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Original Research Article

The Effect of Corporate Social Responsibility Disclosure and Good Corporate Governance Implementation on Cost of Equity

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Abstract

This study aims to analyze the effect of Corporate Social Responsibility disclosure and Good Corporate Governance on the Cost of Equity. The sampling technique used is purposive sampling. The study was conducted on the TOP 100 of Indonesian and Malaysian companies included in the ASEAN CG Scorecard with a 2016-2018 research period. The estimation of the research model used is multiple regression analysis. The purpose of this study is to determine whether disclosure of Corporate Social Responsibility and Good Corporate Governance has an effect on the Cost of Equity. This study involved 3 (three) variables consisting of 1 (one) dependent variable, 2 (two) independent variables (independent), and the dependent variable in this study is Cost of Equity. The independent variable in this study are Corporate Social Responsibility and Good Corporate Governance. The results of this research proposal are expected to be able to show that Corporate Social Responsibility does not affect the Cost of Equity while Good Corporate Governance has an effect on the Cost of Equity. Determination coefficient that sees the influence of the independent variables used in the dependent variable research model is 10.8%, while the rest (89.2%) is explained by other variables.

Keywords: Corporate Social Responsibility, Good Corporate Governance, Cost of Equity.

PRELIMINARY

Research Background

The stock exchange or capital market is a place that provides facilities to conduct securities sale and purchase transactions, both bonds and shares or other securities, with a validity period of more than one year. As a result of the issuance of shares or bonds the company must spend as a return on the provision of funds provided by investors and creditors, these costs are called capital costs. According to Harmono [1] Cost of Capital is a minimum rate of return of a company that is measured by the proportion of equity in all investments in order to maintain the price of its securities market.

Brigham and Houston [2] explain that the cost of capital reflects the rate of return requested by investors for an effect for the company, so that it can be interpreted that the cost of capital of a company is a part that must be spent by the company to satisfy its investors at a certain level of risk.

In the process of maximizing company value, a conflict of interest will arise between the manager and the shareholders (company owners), which is often called the agency conflict. Often the management of the company has other objectives that might conflict with the company's main objectives. This difference of interest causes agency conflict. The conflict of interest can be minimized by a mechanism that is able to align the interests of shareholders as owners with management interests [3].

This ultimately urges a good monitoring system known as Good Corporate Governance (GCG) to guarantee security of funds or assets embedded in the company as well as efficiency. Good Corporate Governance is a company internal control system that has the main goal of managing significant risks in order to fulfill its business objectives through observing company assets and increasing shareholder investment value in the long run [4].

Good Corporate Governance (GCG) is said to be able to create added value because by implementing

Good Corporate Governance, it is expected that the company will have good performance so that it can create added value and increase the value of the company that can provide benefits to shareholders or company owners. In more detail, corporate governance terminology can be used to explain the roles and behavior of the board of directors, board of commissioners, company managers, and shareholders [5].

Disclosure of CSR in Indonesia is an obligation of a company regulated in Republic of Indonesia Law Number 40 Th 2007 concerning Limited Liability Companies. In article 74 paragraph 1 the law mandates that:

"Companies that carry out their business activities in the field and/or relating to natural resources must carry out Social and Environmental Responsibility".

In a study entitled the influence of Corporate Social Responsibility disclosure and the application of Good Corporate Governance to the level of profitability carried out by Hari and Yusuf [6]. From this study, the results of disclosure of Corporate Social Responsibility did not affect the disclosure of Profitability, which in this case was proxied by NPM.

The company's awareness to implement CSR in its operations differs from one company to another. If the company increasingly realizes the importance of CSR, the company will increasingly realize the importance of the company's contribution, in paying taxes, to the general public [7]. Rusydi [8] states that companies that carry out taxation that is not in accordance with the principles of CSR can cause disruption to the sustainability and image of the company. Rustiarini (2010) states that a good company is a company that carries out CSR activities as a responsibility to the community and social environment.

Identification of Problems

- From the background that has been described above, it can be identified the problem to be examined related to the phenomenon of the problem as follows:
- Is there any effect of GCG disclosure on the cost of equity?
- Is there any effect of disclosure of CSR on the cost of equity?

Formulation of the Problem

Based on the background described, the formulation of the problem in this study is:

- Is there any effect of GCG disclosure on the cost of equity?
- Is there any effect of disclosure of CSR on the cost of equity?

