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# Corporate Social Responsibility, Corporate Governance, and Corporate Financial Performance

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## Abstract

This paper aims to analyze the influence of corporate social responsibility disclosures (CSRD) by corporate governance (CG) as a moderating variable on corporate financial performance (CFP). The CSRD were measured by the United Nations Environment Programme (UNEP) items and CG practices were evaluated by the Corporate Governance Perception Index (CGPI). The sample of 108 annual reports from 2011 to 2014, which were listed in the 'Indonesia Most Trusted Companies Awards' were analyzed through 2012 to 2015 SWA magazine. The moderated regression test was applied to analyze the corporate social responsibility disclosure (CSRD) to CFP, moderated by CG. The CFP were proxied by return on assets (ROA) and return on equity (ROE). This paper reveals that CSRD has a significant positive influence on the companies' ROA and ROE, and CG has been found to weaken the influence of CSRD on ROA and ROE. This paper provides insight about the significance of corporate social responsibility (CSR) activities for financial performance, and therefore companies benefit from comprehensive disclosures of the effective and efficient CSR activities.

**INTRODUCTION**

Indonesia is blessed by God with the land and sea, which are rich of sources of fulfillment for human life. However, the reality is severe damage to the Indonesian natural sources worsened gradually. The website of Environment, Sanitation and Parks Agency (BLHKP) claims that the rate of deforestation reaches 1.8 million hectares per year causing a 21% loss of 133 million hectares of Indonesia's forests. Environment's damage is triggered by two factors:  natural forces and human activities. Volcanic eruptions, floods, erosion, soil landslide, tornado, earthquake, tsunami are a few examples of natural disturbances. Human activities contribute to deforestation as massive mining takes over, and air pollution is an appealing reality.

Consciously or unconsciously, corporations' operational activities contribute damage to environment and harm public welfare. Therefore, the Government agencies actively arise awareness of environmental conservation by enacting regulations protecting Indonesian natural environment. The Regulation No. 40/2007, Chapter V on Social Responsibility, Article 74 (1), (2), (3), and (4) states that companies whose business activities have impacts on natural sources should implement corporate social responsibilities (CSR) at propriety at ethical and fair manners. The CSR practices cover budget fees and needs to be recorded as cost accounting. CSR practices should be communicated to stakeholders because they should be aware of the fact that such practices may reduce corporate social risks. Annual reports become mediums for communicating corporate commitment to CSR practices. Therefore, companies engaging in annual-report disclosures should implement accountable, transparent, fair, stakeholders-oriented, and ethical corporate governance (CG) reporting systems.

The Indonesian institute for Corporate Governance (IICG) facilitates investors with evaluation of CG quality levels. It assesses, scores, and ranks corporate commitment to CG practices. The CG quality acclaimed and comprehensive CSR disclosures (CSRD) scored boosts corporate credible performance, thereby boosting their stock prices and financial performance.

The previous research states that there are relations between CSRD and CG (Cormier and Magnan, 2014). This relationship may attract analysts' interests in predicting companies' financial performance. Also,

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prior research finds that there is a positive relationship between corporate social performance (CSP) and corporate financial performance (CFP), and so does CSRD to contribute significant impacts on companies' financial performance (Khlif *et al.*, 2015; Giannarakis *et al.,* 2014; Dunn and Sainty, 2009). Furthermore, other research explains that the comprehensive CSRD may attract investors' attention, provide value-added investment decisions, and influence stock returns (Wang and Li, 2016). In contrast, existing research discovers that there are negative-yet-insignificant impacts of CSRD to CFP (Karagiorgos, 2010).

The recent emerging of CSR, CG, and CFP issues underscore the basis of this paper objective, and this paper uses disclosures to measure CSR; ROA and ROE to measure CG; and IICG scores to measure CG. The paper objective leads to question as follows:

1) Do the corporate social responsibility disclosures (CSRD) influence to corporate financial performance (CFP)?

