levels of CSR practices. Those findings can be explained because companies with more independent boards are more likely to commit to CSR issues thus attaining a higher degree of CSR practices. A similar finding is found by Isa and Muhammad (2015) who found that board characteristics such as size and independence have a positive effect on CSR disclosure in Nigerian companies and Khan, Muttakin and Siddiqui (2013) who found similar results in Pakistani companies.

Previous studies in Indonesia on relationship between various characteristics of the board of commissioners and the level of information disclosure of a company show mixed results. Wirawan (2013) found that the composition of the board of commissioners negatively affects the rate of CSR disclosure. According to Wirawan (2013), ineffective selection and appointment of independent commissioners could be the cause of negative effect towards CSR disclosure. Terzaghi (2012) found that the composition of a board of commissioners in Indonesian companies does not have any effect to CSR disclosure. Conversely, a study conducted by Priantana and Yustian (2011) demonstrated that the composition of a board of commissioners positively affects CSR disclosure, meaning that the more independent members of board of commissioners in a company, the wider the CSR disclosure is. Based on the aforementioned previous studies, the hypothesis of this study is:

H1: The composition of the board of commissioners positively affects CSR disclosure

Managerial ownership is a level of share ownership by a management, which actively participates in the decision-making. Managerial ownership is measured by counting the percentage of shares owned by a management, which consists of managers, affiliated commissioners (other than independent commissioners) and directors and then the number is divided by the total shares available (Wirawan, 2013). The study conducted by Terzaghi (2012) and Wirawan (2013) in Indonesia showed that managerial ownership does not have an impact on CSR disclosure. On the other hand, a study conducted by Priantana & Yustian (2011) on Indonesian companies showed that managerial ownership negatively influences CSR disclosure. The findings show that bigger managerial ownership in a company reduces the extent of CSR disclosure by the management. A finding from Malaysia from Ghazali (2007) also found that companies in which the directors hold a higher proportion of ownership (owner-managed companies) disclosed significantly less CSR information, while companies in which the government is a substantial shareholder disclosed significantly more CSR information in their annual reports. Meanwhile, a study from Korea by Oh, Chang and Martynov (2013) found that shareholding by top managers is negatively associated with firm's CSR rating. Based on the findings above, the hypothesis of this study is:

H2: Managerial ownership negatively affects CSR disclosure

State ownership is the number of shares owned by the government. Nugroho (2011) stated that relevant state ownership affects the rate of voluntary disclosure. It is expected that the number of shares owned by the government affects bigger disclosure, i.e., CSR disclosure, because the government is supposed to promote transparency of public companies (Nugroho, 2011). Previous study by Okafor (2014) in Nigeria shows that government ownership has a significant and positive effect on CSR expenditure. On the other hand, a study from China by Li and Zhang (2010) reveals that state ownership negatively affects CSR. Meanwhile, Indonesian studies conducted by Mutmainah and Mutia (2009) and Sefrilia and Saftiana (2012) showed that state ownership positively affects the extent of corporate social responsibility disclosure. It shows that bigger state ownership means stronger external control to a company. State ownership encourages the increase of optimal supervision for a company's performance and optimises the extent of CSR disclosure. Based on the explanation above, the hypothesis of this study is:

H3: State ownership positively affects CSR disclosure

Foreign ownership means the number of shares of a company owned by foreign parties either individuals or institutions. It is measure based the percentage (%) of the number of shares owned by foreign parties from the total shares available. According to Putri (2013), a company with foreign ownership tends to have extensive disclosure. Hu, Zhu and Hu (2016) who found that foreign investors played a significant role in the decision process to adopt CSR disclosure in China. From Pakistan, Khan, Muttakin and Siddiqui (2013) found that foreign ownership positively affects CSR disclosure.

