THE IMPACT OF GOOD CORPORATE GOVERNANCE ON THE CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE

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ABSTRACT

The study examines the effect of corporate governance on the disclosure of Corporate Social Responsibility. This study uses Corporate Social Disclosure Index (CSDI) with reference to the Global Report Initiative (GRI) Index and the index based on disclosures made by ASTRA which is considered as a benchmark for CSR disclosure in Indonesia. The sample is 108 non-financial companies listed on the Jakarta Stock Exchange (JSE) in 2004 to 2005. Data is collected from company annual reports obtained from the JSE website, ICMD, and JSE reference center JSE. The analysis is done using regression testing with panel data analysis.

The result shows that the Corporate Governance Index (CGI) has a significant positive correlation to both the GRI and CSDI ASTRA. This result verifies that the paradigm which emerged in a variety of discourses about the correlation of Corporate Governance and CSR Disclosure is proven in empirical research. It also provides broad opportunities for GRI to develop and become a useful guide in Indonesia. The result is supported by a significant increase in CSDI GRI between 2004 and 2005. However, the small average figure of CSDI suggests that CSR disclosures have not received priority in corporate disclosure by companies in Indonesia so that transparency regulations can not be well implemented. The significant control variable is company size, while profitability and leverage are not significant.

Keyword: *Corporate Social Responsibility, CSR, Corporate Governance, GRI*

1. INTRODUCTION

Disclosure of corporate social responsibility has become a global trend in recent years. Companies report emphasizes not only on the financial aspects but has incorporated of non-financial elements. The need for wider information from decision-makers is accommodated by the making of annual report that not only reports the company's financial condition but also non-financial information.

Corporate social responsibility is an important aspect to be considered by investors. Through CSR activities, investors can assess the company's commitment to the community and environment which affect the company's ability to achieve success in the future. CSR reporting is usually performed in the annual reports, company websites or sustainability reporting. Some capital market has introduced company ratings based on social and environmental responsibility such as the Dow Jones Sustainability Index (DJSI) in New York Stock Exchange which start in 1999, Socially Responsible Investment (SRI) Index on the London Stock Exchange, the FTSE4Good by the Financial Times Stock Exchange (FTSE) since 2001, and Hanseng Stock Exchange and Singapore Stock Exchange.

There is much diversity in disclosure of information relating to social and environmental activities. One reference about disclosure of social and environmental activities is the Global Reporting Initiative

(GRI) by CERES (Coalition for Responsible Economies Enviromentally*)* which was introduced since 1997. Companies in Indonesia reported CSR activities in annual reports, websites, and some make sustainability reporting. Every year the Institute Management Accountants Indonesia held Corporate Social Responsibility Reporting Award.

Research by Ayusso, et al., (2007) shows that the council whose role in addressing CSR accountability proved to be more effective. Schlange (2004) research shows that even though there is no direct relationship between CG and CSR (case in countries Germany, Britain, and France), but there is a clear indirect relationship between the two.

Haniffa and Cooke (2005) find no positive relationship between leverage and disclosure of CSR. Likewise, Sembiring (2005) also find no relationship between the two. Both these findings are different from research findings of Roberts (1992) and Sembiring (2003) who find a relationship between leverage and CSR. Research by Roberts (1992) shows a positive relationship, while Sembiring (2003) research shows a negative relationship. The diversity of the results obtained and the limited amount of literature on this subject make us are interested to raise this as a topic of research.

This study aspire to look at the influence of Corporate Governance on CSR Disclosure in accordance with the global guidelines and CSR Disclosure in accordance with the disclosure categories of PT Astra International Tbk. ASTRA was chosen because in 2006 it succeeded won CSR Reporting. This study will examine specifically whether the Corporate Governance Index (CGI) with control variables which is leverage, size, and profitability affect corporate governance. The new thing in this study is the use of index.

2. Literature Review

Corporate Social Responsibility

One of the environmental issues that are considered encouraging the development of CSR in the business world is the Stockholm Conference in 1972 that ended with the establishment of environmental programs. This issue is discussed further in Summit in June 1992 in Rio de Janeiro, Brazil, which obtained public legitimacy and political will globally as the direction of the passage of environmentally sound development. However, the programs that are formulated as economic and environment sustainability, is considered not capable to increase the welfare of communities in the southern countries. Finally, in Johannesburg in 2002 a general rule for the welfare of mankind was agreed by the establishment of social sustainability concept (Rudito and Famiola, 2007). The three aspects which have been formulated (economic, environment, and social sustainability) become benchmark for the company in carrying out its social responsibility.