2) Do the scores of corporate governance strengthen the relationship between corporate social responsibility disclosure (CSRD) and the corporate financial performance (CFP)?

This paper provides useful contributions to CSR, CG, and CFP studies and uses different measurements, i.e., the Corporate Governance Perception Index (CGPI)-based scores to evaluate CG practices; the United Nations Environment Programme (UNEP)-measured CSRD to examine CRS disclosures. Besides, this paper may benefit to the Indonesian Institute of Corporate Governance (IICG) because it gives insight into the positive impacts of CG practices on corporate financial performance. Also, this paper underscores that transparent disclosure is crucial for both public and the corporate financial performance.

The government should also acknowledge that companies must implement CSR and CG practices, and therefore it should enact regulations to govern such practices. The paper to examine environmental, social, and governance risks using CSRD and CGPI may give investors insight on how companies curb such risks.

## LITERATURE REVIEW

### *Legitimacy Theory*

The theory of legitimacy is based on the notion of 'social contract' which limits the activities of the organization within the limits set by society (Gray *et al.*, 1996). Basically, the organization will receive support from stakeholders and continue as far as its activities are beneficial or at least do not harm the society. According to this theory, the organization continues to strive to ensure that its operation is still within the limits and norms of the society. It tries to ensure that its activities are perceived by outsiders as a matter of "legitimate/ legitimacy".

Perrow (1970) defines legitimacy as a perception or a general assumption that there are actions desired for an entity to be proper or appropriate within some socially constructed system of norms, values, and beliefs. Although the company has the flexibility to operate within the constraints of institutional, any failure to adjust to critical, institutionalized norms may threaten the company's acceptance of its legitimacy and ultimate survival (DiMaggio and Powell, 1983; Scott, 1987). Therefore, the top management tries to harmonize the organization's actions and the common values of relevant stakeholders (Dowling and Pfeffer, 1975; Lindblom, 1994). Sethi (1979) argues that if an actual or a potential difference between the organization and social values arise, the organization will be in danger, and such difference give rise to the legitimacy gap.

### *Stakeholder Theory*

Stakeholder theory explains that the company runs its operational activities to achieve its own goals and to give benefits to its stakeholders (shareholders, creditors, suppliers, customers, governments, communities, and others).

Also, the theory explains that the success of an organization depends on the extent to which an organization is able to manage the relationship with both the major groups, i.e., funders and shareholders and the non-major groups, i.e., customers, employees, community, or society (Van Beurden and Gossling, 2008).

The concept of corporate social responsibility (CSR) has been known since the early 1970's, and it is commonly stated as the stakeholder theory which means a set of policies and practices associated with

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stakeholders, values, compliance with legal requirements, principles for respecting people and environment, and commitment to sustainable businesses. The theory begins with the assumption that the value is explicit and without doubt is the part of business activities (Freeman *et al.*, 2004).

## *Corporate Social Responsibility Disclosure (CSRD)*

1) CSRD perceives that a company's report provides information on financial and non-financial performance related to its interaction with physical and social environment, and such interaction is disclosed in its annual report or social report (Guthrie and Mathews, 1985; Hackston and Milne, 1996). CSRD provides detailed information about their physical environment, energy, human resources, products, and information relating to the community. According to Suwardjono (2005), underlining reasons to encourage the company to disclose its commitment to the environmental and social performance are as follows:

2) To maintain legitimacy. According to the theory of legitimacy, the company carrying out certain activities, including disclosures aims to get legitimacy from the community in which it operates. Its commitment to such activities is also a strategy to maintain the mutual relationship with external parties—the stakeholders especially.

3) To manage or influence a particular group of stakeholders with a strong presence. In the stakeholder theory, the company considers heavily stakeholders' distinct expectations because their expectations impact the company's operation and policies on disclosure.

