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Effect of Corporate Social Responsibility and Corporate Governance on Financial Performance and Implications in Stock Companies Go Public in Indonesia Stock Exchange

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Abstract : *This study aimed to analyze the influence of corporate social responsibility, corporate governance of financial performance; analyze the influence of corporate social responsibility, corporate governance on stock prices; analyze the effect of the financial performance of the stock price, and analyze the influence of corporate social responsibility, corporate governance to the stock price through financial performance. Samples 33 companies manufacturing consumer goods sector in the period 2013-2016. Mechanical analysis using structural equation modeling (SEM). The results show that corporate social responsibility and corporate governance affect the financial performance. Corporate social responsibility and corporate governance to the stock price. The financial performance of an effect on stock prices.*

Keywords - *Corporate Social Responsibility, Corporate Governance, Stock Price, Financial Performance*

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I. Introduction

CSR is at the core of business ethics, in which a company does not only have obligations economically and legally to shareholders (shareholders), but also have obligations to other interested parties (stakeholders). All that is inseparable from the fact that a company cannot live, operate and survive and make a profit without the help of various parties. So, CSR aims to encourage business more ethically in carrying out its activities so as not to adversely affect the community and environment. Thus, in the end the business will survive in a sustainable manner the economic benefit that became the purpose of establishing the business world. According to Nugroho (2007) corporate social responsibility projects for the company, the community, the environment or the state. For the Company, efforts will be sustainable or sustainable (sustainable); the good name of the company with the support of the surrounding community. For the community, will increase the added value of their companies in an area as it will create employment, improve social quality in the area. For the environment, prevent overexploitation of the natural resources, maintain environmental quality by pressing pollution levels and even companies involved affect the environment. For those countries, can enjoy a reasonable income tax (which is not darkened) by the company. improve social quality in the area. For the environment, prevent overexploitation of the natural resources, maintain environmental quality by pressing pollution levels and even companies involved affect the environment. For those countries, can enjoy a reasonable income tax (which is not darkened) by the company. improve social quality in the area. For the environment, prevent overexploitation of the natural resources, maintain environmental quality by pressing pollution levels and even companies involved affect the environment. For those countries, can enjoy a reasonable income tax (which is not darkened) by the company.

In general, public companies take advantage of the capital market as a means to obtain alternative sources of funding or financing. Investors want to invest in companies if the investment can yield a number of advantages. The existence of capital markets makes the company has a tool for self-reflection on the performance and financial condition of the company. If the financial condition and performance of the company is good then the market will respond positively with an increase in stock price.

The manager has its own role in the survival of the company, managers have an important role in achieving the objectives of the company. The company's main purpose is to raise corporate value by maximizing profit (Riyanda and Indriani, 2013). If the manager also has the company shares the company as well as the owner of the company. The greater the proportion of management ownership in the company, management tends to try harder for the benefit of the shareholders which is none other than himself. This caused the company to obtain an audit opinion on-going concern, The greater the institutional ownership will increase the efficient use of corporate assets. The existence of institutional ownership is expected to be no monitoring of management decisions, thus reducing the potential for bankruptcy. Prevention in bankruptcy will affect the non-receipt of audit opini on going concern (Januarti, 2009).

According Tandelilin (2010) one of the factors that affect stock prices ie the issuer's financial performance. This is due to the financial performance is a factor that objective and representative in describing stock prices. Seing issuer's financial performance is measured by the financial information generated during a specific period reflected in the financial statements. Financial information is one of the tools that are often used by investors to assess the price of shares and assist in investment decision-making process.

Karagiorgos (2010), Sustainable and Fun (2015), Anwar et al. (2013), as well as Kamatra and Kartikaningdyah (2015), proving that the CSR effect on financial performance, but the results Hidayansyah et al. (2015) states that CSR has no effect on the financial performance. The research result Anwar et al. (2013) and Sugiarto and Mas'ud (2016) proved that CSR affect stock prices, but the results Hidayansyah et al. (2015) Zaccheaus et al. (2014) and stated that the CSR has no effect on stock prices. Furthermore, Anwar et al. (2013) and Anwaar (2016), proving that the financial performance effect on stock prices, but the results Hidayansyah et al. (2015) stated financial performance has no effect on stock prices. Research results Wati (2012), Sustainable and Fun (2015) and Paul et al. (2015) showed that corporate governance affect the financial performance. Budiharjo (2016) and Sugiarto and Mas'ud (2016) proved that corporate governance affect stock prices.

