

Board Governance, Business Ethics, and Firm Social Responsibility Disclosure

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8 Board Governance, Business Ethics, and Firm Social Responsibility Disclosure

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10 Abstract

This paper wants to investigate the impact of board control on social responsibility disclosure. The duration of this study covers three years, i.e., from 2014 until 2016. The population is from public manufacturing companies in Indonesia, and the samples are taken by a simple random sampling method. To analyze the data, the regression model gets used. This research concludes that a positive influence of the supervising board size and the woman portion in this board on the firm social responsibility disclosure is available. Also, business ethics positively affect it.

Keywords: Supervising Board Size, Females Becoming Supervisory Board, Ethics, Firm Social Responsibility Disclosure

I. INTRODUCTION

According to the stakeholder theory, firms exist to achieve their fund provider interests (stockholders and creditors) and other parties, such as the society around the firms (Ghozali & Chariri, 2007). Firms with social responsibility will obtain some benefits. They are the increase in market share, the product brand image, and investor magnetism in the capital market (Kotler & Lee, 2005).

The firms realize that to get attention from the investors related to this social responsibility issue, they have to use their governance devices. One of them gets associated with the role of supervising board (Said, Zainuddin, & Haron, 2009; Fernandez-Feijoo, Romero, & Ruiz, 2012; Setó-Pamies, 2013; Zhang, Zhu, & Dong, 2013; Giannarakis, 2014; Lone, Ali, & Khan, 2016; Nassem, Riaz, Rehman, Ikram, & Malik, 2017; Issa & Fang, 2019; Qa'dan & Suwaidan, 2019). This role is reflected by the supervising board size [see Said et al. (2009), Lone et al. (2016), Nassem et al. (2017), Qa' dan & Suwaidan (2019)] and female board portion [see Fernandez-Feijoo et al. (2012), Setó-Pamies (2013), Zhang et al. (2013), Lone et al. (2016), Issa & Fang (2019)].

Fauzan (2011) states the ethical business consideration becomes a motive for the firms to be responsible for society. As declared by Singh & Prasad (2017), the codes of conduct can be that measurement. However, the research investigating the relationship between ethics measured by these codes and firm social responsibility is infrequent. This situation inspires this study to use business ethics as one of the determinants of company social responsibility besides the supervising board size and female portion becoming this board in Indonesia's public manufacturing companies as an object.

The resource dependence theory explains that a sizeable supervising board number is needed to elevate the company performance because it contains many experts to handle the problems (Pfeffer, 1972). These experts must be having variety in their schooling and understanding of how to perform a responsibility for society (Adam, Almeida, & Ferreira, 2005). Therefore, the immense size of the supervisory board has a strong relationship with the increasing social responsibility, as shown by the study of Said et al. (2009), Lone et al. (2016), Nassem et al. (2017), as well as Qa'dan & Suwaidan (2019). Based on this explanation, we form hypothesis one in this manner.

H₁: The big supervising board size stimulates the company to perform societal responsibility.

¹⁴ The presence of women in the supervising board can induce the tendency to disclose more activities related to social responsibility (Bear, Rahman, & Post, 2010) because of their philanthropy (Ibrahim & Angelidis, 1994), distinctive leadership type, practiced involvement, various background (Issa & Fang, 2019). Unlike man, the woman implements her ethical standard more aggressively. She does not tolerate the practice of the opportunistic of managers; therefore, she can effectively increase the monitor on what the managers do, as illuminated by Luo, Xiang, & Huang (2017). The research conducted by Fernandez-Feijoo et al. (2012), Setó-Pamies (2013), Zhang et al. (2013), Lone et al. (2016), as well as Issa & Fang (2019) affirms these explanations by displaying a positive influence of the female board on company social responsibility. Based on this explanation, we form hypothesis two in this manner.

H₂: The large portion of the woman becoming a supervising board stimulates the firm to perform societal responsibility.