A study conducted in Indonesia by Putri (2013) showed that foreign ownership has a significant negative impact to CSR disclosure. Meanwhile, another study conducted by Wirawan (2013) showed a contradicting result. Foreign ownership is one of corporate governance's characteristics, which can influence CSR disclosure. A company with large foreign ownership is more encouraged to report and disclose its information voluntarily and more extensively. According to Wirawan (2013), it is caused by the fact that foreign investors, especially those from Europe and the United States have known the concept of CSR practices and disclosure longer. Besides, foreign companies have better training in accounting from their parent companies abroad. Another possibility is bigger demand for foreign companies from customers, suppliers and general public. It is well known that European countries pay attention to social issues such as the right to control and supervise the management in a company's operation, one of which is CSR disclosure. Based on the explanation above, the hypothesis for this study is:

H4: Foreign ownership positively affects CSR disclosure

Priantana and Yustian (2011) explained that an audit committee is a committee that helps commissioners or board of supervisors ensures the effectiveness of the internal control and internal and external auditors' performance. According to the Regulation of Indonesian Financial Services Authority Number 55/POJK.04/2015 regarding establishment and guidelines of the implementation of the audit committee (FSA, 2015) audit committee of Indonesian public companies must have at least three members: one independent commissioner and two members from outside an issuer of a public company. The number of the committee must be adjusted to the complexity of the company by considering the effectiveness of the decision-making process.

Audit committee plays a strategic and important role in maintaining the credibility of a financial statement arrangement process as well as maintaining a capable monitoring system in a company. Khan, Muttakin and Siddiqui (2013) found that presence of audit committee in Pakistani companies has positive significant impacts on CSR disclosures. The study conducted by Priantana and Yustian (2011) in Indonesia showed that audit committee does not significantly affect CSR disclosure. Meanwhile, other Indonesian studies by Suryono and Prastiwi (2011) and Tommy (2015) found that audit committee has a positive impact to CSR disclosure. Audit committee is important for supervising and controlling a company, resulting in more effective supervision on the practices and disclosure of a company's environment to external parties and stakeholders (Tommy, 2015). Based on the explanation above, the hypothesis of this study is:

H5: Audit committee positively affects CSR disclosure

Regarding the relationship between earnings management and CSR disclosure, empirical evidence from various countries is still inconclusive. From the US, Yip, Staden and Cahan (2011) reported that there is a significant relationship between CSR and earnings management. Meanwhile, another study in the US by Grougiou et al. (2014) found that engagement in CSR activities does not have any significant impacts on earnings management. From Asia, Scholtens and Kang (2013) found that Asian firms with relatively good CSR are engaged significantly less with earnings management. Previous studies in Indonesia demonstrate different findings. Terzaghi (2012) asserted that earnings management gives insignificant effect to CSR disclosure. Meanwhile, Djuitaningsih and Marsyah (2012) and Fajrina (2014) found that earnings management has a negative influence to CSR disclosure. A management provides exaggerated information in annual reports to distract the attention of financial statement users away from the earnings management they do. CSR disclosure is then used to secure their position. The disclosure of social and environmental responsibility in annual reports is used by the managers to secure their position and shift stakeholders' attention from monitoring earnings management activities. Based on the explanation above, the hypothesis of this study is:

H6: Earnings management negatively affects CSR disclosure

RESEARCH METHODS

The objective of this empirical study is to investigate the effect of good corporate governance and earnings management towards corporate social responsibility disclosure in state-owned companies in Indonesia. Good corporate governance measurements employed in this study are: the composition of the board of commissioners, managerial ownership, state ownership, foreign ownership and audit committee. Earnings management in this study is calculated using proxy discretionary accruals with the modified Jones model (Dechow, Sloan & Sweeney, 1995).

The population of this study is 22 state-owned companies listed in the Indonesia Stock Exchange from 2013 to 2015. This study used the data from the annual reports from 2013 to

2015. This study implemented purposive sampling, in which samples are selected based on certain criteria as follows: 1) state-owned companies listed in the Indonesian Stock Exchange from 2013 to 2015; 2) provide a complete annual report from 2013 to 2015; 3) have complete data related to the variables used in the study.