The concept which is considered driving the emergence of CSR is the orientation shift from the shareholder orientation to the stakeholder orientation (Mirza, 1997). In the shareholder orientation, the company is only responsible for one client (single client system), while in the stakeholder orientation, the company directs attention to all clients (multiple client system). Company needs to pay attention to stakeholder interests above the interests of its shareholder, because the company has relationships with many groups (Gelb and Stawser, 2001 in Finch (Working Paper Macquarie Graduate School of Management). Company operation often has an impact on the surrounding community. Understanding is the primary consideration the stakeholder theory. Basic stakeholder theory is that the development of the company and increasing impact on the

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surrounding environment should be balanced with the fulfillment of corporate accountability to the various sectors of society, not only to shareholders (Solomon and Solomon, 2004).

The company, through its top management tries to obtain compatibility between organizational actions and values in the public and relevant public or its stakeholders (Dowling and Pfeffer, 1975 in Haniffa and Cooke, 2005). But sometimes there are potential differences between organizational and social values that could threaten the legitimacy of the company. According to Sethi (1979) in Haniffa and Cooke (2005) this may destroy the legitimacy of the organization that led to the end of the existence of the company. Legitimacy theory suggests that corporate influence and vice versa is influenced by society and the environment in which they operate (Dowling and Pfeffer, 1975 in Basamalah and Jermias, 2005). Legitimacy theory is defined as the common perception or assumption that the actions taken by the entity is something that is expected, appropriate, or feasible in the social construction of norms, values, beliefs and definitions (Suchman, 1995 in Haniffa and Cooke, 2005). Research by Neu, et al. (1998) in Basamalah and Jermias (2005) find that companies voluntarily disclose social issues and the environment in their annual reports only if the activity is deemed necessary by management to gain a good impression of the society for the sake of upholding the legitimacy of the company.

CSR provides future benefits for business operations because it shows the reliable, sustainable, and profitable performance based on ethical values, population, society, and environment. According to Finch (2005), CSR is part of sustainability. The company has a main objective to meet the financial needs, especially financial capital. Demands of social responsibility emerged as a consequence of the organization in obtaining financial capital. Companies that have received capital will run the company in accordance with the principles of good governance and optimize its performance as a form of responsibility to the providers of capital. Supervision of social and environmental impacts as well as corporate compliance and ethical values are important factors to maintain business continuity and corporate performance in the long term.

The company reported social and environmental disclosure for strategic reasons rather than pure intentions of company awareness (Basamalah and Jermias, 2005). Social and environmental disclosures made by management to gain a good reputation from the public and maintaining the existence of that company to obtain legitimacy from the public (Neu et al. (1998) in Basamalah and Jermias (2005)). Compliance with applicable laws, the acquisition of competitive advantage, manage group influential stakeholders, and attracted the attention of the investment fund is also the reason companies make disclosures of social responsibility.

Social and environmental disclosures have many benefits for companies such as attraction to the company (Environic International CSR Monitor, 2001)[1,] increase sales and customer loyalty (research Cone Corporate Citizenship Study), and to improve the ability to attract and foster loyalty of its employees as in the research of The Aspen Institute Initiative for Social Innovation through Business between 1999 and 2001. Disclosure may also reduce regulatory oversight and facilitate com-

[1] Business for Social Responsibility, Overview of Corporate Social Responsibility, viewed on 2nd May, 2007, <http://www.bsr.org/CSRResources/IssueBriefDetail.cfm?DocumentID=48809>.

panies in accessing capital (socially Responsible Investing (SRI), 2001).

Disclosure of CSR is not been uniform because there are no standards that are required for use. CSR disclosure is voluntary, so the form of the report is varied. International Accounting Standards Committee (IASC) has not set social and environmental accounting standards for the accounting, reporting, and environmental social accounting disclosure (Lako, 2003). Some problems in the CSR disclosure are the accounting treatment of environmental costs and social benefits that have been sacrificed and that will be obtained by an entity, and conflict of interest. Different regulation or accounting practices of social and environmental reporting among member countries causes IASC fails to harmonize the accounting regulations, or standardize social and environmental reporting. Different economic environment, social, political, legal, and cultural rights in some countries makes harmonization efforts undertook by IASC to be more difficult (Saudagaran, 2001 in Lako, 2003). According to Hedberg and Malmborg (2003) in Basamalah and Jermias (2005), there still debate and consensus gaps on major issues such as reporting objectives, qualitative characteristics of information, reports user, and the presentation of the proper format.