Business ethics and firm social responsibility

Business ethics and communal duty are essential to make firms sustainable in the future (Ferrell, Harrison, Ferrell, & Hair, 2019). Additionally, Fauzan (2011) explains that business ethics is the basis for the firm to realize social responsibility. To act ethically, the firm needs the codes of conduct (Singh & Prasad, 2017). The survey of Andjarwati & Budiadi (2008) on the entrepreneurs acting as the manager having a small business in the food industry demonstrates that business ethics positively affects the social firm duty. Similarly, Prasetyono (2011) finds a positive association when investigating public manufacturing firms' secretary perception in Indonesia. Based on this explanation, we form hypothesis three in this manner.

H₃: Business ethics stimulates the firm to perform societal responsibility.

II. RESEARCH METHOD

2.1. The Variables in This Study

This study has five variables. One of them, the firm social responsibility, functions as an explained variable. The rest, consisting of board governance, business ethics, and company size, performs as an explaining variable.

- a. To measure the firm social responsibility disclosure (CSR), we follow the way utilized by Qa'dan & Suwaidan (2019). Their research uses 42 required items based on GRI version 4, classified into four information: environment, human resources, communal participation, the goods-and-services given to customers. Furthermore, they divide the total existing items by 42 to measure the disclosure ratio.
- b. We measure the board governance by the supervising board size (SBS) by following Said et al. (2009), Giannarakis (2014), Lone et al. (2016), Nassem et al. (2017), Qa'dan & Suwaidan (2019), Issa & Fang

(2019) and the women portion in the supervising board (WBS) by referring to Fernandez-Feijoo et al. (2012), Setó-Pamies (2013), Zhang et al. (2013), Lone et al. (2016), Issa & Fang (2019), Giannarakis (2014), Nassem et al. (2017), Qa'dan & Suwaidan (2019).

- c. To measure business ethics, we use total conduct codes (CC) disclosed by the firms by denoting Singh & Prasard (2017). To make the value proportional, we divide the sum of firm statements by the largest number of one firm becoming the sample (see equation 1).

$$CCE = \frac{\text{Total conduct codes for company}}{\text{The largest number of conduct of company in the sample}} \dots\dots\dots(\text{Equation 1})$$

- d. We use the natural logarithm of total assets to measure the company size as the control variable by outlining Ho & Wong (2001), Cheng & Courtenay (2006), Said et al. (2009), Setó-Pamies (2013), Giannarakis (2014), Lone et al. (2016), Nassem et al. (2017), and Issa & Fang (2019).

2.2. Method to grab the sample

The research population is public manufacturing firms in Indonesia in 2014, 2015, and 2016. Consistently, 129 firms (N) exist in this period. We use the Slovin formula with a 10% margin error in equation 2 to get the representing number. This formula is from Suliyanto (2009).

$$n = \frac{N}{1+Ne^2} \dots\dots\dots(\text{Equation 2})$$

By applying this formula, the number of the represented samples (n) is $\frac{N}{1+Ne^2} = \frac{129}{1+129(10\%)(10\%)} = \frac{129}{2.29} = 56.32 \approx 56$ firms. Furthermore, we work with a simple random sampling method. After grabbing samples, the names of firms are in Appendix 1.

2.3. Method to analyze the data

The regression model is used to analyze the data associated with the variables by estimating its coefficient. Furthermore, the intended model exists in equation 3.

$$CSR_{Dit} = \beta_0 + \beta_1 SBS_{it} + \beta_2 WBS_{it} + \beta_3 CC_{it} + \beta_4 LN(TA)_{it} + \varepsilon_{it} \dots\dots\dots(\text{Equation 3})$$

III. RESULT AND DISCUSSION

3.1. Descriptive Statistics

This research has 168 observations, i.e., 56 firms multiplied by three years. Furthermore, the descriptive statistics for all variables can be looked at in Table 1.