Based on the sample criteria, only 17 state-owned companies included in this study and this provides 51 samples (*n*) in total. The data used in this study are secondary data in the form of quantitative data from annual reports and sustainability reports of those state-owned companies from 2013 to 2015. The data were collected from the official site of the Indonesia Stock Exchange (http://www.idx.co.id) and the official sites of each company. The data analysis of this study was conducted using multiple regression analysis. Classical assumption tests were also conducted and the results showed that

The dependent variable of this study is the CSR disclosure in the annual reports of the companies stated in Corporate Social Responsibility Disclosure Index (CSRDI), referring to GRI (Global Reporting Initiatives) indicators. GRI indicators consist of seven items to disclose (economic, environment, social, labor practices, human rights, society and product responsibility) as the basis of sustainability reporting with the number of all items, which can be disclosed using the following formula:

$$\text{CSRDI}=n/k$$

Where, CSRDI=CSR disclosure index;
n=number of disclosed items;
k=number of items which might be fulfilled.

CSR disclosure index is calculated every year for each of the state-owned company investigated in this study.

Independent variables in this study are the composition of board of commissioners, managerial ownership, state ownership, foreign ownership, audit committee and earnings management. The formulae of each independent variable were as follow:

1. The composition of board of commissioners=(independent board of commissioners members)/(board of commissioners members)
2. Managerial ownership=(number of shares owned by managers)/(number of shares available)
3. State ownership=(number of shares owned by the government)/(number of shares available)
4. Foreign ownership=(number of shares owned by foreign parties)/(number of shares available)
5. Audit committee=The number of audit committee members in a company's annual reports mentioned in the corporate governance report.

Earnings management is calculated using proxy discretionary accruals (DA) with the modified Jones model. The calculation of discretionary accrual was as follow:

$$\text{TAit}=\text{NIit} - \text{CFOit} \qquad (1)$$

Where, TAit=Total accrual of company i in year t;

NIit=net income of company i in period t;

CFOit=Cash flow of company i's operation in period t.

Determining coefficient and regression of total accrual: the first step to determine nondiscretionary accrual is conducting regression as follows:

$$TAit/Ait\text{-}1=\beta1\ (1/Ait\text{-}1)\ \beta2\ (\Delta REVit/Ait\text{-}1)+\beta3\ (PPEit/Ait\text{-}1)+e \qquad (2)$$

Where, TAit=Total accrual of company i in year t;

Ait-1=Total asset of company i in the end of year t-1;

ΔREVit=Change of company i's earning sin year t;

PPEit=Fixed assets of company i in year t;

e=Error.

Determining nondiscretionary accrual: regression in equation (2) resulted in coefficient β1, β2 and β3. Coefficient β1, β2 and β3 were then used for predicting nondiscretionary accrual using equation (3) as follow:

$$NDAit=\beta1(1/Ait\text{-}1)+\beta2((\Delta REVit - \Delta RECit)/Ait\text{-}1)+\beta3\ (PPEit/Ait\text{-}1)+e \qquad (3)$$

Where, NDAit=Nondiscretionary accrual of company i in year t;

ΔRECit=Change of debts of company i in year t;

e=Error.

Determining discretionary accrual: after obtaining nondiscretionary accrual, discretionary accrual can be calculated by subtracting the total accrual (the result of equation (1)) with the nondiscretionary accrual (the result of equation (3).

$$DAit=(TAit/Ait\text{-}1) - NDAit \qquad (4)$$

Where, DAit=Discretionary accrual of company i in year t;

The regression formula of this study is as follows:

$$CSRDIi=\beta_0+\beta_1 CBCi+\beta_2 MOi+\beta_3 SOi+\beta_4 FOi+\beta_5 ACi+\beta_6 EMi+\varepsilon i$$

Where, CSRDI=Corporate social responsibility disclosure index;

CBC=Composition of the board of commissioners;

MO=Managerial ownership;

SO=State ownership;

FO=Foreign ownership;

AC=Audit committee;

EM=Earnings management.

RESULTS AND DISCUSSION

Descriptive analysis was conducted to describe the data from all variables used in this study. By using descriptive statistics the characteristics of the research variables from all sample companies can be identified. This statistical test is conducted to analyse the data of corporate social responsibility, the size of board of commissioners, the composition of managerial ownership, the composition of foreign ownership, the composition of state ownership, audit committee and earnings management. The descriptive analysis of these research data can be seen in Table 1. Based on Table 1, the data consisted of 51 cases and the smallest number of CSR disclosure was 0.14 and the biggest was 0.71. The average rate of corporate social responsibility was 0.3002. Next, the average number of disclosed items in CSR disclosure by the issuers reached approximately 30%. Table 1 also shows that the average rate of CSR disclosure was 30%, showing that the rate of CSR disclosure in state-owned companies was not good since it was still below 50%. The standard deviation was 0.16235, meaning that the measure of dispersion of CSR disclosure rate was 0.16235 from 51 cases.