In Indonesia, this problem makes Bapepam has not issue a financial reporting regulations that requires public companies to include the reporting of accounting information on corporate environmental and social performance. Social and environmental disclosures of companies in Indonesia are generally voluntary.

The absence of standards triggers differences in the social disclosure. Research by Adam, et al. (1997) and Ernst & Ernst (1978) shows that the mostly used disclosure forms is disclosures that are part of the annual report, one of which is the country Australia. Other form of disclosure is statements with reference to the Chairman Statement on the country of Malaysia (Teoh and Thong (1984) in Gray (1996)), director report to the state of the UK, as well as external reports in the form of descriptive disclosure in annual reports on U.S. companies (Gray, 1996). In Indonesia, the disclosure of CSR is part of the annual report. In addition, disclosure can also be done through the company's website. Research by Sulenta, KonAan, and MuAsura (2004) browse the various websites that contain social and environmental disclosure.

In 1997, the Global Reporting Initiative (GRI) was introduced by CERES (Coalition for Environmentally Responsible Economies). GRI is a reporting framework that common and acceptable that aims to combine statements of financial performance, environmental and social performance with the same format (Environment Australia, 2000 in Finch, 2005). GRI aim is to improve the sustainability reporting practices in the same level with the financial statements, which have comparability, auditability, and generally accepted. Furthermore, the purpose of GRI reporting is that social and economic (including financial accounting) is embodied in a concept of sustainability.

Corporate Governance

Corporate governance is the principles that govern what is the proper management act and operate the enterprise. Corporate governance that is well applied is able to balance the economic goals and social goals, as well as between individual and community goals. [2] In essence, GCG goal

[2] MHC International, January 2001, viewed on 2nd May, 2007, <www.mhcinternational.com/governance.htm>

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is to harmonize the diverse interests of individuals, companies and communities.[3] According to McKinsey (2000) [4] good governance which are categorized to meet the following things: 1) the existence of outside directors with higher numbers than the directors from inside the company itself, 2) outside directors really independent, not bound by corporate management, 3) the director has a significant stake in the company, 4) an evaluation of directors, 5) is very responsive to investor demand.

Some factors that play an important role in the implementation of CG is the number of board and audit committee. More and more commissioners, make the CEO to be more easily controlled (Cooler and Gregory, 1999 in Sembiring, 2005), although sometimes there are problems caused by certain factors so that the power of the CEO can be greater than the power of board of commissioners (Wardhani, 2006). There is a tendency that the higher representation of insider council then the involvement of directors in strategic decision making will be more low (Judge and Zeithaml, 1992 in Wardhani, 2006). To balance it, an audit committee (the two tier system) is established by the board of commissioners to oversee the performance of activities in financial reporting and internal and external audit in the company. The committee delegates some of their duties to its established committees, including audit committee (President, 2004). According to the American Institute of Certified Public Accountant (AICPA), the number of audit committee members based on a survey of companies that have an audit committee is about 90% have audit committees with a total of three to five members (Utama, 2005).

Related Literature

Parker (1988) in his book mentions research on social disclosure, one of which is Ernst and Ernst (1980) survey. The survey showed that the percentage of Fortune 500 companies that discloses information on social impact increase from year to year. It is 57% in 1972, 60% in 1973, increased again in 1974 to 69%, increased further to 85% the following year, and in 1976 to 91%.

One of research that focuses on disclosure of CSR is research by Guthrie and Parker (1988) in Parker (1988) which indicates that disclosure presented covers themes such as human resources (40%), community involvement (31%), environment (13%), and energy and product disclosure (7%). In Indonesia, the study by Utomo (2000) shows that the disclosure of consumer and products theme is the most widely done.

Research that puts the CG as an integral concept is still very limited. Sembiring (2005) indicates that the greater the number of commissioners makes it easier to control and monitoring the CEO effectively as stated by Cooler and Gregory (1999). Chapple and Ucbasaran research (Working Paper, University of Nottingham) also shows that the size of the council proved influential in CSR disclosure. Research by Sayekti (2007) indicates that the variable size of an independent commissioner, the size of the audit committee and external auditors as a proxy governance CSDI have significant influence on CSDI, but not to the structure of ownership and block-holders ownership. According to Haniffa and Cooke (2005), CSD process can be viewed as a strategy to close the gap between management and shareholders (especially for foreign shareholders) through the non-executive directors.