Research Purposes

The purpose of this study is to find out whether good corporate governance has an influence in the cost of equity.

STUDY OF LITERATURE, FRAMEWORK FOR THINKING AND HYPOTHESES

Good Corporate Governance

While the Agency Theory, developed by Micheal Johson, considers that the company's management as "agents" for shareholders will act with full awareness for their own interests, not as a wise and wise and fair party to shareholders. In the development of agency theory there has been a wider response because it is seen to reflect the reality. Various thoughts on corporate governance have developed by relying on agency theory where management is carried out in full compliance with various applicable rules and regulations.

Definitely good corporate governance (GCG) is a system that regulates and controls companies that create added value for all stakeholders. There are two things that are emphasized in this concept, first the importance of the right of shareholders to obtain information correctly and on time and both company obligations to make disclosure (disclosure) accurately, timely, transparently to all information on company performance, ownership, and stakeholders.

Corporate Social Responsibility

Stakeholder theory argues that a company is not an entity that only operates for its personal interest but provides benefits to stakeholders [9]. In the company there is a party that is prioritized, namely stakeholders. There are a number of stakeholders in the community, with the disclosure of CSR is a way to manage the relationship of organizations with different stakeholder groups. The main goal of the company is to balance conflicts between stakeholders.

Economic political theory explains not only the reaction of stakeholders but also explains accounting reports are seen as social, political and economic documents [9]. By considering political economy, the entity will be more capable of the policies that will be taken in relation to issues that affect the organization's activities and the information chosen to be disclosed.

Companies tend to use environment-based performance and disclosure of environmental information to legitimize corporate activities in the eyes of the public [9]. Disclosure of CSR in the use of companies in addition to value added companies also reduces the social costs that arise later from social activities.

Cost of Equity

The concept of capital costs is to determine the real cost of the use of capital from each source of funds,

then determine the average cost of capital from the overall funds used by the company and this shows the level of use of the company's capital. Capital costs can be measured by the minimum "rate of return" of new investments issued by the company, assuming that the risk level of the new investment is equal to the risk of the assets currently owned. While the costs to be paid for obtaining capital are interest payments, dividend payments, loan principal installments. If the company uses several sources of capital, the cost of capital calculated is the capital cost of the balanced average of all capital used, which is called "Weight Average Cost of Capital" (WACC).

Research Variable

Good Corporate Governance (GCG)

GCG is a structure and mechanism that regulates the management of the company so as to produce sustainable long-term economic value for shareholders and stakeholders.

Corporate Social Responbility (CSR)

CSR is a corporate social responsibility for all interests, namely consumers, employees and shareholders.

Cost Of Equity (COE)

COE is a real cost that must be spent by the company to obtain funds both from debt, preferred shares, ordinary shares and retained earnings to fund an investment or operating company.

Previous Research

The effect of disclosure of Corporate Social Responsibility and the mechanism of Good Corporate Governance on the Cost of Equity conducted by Andy [10]. From the study, it was found that there was no significant effect of Corporate Social Responsibility disclosure on the company's Cost of Equity, the mechanism of Good Corporate Governance proxied by managerial ownership, institutional ownership and the size of the board of commissioners had a positive and significant effect on the company's Cost of Equity, while the composition of independent commissioners significant negative effect on company Cost of Equity.

Other research is the effect of Corporate Social Responsibility disclosure and the application of Good Corporate Governance to the level of profitability carried out by Hari Setyawati and Yusuf [11]. From this study, the results of disclosure of Corporate Social Responsibility did not affect the disclosure of Profitability, which in this case was proxied by NPM.

Another study is the Effect of Good Governance and Intellectual Capital Disclosure on Cost of Equity Capital conducted by Putri Dwi Wahyuni and Wiwik Utami [12]. From the study results of institutional ownership, managerial ownership, the proportion of independent boards and the proportion of independent audit committees did not affect the cost of equity. Whereas intellectual capital disclosure has a positive effect on the cost of equity capital.