In the variable of composition of board of commissioners, it is shown that the more independent member in the board of commissioners, the bigger proportion of independent commissioners in the board. The result of the analysis shows that the minimum score of the composition of board of commissioners variable in Table 1 was 0.50 and the maximum score was 1,00. It means that the proportion of independent commissioners in the companies was at least 50% and 100% at the most, meaning that all board of commissioners' members were independent. The average score of the proportion of independent board of commissioners was 0.6635. The standard deviation was 0.20665, showing the variation in the variable of board of commissioners' independence.

The variable of managerial ownership in Table 1 shows that the minimum score of the variable was 0.00 and the maximum score 0.05 with 0.0065 average score. It means that in this study, 5.00% of shares at the most were owned by managers and the least score of 0% means that managers had no shares in the companies. The average number of shares owned by managers was 0.65%, with 0.01246 standard deviation showing the variation in managerial ownership.

State ownership variable in Table 1 shows that the minimum score of that variable was 0.51 and the maximum score 0.90. It means that in the sample companies, 90% of the shares at the most were owned by the government and 51% was the least. The average score of state ownership was 0.6394 or 63,94% and the standard deviation was 0.10555, showing the variation in state ownership.

Table 1
DESCRIPTIVE STATISTICS

	n	Min	Max	Sum	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
CSR	51	0.14	0.71	15.31	0.3002	0.02273	0.16235	0.026
CBC	51	0.50	1.00	33.84	0.6635	0.02810	0.20065	0.040
MO	51	0.00	0.05	0.33	0.0065	0.00174	0.01246	0.000
SO	51	0.51	0.90	32.61	0.6394	0.01478	0.10555	0.011
FO	51	0.00	0.78	12.27	0.2406	0.02928	0.20907	0.044
AC	51	2.00	6.00	195.00	3.8235	0.14741	1.05273	1.108
EM	51	-13.31	83.34	217.69	4.2685	2.49725	17.83390	318.048
Valid n (list wise)	51							

Abbreviations: n: number of calculation; Min: Minimum Score; Max: Maximum Score; Mean: Average Number; Std Deviation: Standard Deviation; CBC: Composition of the Board of Commissioners; MO: Managerial Ownership; SO: State Ownership; FO: Foreign Ownership; AC: Audit Committee; EM: Earnings Management

Table 1 below shows that foreign ownership variable had the minimum score of 0.00 and the maximum score of 0.78. It means that there were 78.00% of company shares owned by foreign parties at the most and 0% at the least, on no foreign ownership at all. The average score of foreign ownership was 0.2406 or 24.06%, with 0.*2097* standard deviation.

Table 1 also shows that the size of audit committee variable had the minimum score of 2 and the maximum score of 6 with 3.8235 averages. It means that the number of audit committee members in sample companies were at least 2 people and 6 people at the most, with the average of 4 audit committee members in each company. The standard deviation was 1.05273, showing the variation in the variable.

Multiple regression analysis was implemented to test the effect of the variables of the composition of the board of commissioners, managerial ownership, state ownership, foreign ownership, audit committee and earnings management towards corporate social responsibility of state-owned companies listed in the Indonesia Stock Exchange from 2013 to 2015. The results of the multiple regression analysis are shown in Table 2. The regression equation after hypotheses testing is:

The following are the results of the hypotheses testing in this study:

H1: The composition of the board of commissioner's variable had 0,556 sig values, hence, the variable CBC was not significant and H1 is rejected. This finding demonstrates that the composition of board of commissioners does not have any effects on CSR disclosure in state-owned companies in Indonesia. This finding is consistent with Terzaghi (2012) who found that the composition of board of commissioners in Indonesian companies does not have any effects to CSR disclosure. Nonetheless, this finding does not support Wirawan (2013) who found that the composition of board of commissioners in Indonesian companies negatively affects CSR disclosure. Furthermore, this finding is also inconsistent with previous studies by Khan, Muttakin and Siddiqui (2013), Isa and Muhammad (2015) and Ortas, Alvarez and Zubeltzu (2017) who found that independence of a company's board is positively connected with CSR practices. The difference of this result may be caused by different characteristics of companies investigated in this study and in previous research.