[3] Cadbury, Sir Adrian, 2000, viewed on 2nd May, 2007, <www.mhcinternational.com/governance.htm>

[4] McKinsey, 2000, MHC International, viewed on 2nd May, 2007, <www.mhcinternational.com/governance.htm>

Research done by Siagian, et al. (2006) in Rahadian (2007) offers CGI index that includes the components of corporate governance. This research will try if the new CG index is able to explain the social and environmental disclosure levels in Indonesia.

Research Hypothesis

This study wanted to see whether Corporate Governance (CG) strongly influence CSR in empirical testing. Haniffa and Cooke (2005) suggest that the breadth of the CSD is greater for firms with boards dominated by nonexecutive director. Coller, and Gregory (1999) in Sembiring (2005) states that the greater the number of commissioners, it will be easier to control the CEO. In addition, monitoring conducted will also be more effective. This is consistent with the results of research by Ucbasaran and Chapple (Working Paper, Nottingham University) who found that board size has significant effect on disclosure of CSR.

Cowen, et al. (1987) in Roberts (1992) mentions that the presence of the committee in dealing with CSR may affect the disclosure of CSR. This was proven in research by Ayusso, et al., (2007) that the council whose role in addressing CSR accountability proved to be more effective. Aigner (2000) in Lako (2003) reported that 66% of the surveyed the five hundred companies that enter the S & P firms have a board committee responsible for social problems of the environment. Sayekti's (2007) research shows that the size of an independent commissioner, the size of the audit committee and external auditors proven to significantly affect the level of CSR disclosure in corporate annual reports.

The study investigated the overall corporate governance and its influence on the level of breadth of disclosure is Khomsiyah (2003) which shows that corporate governance has positive correlation with the level of breadth of information disclosure. This is because the companies that implement corporate governance will provide more information in order to reduce information asymmetry.

Corporate Governance Index (CGI) in Siagian et al. (2006) in Rahadian (2007) contains components of corporate governance such as the rights of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, and responsibility of the board. Stakeholder is specified by Roberts (1992) into seven parts, which are the shareholders, creditors, employees, customers, suppliers, public interest groups, and government agencies. CSR also consider these things because the concept of CSR is highly appreciated as those stakeholders who affect and are affected by corporate activities.

Siagian, et al. (2006) in Rahadian (2007), states that the higher the index of the CGI, the deeper companies is actually implementing the values of good corporate governance. Therefore, the possible suppression of the breadth of CSR disclosure is also greater. The hypotheses that can be built are:

H1: *Corporate Governance Index* is positively correlated with *Corporate Social Disclosure Index* .

- Control Variables

Size is used as control variables, based on agency theory that states the big companies which have greater agency costs will disclose more extensive information in order to reduce these costs (Sembiring, 2005). Spicer (1978) in Trotman and Bradley (1981) found that large companies tend to have better pollution controls when compared with small firms. Cowen, et al. (1987) in Siregar and Bachtiar (Working Papers) shows that larger companies get closer scrutiny from various community groups so they get a stronger pressure to disclose his social activities. From these

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studies, there is the possibility that:

H2: size of the company is positively related to Corporate Social Disclosure Index

In accordance with the theory of legitimacy, the company tries to get legitimacy from the public relating to the financial capital it received from other parties. In accordance with agency theory, management of the companies with high leverage levels will reduce social responsibility disclosures made to avoid the spotlight from the debtholders (Sembiring, 2003). According Belkaoui and Karpik (1989) in Sembiring (2003) decision to disclose social information will be followed by expenditure for the disclosure of which reduces earnings. So the company will tend to reduce costs by reducing the level of social disclosure. Therefore, the hypothesis becomes:

H3: corporate leverage is negatively related to Corporate Social Disclosure Index

