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Do Political Connection and Corporate Governance Mechanism Increase Corporate Social Responsibility Disclosure?

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ABSTRACT

The objective of this study is to investigate the impact of political connection and corporate governance mechanisms (independent board of commissioner, institutional ownership, and board of commissioner size) toward Corporate Social Responsibility (CSR) disclosures using Global Reporting Initiative (GRI) Guidelines. Purposive sampling technique was conducted and 272 non-financial companies listed in the Indonesian Stock Exchange during 2015-2017 were acquired as the samples (816 firm-years). For testing the hypotheses, unbalanced Generalized Least Square panel data regression was employed. The finding shows that political connection and board of commissioner size have a positive impact on CSR disclosures while independent board of commissioner and institutional ownership do not. This study contributes to political connection, corporate governance mechanism, and CSR disclosure literature by identifying CSR disclosure based on GRI guidelines up to the most detailed level, which are 77 disclosure items indicators and 254 sub-indicators. Meanwhile, previous research only identify CSR disclosure up to 77 GRI indicators without paying attention to the sub-indicators in detail.

KEYWORDS

Political connection
Corporate governance mechanism
Corporate social responsibility
Disclosure

INTRODUCTION

Corporate Social Responsibility (CSR) issues are getting more attention in the last four decades, along with the rise of social awareness toward company roles in environmental and social aspects. Many big companies get criticism because they have caused some social and environmental problems (Nugrahanti & Maharani, 2013). The concept of CSR emphasizes that companies are responsible not only to the shareholders but also to all of their stakeholders (Freeman, 1984). Companies that apply CSR generally will disclose their CSR activities. The CSR disclosures are proven to bring benefit for the companies, such as increasing corporate reputation (Stuebs & Sun, 2012); improving financial performance (Famiyeh, 2016); improving market value (Buchanan et al., 2018); and improving the company's going-concern (Al-Hadi et al., 2017). As it is proven to bring those benefits for companies and stakeholders, the factors to increase CSR disclosures are considered essential to be studied.

As a developing country, the Indonesian government has made it compulsory for go-public companies to disclose their CSR activities. This regulation is expected to improve the practice of CSR disclosure, especially in politically connected companies. Indonesia is one of the emerging economies

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countries, where the government has strong intervention in the economy (Habib et al., 2017). Thus, the politically connected companies attempt to disclose more CSR activities in order to maintain their good relationship with the government since political connections ease them in accessing resources from the government (Huang & Zhao, 2016). They will follow the regulation set by the government.

There is a limited number of studies about the effect of political connection on CSR disclosures. The political connection is found to have a positive impact on CSR disclosures in China (Huang & Zhao, 2016; Li et al., 2015; Lin et al., 2014) and Malaysia (I. M. A. Rahman & Ismail, 2016), but it has a negative impact on CSR disclosures in Bangladesh (Muttakin et al., 2018). Such study has never been conducted in the Indonesian context; thus, it provides an opportunity to conduct this study.

CSR disclosures can also be influenced by corporate governance mechanisms. Based on the stakeholder theory, the corporate governance mechanisms function to assure stakeholders' equality by the company, which can be realized through CSR activities. Referring to the legitimacy theory, a company's existence has to be supported by the communities and environment where the company is located. One of the ways to obtain legitimacy is by doing and disclosing CSR (Islam, 2017).

The impact of corporate governance mechanisms on CSR disclosures needs to be examined. Independent board and CEO duality have a positive influence on the CSR disclosures while board meetings and audit committee size do not have any impact on them in India (Fahad & Rahman, 2020). Foreign board of directors, independent board, and institutional ownership have a positive effect on CSR disclosures in Egypt while foreign shareholder and CEO duality do not (El-Bassiouny & El-Bassiouny, 2018). Board size and independent board have a positive effect on CSR disclosures in Pakistan while board meetings and gender diversity do not provide the same result (Nassem et al., 2017). Independent board and board size have a positive impact on the CSR disclosures in the USA (Jizi et al., 2014). Independent board has a positive impact on CSR disclosures in Japan but a negative impact in the USA (Tran, 2018).

An important research gap about the relationship between corporate governance mechanisms and CSR studies lies in the limited number of studies conducted in the emerging economic context, and their findings have not been conclusive (Rodriguez et al., 2018). Most corporate governance mechanisms and CSR studies are carried out in developed countries that have stable business and political conditions, low corruption levels, and high awareness of social and environmental issues. Meanwhile, the economic and social conditions in developing countries are characterized by family business dominations, high corruption practices, undeveloped capital market, and high political interference which really need corporate governance mechanisms to support operations and achieve company goals (Habib et al., 2017). Therefore, the effect of corporate governance mechanisms on CSR disclosures may be different between developed and developing countries, including Indonesia.

Studies about the effect of political connections and corporate governance mechanisms on CSR disclosures are important to be conducted in Indonesia. Some phenomena in this country have shown that politically connected companies can access benefits from the government easier than non-politically connected ones. The politically connected companies obtain raw material import licenses for free and franchise permits in the banking sector, flour milling, and telecommunication easier in the reign of President Soeharto (Nugrahanti et al., 2020). The advantages gained from the government will encourage CSR disclosures in those politically connected companies in order to maintain their good relationship with the government.

