

# **The Effect of Good Corporate Governance Mechanism, And Corporate Social Responsibility Disclosures on Earnings Response Coefficient**

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**ABSTRACT:** *This study aims to examine the effect of Independent Board, Management Ownership, Corporate Social Responsibility (CSR) on Earnings Response Coefficient (ERC). The analysis techniques used is multiple analysis regression. The population in this study is all companies in the index LQ 45 listed on Stock Exchange. The sample in this study were all companies that entered the LQ 45 index from 2013 - 2017 and had managerial ownership consisting of 29 companies (145 samples) fulfilling the criteria. The sampling technique used in the study was purposive sampling method. The results of the study showed that (1) Independent Board was influence on Earnings Response Coefficient (2) Management Ownership was not influence on Earnings Response Coefficient (3) Corporate Social Responsibility was not influence on Earnings Response Coefficient..*

**KEY WORD:** *Independent Board, Managemet Ownership, Corporate Social Responsibility, Earnings Response Coefficient*

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## **I. INTRODUCTION AND LITERATURE REVIEW**

Financial reports must be published as a form of accountability from management to shareholders. One the reports that concerns investors and potential investors is the income statement. The importance of earnings information is explicitly stated in the statement of Financial Accounting Concept (SFAC) No. 1 which states that profit has a benefit to assess management performance, and helps predict profit and risk in investment or credit. The movement of profit will affect the movement of stock returns in the same direction. To determine the relationship between stock returns, earnings, and information, one of them can use the Earnings Response Coefficient (ERC). Examples of cases that occurred were disclosed in the media Properti Indonesia.Com (1/5/2014).

The case that occurred was related to the acquisition plan between Bank Mandiri and Bank BTN in 2014 circulating a letter from the Ministry of BUMN dated April 11 with number SR-161 / MBU / 04/2014 which was shown to the President Director of BTN. The essence of the letter is a request to add to the Extraordinary General Meeting of Shareholders (EGMS) agenda which will be held in May. The capital market responded positively to this incident. The news that the plan to acquire Bank BTN resulted in the issuer's shares Bank BTN increased 20 points or 1.60% in trading Tuesday (15/4/2014). BTN was trading at Rp1,255-Rp1,280 per share, and closed at Rp1,270 per share. And on trading Wednesday (16/4/2014), BBTN shares immediately after opening shot to the level of IDR 1,525 per share or jumped 15.33% from IDR 1,305 per share at the time of opening. As a result of these events, a signal appeared to the public that had an impact on abnormal returns on the capital market. Good Corporate Governance (GCG) is considered capable of forming a professional, clean, transparent, and responsible management work pattern. Managerial ownership can help align the relationship between management interests and investors' interests. This is considered to be able to equalize the interests of investors and management, so that management can benefit from the decisions taken and take part in winning losses if there are errors in decision making. Independent Commissioner is considered a position that can monitor management performance in making decisions. CSR is one of the accounting concepts that takes into account the openness of disclosure of corporate social activities and the impact of company activities on the environment, so that the information published does not only focus on financial reports.

### **1.2 Research Objectives**

The formulation of the problem in this study is as follows (1) Does GCG as proxied by the number of independent commissioners affect the ERC? (2) Does GCG which is proxied by managerial ownership have an effect on ERC? (3) Does the CRS which is proxied in the disclosure of dummy variables have an effect on

ERC?

And The objectives of this study are as follows : (1) To test the effect of proxied GCG on the number of independent boards of commissioners on the ERC (2) To test the effect of proxied GCG on managerial ownership on ERC. (3) To examine the effect of proxied CSR in the disclosure of dummy variables on ERC

### 1.3 Research Methodology and Data Analysis

#### A. Earnings Response Coefficients (ERC)

The definition of the Earnings Response Coefficient according to Cho and Jung (1991) is as follows: "The earnings response coefficient is defined as the effect of each dollar of unexpected earnings on stock returns, and is usually measured by the slopa coefficient in the regression of Abnormal returns on stocks in unexpected earnings."

#### B. Good Corporate Governance (GCG)

GCG is a system that regulates and controls the company to create value added for stakeholders. This is because GCG can encourage the formation of a clean, transparent and professional management work pattern. Arif Efendi. (2016)

#### C. Corporate Social Responsibility (CSR)

Robert J. Hughes and Kapoor (1985) define that corporate social responsibility is business activities that have an impact on society, and can be one of the considerations in making business decisions.

#### 1. The effect of GCG as proxied by the size of the Independent Commissioner on ERC

Research related to this has been carried out by Riski Oktavia (2014) which states that the Number of Independent Commissioners has an effect on ERC. The Independent Commissioner as the highest internal control mechanism is responsible for monitor top management actions

H1: The size of the Independent Commissioner has an effect on ERC

#### 2. The effect of GCG as proxied by Managerial Ownership on ERC.

Research on this has been done by Lilla (2010) which states that managerial ownership has a positive effect on ERC. The greater the management's share ownership will have an impact in decision making with the aim of being selfish so that the quality of company earnings that are reported to the public does not reflect the true figure.