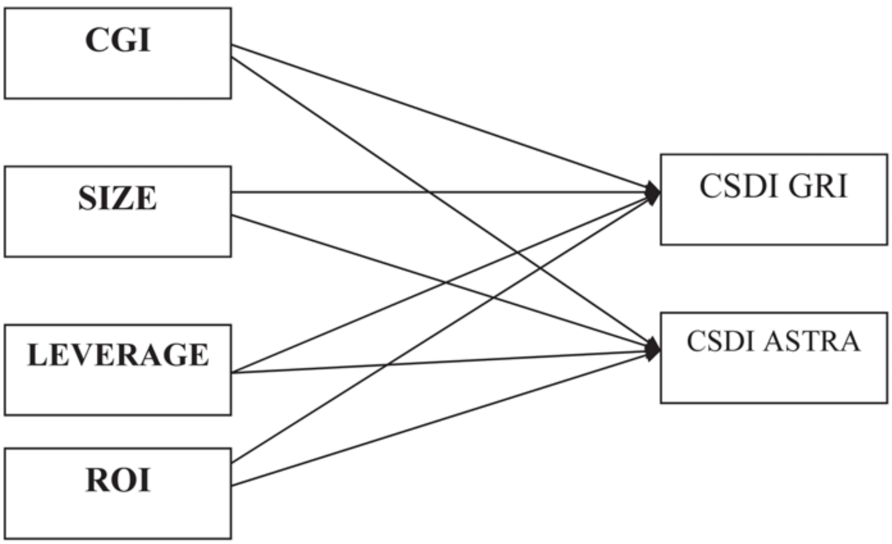
In companies that have a greater profitability, management has the freedom and flexibility to take responsibility in CSR (Haniffa and Cooke, 2005). In addition, Roberts (1992) found that highly profitable companies have a higher level of attention to social activity. In this study, profitability is reflected in the variable ROI. Thus,

H4: ROI of the companies are positively related to Corporate Social Disclosure Index

3. Methodology

Above hypothesis will be tested in a regression equation as described in the framework of thought in the figure 3.1.

Figure 3.1.
Thinking Framework



This study will use panel data model with random effects approach as follows:

$$CSDI\ GRI_{it} = \beta o + \beta 1\ CGI_{it} + \beta 2\ SIZE_{it} + \beta 3\ LEVERAGE_{it} + \beta 4\ ROI_{it} + \varepsilon_{it}$$

$$CSDI\ ASTRA_{it} = \beta o + \beta 1\ CGI_{it} + \beta 2\ SIZE_{it} + \beta 3\ LEVERAGE_{it} + \beta 4\ ROI_{it} + \varepsilon_{it}$$

Where :

$CSDI\ GRI_{it}$ = Corporate Social Disclosure Index based on the GRI,

CSDI ASTRA $_{it}$	=	Corporate Social Disclosure Index based on the disclosure of CSR by PT Astra International Tbk)
CGI $_{it}$	=	Corporate Governance Index
SIZE $_{it}$	=	size of the companies
LEVERAGE $_{it}$	=	ratio of long-term debt to total equity
SIZE $_{it}$	=	firm size (log total assets)
ROI	=	return on investment $_{it}$
β o .... β 4	=	coefficients to be estimated
ε_{it}	=	error term

i= 1, 2,….,. N. t= 1, 2, …., T

N = number of observations, T = number of times, N x T = number of panel data

The dependent variable used in this study is Corporate Social Disclosure Index (CSDI) as a proxy of disclosure of CSR as practiced by Haniffa and Cooke (2005). This study used categories based on the Global Reporting Initiative (GRI), 2006 and CSR disclosure categories that have been conducted by PT Astra International Tbk.

This study uses Corporate Social Disclosure Index (CSDI) based on Guideliness Reporting Initiative (GRI) as the dependent variable in the first model. GRI consists of three disclosure focus: economic, environmental, and social as the basis for sustainability reporting. This study uses only two of those focuses, namely environmental and social representation of CSR disclosure.

Corporate Social Disclosure Index (CSDI) also used in this study based on the categories of disclosures made by PT Astra International Tbk as the company who first issued a sustainability reporting and received an award in Indonesia Sustainability Reporting Award (ISRA) in 2005 and 2006. CSDI ASTRA is a dependent variable in model 2. PT Astra International Tbk has won twice the highest award as the Best Social and Environmental Reporting 2004 and Best Sustainability Reports Award 2005. Category disclosures made by PT Astra divided into three parts, introduction, CSR programs, and relationships with stakeholders.

- *Corporate Governance Index* (CGI)

CGI is an index that contains the values of corporate governance in the form of five categories of questions which is the Rights of Shareholders, Equitable Treatment of Shareholders, Role of Stakeholders, Disclosure and Transparency and Responsibility of the Board. CGI was used in a research by Siagian, et al. (2006) in Rahadian (2007). Almost the same as CSDI, CGI is also using content analysis with an assessment of 1 (poor), 2 (fair), and 3 (good). CGI is expected to have positive influence to CSR index. 40% of CGI index data derived from research that has been done before (data Rahadian, 2007).

Control Variables Size (SIZE) is measured by total assets (log) in 2004 and 2005 obtained from the JSE website and ICMD. Variable Leverage (LEVERAGE) is measured by debt to equity which is derived from the number of long-term debt divided by total equity. Furthermore, the variables return on Investment (ROI) obtained from after-tax profit divided by total assets.