Related to the corporate governance mechanisms, the data acquired from ASEAN Corporate Governance Scorecard Country Reports and Assessment (ACGS) show that the score of corporate governance practices in Indonesian go-public companies was increasing from year to year, which was 57.26 in 2015; 62.68 in 2016; and 70.59 in 2017. This increase will improve CSR disclosures since

corporate governance aims to keep an equilibrium between the company's individual and communal goals as well as between economic and social goals (Fahad & Rahman, 2020).

This study aims to investigate the effect of political connection and corporate governance mechanisms on CSR disclosures. It contributes to accounting literacy in several aspects. Firstly, it examines political connection which is rarely studied. To the best of our knowledge, this study is the first research in Indonesia that investigates the effect of political connection on CSR disclosures. The previous political connection studies use dummy variables in order to differentiate politically connected companies from non-politically connected companies (Huang & Zhao, 2016; Li et al., 2015). The weakness of using dummy variables is that there is no difference between companies that have many political connections and those with only a few political connections. Therefore, this study does not use dummy variables as the measurement of political connections, and this becomes its second contribution. It uses the number of board and company owners who are politically connected so that the political connection measurement is expected to have higher accuracy (Houston et al., 2014; Nugrahanti et al., 2020). Many of the previous CSR disclosures studies use the Global Reporting Initiative (GRI) disclosure index to measure CSR disclosures (Patrisia & Datsgir, 2017; Wijesinghe, 2012), but they only observe up to the point whether there is CSR disclosure or not, based on every GRI item, without considering the sub-indicators in every disclosures item. In fact, every GRI disclosure item consists of one or many sub-indicators. Therefore, the third contribution of this study is to measure the CSR disclosures based on every indicator contained in each GRI disclosure item, so it will result in a more detailed CSR disclosures ratio that reflects the real level of corporate disclosures.

LITERATURE REVIEW

Political Connection and CSR Disclosures

A company is considered to have a political connection if one of its top officers or the shareholders is (or was): (a) the district head, minister, member of parliament, officials of a governmental institution or involved in political parties; or (b) having a close family with politicians, or (c) having military backgrounds (Habib et al., 2017; Li et al., 2015; Nugrahanti et al., 2020). The political connection allows companies to gain benefit from the government such as regulatory relief (Correia, 2014); tax relief (Wu et al., 2012); facilities in getting bailout (Tao et al., 2017); facilities in getting contracts (Goldman et al., 2013); facilities in overcoming the obstacles to enter the industry (Yao et al., 2018).

The dependence theory resource states that if a company is an open system and all of its resources cannot be fulfilled internally, the company should obtain them externally. The rarer and more important the needed resources are, the more dependent the company to the resource providers is (Pfeffer & Salancik, 1978). The government is one of the rare resource suppliers for a corporate (Huang & Zhao, 2016). Thus, using political connections with the government, it will be easier for companies to gain benefit from the government (Correia, 2014; Tao et al., 2017; Wu et al., 2012). This kind of advantage will make the companies depend so much on the government (Huang & Zhao, 2016; Lin et al., 2014). One of the ways to maintain a good relationship with the government is by implementing the CSR disclosure because this activity is mandatory from the government (Huang & Zhao, 2016; Muttakin et al., 2018).

The stakeholder theory believes that a company has responsibility for all of the stakeholders (Freeman, 1984). The government is one of the stakeholders. Its main role is to maintain stability

and social welfare, as well as to preserve the environment to fulfill the citizen's needs in the future. To fulfill those functions, the government needs both formal support and financial support from society. Therefore, it sets the CSR regulation for companies (Huang & Zhao, 2016). The obedience to the CSR regulation will maintain a good relationship between a politically connected company and the government. Therefore, if a company has more political connections, its dependence to gain benefits from the government will be higher, the CSR disclosures conducted by the company will also be bigger. Thus, it can be said that the political connection has a positive impact on CSR (Huang & Zhao, 2016; Li et al., 2015; Lin et al., 2014; I. M. A. Rahman & Ismail, 2016). The CSR disclosures also can be used as a means to achieve political goals. Companies in Latin America, for example, conduct CSR activities in order to gain political legitimation (Joutsenvirta & Vaara, 2015).

H_1: Political connection has a positive impact on CSR disclosures

Institutional Ownership and CSR Disclosures

The implementation of corporate governance needs a mechanism called as corporate governance mechanisms, which involve the board of directors' structure (the proportion of the board of independent commissioners, the size of board commissioners) and the ownership structure (institutional ownership, managerial ownership) (Manzaneque et al., 2016). A company's goals will not be achieved smoothly without legitimation from society which can be acquired by performing CSR disclosures (Islam, 2017). This way, corporate governance mechanisms function to monitor the achievement of the company's goals which will support the company to acquire social legitimation through CSR disclosures (Liao et al., 2016).