4) The belief that the corporate managers are responsible for providing certain information, and it causes the urge to reveal information about the company's commitment to disclosing social and environmental responsibilities. The corporate managers hold the belief that stakeholders are entitled to understand the impacts of company's operational activities on social and environmental quality.

5) The corporate managers disclose the company's commitment to social and environmental responsibilities as a backstop to deal with any bureaucratic sanctions to hamper its operational activities and to set back its reporting requirements.

### Corporate Governance (CG)

Cadburry Committee of the United Kingdom (1992), defines CG as a set of rules that govern the relationship among internal and external shareholders, management companies, lenders, government, employees. The relationship is related to the rights and influences that may direct and control the company.

### Corporate Financial Performance

Corporate financial performance (CFP) is a level that shows a company's financial health. The financial performance is used as a medium which illustrates the effectiveness of the use of assets by the company in its business and increase revenue (Maron, 2016).

In analyzing the performance of the financial statements, companies usually use ratio analysis. Measurement of ratio analysis reveals the relationship between certain items which is selected in the data of financial statements (Weygandt *et al.*, 2015). The good relationship is usually expressed in units of percentage (%), the rate or the ratio/ proportion simple. Ratio analysis is divided into 3 groups: the liquidity ratio, solvency, and profitability ratio. This measurement gives an overview of the company's liquidity position and ability to evolve. These performances are the most financial outlook to be looking forward by many investors as they indicate profits (Weygandt *et al.*2015).

### The Influence of Corporate Social Responsibility Disclosure (CSRD) on Corporate Financial Performance (CFP).

CSRD has been evaluated at companies to see its association with the company's financial performance. Khlif *et al.*, (2015) who conducted a research of 168 annual reports for the years 2004 to 2009 in South Africa and Morocco found that the social and environmental disclosures in South Africa companies have a significant positive influence to the corporate value and ROA. On another side, both disclosures, in contrast, have negative influence on the financial performance of Morocco-based companies.

Based on the above results, the disclosure of corporate social responsibility as one of non-financial information in the annual report, is important to always be reported. The reason is because the more advanced a business that is followed by the development of economic, social, and environment of a country, will influence the assessment of stakeholders regarding the company's performance. Stakeholders, such as investors, potential

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investors, and the general public are usually attracted to companies that not only can generate big profits, but also provide benefits to external companies.

Both internal and external activities should be informed transparently to all stakeholders. One way of communication media is annual report. The annual disclosures of corporate internal and external activities should be comprehensive, transparent, and pursuant to the prevailing laws. Such disclosures may better improve corporate financial performance and credibility in years ahead. Draw from the prior empirical research and explanation, this paper states the following hypothesis:

$H_1$: Corporate social responsibility disclosure (CSRD) positively influence corporate financial performance (CFP).

### The Influence of Corporate Governance (CG score) as a Moderating Variable on CSRD and CFP.

In addition to conducting research on CSRD influence on CFP, Cormier and Magnan (2014), examined a study on the relationship between CSRD on Corporate Governance (CG). In this study, corporate governance was measured with CG Score, argued the result that there is a positive relationship between the CSRD to CG. CSRD and better corporate governance may positively attract the investors and increase their trust to the company's financial performance.