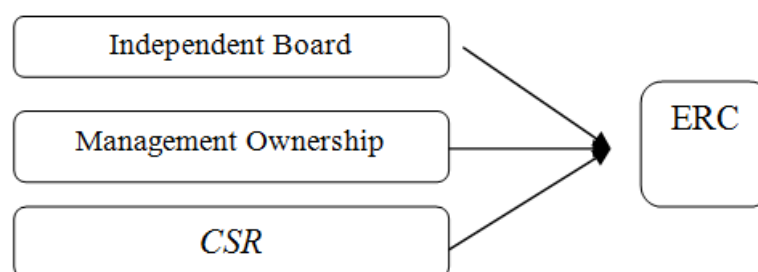
H2: Managerial ownership has an effect on ERC

#### 3. The effect of CSR on ERC

Research on this has been done by Rosa (2013) which states that CSR has a significant effect on ERC. CSR is mandatory to disclose because the company is not only oriented towards capital owners, but also obligations towards other interested parties. More and more companies disclose in their annual report that eating will have an impact on increasing good will company in the long term, so that the company is considered to provide information disclosure to investors. The more companies provide more disclosure of the activities and activities of the company that occur, the more they will increase the value of their investment, because the company is considered transparent.

H3: CSR affects ERC

Based on the above framework, it can be described as follows:



This research was conducted by means of the casual method, namely testing the hypothesis about the influence of one variable or several variables

This study uses the ERC variable as the dependent variable (Y), and the independent variable (X) which consists of Independent Commissioner Board Size, Managerial Ownership and CSR.

Population and Sample Research. The population of this study were companies that were included in LQ 45 from 2013 - 2017. The method used in this study was the purposive sampling method.

**Data analysis technique**

The method of data analysis in this study used descriptive statistical analysis, then continued with the classical assumption test consisting of normality test, multicollinearity test, autocorrelation test, heteroscedasticity test. In addition, multiple linear analysis was carried out which included the coefficient of determination test, f test and t test. The regression equation is formulated as follows:

$$Y = \alpha - \beta_1x_1 + \beta_2x_2 - \beta_3x_3 + e$$

Information :

Y = Earnings Response Coefficient

$\alpha$  = Constant

$\beta$  = Regression Coefficient

X1 = Size of the Board of Commissioners

X2 = Managerial Ownership

X3 = Corporate Social Responsibility

e = Error

Tabel 1.1 : F test

Hasil Uji F

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 :gression	201.219	3	67.073	4.255	.007 <sup>a</sup>
Residual	2096.414	133	15.763		
Total	2297.633	136			

The results of the ANOVA or F test show that the probability value of the regression model used is 0,000 or less than the significance level of the study (Sig. <0.05). This implies that the regression model is fit to be used in hypothesis testing or it can be said that the size of the Independent Board of Commissioners, Managerial Ownership and CSR together have an effect on ERC.

Tabel 1.2 ; Determination Coefficient Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,296	,088	,067	3,97020

From the table above, it can be seen that the adjusted R2 value is 0.067. This shows that 6.7% of the ERC variable can be explained by the three independent variables, namely the number of Independent Commissioners, Managerial Ownership, and CSR while the remaining 93.3% is ERC influenced by other variables outside this research model.

Tabel 1.3: T test

Uji T

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-9.226	1.762		-5.235	.000
DKI	8.855	3.733	.201	2.372	.019
KM	-12.874	8.365	-.130	-1.539	.126
CSR	5.577	4.311	.109	1.293	.198

The test results above show the Sig. The variable size of the Independent Commissioner is 0.19 or less than 5% (<0.05), so it affects ERC, while the Sig. Managerial ownership variable is 0.126 and CSR 0.198 is greater than 5%, so that the two variables have no effect on ERC.

## II. FINDINGS AND INTERPRETATION

The effect of GCG as proxied on the Size of the Independent Board of Commissioners on ERC. Based on the results of the research that has been carried out, the Independent Commissioner Board Size variable has a significance value of 0.019 or less than 0.05 with a regression value of 8.855, this indicates that the variable Size The Independent Board of Commissioners has a positive effect on ERC

This is because the composition of the Company's Independent Commissioners is higher than BAPEPAM's stipulation of 30%. The increasing number of Independent Commissioners, in making decisions the Board of Commissioners will be independent so that it can reduce the level of fraud committed by management in financial reporting, so that later it will affect the returns that will be received by investors. The Independent Commissioner has the function of monitoring in order to create a neutral GCG. With a monitoring system carried out by independent commissioners, it will make management more careful and transparent in making decisions. So that the quality of the resulting earnings can reflect the actual condition of the company.

The results of research conducted concur with Nurika (2010) which shows that the size of the Independent Commissioner has no effect on ERC. The proxied effect of GCG on managerial ownership on ERC

Based on the results that have been tested, the managerial ownership variable has a significance value of 0.126 or greater than 0.05 with a regression value of -12.874, this indicates that the variable Managerial Ownership has no effect on ERC

This is due to the small number of shares owned by management, thus management is considered to have more information related to the company and has an important role in influencing company profits for personal gain, namely by the return obtained from its share ownership in the company. Management who owns a proportion of shares in the company also has a personal interest in it. If management increases the company's share price, external shareholders will assume that the company and management's performance has increased. As a result, management will receive compensation or bonuses because it is considered capable of improving company performance, which is reflected in company profits. Management who owns shares will also get returns from ownership of these shares. The results also show that investors do not believe in management, this is in accordance with the agency theory discussed earlier. Therefore, the conflict of interest between management and investors is not able to increase ERC. The results of this study are not in line with Lilla (2010) that managerial ownership has a positive effect on ERC.

The effect of CSR on ERC Based on the results of the study, the CSR variable has a significance value of 0.198 or greater than 0.05 with a regression value of -5.577, this indicates that the CSR variable has no effect on ERC. This is because investors only buy shares in a company and use the shares as trading interests, which only seek profit by buying shares in less than one year without considering the long-term sustainability of the company.

The CSR information disclosed in the annual report also does not make stock prices more informative because CSR reports are unable to provide information about the company's prospects in the future. Therefore CSR cannot affect the company's ERC. The results of this study are in line with Rulfah (2008). However, it is not in line with Rosa (2013) that CSR has a significant effect on ERC.

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