Institutional ownership is the percentage of shares owned by institutional investors (Manzaneque et al., 2016; Wiranata & Nugrahanti, 2013). Institutional investors generally have a big amount of share (Wiranata & Nugrahanti, 2013) and long-term working orientation (Opazo et al., 2015); therefore, they will be stricter in supervising the managers. One of the activities they monitor is the CSR disclosures, which aim to get legitimation and increase the company value (Kim & Kim, 2014). Institutional investors have power, experience, and responsibility in applying corporate governance principles so they demand the companies to communicate transparently, including in communicating CSR activities (Chackroun & Matoussi, 2012). As the owner of the company, they have a high interest in building positive reputations of the company. Reputations can be gained by doing CSR disclosures (Habbash, 2016). Thus, it can be said that institutional ownership has a positive impact on CSR disclosures (Dyck et al., 2019).

H_2: Institutional ownership has a positive impact on CSR disclosures

Board of Commissioners Size and CSR Disclosures

The board of commissioners has a responsibility to supervise and make sure that a company executes good management and good corporate governance. CSR disclosures are the implementation of good corporate governance. The board of commissioner's size refers to the number of personnel in the board of commissioners. The smaller the size, the heavier the scope of work done by each member of the commissioner, which makes the monitoring process not optimal (Manzaneque et al., 2016). Meanwhile, according to the resource dependence theory, the big size of the board of commissioners will implicate the number of resources and skills owned by the company (Jizi et al., 2014). Those resources and skills will improve the company's quality in supervising CSR disclosures in order to

obtain legitimation and support from the stakeholders. Therefore, a bigger board of commissioners will increase CSR disclosures (Esa et al., 2012; Jizi et al., 2014; Nassem et al., 2017).

H_3: The size of the board of commissioners has a positive impact on CSR disclosures

The Proportion of Independent Board of Commissioners and CSR Disclosures

Independent commissioners are commissioners who do not have any share, do not have affiliation and work relation with the company where they are assigned. The higher the proportion of independent board of commissioners, the more effective the supervising process is conducted (Bredart, 2014; Manzaneque et al., 2016). They will strengthen the monitoring process on the managers and make sure that the investors and the other stakeholders' interests are considered by the managers (Khan et al., 2013).

The independent board of commissioners will promote CSR disclosures in order to gain legitimation, make sure that all stakeholders are treated equally, and show a good implementation of corporate governance practices. These commissioners also encourage the company to disclose CSR as they try to integrate the disclosures with the organization's policy (Ahmad et al., 2017). Consequently, the higher the proportions of the independent board of commissioners, the wider the CSR disclosures of a company (Jizi et al., 2014; Khan et al., 2013).

H_4: The proportion of the independent board of commissioners has a positive impact on CSR disclosures

RESEARCH METHOD

Sample and Data

The samples of this study were non-financial companies registered in the Indonesia Stock Exchange (IDX) from 2015 to 2017. They were collected using purposive sampling technique with these criteria: (a) non-financial companies listed in the IDX from 2015-2017; (b) companies which reported their CSR activities in sustainability report or annual reports; (c) financial reports were presented in rupiah currency; (d) companies which had complete data to use as research variable during 2015-2017. Using annual reports presented in rupiah aims to avoid bias in processing the data because the foreign currency exchange rate on rupiahs often fluctuates. The fluctuations can affect the value of debt, asset, and profits which were used as the controlling variables in this research that will influence the testing result of CSR disclosures.

The corporate governance mechanism data and financial ratio data used as controlling variables were acquired from annual reports. CSR disclosures data were also collected from annual reports or sustainability reports. The data about political connection were collected from (1) annual report and (2) tracing down the board of directors, board of commissioners' biography from the sites in google; The Indonesian Republic House of Representative website; and the party website.

CSR Disclosures (The Dependent Variable)

This study employed the Global Reporting Initiatives (GRI) Guidelines to measure corporate social responsibility disclosures. GRI is the most relevant international organization in relation to CSR

disclosures (Gamerschlag et al., 2011). It provides specific indicators covering economic, social, and environmental sectors which reflect the real social responsibility activities. Those indicators are organized by the experts based on their consultation with the various stakeholders and are internationally accepted (Bouten et al., 2011; Gamerschlag et al., 2011).

In 2014, GRI published the CSR disclosure guidelines called The GRI Guidelines G.4. These specifically standardized guidelines consist of 91 disclosure items (9 economic disclosure items, 34 environmental work items, and 48 social performance disclosure items). Each item has one or more indicator(s), so in total there are 254 sub-indicators in the GRI G.4.

Around the end of 2016, GRI published the GRI standards as continuous reporting guidelines which are more flexible and dynamic. Specific disclosures based on the GRI standards, in general, consist of 6 economic standards, 8 environmental standards, and 19 social standards. Those standards are specifically divided into 77 sub-standards (13 economic disclosures items, 30 environmental items standards, and 34 social disclosures items). Each disclosure item has one or more sub-indicator(s), so in total there are 206 GRI standards sub-indicators.