Tests in this study are conducted using several methods and analysis that can help reveal the phenomenon of the influence of governance to CSR in an empirical framework. The methods are descriptive analysis, the average difference test, correlation analysis, and estimation with random effects, include the classic assumption test, F test, t test, and testing the coefficient sign.

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The samples used in this study are non-financial companies listed on the Jakarta Stock Exchange in 2004 to 2005. This study uses panel data sample of 54 companies per year so that the number of the company's annual report used as the overall sample is 108.

Information on company data are obtained through the Reference Center of Jakarta Stock Exchange, JSE website, and some are obtained through the Indonesian Capital Market Directory (ICMD). The data used is the annual report and financial statements of companies in the years concerned (2004 to 2005). In an effort to complement the data, a search through an online website that provided several sample firms is also conducted.

4. Research Results

In table 3.1, the average of GRI CSDI is 0.18065 with the lowest value of 0.01515 and highest value of 0.42424. The value of this disclosure is still considered low because the maximum value is still below 0.50. The conditions are consistent with exposure to Gray et al. (1995) (1995) who found that environmental disclosures of companies are still low. The small number of pages of CSR disclosure in annual report clarifies this condition.

CSDI ASTRA has a higher average which is 0.33899 with the lowest value of 0.0625 and the highest 0.75. Based on the average difference test, the average ASTRA CSDI significantly higher than the average CSDI GRI (*p-value* = 0.000). This difference can be understood because CSDI ASTRA taken from disclosure by category of PT Astra International, which operates in parts of Indonesia so that category has a higher fitness levels compared with CSDI GRI guidelines for disclosure that is worldwide.

CGI average is 0.65616 with the lowest value of 0.3 and the highest 0.91. Other variables, size which is measured by log total assets have an average of 20.59353 with the standard deviation of 1.79232, which ranges from 17.13770 to 24.85316. Meanwhile, the average leverage is 0.451389 with a standard deviation of 0.21877. Furthermore, average of ROI is 5.96509.

Table1
Descriptive Statistic

Variable	Minimum	Maximum	Mean	Standard Deviation
CSDI GRI	0.015151	0.424242	0.180649	0.094316
CSDI ASTRA	0.062500	0.750000	0.338992	0.165919
CGI	0.3	0.91	0.656155	0.104385
SIZE	17.13770	24.85316	20.59353	1.792322
LEVERAGE	0	0.96	0.451389	0.218767
ROI	0	27.97	5.965093	5.674175

* The difference test between CSDI Astra CSDI 10.97 t test p value = 0.000

CSDI GRI between 2004 and 2005 is proved to increase significantly. This is because the GRI is start to be adopted by many companies in Indonesia in 2005. Another reason is the company began to feel the pressure from stakeholders to disclose their social activities. In 2004 and 2005, companies began to study and follow the PT Astra International, which is a pioneer in CSR disclosure. Awards which was held also encourage the learning process and the disclosure. Trotman (1979) in Sayekti (1996) argues that giving the award for best annual report encourages companies to accommodate the CSR disclosure in annual reports.

CSDI ASTRA is different from CSDI GRI. Based on the test t test of CSDI ASTRA in 2004 and 2005, two years of testing increases, but not significant. These results are probably due to the same expression pattern that still used by the company. The company started to adopt the GRI in 2005, so it does not take a category in the disclosure of PT Astra as a guide. Also, it maybe because there are certain themes in the disclosure of CSDI ASTRA that deemed irrelevant to a company that is not similar with PT Astra.

CSDI ASTRA development phenomena from 2004 to 2005 which are not significant raises questions. When CSDI increase, of course, accompanied by an increase of CSDI ASTRA. Both things can not go hand in hand because many companies that actually have revealed several themes that are included in the GRI, or adding some themes GRI in its annual report next year, while PT Astra International does not use themes in the principal disclosure.