In addition, Cormier and Magnan (2014) examined the influence of CSRD on corporate governance (CG). The research measures CG using CG scores and finds that CSRS has positive influence on CG. The more comprehensive CSRD with comprehensive CG information are preferred by investors because they can get better outlook of corporate financial performance and estimate its ahead-year performance.
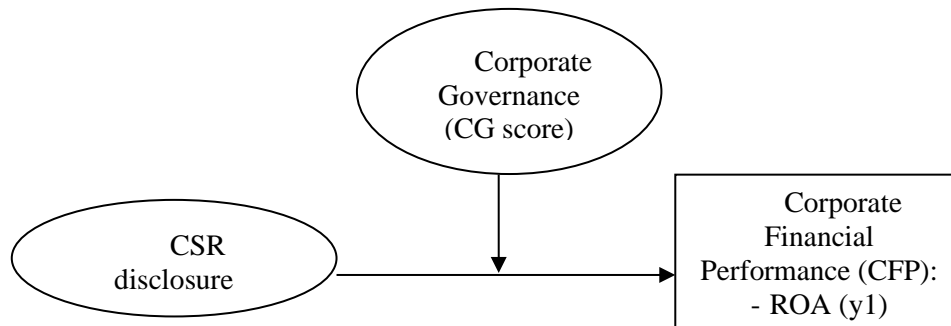
Companies whose CG are assessed by external and independent parties are committed to transparent disclosures of their operational activities, adherence to the prevailing laws, and compliance with environmental sustainability. The commitment to transparent disclosures build the stakeholders and public's confidence and trust in such companies.

The explanation of previous studies that suggests the results of a positive relationship between CSRD and CG, also the arguments outlined, establishing an additional hypothesis. The hypothesis positions CG as a moderating variable, as stated:

$H_2$: The influence of corporate governance (CG score) as a moderating variable strengthen the relationships between CSRD and CFP.

The two hypotheses lead to the following research model:

**Figure 1. Research Model**



### RESEARCH METHOD

This paper is quantitative and casual research using a test to examine the influence of independent variables on dependent variables. Using this context, this paper using CG-measured scores of 'Indonesia Most Trusted Companies Awards' in order to find the influence of CSRD on CFP. The annual reports disclosed by such companies are chosen to be examined due to their proven credibility of passing required criteria. Their credibility implies their adherence to CSRD compared to the less credible reports. The sample uses panel data referring to subsequent-period data disclosed by several companies and obtained from their websites.

The annual report used to be analyzed was from the year 2011 to 2014 which were participated in the 'Indonesia Most Trusted Companies Awards' in 2012 until 2015 (https://swa.co.id/). The appreciation program is organized by the SWA magazine in every December. Additionally, the CG scores were obtained from the Indonesian Institute for Corporate Governance (IICG) which published its ranking annually.

### *Measuring Corporate Social Responsibility Disclosure (CSRD)*

CSRD was measured by content analysis technique. Content analysis is a technique of data collection, which includes quantitative and qualitative information, then codifying by categories that correspond to the pattern presented and reported on such information (Guthrie and Abeysekera, 2006). Content analysis process are: first, read the company's annual report from the first page to the last page before the financial reports section. Further, identifying information from each sentence in the annual report that the disclosure of CSRD, associated with items disclosure of CSRD. If there is information that reveals the items in the CSRD, then given

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a score according to the prescribed guidelines. If the information does not relate to CSR disclosure items, then the information is ignored and no assessment (Gunawan *et al.,* 2009).

CSRD is measured using the content analysis technique. It is a data collection technique to include quantitative and qualitative information, then codified by categories that correspond to the standard presented and reported on such information (Guthrie and Abeysekera, 2006). The content analysis technique subsumes the following processes: (1) reading thoroughly chosen annual reports; (2) scrutinizing any information on CSRD items; (3) scoring CSRD items in accordance with the prescribed guidelines; (4) leaving any information irrelevant to CSRD items unassessed (Gunawan *et al.,* 2009).

The UNEP (2006) is the prescribed guidelines used to score CSRD items disclosed, and CSRD items are divided into four categories as follows:

1. Governance and Strategy (12 items) assess companies' elaboration of impacts of their business activities on economy, social, and environment; their commitment to sustainability performance and governance; and their endeavor to integrate sustainability commitment to their business strategies.

2. Management (9 items) evaluates how companies perform their business and explain their performance into the reports. This paper focuses more on the extent to which the reports integrate with corporate internal systems and elaborates how their business performances influence external stakeholders and markets.