This study used the GRI G.4 guidelines to identify the disclosures from 2015 to 2016 and the GRI standards to identify the disclosures in 2017. The observation identified and investigated CSR disclosures in detail, based on the indicators of each disclosure item. A company was given 1 point in every disclosed indicator and 0 for every undisclosed indicator. If an indicator has sub-indicators, the value of that indicator is the total number of disclosures of the sub-indicators divided by the total number of sub-indicators which should have been disclosed. Each disclosed sub-indicator was given 1 point, while each undisclosed one was given 0.

After obtaining the indicator value, the next step was determining the value of each disclosed item. The value was acquired from the number of disclosed indicators with the total number of indicators that had to be disclosed in every disclosure item, so the value of every disclosure item ranged between 0 and 1. Then, that disclosure item was added to get the total of corporate disclosure items (Christitama, 2018). In total, the index of corporate social responsibility is formulated as follow:

$$\text{CSRDIi} = \frac{\Sigma \text{Xij}}{\text{nj}}$$

CSRDIi : The total index of corporate i's social responsibility disclosures (valued either 0 or 1)

Xij : The total items of corporate disclosures. The score for each disclosure item is derived from the number of disclosed sub-indicators, divided by the total number of sub-indicators in one disclosure item. Then, the disclosure item is added to get the total number of corporate disclosures.

Nj : The total number of social responsibility disclosure items that are supposed to be disclosed, in which nj GRI G4 = 91 and nj GRI standards = 77.

Independent and Control Variables

Political connection and corporate governance mechanisms (institutional ownership, size of board of commissioners, and proportion of independent board of commissioners) are the independent variables in this study while the control variables are company size, profitability (ROE), leverage, and company's age. The measurement of independent and control variables is displayed in Table 1.

Regression Model

Unbalanced GLS panel data regression using Eviews 10 was used for hypothesis testing. The empirical model that was applied in order to test H1 – H4 is as follow:

$CSRDI = \alpha + \beta_1 POLCON + \beta_2 INSTOWN + \beta_3 BOARD + \beta_4 INDEP + \beta_5 ROA + \beta_6 DER + \beta_7 AGE + e$ (model 1)

Table 1. Independent variables and control variables measurements

Variables	Measurement
Independent Variables:	
Political Connection (POLCON)	The number of board of commissioners, board of directors, and owners that have political connections. The criterion of political connection used is top officer (board of directors, board of commissioners) or the shareholders are (were): (a) as district heads, ministers, members of parliament, officials of a governmental institution or involved in a political party; (b) having close family relation or friendship with politicians; and (c) having a military background (Habib et al., 2017; Li et al., 2015; Lin et al., 2014)
Institutional Ownership (INSTOWN)	The number of shares owned by institutional investors / the number of circulated shares (Bredart, 2014; Manzaneque et al., 2016)
Board of commissioners size (BOARD)	The number of board of commissioners in a company (Bredart, 2014; Manzaneque et al., 2016)
Independent board of commissioners (INDEP)	The number of the independent board of commissioners / the total number of board of commissioners (Bredart, 2014; Manzaneque et al., 2016)
Control Variables	
Profitability (ROA)	Net income / Total asset (Al-Hadi et al., 2017)
Leverage (DER)	Debt / Total Equity (Al-Hadi et al., 2017)
Company's Age (AGE)	The year of research minus the first listing year in the IDX (Nugrahanti & Maharani, 2013)

RESULTS

Descriptive Statistics and Univariate Test

Based on the purposive sampling, this study obtained 816 observations of non-financial companies from 2015 to 2017. The descriptive statistics of every research variable and CSR disclosures in economics (ECDISC), environment (ENDISC), and social (SOSDISC) can be seen in Table 2.

The CSR disclosures average of 816 observed companies is 5%. Although the Decree of Bapepam NO. KEP-431/BL/2012 obliges go-public companies to report CSR in their annual report, no regulation regulates which items to be disclosed in detail. This issue causes the CSR reporting in Indonesia to be so low and varied. The CSR disclosures in economics have the highest average (20.4%), compared to the disclosures in environment (2.6%) and social (3.8%). It is because most of the economic disclosure items are mandatory

Table 2. Descriptive statistics

Variables	Mean	Maximum	Minimum	Std. Deviation
CSRDI	0.050	0.784	0.003	0.051
ECDISC	0.204	0.8948	0	0.180
ENDISC	0.026	0.1868	0	0.350
SOSDISC	0.038	0.2969	0	0.064
POLCON	1.072	8	0	1.522
INSTOWN	0.656	0.998	0	0.227
BOARD	4.237	12	1	1.765
INDEP	0.399	0.833	0.2	0.094
ROA	0.034	2.192	-1.216	0.135
DER	1.407	162.192	-10.188	6.036
AGE	15.76	56.5	2	9.123

Table 3. Correlation matrix

	CSRDI	POLCON	BOARD	INSTOWN	INDEP	ROA	DER	AGE
CSRDI	1							
POLCON	0.233	1						
BOARD	0.199	0.400	1					
INSTOWN	-0.111	0.009	0.002	1				
INDEP	-0.033	0.074	-0.048	0.096	1			
ROA	0.021	0.039	0.119	0.044	0.009	1		
DER	-0.005	-0.023	0.008	-0.044	0.044	-0.069	1	
AGE	0.026	-0.028	-0.012	-0.017	0.094	0.007	-0.003	1

The bivariate correlation testing results using the Pearson correlation (Table 3) show that there are positive relationships between CSR disclosures and political connections, the board size, profitability, company age, but there are also negative correlations between CSR disclosures and institutional ownership, independent board of commissioner, and leverage.