Framework

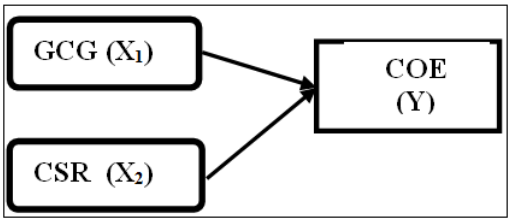

Fig-1: Framework

RESEARCH METHODS

Research Population and Samples

The population used in this study were Indonesian and Malaysian companies during the study period (2016-2018). The data used in this study for the period 2016-2018 is due to this data being the latest data available during the study. Companies selected to be included in ASEAN conduct GCG and CSR so that in this study sufficient samples can be taken to conduct research tests. The sample is part of the population that is expected to represent its characteristics. The research sample was determined based on purposive sampling which meant the selection of samples based on certain criteria.

Data Analysis Method

Data analysis was performed using multiple linear regression analysis including analysis as follows:

1. Descriptive statistics

Descriptive statistics are used to describe the variables in this study. The analysis tools used are mean, maximum and minimum [13]. This analysis tool is to describe managerial ownership, institutional ownership, and liquidity variables.

2. Model Feasibility Test

a. Determination Coefficient Analysis (R2 test)

Determination Coefficient Analysis (R2) is useful for measuring how far the model's ability to explain variations in the dependent variable. The coefficient of determination is 0 and 1. The value of R2 that is small means that the ability of independent variables to explain the independent variables is very limited. A value close to 1 means that the independent variables provide almost all the information needed to predict the dependent variable.

b. Test Together (F Test)

The F Statistic Test basically shows whether all the independent variables included in the method have a joint effect on the dependent variable. Through the F test it can be seen the regression relationship simultaneously between all the independent variables and the dependent variable. Based on the significant basis of decision making are:

If the significance is> 0.05 then H is rejected
If the significance is <0.05 then H is received

c. Partial Test (t Test)

This test is conducted to determine whether the independent / partially independent variables have a significant influence on the dependent variable. Based on the significant basis of decision making are:

If the significance is> 0.05 then H is rejected
If the significance is <0.05 then H is accepted

d. Hypothesis testing

Hypothesis test aims to predict the influence of the dependent variable (dependent variable) by using the independent variable (independent variable). The multiple regression equation is:

$Y = a + b1\ x1 + b2\ x2 + e$

Dimana:

Y	:	Cost of Equity
a	:	Constant
x1	:	GCG
x2	:	CSR
β1-β3	:	Regression coefficients on each variable
e	:	error

RESEARCH RESULTS AND DISCUSSION

Results of Descriptive Statistics Analysis

From the results of the descriptive statistical test, the following information is obtained:

Descriptive Statistics

Descriptive Statistics					
	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
CSR	120	,04400	,94940	,2784825	,18052888
GCG	120	37,17790	79,22250	63,4042075	8,60300843
COC	120	-,96560	129,60270	1,8352717	12,67373185
Valid N (listwise)	120				

Source: data is processed with SPSS 23

On the results of the SPSS output above, there is a descriptive statistic of COC, GCG and CSR, namely the number of samples (N) of 120, the smallest value (minimum) for COC (-0.97), GCG (37.18), and CSR (0, 04). The maximum value for COC (129.60), GCG (79.22), and CSR (0.95). Middle values (mean) for COC (1.8353), GCG (63.4042), and CSR (0.18053). Standard Deviation for COC (12.67373), GCG (8.60301), and CSR (0.18053).

Determination Coefficient Test

Model Summary[b]					
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**Durbin-Watson**
1	,329[a]	,108	,093	,29514626	2,079
a. Predictors: (Constant), GCG, CSR					
b. Dependent Variable: COC					

Source: data is processed with SPSS 23

In the table above can be seen the results of R Square of 0.108. This means that the independent variable which is 10.8% COE variables can be explained by CSR and GCG variables, while the rest (89.2%) can be explained by other variables.

F Test

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1,234	2	,617	7,080	,001[b]
	Residual	10,192	117	,087		
	Total	11,426	119			
a. Dependent Variable: COC						
b. Predictors: (Constant), GCG, CSR						

Source: data is processed with SPSS 23

The test results can be seen from the value of the F test and the results of significance, using a 95% confidence level, α = 5%, df 1 (number of variables - 1) = 1 and df 2 (n-2) or 120-2 = 118, results obtained for F table of 3.92 with F count of 7.080. In conclusion, because F count> F table (7.080> 3.920) and

significance <0.05, that is (0.001 <0.05), it can be concluded that the variables of CSR and GCG jointly influence the Cost of Equity Capital.