Table 2
The Difference Test Between year 2004 and 2005

Year	Average	Minimum	Maximum	Standard Deviation
CSDI GRI				
2004	0.14076	0.01515	0.39394	0.09470
2005	0.22054	0.06061	0.42424	0.07582
CSDI ASTRA				
2004	0.32845	0.06250	0.70833	0.15547
2005	0.34954	0.06250	0.75000	0.17658
CGI				
2004	0,64546	0,30000	0,85870	0,10999
2005	0,666850,52000	0,91000	0,09832	

* The difference test between 2004 and 2005 for CSDI GRI , t statistic -4.833, p=0,00
* The difference test between 2004 and 2005 for CSDI ASTRA , t statistic -0.659 p = 0.512
* The difference test between 2004 and 2005 for CGI, t statistic -1.066 p = 0.7340

CGI in 2004 and 2005 did not differ significantly. Implementation of Good Corporate Governance in Indonesia has been started since 1999 when the issuance of economic affairs coordinating minister decree No. KEP-10/M.EKUIN/08/1999 August 19, 1999 regarding the establishment of the National Committee on Corporate Governance (KNKCG) (Daniri, 2005). Understandably, when the five years since then, the index began to stagnate because CG is not a new issue as in 1999. The almost same average between 2004 and 2005 may also mean that GCG implemented by the companies have not yet increased significantly. Shareholder's rights are still not given optimally, the justice for shareholder of the is not maximized, stakeholders may not receive proper attention, as well as disclosure and transparency is still minimal,

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and the accountability of the board has not done well. This possibility refers to the CLSA report (2003) which places the implementation of GCG in Indonesia in the bottom compared to other countries in Asia in 2003 and 2004 with a total value of 3.2. So that the implementation of good corporate governance in Indonesia needs a comprehensive approach and significantly longer enforcement (Daniri, 2005). Another possibility is that the application of CG has not become a needs for companies so that companies have not felt the need to apply better CG. The company just felt it as mandatory, therefore, what they did was limited to comply with the regulations.

Results of correlation analysis shows that the CSDI GRI and ASTRA significantly positively correlated with CGI and size. The results reinforced the notion of correlation by Cowen, et al. (1987) in Siregar and Bachtiar (2002) that larger companies get closer scrutiny from various groups in society so that they get a stronger pressure to disclose their social activities. CSDI GRI and ASTRA do not have a significant correlation with leverage and ROI .

Table 3
Correlation with Dependant Variable

Variabel	Total	
	CSDI GRI	CSDI ASTRA
CSDI GRI	1	0,444 **
CSDI ASTRA	0,444**	1
CGI	0,358**	0,470**
SIZE	0,377**	0,417**
LEVERAGE	-0,082	0,004
ROI	0,181	0,175

*significant at level 0,05
** significant at level 0,01

Regression Results

Test of classical assumptions have been made to detect the existence of multicollinearity, heterokedasticity, and autocorrelation. The results shows that the model free from the problems mentioned above. Tests in this study are calculated using random effects (MER). The value of the selected results of the analysis is GLS Transformed Regression because the element of time series have been accommodated in this output. The output is different from the unweighted Statistics using error based on the initial model, GLS Transformed Regression consider errors arising from the fixed effects method (MET) (Quantitative Micro Software, 1994-2000).

Table 4 shows the results of regressions using the dependent variable CSDI GRI R2 is 0.23 for model 1. CGI variables have significant positive influence on the level of CSDI GRI. These results support the research by Khomsiyah (2003) who found relationship between corporate governance with the disclosure of information and research by Haniffa and Cooke (2005) who found a significant relationship between the three components (dominance of non-executive director of the board, multiple director, and the domination of foreign shareholders) in corporate governance and breadth CSDI. The study also supports research by

Sembiring (2005), Chapple and Ucbasaran (Working Paper, University of Nottingham), and Sayekti (2005) which suggest that some specific proxies in corporate governance have a significant effect on CSR.

Table 4
Estimation Result of GLS (*General Least Square*) CSDI GRI

Total	R2 = 0.26			
Variable	**Prediction**	**Coefficient**	**t-Statistic**	**p value**
Constanta: -0.255349				
CGI	+	0.165565	1.786501	0.0770**
SIZE	+	0.016863	2.979589	0.0036*
LEVERAGE	-	-0.059829	-1.416788	0.1596
ROI	+	0.001191	0.769793	0.4432

Dependent Variable: CSDI GRI
*significant at level 0,05
** significant at level 0,01

These results indicate that CGI wil likely to contribute value in the development of GRI in Indonesia. Although disclosure is based on the GRI is still very minimal, GRI may have increased in the coming year if supported by the implementation of GCG which also rise. But the application of GRI takes time and adjustments according to the conditions in Indonesia. The one that makes the increase CG and CSR disclosure can be realized is monitoring the effectiveness of the implementation of GCG. Daniri (2005) mentions that one of the indicators of success are formulated by NCG (National Committee on Governance) is the company realize that aspects of CSR as a form of corporate responsibility towards stakeholders and no longer as merely the fulfillment of the obligation.