The univariate test using the Mann Whitney test, on the other hand, aims to determine whether there are different levels of CSR disclosures based on political connection, institutional ownership, board of commissioners' size, the proportion of independent board of commissioners, profitability, leverage, and company age. Those variables are categorized into two groups (high/low and big/small) based on the average score in every variable (Table 4).

The Mann Whitney test results (Table 5) confirm that there are differences in CSR disclosure level based on political connection, board of commissioner's size, and profitability.

Normality Test Result

The normality testing results, using 816 data, show the Jarque-Bera value of 62.05 (P-value 0.000) which indicates that the data were not distributed normally. A transformation of CSR data into Log CSR was conducted, yet it still resulted in residual which was not distributed normally. Consequently, the researcher eliminated outlier data using the R-studendized value. The result left 782 data. The normality testing result of the 782 data shows the Jarque-Bera value of 5.434 (P-value 0.066), so it can be concluded that the data were distributed normally and the regression analysis could be conducted.

Hypotheses Testing Result

The results of the classical assumption test indicate that the research data have heteroscedasticity and autocorrelation problems. To overcome this, the regression estimation of hypothesis testing employed the Generalized Least Square (GLS) method. The GLS method is an Ordinary Least Square method applied to data/variables that have been transformed into data that meet the standard least-square assumption. Estimators obtained from the GLS method are BLUE estimation (Gujarati & Porter, 2020). The results of hypotheses testing using the GLS panel data regression are presented in Table 5.

Table 4. Univariate test- Mann Whitney test result

Variables	Group (N)	CSRDI mean	P value
POLCON	High connection (209)	0.0619	0.001***
	Low connection (607)	0.0461	
INSTOWN	Big proportion (455)	0.0550	0.171
	Small proportion (361)	0.0464	
BOARD	Big size (323)	0.0606	0.000***
	Small size (493)	0.0434	
INDEP	Big proportion (375)	0.0500	0.714
	Small proportion (441)	0.0504	
ROA	High ROA (391)	0.0552	0.037**
	Low ROA (425)	0.0456	
DER	Hig DER (226)	0.0500	0.456
	Low DER (590)	0.0500	
AGE	Old firm (440)	0.0492	0.073
	Young firm (376)	0.0510	

Notes: * significant on alpha 10%
** significant on alpha 5%
*** significant on alpha 1%

From table 5, it can be seen that political connection (POLCON) and the board of commissioners' size (BOARD) have positive effects on CSR disclosures; while institutional ownership (INSTOWN) and independent board of commissioners' proportion (INDEP) give negative impacts. The testing result of the control variables shows that only the company age (AGE) negatively affects CSR disclosures while profitability (ROA) and leverage (DER) do not affect CSR disclosures.

DISCUSSION

Political Connection and CSR Disclosure

The H1 testing result shows that political connection positively affects CSR disclosures. This finding is in line with the research results by (Huang & Zhao, 2016; Li et al., 2015; Lin et al., 2014; I. M. A. Rahman & Ismail, 2016). A politically connected company is proven to have easier access and benefits from the government in form of tax relief (Wu et al., 2012); regulatory relief (Correia, 2014); facilities in getting bailout (Tao et al., 2017); and facilities in getting government contracts (Goldman et al., 2013). Those advantages will make those companies have a high dependency on the government (Huang & Zhao, 2016; Pfeffer & Salancik, 1978); therefore, they will keep on maintaining a good

relationship with the government. Disclosing CSR is a way to maintain the relationship as the government makes CSR implementation obligatory. Consequently, the more political connection a company has, the more CSR activities and disclosures it has to implement.

Another argument that underlies CSR disclosures in politically connected companies is the reciprocity and fairness principle in the social exchange contract (Li et al., 2015). When the government provides advantages for politically connected companies, it also expects benefits from them. CSR activities and disclosures are the ideal ways to provide reciprocity for the benefit granted by the government. In addition, Indonesia is a developing country, where the government has high intervention in business (Habib et al., 2017). The government intervenes the business in order to make companies bear bigger social responsibility, such as employees' welfare, improvement of the local economy, social stability, and donation for the society. Since political intervention in business activities is more severe when the companies' managers are politically connected (Huang & Zhao, 2016), such companies will conduct and disclose more CSRs than those who are not connected politically. It is also supported by Joutsenvirta & Vaara (2015) and Wang & Qian (2011) who find out that CSR activities aim to gain political legitimation and fulfilling the government's interests.