3. Performance presentation (4 items) assesses companies' performance in relation to material issues.

4. Accessibility and Assurance (4 items) assesses companies' success in designing their report approaches fit best with key audiences' needs. The approaches are attempts to give readers prudent presented information.

The scoring of CSRD items is in accordance with the UNEP guidelines, and the score composition is shown in Table 1.

**Table 1. Scoring Measurement**

| Score | Quantity of Disclosure "how much" |
|-------|-----------------------------------|
| 0 | No information is disclosed in accordance with the indicators |
| 1 | Sentence |
| 2 | Paragraph |
| 3 | 2 - 3 paragraphs |
| 4 | 4 - 5 paragraphs |
| 5 | > 5 paragraphs |

Adopted from: Raar (2002), Abadi & Gunawan (2017)

The maximum score that can be obtained in the CSRD is five (5) out of the total number of disclosures score divided by 29 disclosure items. The formula of CSRD can be structured as follows:

$$\text{CSRD score} = \frac{\text{total of disclosure score}}{29 \text{ items of disclosure}}$$

### *Return on Assets (ROA)*

This paper applies financial performance proxied by profitability ratios and uses the value of Return on Assets (ROA). The formula to determine the value of company's ROA: (Weygandt *et al.*, 2015)

$$\text{ROA} = \frac{Net\ Income}{Average\ Assets}$$

### *Return on Equity (ROE)*

The dependent variable in the subsequent financial performance also a proxy of profitability ratios indicated in the value of Return on Equity (ROE). The formula to determine company's ROE: (Weygandt *et al.,* 2015):

$$\text{ROE} = \frac{Net\ Income - Preference\ Dividends}{Average\ Ordinary\ Shareholder's\ Equity}$$

### *Corporate Governance Score (CG score)*

Moderating variables used in this paper is the CG score. Measurement CG scores are calculated by using a ratio scale published by the Corporate Governance Perception Index (CGPI). The CGPI has conducted several stages of assessment with different weights with composition of:

1) Self-assessment (15%)
2) Documents (20%)

3) Papers (14%)

4) Observation (51%)

After assessment, the CGPI publishes the results in SWA magazine. Hence, the scores of CG were obtained from the SWA magazine of December issues published from 2012 to 2015.

This research uses content analysis, then regression analysis to determine the influence of CSRD on CFP (ROA and ROE), with CG scores as moderating variables. CG scores may strengthen or weaken the influence of CSRD on CFP. The regression model developed as:

$$ROA_{it} = \beta_0 + \beta_1 CSRD + \beta_2 (CSRD\_CG)_{it} + \varepsilon$$

$$ROE_{it} = \beta_0 + \beta_1 CSRD + \beta_2 (CSRD\_CG)_{it} + \varepsilon$$

$ROA_{it}$ = Return on Assets

$ROE_{it}$ = Return on Equity

$\beta_0$ = constant

$CSRD\_CG$ = Interactions between CSRD and CG scores

$\varepsilon$ = error

## RESULTS

### *Descriptive Statistics Test*

The results of descriptive statistics is presented in Table 2.

#### Table 2. Descriptive Statistics

|                | CSRD   | ROA     | ROE     | CG *score* |
|----------------|--------|---------|---------|------------|
| Mean           | 4.0792 | 0.0340  | 0.7300  | 80.8805    |
| Std. Deviation | 0.3130 | 0.1376  | 5.8418  | 7.2170     |
| Minimum        | 2.8621 | -1.0722 | -7.4070 | 66.4400    |
| Maximum        | 4.4483 | 0.2505  | 0.8760  | 92.8800    |

CSRD describes the company's CSR disclosure that has been given a minimum score of 0 up to a maximum score of 5. According to the Table 2, the average value or mean indicates the value of 4.0792, which explains that the CSRD items disclosed in the annual report is good enough (more than 50% medium scores). The value may indicate that companies disclose CSR comprehensively.