HYPOTHESIS TESTING AND DISCUSSION

The t test statistic basically shows how far the influence of one independent variable partially in explaining the variation of the dependent variable [14]. Meets the spss results from the t test presented.

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2,775	,747		3,714	,000
	CSR	,074	,150	,043	,490	,625
	GCG	-,676	,181	-,327	-3,746	,000
a. Dependent Variable: COC						

Source: Data is processed with SPSS 23

From the table above, it can be seen that Sig 0,000 for GCG and 0,624 for CSR. And it can be concluded:

1. For GCG variables, namely Sig> 0.05 (0,000> 0.05), it means that partially there is a significant effect between GCG and COC. So from this case it can be concluded that partially GCG affects the Cost of Equity in Indonesian and Malaysian companies 2016-2018.
2. For CSR variables, namely Sig <0.05 (0.625 <0.05) means that partially there is no significant effect between CSR and COC. So from this case it can be concluded that partially GCG does not affect the Cost of Equity in Indonesian and Malaysian companies 2016-2018.
   a. Test the Hypothesis
      Based on table above, the regression equation is as follows:

$$Y = a + b_1 x_1 + b_2 x_2 + e$$

$$= 2.775 - 0,676 \ X1 + 0,074 \ X2 + e$$

Information:

Y = Cost Of Equity
a = constant
$b_1 x_1$ = GCG
$b_2 x_2$ = CSR
e = Error

a) A constant of 2.775 states that if there is no constant change in GCG and CSR, then COC is 2.775.
b) The value of b GCG (b1) -0,676 states that if GCG increases by 1%, then COE decreases by 67.6%.
c) The value of b CSR (b2) 0.074 states that if CSR increases by 1%, then COE increases by 7.4%.

DISCUSSION

From the above analysis it can be concluded that Sig <0.05 is seen which means there is an influence between GCG and COE. The results are different from Putri's *et al.*, research [15] with the title Effect of Good Governance and Intellectual Capital Disclosure on Cost of Equity Capital by obtaining results of institutional ownership, managerial ownership, the proportion of independent boards and the proportion of independent audit committees that do not affect the cost of equity.

From the above analysis it can be concluded that Sig> 0.05 is seen which means there is no influence between CSR and COE. The results are the same as Andy's [10] research on the analysis of the effect of Corporate Social Responsibility disclosure and the mechanism of Good Corporate Governance on the Cost of Equity with the result that there is no significant effect of Corporate Social Responsibility disclosure on the company's Cost of Equity.

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSION

Multiple Regression Testing is done to see the influence of independent variables with dependent variables. The results of the multiple regression equations obtained are:

$$Y = 2.775 - 0,676 \ X1 + 0,074 \ X2 + e$$

The regression equation shows a negative relationship between GCG and the Cost of Equity and a positive relationship between CSR and Cost of Equity. A negative relationship means that the movement of GCG is not in the same direction, that is, when GCG increases it results in a decrease in the Cost of Equity and vice versa. A positive relationship means that the movement of CSR goes in the same direction, that is, when CSR experiences an increase resulting in an increase in GCG and vice versa.

Determination coefficient test results obtained by R Square = 0.108. This shows that 10.8% of the Cost of Equity variable is influenced by the independent variables namely GCG and CSR. While the rest is explained by other factors.

Hypothesis testing using t test is done to determine the magnitude of the influence of each variable individually (each) on the dependent variable. The variable level of GCG has a significant level of

0.001 <0.05, this means that H is rejected. So, it can be concluded that GCG has a significant influence on Cost of Equity. The CSR level variable has a significant level of 0.625 <0.05, this means that H is accepted. So, it can be concluded that CSR does not have a significant effect on the Cost of Equity.

SUGGESTION

Some suggestions that can be put forward in the results of this study are due to imperfection of the research conducted by the author, the authors provide suggestions that are expected to be able to gain knowledge from this study, namely as follows:

- Further research is needed to find out more about the things that affect the Cost of Equity other than GCG and CSR.
- When research is made long, so it can give a better picture. Because the results will likely be different when using different periods.
- For investors, it is better to make GCG as a reference in making policies to invest in the capital market.

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