Table 5. Regression result

Variable	Coefficient	t-Statistic	Conclusion
Intercept	-1.315	-45.547	-
POLCON	0.033	11.270***	H1 accepted
INSTOWN	-0.163	-7.494***	H2 rejected
BOARD	0.018	7.783***	H3 accepted
INDEP	-0.107	-2.094**	H4 rejected
ROA	-0.002	-0.054	No effect
DER	0.0009	0.804	No efect
AGE	-0.032	-3.161**	Negative effect

Dependent variable	CSRDI
R squared	0.2702
Adjusted R square	0.2654
F-statistic	41.211
Prob F statistic	0.0000

Notes: * significant on alpha 10%; ** significant on alpha 5%; *** significant on alpha 1%

Institutional Ownership and CSR Disclosures

The testing result shows that institutional ownership has a negative impact on CSR disclosures. It is in line with the results of studies conducted by Arora & Dharwadkar (2011); Sari & Rani (2015). The negative impact caused by institutional investors who focus more on gaining profit will give a direct consequence on returns that they will receive. Thus, the institutional investors will force the company to implement cost efficiency, including the cost spent for the CSR activities (Sari & Rani, 2015). Besides, there is a possibility that institutional investors in Indonesia more focus on the short term performance (Petta & Tarigan, 2017), so they encourage the managers to not invest in any CSR activities due to time uncertainty related to the benefit of those CSRs (Arora & Dharwadkar, 2011).

Board of Commissioners Size and CSR Disclosures

The result of H3 testing shows that the size of the board of commissioners can improve CSR disclosures. This is in line with the study results by Esa et al., (2012), Jizi et al. (2014), and Nassem et al., (2017). The large size of the board of commissioners allows effective division of work between the board of commissioners so that the supervising process toward the managers, including the CSR disclosures' supervision, will be more optimized. The large size of the board of commissioners will implicate the number of resources and the amount of expertise owned by a company (Jizi et al., 2014). The resources and expertise will increase supervising quality toward CSR disclosures which results in getting legitimation and supports from the company's stakeholders. In addition, boards of commissioners are the shareholders' agents in the company management structure. A large board of commissioners will be able to encourage managers to disclose CSR in order to reduce information asymmetry issues faced by the shareholders (Lopatta et al., 2015).

Independent Board of Commissioners and CSR Disclosures

The result of H4 testing shows that the proportion of independent board of commissioners has a negative impact on CSR disclosures; and corresponds to the studies conducted by Ghabayen et al. (2016), Michelon & Parbonetti (2012). The result of these studies indicates that the independent boards of commissioners tend to avoid taking risks which can bring a bad impact on their reputation. This is probably because they rely on managers regarding CSR information, and as a result, the risk of receiving misleading information increases (Bansal et al., 2018). The independent boards of commissioners have limited roles in affecting CSR policy and practices because of their lack of experience and knowledge about CSR as well as their ignorance of social and environmental problems (Shamil et al., 2014). The appointment of the independent board of commissioner is both just a formality to comply with government regulation or minority investors' requests (Gosal et al., 2018), and only based on their close connection with the company's CEO (Rashid, 2018). Therefore, the board of commissioners is not really independent and they will support managers' decision to reduce CSR costs so that the company's profit seems higher. The independent board of commissioners is appointed by the blockholders to represent their interests and to ease them in accessing company information directly through the independent board of commissioners, so the blockholders do not longer need voluntary disclosures (Nelwan, 2017).

Profitability, Leverage, Company's Age and CSR Disclosures

The testing result of the control variables shows that only company age (AGE) negatively affects CSR disclosures while profitability (ROA) and leverage (DER) do not give any impact. In spite of having high/low profitability and high/low leverage, the companies are still going to conduct CSR disclosures in order to maintain a good relationship with their stakeholders (Rahman et al., 2011). The company age reflects the company's ability in dealing with difficulties and interferences that can threaten its life and also in taking opportunities within its environment to expand the business (Nugrahanti & Maharani, 2013). The more aged the companies, the more they are recognized and known to have a good reputation; thus, they do not have to disclose their CSR to obtain good reputations.

Further Analysis

The Effect of Political Connection and Corporate Governance toward Economics, Environmental, and Social Disclosure

Generally, the GRI guidelines divide CSR disclosures into three parts; economic disclosures (ECDISC), environmental disclosures (ENDISC), and social disclosures (SOSDISC). We tested the effect of independent variables on those three dimensions. The testing results, which include regression coefficients, t statistics, and significance of every independent variable, are displayed in Table 6. The t values in statistics are written in parentheses.