The standard deviation in CSRD is 0.3130 showing the level of data dissemination from the average value. The minimum value of CSRD is equal

to 2.8621 indicating the company with the lowest score: PT Panorama Transportasi Tbk. In contrast, the maximum value of 4.4483 showing the highest scores by PT Bank Tabungan Negara (Persero) Tbk as examined from its annual reports of 2013 and 2014, respectively.

Next, the first dependent variable referring to ROA has an average mean value of 0.0340 of the total 108 samples and has a standard deviation of 0.1376 indicating the level of data dissemination average value. The ROA's minimum value of -1.0722 is presented by PT Bakrie & Brothers' annual report of 2013, while the ROA's maximum value of 0.2505 is obtained by PT Bank Syariah Mandiri's annual report.

The second dependent variable is ROE. The average value or mean and standard deviation showing the degree of data dissemination of the average value equal to 0.7300 and 5.8418. The minimum value of ROE is -7.4070 deriving from PT Bakrie & Brothers Tbk annual report of 2013, while the maximum value ROE of 60.7730 reflected in PT Kereta Api Indonesia (Persero) Tbk annual report of 2012.

The next variable explained is a moderating variable which refers to CG score. Based on the data collected from the 108 annual reports, the average (mean) value of CG score is 80.8805 explaining that selected companies in this paper are in the category of "Most Trusted Company", while the value of the standard deviation of 7.2170 indicates the level of data dissemination from the average value. Further, the CG's minimum value is 66. 44 presented by PT Bakrie Telecom's annual reports of 2013 and 2014. Its CG's minimum value puts this company into the category of "Fair Trusted Company" by SWA magazine. Meanwhile, the maximum value of CG score is presented by PT Bank Mandiri (Persero) Tbk on the assessment report of the company in 2014 with a value of 92.8800. Thus, it is categorized as one of the"Most Trusted Company" by SWA magazine.

### Normality Test Results with Dependent Variable ROA

The result of normality test using one sample of Kolmogorov-Smirnov shows asymp. sig value (2-tailed) 0.430>0.05. The result explains that data is normally distributed. The result of statistical normality tests can be shown in the following table:

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### Table 3. Normality Test Results with Dependent Variable ROA

|  | Unstandardized Residual |
| --- | --- |
| Asymp. Sig. (2-tailed) | 0.430 |

*Hypothesis Testing Results with Dependent Variables ROA*

Testing normality has previously explained the data normal distribution. Therefore, the data in this research can be processed to the next phase, which is hypotheses testing. The results of coefficient of determination (Adjusted $R^2$) are presented in Table 4.

### Table 4. Test Results of coefficient of determination (Adjusted $R^2$) – ROA

| Model | Adjusted R Square |
| --- | --- |
| 1 | 0.227 |

Adjusted $R^2$ of 0.227 shows the strength of ROA which can be explained by CSRD as independent variables and CG score as a moderating variable at 22.7%, while others factors should be explained by other variables which are not included in this research model.

The F Test Results – ROA can be seen in Table 5.

### Table 5. F Test result – ROA

| Model | F | Sig. |
| --- | --- | --- |
| 1 | 14.814 | 0.000[b] |

Table 5 shows the significant value of 0.000 less than 0.05. This result explains that the regression model fit to be further examined in this study.

The t Test Results – ROA can be seen in Table 6.

### Table 6. t-Test Results – ROA

| Model | Variabel | B | Sig. |
| --- | --- | --- | --- |
| 1 | CSRD | 10.803 | 0.000 |
|  | CSRD_CG | -6.632 | 0.000 |

According to Table 6, the value of B is at 10.803 with significance 0.000 <0.05. This result shows that CSRD has a significant positive influence on ROA. This result states that the first hypothesis which refers to the influence of CSRD on CFP, proxied by ROA is accepted.