- CSR_D has the lowest and highest value of 0.00 and 0.80, the mean and standard deviation of 0.2042.
- SBS has the lowest and highest value of 2 and 13, the mean and standard deviation of 3.9524 and 1.79757.
- WBS has the lowest and highest value of 0.00 and 0.67, the mean and standard deviation of 0.0890 and 0.16309.
- CC has the lowest and highest value of 0.00 and 0.67, the mean and standard deviation of 0.2034 and 0.19759.
- LN(TA) has the lowest and highest value of 22.76 and 31.04, the mean and standard deviation of 27.8660 and 1.49847.

Table 1. Descriptive Statistics for Research Variables

Variable	N	Minimum	Maximum	Mean	Standard Deviation
CSR	168	0.00	0.80	0.2042	0.19937
SBS	168	2.00	13.00	3.9524	1.79757
WBS	168	0.00	0.67	0.0890	0.16309
CC	168	0.00	0.67	0.2034	0.19759
LN(TA)	168	22.76	31.04	27.8660	1.49847

Source: Output of IBM SPSS 20.

Table 2 displays the regression model estimation based on research variables. SBS, WBS, and COC have a positive coefficient with the probability of the t-statistic of 0.0588, 0.0757, and 0.0810, separately. Because those values are still below the significance level of 10%, all research hypotheses are not rejected. This circumstance means the big board size, the large portion of the woman becoming a supervising board, business ethics stimulate the company to perform social responsibility.

**Table 2. Estimation Result of the Regression Model:
The Determinants of Firm Social Responsibility Disclosure**

Variable	Coefficient	Std. Error	t-Statistic	Probability
C	-0.914747	0.308622	-2.963970	0.0035
SBS	0.017776	0.009341	1.902916	0.0588
WBS	0.153928	0.086097	1.787851	0.0757
CC	0.133513	0.076031	1.756035	0.0810
LN(TA)	0.036167	0.011829	3.057486	0.0026

Source: Modified Output of E-Views 6.

From the statistical hypothesis testing, it can be inferred some evidence as follows. Firstly, the big supervising board size can stimulate the company to perform societal responsibility. The people becoming the supervisory board are so smart that they can think of the activities needed to serve the firm community obligation. To execute these activities, they need to communicate with top managers. Therefore, these events can be announced in its annual report. Thus, this study confirms the study of Said et al. (2009), Lone et al. (2016), Nassem et al. (2017), and Qa'dan & Suwaidan (2019).

Secondly, the large portion of the woman becoming a supervising board can stimulate the firm to perform societal responsibility. This situation shows that the females, with her high humanity, can elevate many good relationships with the stakeholders and concern for the community around the firms. Therefore, this study verifies the study of Fernandez-Feijoo et al. (2012), Setó-Pamies (2013), Zhang et al. (2013), Lone et al. (2016), and Issa & Fang (2019).

Thirdly, business ethics can stimulate the firm to perform societal responsibility. In this research, we use the firm codes of conduct to measure business ethics. These codes are useful as the guidance that managers and employees have to obey and proven as a good proxy because of a positive impact. Therefore, the other researchers can use it in their further investigation. By only considering the positive effect, without the measurement, this study affirms the study of Andjarwati & Budiadi (2008) and Prasetyono (2011).

By referring to the discussion, this study suggests that firms should have a giant supervising board, not above 13 (see the maximum number of SBS in Table 1), by considering the company size. Besides, the company controlling shareholders can place more females on the supervising board because they care about society. Additionally, the employees and managers must implement the codes of conduct to reflect their care to the community.

IV. Conclusion

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This research goal is to investigate the influence of the supervising board size, the woman portion in this board, and business ethics on social responsibility disclosure. By utilizing the years 2014, 2015, and 2016 as time observation, 56 manufacturing companies as the sample from the capital market of Indonesia, and the regression model to analyze the data, this study summarizes some evidence.

1. The big supervising board size can stimulate the company to perform societal responsibility.
2. The large portion of the woman becoming a supervising board can stimulate the firm to perform societal responsibility.
3. Business ethics can stimulate the firm to perform societal responsibility.