Table 6. The regression result on economic, environmental, and social disclosures

Independent variables	Dependent Variables		
	ECDISC	ENDISC	SOSDISC
Constanta	0.181	0.015	0.023
	(30.338)***	(-6.010)***	(9.328)***
POLCON	0.007	0.002	0.002
	(7.577)***	(5.030)***	(4.275)***
BOARD	0.006	0.001	0.003
	(7.667)***	(3.511)***	(7.758)***
INSTOWN	-0.042	-0.019	-0.011
	(-7.533)***	(-12.739)***	(5.569)***
INDEP	-0.002	0.05	0.011
	(-0.219)	(8.651)***	(2.271)**
ROA	0.001	0.017	0.0123
	(0.072)	(6.066)***	(2.829)***
DER	-0.004	0.0001	-0.0008
	(-0.212)	(2.675)***	(-0.571)
AGE	0.001	0.001	-0.0008
	(6.712)***	(19.427)***	(-1.437)
Adjusted R2	26.50%	42.13%	16.68%

Notes: * significant on alpha 10%; ** significant on alpha 5%; *** significant on alpha 1%

The testing result on economic disclosures shows that the boards of commissioners' size and political connection have positive effects on economic disclosures while institutional ownership gives a negative impact. The economic disclosures include the disclosures of income, cost spent by a company related to climate change, employee wages, remuneration, and aspects of market existence which lead to financial performances and the rate of return on investors. Politically connected boards and boards of commissioners as the owners' representatives in the managerial structure will encourage the managers in disclosing economic aspects as the basis of investment decision making (Huang & Zhao, 2016).

The environmental testing result indicates that political connection, boards of commissioners' size, and independent board of commissioners have positive impacts on environmental disclosures while institutional ownership gives a negative impact. Many politically connected companies put environmental activity disclosures into practice in order to fulfill the government program, especially in resource-saving and environmental protection (Wang et al., 2008). Managers in politically connected companies are more advanced in accessing the newest environmental regulation, which will help them in comprehending the regulation and the government's aims, making effective

decisions related to environmental investment, and gaining benefits from the early investments in environmental technologies (Zhang, 2017).

The board of commissioners' size has a positive impact on environmental disclosures. The higher the number of board of commissioners, the more resources owned by the companies (Jizi et al., 2014) which will support environmental disclosures to obtain legitimation from the society (Patten, 2014). The board of commissioners encourages the managers to make environmental disclosures so that the company is spared from environmental litigation problems (Rabi, 2019). Meanwhile, institutional ownership negatively influences environmental disclosures because institutional investors focus on gaining profit; therefore, they encourage cost efficiency, including the cost allocated for environmental conservation activities (Sari & Rani, 2015).

The social disclosures' testing result confirms that political connection has a positive effect on social disclosures. The government functions to maintain social stability, such as providing some help for poor society, disaster victims, scholarships, and healthcare programs. Those expenses are big and give pressure on public finances, so the government needs support from the companies to help to cover those expenses. Politically connected companies are willing to become the funding source complements in order to improve the government's credibility, maintain a good relationship with the government, and gain more significant resources from the government (Huang & Zhao, 2016).

Board size positively affects social disclosures in order to maintain a good relationship with the societies, suppliers, customers, and communities around the company (Hashim & Yusof, 2016). The independent board of commissioners generally is appointed based on their close relations to the companies' CEO so that they are not really independent. They will support the CEO in spending social and donation budgets to maintain the CEO's reputation (Javed et al., 2020). Institutional investors, on the other hand, have a negative impact on social disclosures. It is because most institutional investors in Indonesia are short-term investors whose main objective is on short-term profit (Petta & Tarigan, 2017). This situation will lead the company to have cost efficiency, including philanthropic activities (Song et al., 2016).

Political Connection, Corporate Governance Mechanism, and CSR Disclosures

The impacts of political connection and corporate governance mechanisms on CSR disclosures were observed separately. As additional testing, we explored whether the link between political connection and CSR disclosures differs across companies with different corporate governance structures. The test was conducted by interacting corporate governance mechanisms and political connections variables (Gujarati & Porter, 2020). The results of the corporate governance mechanisms' moderation effect in political connection-CSR disclosures relation are displayed in Table 7.

The POLCON*INST coefficient has a positive and significant coefficient. The testing of political connection and institutional ownership at the same time indicates that institutional ownership strengthens political connection's positive impact on CSR disclosures. Institutional ownerships are able to push politically connected companies to disclose their CSR, not only to maintain their good relationship with the government but also to reduce information asymmetry and to gain legitimation from the whole stakeholders (Nassem et al., 2017). Institutional investors in Indonesia are short-term oriented (Petta & Tarigan, 2017); however, when the company has a political connection, the institutional investors will encourage the managers to do CSR disclosures, so the company continuously gets benefit from the government (Huang & Zhao, 2016).

Table 7. The testing results of corporate governance mechanisms' moderation effect on political connection – CSR disclosures relation

Variable	Coefficient	t-statistic
Constanta	-1.463	-17.578***
POLCON	0.004	0.925
INSTOWN	-0.111	-1.840*
BOARD	0.014	-1.504
INDEP	0.015	0.112
ROA	-0.042	-0.684
DER	-0.001	0.342
AGE	0.002	1.120
POLCON*INST	0.055	1.663*
POLCON*BOARD	0.001	0.03
POLCON*INDEP	-0.123	-2.046**
R squared 2.56%	F stat	4.2386***

Note: * significant on alpha 10%; ** significant on alpha 5%; *** significant on alpha 1%

The POLCON*INDEP coefficient is negative and significant, which means that the proportion of independent boards of commissioner weakens the positive impact of political connection on CSR disclosures. It is possible as the independent board of commissioners has a lack of experience and knowledge related to CSR disclosures (Shamil et al., 2014), so their monitoring process on CSR disclosures is not effective. The testing result of the board of commissioners' size indicates that the size of the board of commissioners does not moderate the effect of political connection on CSR disclosures.