The next testing shows that CSRD_CG variable has a value of B - 6.632 and significance 0.000 <0.05. The result shows that CG scores are not able to strengthen the relationship between CSRD and ROA, or the hypothesis 2 used as the measurement of ROA is declined.

### Normality Test Results Dependent Variable ROE

The results of the statistical test for normality can be seen in Table 7.

**Table 7. Normality Test Results Dependent Variable ROE.**

|                        | Unstandardized Residual |
|------------------------|-------------------------|
| Asymp. Sig. (2-tailed) | 0.096                   |

The result of normality test using one sample of Kolmogorov-Smirnov shows that the value asymp. sig. (2-tailed) 0.096>0.05, and hence it can be concluded that the data is normally distributed.

### Hypothesis Testing Results with Dependent Variables ROE

Hypothesis testing is undertaken using the three-phases test: the coefficient determination test, F test, and t-test. The adjusted $R^2$ is at 0.140, showing that ROE can be explained 14% by CSRD, while the others factors should be explained by other variables which are not included in this research model. The determination coefficient test results are presented in Table 8.

**Table 8. Test Results of coefficient of determination (Adjusted $R^2$) - ROE**

| Model | Adjusted R Square |
|-------|-------------------|
| 1     | 0.140             |

The F Test Results – ROE can be seen in Table 9.

**Table 9. F Test result – ROA**

| Model | F     | Sig.      |
|-------|-------|-----------|
| 1     | 9.720 | 0,000[b]  |

Table 9 shows the significant value of 0.000 less than 0.05. This result explains that the regression model fit to be used in this study. Hence, further testing can be continued to see the influence of independent variable on the dependent variable and to whether a moderating variable is able to strengthen the influence.

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The t-Test results – ROE can be seen in Table 10.

**Table 10. t Test Results – ROE**

| Model | Variabel | B | Sig. |
|-------|----------|------|------|
| 1 | CSRD | 10.013 | 0.000 |
|   | CSRD_CG | -4.150 | 0.001 |

Table 10 shows that the value of B is at 10.013 with the significance 0.000 <0.05 explaining CSRD is positive and significant influencing ROE. The test result shows that the first hypothesis is accepted, demonstrating that CSRD influence CFP, proxied by ROE.

Further, ROE shows the value of B -4.150 with significance 0.001<0.05 indicating that CG as a moderating variable is not able to strengthen the influence of CSRD on the companies' ROE. Thus, the second hypothesis which measuring CSRD and ROE with CG as a moderating variable is declined.

## DISCUSSION

### *The Influence of CSRD to CFP*

It may explain that CSRD could increase ROA level. Further, the statistical tests seen in Table 9 provide evidence that CSRD has a positive and significant influence on ROE. It suggests that CSRD as examine through annual reports significantly influence, both ROA and ROE values.

The hypothesis result is in line with the research conducted by Khlif et el. (2015) explaining that the extent of CSRD has a positive and significant influence on ROA. The result may explain that if companies disclose comprehensive, transparent, prudent, and reliable CSR, they most likely obtain positive images and benefit from CSR' activities they are committed to.

Thus, the CSR disclosures can attract the attention of stakeholders, i.e., consumers, investors, and other parties so that they have more confidence in companies. The stakeholders' confidence in companies are more likely to increase investments, increase in sales of products or services, thereby improving companies' financial performance.

This study's results support the legitimacy theory that explains that the company's activities must comply with the norms prevailing in society, so it can provide benefits to the environment surrounding and prevent any losses. Then the CSRD also supports the theory of stakeholders that

explains the company conducts its operations not only for its own sake, but also may provide the benefit of other stakeholders, such as creditors, consumers, communities, governments, and others.

### *The Influence of Corporate Governance (CG score) on CSRD and CFP*

Based on the hypothesis testing results in Table 4 and 7, it shows that CG scores are not able to strengthen the influence of the CSRD to CFP, both ROA and ROE. Initially, CSRD independently and significantly positive influence to ROA and ROE, but in further examination where CG score position as a moderating variable, the CSRD would indicate a value expressed no positive influence to ROA and ROE.