H2: Managerial ownership variable in Table 2 had 0.012-sig value. Sig 0.012<0.05 means that this variable MO was significant at the level of 1.2%. The coefficient of the variable was -0.067, which means that when managerial ownership increased by 1%, CSR disclosure would decrease by 6.7%. It means that managerial ownership has a significant negative impact on CSR disclosure and thus H2 is valid. Therefore, it can be concluded that managerial ownership negatively affects CSR disclosure, meaning that the bigger managerial ownership in a company, the less extensive CSR disclosure provided by the management. This finding also demonstrates that managerial ownership cannot be used as the basis in extensive CSR disclosure because there is an opportunity for managers to act for their own interests in the decision-making process. The managers may gain advantages from the decisions they make, but they get the consequences if they make the wrong decisions. This finding is consistent with previous studies by Ghazali (2007), Priantana and Yustian (2011) and Oh, Chang and Martynov (2013) who found that manager ownership has a negative relationship with CSR disclosure. On the other hand, this finding does not support finding by Wirawan (2013) who found that managerial ownership does not have any effects on CSR disclosure. The difference could be caused by different sample used since Wirawan (2013) focused on manufacturing companies in Indonesia, whilst this study does not focus on a particular industry. This finding is also supported by agency theory which states that managers as agents would like to maximise their own wealth. Maximising wealth can be achieved by reducing CSR activities or even shirking CSR altogether. Therefore, the higher managerial ownership is the less CSR disclosure by the company.

H3: State ownership variable in Table 2 had 0.025-sig value. Sig 0.025<0.05 means that the variable SO had a significant effect at the level of 2.5% and thus, H3 is valid. The coefficient of this variable was 0.155, which means that an increase by 1% in state ownership led to 15.5% increase of CSR disclosure rate. Therefore, it can be said that state ownership has a significant positive effect on CSR disclosure. This significant relationship means that the more shares owned by the government in a company are, the more extensive CSR disclosure rate is. Government intervention in the ownership of a company may give some pressure to the company to disclose more information because the government is an entity trusted by the people. Government ownership encourages the more optimal supervision to corporate performance in achieving its goals and optimizing CSR disclosure. This finding support previous studies by Mutmainah and Mutia (2009), Sefrilia and Saftiana (2012) and Okafor (2014) who found that state ownership has a positive effect on CSR disclosure. However, this finding does not support a study by Li and Zhang (2010) who found that state ownership negatively affects CSR. This difference could be caused by different forms of the state between Indonesia and China. This finding is also consistent with the agency theory since the government is the main stakeholders in state-owned companies in Indonesia. The Indonesian government will ensure the state-owned companies to follow rules and regulations regarding CSR disclosure. Therefore, the higher state-ownership is, the more extensive CSR disclosure will be. Also, this finding supports signalling theory since the government as the main shareholders in the state-owned companies would like to send a good signal to investors by disclosing extensive CSR.

H4: Foreign ownership variable had sig value of 0.701>0.05. It means that the variable foreign ownership (FO) was not significant at the level of 70.1% and thus H4 is rejected. It means that the size of foreign ownership may not be the reason a company discloses its CSR extensively. This finding is inconsistent with previous studies by Khan, Muttakin and Siddiqui (2013), Wirawan (2013) and Hu, Zhu and Hu (2016) who found that foreign ownership positively affects CSR disclosure. Very little foreign ownership in state-owned companies investigated in this study could cause the insignificant relationship between foreign ownership and CSR disclosure.