Robustness Test of Political Connection Measurement

Table 8. Robustness test result (dependent variable: CSR disclosures)

Variable	Coefficient (t statistic)	Variable	Coefficient (t statistic)
POLCON_number	0.033 (11.270***)	POLCON_ratio	0.147 (5.055***)
INSTOWN	-0.163 (7.494***)	INSTOWN	-0.117 (-5.478***)
BOARD	0.018 (7.783***)	BOARD	0.031 (11.380***)
INDEP	-0.107 (-2.094**)	INDEP	0.065 (1.157)
ROA	-0.002 (-0.054)	ROA	0.004 (0.118)
DER	0.0009 (0.804)	DAR	0.0005 (0.455)
AGE	-0.032 (-3.161**)	AGE	-0.046 (-4.267)***

Note: * significant on alpha 10%; ** significant on alpha 5% ; *** significant on alpha 1%

Besides being measured by the number of politically connected directors and owners (POLCON_number), the political connection can also be measured using the ratio of the politically

connected board of directors and board of commissioners divided by the total number of board of director and board of commissioners (Huang & Zhao, 2016). In order to improve the research finding's robustness, the political connection was also tested using the political connection ratio (POLCON_ratio).

CONCLUSION

This study aims to evaluate the effect of political connection and corporate governance mechanisms on CSR disclosures. The hypotheses testing results show that political connection and board of commissioners' size have positive impacts on CSR disclosures; however, the proportion of independent boards of commissioner's and institutional ownership negatively affects CSR disclosures. Although studies about CSR disclosures have been conducted by many before, this current study contributes in identifying CSR disclosures up to the most detailed disclosures indicator based on the GRI guidelines, also in adding political connection factors which are rarely studied, especially in the Indonesian context.

PRACTICAL IMPLICATION

The testing results show that political connection and the board of commissioner's size are proven to increase the Corporate Social Responsibility (CSR) disclosures. Therefore, the investors are encouraged to invest in companies that have many political connections and big boards of commissioners. CSR disclosures are beneficial for the investors in order to figure out how a company uses its assets in building a good relationship with all stakeholders. Such a relationship is proven to improve company performance and support its continuity in the long term (O'Riordan & Fairbrass, 2014; Rendtorff, 2019). Moreover, investors are suggested to be more careful when investing in companies with high institutional ownership and a high proportion of independent board of commissioners because they have proven to bring down a company's CSR disclosures.

The study results indicate that the level of Corporate Social Responsibility disclosures in the sampling companies is still low (the average CSR disclosure is 5%); thus, managers must maintain their political relations in order to encourage them to disclose CSR. The highest CSR disclosure is the economics disclosures. The managers are, therefore, suggested to increase the other dimensions of CSR disclosures; the environmental and social ones (labor, human rights, society, and product responsibility), as an implementation of the information transparency principle as well as the good corporate governance. Apart from that, CSR disclosures will continuously attract all of the stakeholders in providing their support for the company's operations (Al-Hadi et al., 2017).

The results of the study indicate that the higher the institutional ownership and the proportion of the independent board of commissioners, the lower the CSR disclosures will be. Consequently, the Financial Services Authority (*Otoritas Jasa Keuangan*, OJK) as a regulation-making institution can consider making some regulations about minimum social responsibility items to be disclosed by a company owned by an institution and has a high proportion of board of commissioners. Apart from that, the Financial Services Authority can also consider formulating some details about the CSR disclosure items in their annual reports, considering the fact that until recently, there is no regulation about which CSR items to be disclosed yet.

LIMITATION AND FUTURE RESEARCH

This study does have limitations in some aspects. The political connection is only seen from the board of directors, the board of commissioners, and direct shareholders. Future studies can expand the political connection criteria to the ultimate shareholders in a company because most of the corporate ownership structures in Indonesia are pyramid structure ownership (Susilowati & Sanjaya, 2015). This study also does not differentiate the types of company's political connections. Future studies can classify the type of connections (the government, parliament, party, and military officers), so the most influential political connection can be examined. Related to corporate governance mechanisms, this study only focuses on the number and the independence of the board of commissioners. Future studies can also add educational backgrounds and working experiences of the board of commissioners, as the disclosures' monitoring process will be more effective if it is conducted by those who have experiences and educational backgrounds in economics/accounting (Saidu, 2019). Besides, since the samples of this study are Indonesia large-sized companies, the results found in this paper may not be suitable to small- and/or medium-sized ones or to companies in other countries.

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