This result may suggest that the CG scores derived from the CGPI cannot strengthen the influence of CSRD to CFP. Three main explanations can be stated, first, the stakeholders may have not been trusted with CGPI scores so they don't really pay attention to the score. Second, the good CGPI scores have not been evident influencing the good of CSRD, so the relations between CSRD and CGPI need to be further examined. Weak governance and regulation regarding the disclosures of CSR which is still voluntary can also be another factor which explains why CG is not able to moderate the influence of CSRD to CFP (proxied by ROA and ROE).

### CONCLUSION

Based on the results, it can be concluded that corporate social responsibility disclosure (CSRD) has positive and significant influence on corporate financial performance (CFP) measured by ROA and ROE. In addition, the results also show that a moderating variable which is corporate governance score (CG score) has not been able to strengthen the positive influence of CSRD on ROA and ROE as financial performance.

This paper has some limitations, including (1) the content analysis has brought a subjective risk which may impact on CSRD scores; (2) the CGPI scores are taken from the secondary source, and it may content different way of measurements, thereby leading to reliability concern; (3) since this paper uses different types of companies categorizes as 'Indonesia Most Trusted Companies', the disclosures may vary across industries, and such varied company types may result in variety of CSRD. Hence, the disclosures of CSR may not be compared.

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Apart from the limitations, this study is expected to be useful for the next research examining the influence of CSRD on CFP with CG as a moderating variable, but applying different measurements, such as content analysis of CG and not directly taking CGPI as an index. Additionally, The Indonesian Institute for Corporate Governance (IICG) may need to re-evaluate the scoring system to better examine the company's governance.

For the companies, the results of this paper are expected to benefit in form of policies and implementation of the CG and CSRD quality reported in the annual reports. On the other hand, the government also need to provide better supports so that the companies can comprehensively better disclose their CG and CSRD. Investors may also use the results of this study by considering not only to financial information, but also to non-financial disclosures, including CSRD. The disclosures of CSRD may contribute significant influence of financial performance, as examined in this study, which are ROA and ROE.

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**APPENDIX**

## Corporate Social Responsibility Disclosure (CSRD) Items

| | | |
|---|---|---|
| Governance and Strategy | 1. 01 | Company and industry profile |
| | 1.02 | Top management statement |
| | 1. 03 | Issue identification and prioritization |
| | 1. 04 | Principles, values and policies for SD accountability |
| | 1. 05 | SD vision and business strategy |
| | 1. 06 | The business case Management |
| | 1. 07 | SD implementation challenges |
| | 1. 08 | Governance structure and responsibilities |
| | 1. 09 | Risk management |
| | 1. 10 | Compliance management |
| | 1. 11 | Meeting tomorrow's needs |
| | 1. 12 | Customer influence and market shaping |
| Management | 2.01 | Management procedures Presentation of performance |
| | 2.02 | Supply chain management |
| | 2.03 | Stakeholder engagement |
| | 2.04 | Personnel management, training and development |
| | 2.05 | Learning and knowledge management |
| | 2.06 | Public policy and regulatory affairs |
| | 2.07 | Industry influence |
| | 2.08 | Philanthropy and social investment |
| | 2.09 | Investor relations |
| Presentation of Performance | 3.01 | Performance and strategy alignment |
| | 3.02 | Measuring SD performance |
| | 3.03 | Context and interpretation |
| | 3.04 | Target setting |
| Accessibility and Assurance | 4.01 | Assurance |
| | 4.02 | Reporting commitment, policy and strategy |
| | 4.03 | Reporting standards |
| | 4.04 | Accessibility of information |

Source**:** *The Environmental, Social and Economic Sustainability Framework*:
https://www.unenvironment.org/resources/report/un-environments-environmental-
social-and-economic-sustainability-framework