H5: Audit committee variable (AC) had a sig value of 0.020<0.05. It demonstrates that the variable is significant thus H5 is valid. The coefficient of the variable was 0.061, meaning that when the number of audit committee members increased by 1%, the rate of CSR disclosure also increased by 6.1%. Therefore, audit committee variable that is measured by the number of audit committee members has a significant positive impact on CSR disclosure. This result supports previous research by Suryono and Prastiwi (2011), Khan, Muttakin and Siddiqui (2013) and Tommy (2015) who found that audit committee has a positive impact to CSR disclosure. Thus, the existence of audit committee in a company increases the effectiveness of the supervision including the practices and disclosure of CSR to external parties and stakeholders. However, the finding of this study regarding the effect of audit committee to CSR disclosure does not support previous research by Priantana and Yustian (2011) and Terzaghi (2012) in Indonesia who found that audit committee does not significantly affect CSR disclosure. The difference of findings may be caused by different samples used. Priantana and Yustian (2011) investigated audit committee and CSR disclosure in financial companies and Terzaghi (2012) investigated earnings management and corporate governance mechanism in manufacturing companies, whilst this study does not focus on a specific industry. This finding also supports agency theory since the more members of the audit committee the easier it will be for the principal to control and oversee the agents.

H6: Earnings management variable had the sig value of 0.633. Sig 0.633>0.05 means this variable was not significant and thus H6 is rejected. Thus, earnings management does not have any effects on CSR disclosure. This finding is consistent with previous studies by Terzaghi (2012) and Grougiou et al. (2014). On the other hand, this finding does not support finding by Yip, Staden and Cahan (2011) who found that there is a significant relationship between CSR and earnings management and also Djuitaningsih and Marsyah (2012) and Fajrina (2014) who found that earnings management negatively affects CSR disclosure. The different result can be caused by different samples used.

Table 2
MULTIPLE REGRESSION ANALYSIS RESULTS

Variable	Prediction	Coefficient	Significance
(Constant)		0.290	
CBC	-	-0.079	0.556
MO	-	-0.067	0.012
SO	-	0.155	0.025
FO	-	-0.046	0.701
AC	-	0.061	0.020
EM	-	0.000	0.633
Model Summary			
Adjusted R Square			0.0166
Estimated standard error			0.1408

CONCLUSION

This study aims to investigate the effect of good corporate governance consisting of the composition of independent board of commissioners, managerial ownership, state ownership, foreign ownership and audit committee; and also earnings management to CSR disclosure in state-owned companies in Indonesia that are listed in the Indonesian Stock Exchange from 2013 to 2015.

The results of this study can be concluded as follows:

1. The composition of board of commissioners does not have a significant effect to CSR disclosure. It means that the number of independent commissioners in a company's board does not affect CSR disclosure.
2. Managerial ownership has a significant negative effect to CSR disclosure.
3. State ownership has a significant positive effect on CSR disclosure. It means that state ownership can be the basis for extensive CSR disclosure, i.e.: the greater the state ownership, the more extensive CSR disclosure is.
4. Foreign ownership does not have any significant negative impact on CSR disclosure.
5. Audit committee members have a significant positive effect on CSR disclosure. It means that the number of audit committee members can be the basis for extensive disclosure of a company's CSR.
6. Earnings management does not affect CSR disclosure. It shows that the practice of earnings management in a company does not affect the extent to which a company's CSR is disclosed.

The authors acknowledge several limitations of this study as follows:

1. The samples in this study only consisted of state-owned companies listed in Indonesia Stock Exchange thus the results may not be generalised towards companies with different ownership structure.
2. The observation period was relatively short (from 2013 to 2015), meaning that the result of this study may not be as robust as other studies with longer observation period.
3. Next, the adjusted R^2 rate from the model tested in this study was quite low (0.166 or 16.6%), showing that there were other variables with greater influence to CSR disclosure, which were not included in this study.
4. This study does not control variable such as size or profitability due to the limited number of state-owned companies listed.

Suggestions for future studies are as follow:

1. Future studies can use more samples, i.e. all companies listed in Indonesia Stock Exchange for better results.
2. Use longer span of research time to get better results.
3. Include other independent variables such as community ownership, institutional ownership, independence of the audit committee and the number of audit committee's meeting to proxy good corporate governance.
4. Use control variables such as size or profitability in order to robustly explain the effect of good corporate governance and earnings management towards CSR disclosure.

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