This study aimed to analyze the influence of corporate social responsibility, corporate governance of financial performance; analyze the influence of corporate social responsibility, corporate governance on stock prices; analyze the effect of the financial performance of the stock price, and analyze the influence of corporate social responsibility, corporate governance to the stock price through financial performance.

II. Literature Review

Corporate Value

Value companies are always associated with financial decisions. The company's value is the size of the economy that reflects the market value of a business on the number of claims by creditors and shareholders (investors) (Brigham and Houston, 2015: 112). Fama and French (1998) shows the dividend is positively related to the value of the company while the debt is negatively related to the value of the company. Dividends and debt provide information about the profitability of the dominant in the financing decision. Consequently, if the company is quite profitable, companies need to pay dividends and does not need to issue debt in the first position.

Profitability

Profitability is the ability of the business to profit. Profit is revenue generated after paying all costs directly related to income, such as produce, and other costs associated with the implementation of business activities. Profitability is the company's potential profit on the business is run by its resources (Brigham and Houston, 2015: 99).

Dividend Policy

Dividends are corporate earnings are distributed to shareholders. Dividends paid in cash or shares and usually published every quarter. Dividends may only be paid from retained earnings and not from capital invested as capital or excess received over the par value of shares. In general, the more stable revenue, the more regular dividend payments (Brigham and Houston (2015: 489-491). Policy dividend is an exclusive decision by the management to decide what percentage of profits to be distributed among the shareholders or what percentage of it is retained for meet internal needs, in retain earnings (Van Horne and Wachowicz, 2009: 476).

III. Research Methods

Operational definition

a. *Corporate Social Responsibility*

Corporate Social Responsibility is the social responsibility of a company to the public and the environment on the impact of its business activities. CSR formula is as follows:

$$\text{ICSRj} = \frac{\sum_{i=1}^{n_i} X_{ij}}{n_j}$$

Information :

ICSR = Index *Corporate Social Responsibility* companies j

ni = number of disclosure items from company j, $n_j = 79$

Xij = 1 = if i items disclosed; 0 = if i items not disclosed

Therefore: 0 <ICSRj <1

b. *Corporate governance*

Corporate Governance is the process and structure used to direct and manage the business and affairs of the company, in order to enhance business prosperity and corporate accountability, with the main purpose of realizing shareholder value in the long term, with due regard to the interests of other stakeholders. Indicators used in the corporate governance consists of:

1) Managerial ownership

$$\text{Owners managerial} = \frac{\text{Total stock of managerial}}{\text{Total shares outstanding}} \text{ x } 100\%$$

2) institutional ownership

$$\text{Institutional ownership} = \frac{\text{The number of shares owned by institutional}}{\text{Number of the company's outstanding share capital}} \text{ x } 100\%$$

3) The proportion of independent directors

$$\text{The proportion of independent directors} = \frac{\text{Number of independent directors}}{\text{The number of commissioners}} \text{ x } 100\%$$

4) The number of audit committee members
The number of audit committee members = Number of Audit Committee

c. Financial performance

The financial performance is the performance of the financial dimension of operational activities, which consists of:

1) *Current Ratio* (CR) is the most common measure of short-term smoothness can be covered by current assets, since this ratio indicates how far the creditors of short-term bills can be covered by assets that can roughly be turned into cash within a period equal to the charges.

$$\textit{Current Ratio} = \frac{\text{Current asset}}{\text{Current liabilitie s}} \text{ x } 100\%$$

2) *Return On Investment* (ROI) is the ratio based on the revenues that funded asset because the owners / shareholders and creditors, then the ratio should be able to measure the productivity of assets in providing returns to investors.

$$\text{ROI} = \frac{\textit{Net Income}}{\textit{Total Asset}} \text{ x } 100\%$$