This study has some boundaries, like the short duration: three years, the utilization of one industry: manufacturing, and the number of determining factors. This situation provides the chance for the next academics to improve them. Firstly, they can add the years as the time observation to be longer, for instance, five or ten years. Secondly, they can occupy firms from non-financial industries so that the conclusion can be extended. Finally, they can augment the determinants by utilizing the outside supervisory board portion, the total audit committee members and board summits, the domestic and foreign institutional possession, managerial ownership, profitability, and leverage.

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Appendix 1. The name of the samples

No.	Code	The name of the company
1.	BRAM	Indo Kordsa Tbk.
2.	GDYR	Goodyear Indonesia Tbk.
3.	INDS	Indospring Tbk.
4.	LPIN	Multi Prima Sejahtera Tbk.
5.	MLBI	Multi Bintang Indonesia Tbk.
6.	INAF	Indofarma Tbk.
7.	KAEF	Kimia Farma Tbk
8.	KLBF	Kalbe Farma Tbk.
9.	MERK	Merck Tbk.
10.	SIDO	Industri Jamu dan Farmasi Sido Muncul Tbk.
11.	MBTO	Martina Berto Tbk.
12.	TCID	Mandom Indonesia Tbk.
13.	UNVR	Unilever Indonesia Tbk.
14.	CINT	Chitose Internasional Tbk.
15.	LMPI	Langgeng Makmur Industri Tbk.
16.	INTP	Indocement Tungal Prakarsa Tbk.
17.	SMCB	Holcim Indonesia Tbk.
18.	WTON	Wijaya Karya Beton Tbk.
19.	AMFG	Asahimas Flat Glass Tbk
20.	ARNA	Arwana Citramulia Tbk.
21.	IKAI	Intikeramik Alamasri Industri Tbk
22.	KIAS	Keramika Indonesia Asosiasi Tbk.
23.	MLIA	Mulia Industrindo Tbk.
24.	TOTO	Surya Toto Indonesia Tbk.
25.	ALKA	Alakasa Industrindo Tbk.
26.	BAJA	Saranacentral Bajatama Tbk.
27.	BTON	Betonjaya Manunggal Tbk.
28.	GDST	Gunawan Dianjaya Steel Tbk
29.	JKSW	Jakarta Kyoei Steel Works Tbk.
30.	JPRS	Jaya Pari Steel Tbk.
31.	LION	Lion Metal Works Tbk.
32.	LMSH	Lionmesh Prima Tbk.
33.	NIKL	Pelat Timah Nusantara Tbk.
34.	PICO	Pelangsi Indah Canindo Tbk.
35.	BUDI	Budi Starch & Sweetener Tbk.
36.	DPNS	Duta Pertiwi Nusantara Tbk.
37.	EKAD	Ekadharmas International Tbk.
38.	ETWA	Eterindo Wahanatama Tbk.
39.	INCI	Intanwijaya Internasional Tbk.
40.	SRSN	Indo Acidatama Tbk.

Appendix 1. The name of the samples

No.	Code	The name of the company
41.	TPIA	Chandra Asri Petrochemical Tbk.
42.	UNIC	Unggul Indah Cahaya Tbk.
43.	AKKU	Alam Karya Unggul Tbk.
44.	AKPI	Argha Karya Prima Industry Tbk
45.	APLI	Asiaplast Industries Tbk
46.	BRNA	Berlima Tbk.
47.	FPNI	Lotte Chemical Titan Tbk.
48.	IGAR	Champion Pacific Indonesia Tbk.
49.	IMPC	Impack Pratama Industri Tbk.
50.	IPOL	Indopoly Swakarsa Industry Tbk.
51.	SIAP	Sekawan Intipratama Tbk.
52.	SIMA	Siwani Makmur Tbk.
53.	TALF	Tunas Alfin Tbk.
54.	TRST	Trias Sentosa Tbk.
55.	YPAS	Yanaprima Hastapersada Tbk
56.	CPIN	PT Charoen Pokphand Indonesia Tbk.

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