Control variables that appear significant effect on CSDI GRI is variable size with a t statistic for the variable size of 2.980 and p-value of 0.0036. This finding supports the results of tests performed Kelly (1981), Trotman et al (1987), Cowen et al. (1987), Hanifa and Cooke (2005), and Sembiring (2003) and Sembiring (2005).

Other control variables, leverage and ROI, do not show significant results. This means that the leverage and ROI have no significant effect on CSDI GRI. These results are consistent with tests performed by Haniffa and Cooke (2005) and Sembiring (2005) who also found no relationship between leverage and disclosure of CSR.

Table 5 shows that the regression results CSDI ASTRA R2 of the model is 0.76. CGI is proved to has significant effect on CSDI ASTRA. These results support the research Hanifa and Cooke (2005) who found evidence of the influence of corporate governance against the vastness of CSR. In addition, the test results are also consistent with the test results by Khomsiyah (2003) research which shows that the CGI is positively associated with the wide of information disclosure. These results also imply that the disclosure CSDI ASTRA will increase when corporate governance increased. Therefore, if all parties desire to develop disclosure of CSR, then the application of CG should also get attention.

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Table 5
Estimation Result of GLS (*General Least Square*) CSDI ASTRA

Total	R2 = 0.76			
Variable	**Prediction**	**Coefficient**	**t-Statistic**	**p value**
Constanta:-0.497395				
CGI	+	0.238247	1.898586	0,0604**
SIZE	+	0.033449	3.005518	0,0033*
LEVERAGE	-	-0.031828	-0.397983	0,6915
ROI	+	0.000939	0.447652	0,6553

Dependent Variable: CSDI ASTRA
*significant at level 0,05
** significant at level 0,01

Size control variables is significantly positive. This is consistent with the test results of CSDI GRI. This finding is also consistent with Trotman and Bradley (1981) who found that large companies tend to have better pollution control than small firms.

Consistent with the model 1, this model do not show significant results for the variable ROI. This result is contrary to research McGuire, et al. (1988) and Haniffa and Cooke (2005) which indicates that profitability has positive influence on CSR disclosure. LEVERAGE variable is also not proven to affect the level of breadth of CSR based on ASTRA. This is consistent with tests performed Haniffa and Cooke (2005) and Sembiring (2003).

Sensitivity Test Results

In the sensitivity test, ROI variable is replaced with ROE. In previous research, this variable have differences in the sign, the direction of the relationship, and its significance. Overall, the sensitivity test results are consistent with two models tested. In model 1, CGI has a coefficient of 0.163972 and p-value of 0.0828, size 0.017122 with a p-value of 0.0032 and the leverage of -0.072445 but significant at the 0.10 level. In model 2, all variable coefficients are consistent with the same sign, namely positive CGI at 0.231581, 0.033621 size, and leverage -0.043300, and 0.000555 ROE.

5. Conclusion

Based on the research results above, there is a significant positive effect of corporate governance on the CSR disclosure either by using the GRI guidelines as well as ASTRA. These results indicate that if there was an increase in the application of corporate governance, the implementation of CSR disclosure increases. CSDI Astra can be a reference in making the disclosure of CSR. The results are consistent with the findings of Khomsiyah (2003) and Haniffa and Cooke (2005) research. Control variable that proved significant is only variable size, while leverage and profitability is not significant.

Descriptive statistics show that the GRI can be useful guidelines in the disclosure of CSR in Indonesia. CSDI ASTRA which has a higher average shows that the company in Indonesia still disclose more CSR using categories of PT Astra International compared to GRI categorization disclosures. However, there were no significant increases for CSDI ASTRA in 2004 and 2005, when CSDI GRI increases significantly during the year.

This study shows that CSR disclosures by companies in Indonesia is still low, so that transparency in corporate governance can not be well implemented. Nevertheless, the results show that corporate governance affects CSR disclosure.

Limitation in the study is that not all the companies get CSR disclosure award so that many companies are not included in the sample. PT Astra is used as a sample even though the company is used as a benchmark. GRI indicator is limited to social and environmental indicators and do not include financial indicators and GRI supplement for a particular industry. Assessment CSDI index ranges between 0 and 1 make this research can not capture the degree of difference between companies that completely disclose with those which do not completely disclose.

Further research should expand the GRI indicators to include financial indicators and industry supplement. Samples of research can be expanded to better reflect the population of companies in Indonesia. Other research may extend this research by looking at the effect of each component in the CG. For example, the influence of the accountability board to the CG, the concept of transparency to the CG, and so forth.

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