3) *Return On Equity*(ROE) measures the absolute returns that will be given by the company to its owners or shareholders. Good ROE will bring success for the company, allowing the company to expand, creating high value and sustainable growth over the wealth of the owner.

$$\text{ROE} = \frac{\textit{Earning after tax}}{\text{Ekuitas pemilik}} \text{ x } 100\%$$

4) *Net Profit Margin* (NPM) calculating the ratio between earnings before interest and taxes to sales.

$$\text{NPM} = \frac{\text{EBIT}}{\textit{Sales}} \text{ x } 100\%$$

d. Stock price

The share price is the stock price go public companies in the sector with good customers make an average closing price every day for 4 years with the unit value of the rupiah.

Population and Sample

The population in this study are all companies manufacturing consumer goods sectors listed in Indonesia Stock Exchange by 38, Sampling method used is purposive sampling method with the following criteria: Active stocks traded during the period 2013-2016 in a row on the Stock Exchange and publish an annual report (annual report) full consecutive years 2013-2016. Based on these criteria acquired 33 companies for 4 years (series) ie 2013 to 2016, with a combined model of the data obtained as many as 132.

Technique Data analysis

IV. Results And Discussion

Structural Equation Model Test Results

The test results prove SEM assuming normal distribution of data, there are no outliers and multicollinearity problem. The test results of modeling overall appears in Figure 1.

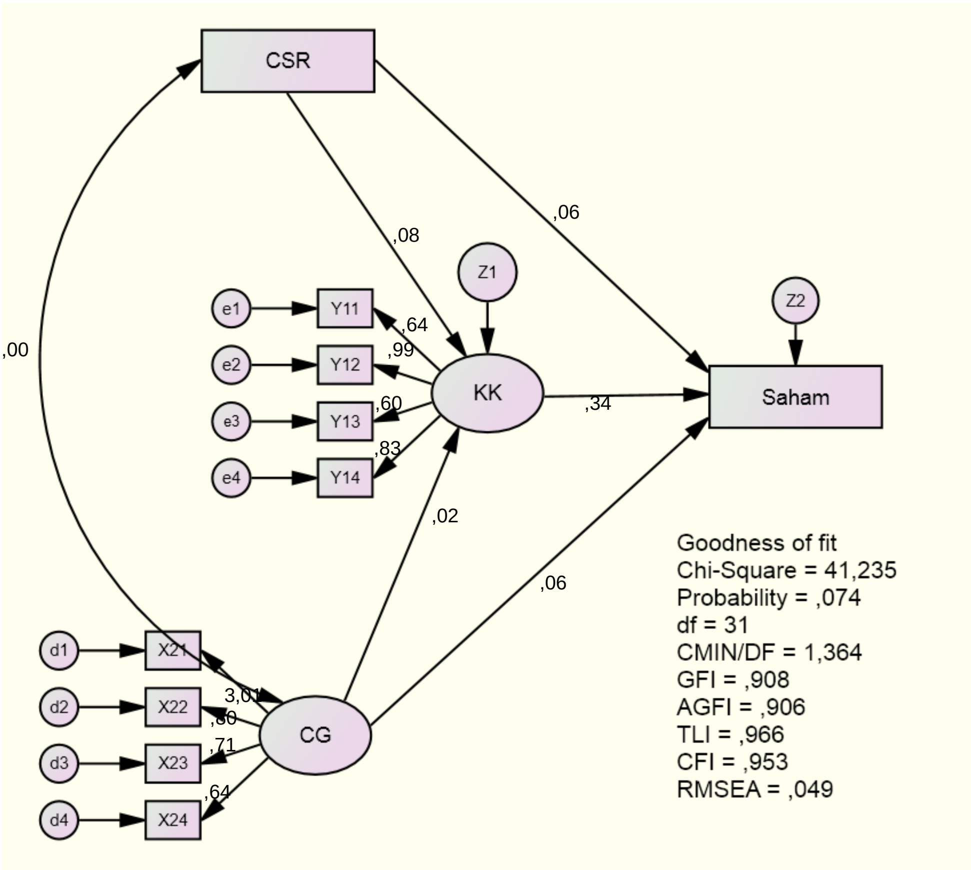

Figure 1
SEM analysis

AMOS 18 based computing model SEM, resulting indices fitness model (goodness of fit) are presented in Table 1. Furthermore, the values of this index compared with the critical value (cut-of value) of each index. A good model is expected to have indices of goodness of fit which is greater than or equal to the critical value.

Table 1
Goodness of Fit Testing Structural Model Modification

Goodness of Fit Index	*Cut-off Value*	Results Model	Information
Chi-square (df = 31)	≤ 44.99	41.235	Good
Chi-Square Probability	≥ 0.05	0.074	Good
CMIN / DF	≤ 2.00	1,364	Good
RMSEA	≤ 0.08	0,049	Good
GFI	≥ 0.90	0.908	Good
AGFI	≥ 0.90	0,906	Good
TLI	≥ 0.95	0.966	Good
CFI	≥ 0.95	.953	Good

Source: Data processed.

Based on the evaluation criteria of Goodness of Fit Indices in Table 1, show that the overall evaluation models already meet, then the model is acceptable.

Table 2

Influence of Corporate Social Responsibility and Corporate Governance Toward Financial Performance and Implications In Stock Price

exogenous	intervening	endogenous	*Standardized Regression Weight*	CR	P value	*indirect Effects*	*total Effects*	Tesult
CSR	Financial performance	-	0.085 *	2.561	0.036	-	-	Accepted
Corporate governance	Financial performance	-	0.022 *	2.866	0.019	-	-	Accepted
CSR	-	Stock price	0.055 *	2.167	0.045	-	-	Accepted
Corporate governance	-	Stock price	0.063 *	2.270	0.039	-	-	Accepted
-	Financial performance	Stock price	0.341 *	3.963	0.000	-	-	Accepted
CSR	Financial performance	Stock price	0.055 *	-	-	0.029	0.084	Accepted
Corporate governance	Financial performance	Stock price	0.063 *	-	-	0.008	0.071	Accepted

Note: *) Significant p <0.05
**) Significant p <0.01

Discussion

1. Influence of CSR and Corporate Governance on Financial Performance

CSR significant effect on financial performance. This shows that the implementation of corporate social responsibility can be trusted to improve the company's financial performance, which investors tend to invest capital to companies conducting CSR. Therefore, companies that have social concern may use information about social responsibility (CSR activity) as one of the company's competitive advantage. Investors are attracted to social information reported in the annual report, so that the company's management is currently limited not only required for the management of their funds, but also includes the impact caused by the company against the natural and social environment. The overall financial performance of an overview of the achievements of companies in operation, both related to the financial aspects of marketing, collection and disbursement of funds, technology and human resources. The financial performance of the company is the description of the company's financial condition indicator current ratio, ROI, ROE and NPM. The results are consistent with Lestari and Fun (2015), Anwar et al. (2013), Hidayansyah et al. (2015), Karagiorgos (2010), as well as Kamatra and Kartikaningdyah (2015) which states that the CSR effect on financial performance.

Corporate governance drawn from managerial ownership can improve financial performance. Managerial ownership can influence the financial performance significantly. Ownership of shares by the management in the company can motivate management to act in the interests of shareholders so as to reduce agency costs. Thus, managerial ownership can unite the interests of managers and shareholders that have an impact on improving financial performance. The results of this study are consistent with Wati (2012), Sustainable and Fun (2015), and Paul et al. (2015) which states that corporate governance affect the financial performance.

2. CSR and Corporate Governance influence on stock price

CSR significant effect on stock prices. This indicates that the size of CSR impact on stock prices. In general, investors in Indonesia are more likely to buy shares for capital gains, which tend to buy and sell shares on a daily basis (day trader), taking into account long-term sustainability of the company. Investors prefer stocks with a view on the market economy and news that appears. CSR is a long-term strategy of the company in an effort to maintain the continuity of the company and the influence of social responsibility cannot be felt in the short term. CSR in a company not only to express their concern and legitimize the company's activities to stakeholders, but CSR is used to protect and safeguard the interests of the manager position. Investors tend to prefer to invest in companies with good business ethics, good practices towards employees, concerned about the environmental impact and has a corporate social responsibility with stakeholders. The better CSR undertaken by the company will add to the information received by the investor. The more breadth of information received by investors will increase the level of investor confidence in the company. High level of confidence investors certainly will mamberikan a positive response to the company in the form of stock price movements are likely to rise, thus the implementation of CSR undertaken by the company will affect the movement of stock prices tend to rise. The results of this study konsiten by Anwar et al. (2013), Hidayansyah et al. (2015), Sugiarto and Mas'ud (2016), as well as Zaccheaus et al. (2014) which states that the CSR effect on stock prices.

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3. Financial Performance influence on stock price

Financial performance significantly influence stock prices. This shows that the better financial performance of the company, the existing investors in the stock have been considering the earnings information in determining the price of shares to be bought or sold. In other words, the earnings information published through the annual financial statements are information relevant to investors as a basis and consideration in making investment decisions in the capital market, particularly in the buying and selling of shares traded on the Indonesia Stock Exchange.

Level of profitability of the company determines the company's ability to generate profits. The higher the level of profitability it posotive effect on stock prices. The financial performance of the company to potential shareholders describe the prospects of companies whose shares will be purchased. Fair price of securities (stocks) are formed from a market mechanism on the exchange floor to illustrate the company's prospects. Financiers will make decisions relating to the decision to buy, hold or sell back its shares. The investors believe that the financial performance of companies (issuers) positively associated with the price. The results of this study are consistent with research Anwar et al. (2013), Hidayansyah et al. (2015), and Anwaar (2016) which states that the performance financial variables affect stock prices.

4. CSR and Corporate Governance influence on stock price through Financial Performance

The financial performance is able to mediate the effects of CSR and corporate governance on stock prices. The better CSR conducted by the company can demonstrate the company's concern on social and environmental issues, but can also be supporting the realization of sustainable development by balancing economic and social development aspects are supported by environmental protection. Additionally CSR is also a parameter of the company's concern with wings floating towards society. Concern and development to the delight of many parties, so that together with the company able to care for the social sphere. Improving corporate governance can create financial performance, thus encourages the growth of stock prices. Efforts to be made by the management to increase the stock price, namely improving financial performance, due to the better financial performance can increase the confidence of investors, so investors will invest funds in the company. The financial performance is one factor that is seen by potential investors to determine investment in the company. For companies, maintaining and improving financial performance is a must that the company still exist and remain attractive to investors. Financial issued financial statements is a reflection of the company's financial performance. The better financial performance, the higher profits to be earned by the investor. Generally, investors will be looking for companies that have the best performance and to invest in the company. The increase in stock prices will rise if finances have a good reputation which is reflected in its financial statements. Measurement of financial performance include the results of the calculation of financial ratios based on the financial statements and the published financial audited public accountant. These ratios are designed to help analysts and investors in evaluating the financial based financial statements.

V. Conclusion

1. Companies are able to implement corporate social responsibility can be trusted to improve the company's financial performance and corporate governance drawn from managerial ownership can improve financial performance. Managerial ownership can influence the financial performance significantly.
2. The size of CSR impact on stock prices, CSR is a long-term strategy of the company in an effort to maintain the continuity of the company and the influence of social responsibility cannot be felt in the short term. Corporate governance drawn from managerial ownership can improve financial performance, because of managerial ownership can unite the interests of managers and shareholders that have an impact on improving financial performance.
3. Stock prices are influenced by financial performance, which means the better the company's financial performance, the existing investors in the stock have been considering the earnings information in determining the price of shares to be bought or sold.
4. The financial performance is able to mediate the effects of CSR and corporate governance on stock prices, which means that the implementation of CSR good and improving corporate governance can create financial performance, which impacted the increase in the stock price.

VI. Recommendation

For the development of science, the results of this study can be used to encourage the emergence of a new discourse orientation or against the development of the theory of signaling (signaling theory) regarding the financial performance variables, and stock prices in the capital market. For the Company to maintain its financial performance in the form of ROI, while for the NPM need to be improved, so as to enhance the attractiveness of investors to invest in the company, because the rate of return will be even greater. Investors are expected to always be sensitive to events, both financial and non-financial. It aims to make the capital market in Indonesia as an effective capital markets and efficient.

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