CORPORATE GOVERNANCE, CORPORATE SOCIAL RESPONSIBILITY, AND FIRM RISK: THE CASE OF INDONESIAN-LISTED FIRMS

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ABSTRACT
Implementation of good corporate governance and CSR need to be considered by companies in achieving more firm values. Those value depending on public interpretation, which is affecting to their stock prices. This research aims to proof linkage among corporate governance, CSR, and firm risk by theoretical and practical implications. Regarding theoretical implications, this study provides a model linking corporate governance, CSR, and firm risk. We use a sample data from 262 Indonesia listed firms and 1,252 firm year observations from 2010 to 2015. Our result show firms that adopt better corporate governance have a lower firm risk. Specifically, higher independent managerial ownership will reduce agency problem by combining their interest. Firms that spend high CSR expenses tend to have less volatile stock prices. This research conduct to provide such an information for corporate and investors to consider and analyze corporate governance and CSR in their decision making.

Keywords: Corporate Governance; Corporate social responsibility; Firm Risk; Stakeholder Theory

INTRODUCTION
Originated from the agency theory, the agent is obliged to account for what has been mandated by the principal to him and have decision-making authority that will affect the welfare of the principal (Jensen&Mecklin, 1996). Conflicts of interest may occur between the stakeholders, among others; shareholder conflicts with managers, conflicts between creditors and shareholders, conflicts between controlling shareholders and minority shareholders. In other words, Good corporate governance will lead the company to obtain growth and value in modern corporations to help corporations mitigate conflicts of interests and fulfill legal requirements as well. It should reach attractive to obtain profitable investment opportunities.

Corporate governance plays also an important role to overcome this problem by protecting principal interests, reducing asymmetric information and overseeing agents as well. Performance of board of commissioners and directors or management company determined by the fairness of duties division, rights, and obligations. The excess of provision company listed in Indonesia adhere to a two board system that has a separation between the supervisory and implementation functions. Whereas the weaknesses of this system board of
Commissioners do not have direct access to all company information held by the board of directors. The main area should be increased by corporate governance are transparency, accountability, responsibility, reliability, fairness, independence and predictability of decision-making. Thus, it is important to have transparency in governance mechanisms in maximizing shareholders from managerial ethical aberrations, as well as to reduce firm risk (Lee et. al, 2005). In other words, good corporate governance would help a company to improve market values. Corporate governance also helps to build trust and ensure equal treatment of stakeholders (Mehta, 2006).

However, companies must be accountable to a wide range of stakeholders to fulfill their interests. Hillman & Keim (2001) recognize that if companies are involved in CSR, they can build social capital from a committed stakeholder relationship. Indeed, companies can develop intangible assets such as reputation and trust in companies by investing in better stakeholder relationships.

Regarding that idea of good corporate governance still, concludes with the concept of corporate social responsibility. This means that the company must make sustainable development procedures in corporate governance responsible for its business activities and build social assets, such as CSR can affect member's motivation and decision-making.

CSR in Indonesia was established in 2007 based on the rules (article No.74 on CSR implementation) stating that CSR is an activity that must be done by all companies. The growth of CSR in Indonesia started from 2007 since the government made its policy. According to Article 74 of the 2007 Limited Liability Company Law (40/2007) and article 66 of the 2007 Limited Liability Company Law (40/2007) which requires companies to invest in CSR and make CSR Reporting Obligent primarily for natural resource companies. This rule underscores that companies associated with natural resource activities should incur costs for social responsibility. However, according to Waagstein (2011), CSR's mandatory in Indonesia remains unclear as only a few companies voluntarily disclose their CSR activities, especially the actual number of CSR expenditures. However, the concept of CSR is still changing based on the situation and regulation, in that case, people can not know clearly about CSR company information.

In Indonesia, corporate governance systems seem to be insufficient to obtain value in the social system. Corporate governance has a concern for stakeholders that is firms have to care for a variety stakeholders. In terms of the social and environmental impacts of business practices is companies should have to satisfy a broader set of interests and expectations. In addition, there is a linkage between stakeholder management and performance (Clarkson, 1995).

In fact, Indonesia government have a several reformation efforts to rebuild Indonesia corporate governance after the crisis. In 1999, the National Committee on Corporate Governance Policy (KNKCG) recommended the principles of national good corporate governance. In 2004, KNKKG was changed to the National Committee on Governance Policy (KNKG). other initiatives in corporate governance that aim to provide incentives or rewards to corporate companies that apply good governance principles such as; Annual Report Award (ARA), Capital Market Awards, IICD Corporate Governance Award, IICG (Most trusted award). Corporate which has corporate social
responsibility (CSR) has attracted attention in the areas of strategic management (McGilliams & Siegel, 2000; Waddock & Graves, 1997). The firm should involve in CSR in order to build up social capital from good relationships to all of them. Obviously, companies will have intangible assets such as reputation and trust by investing in better stakeholder relationships (Roberts & Dowling, 2002).

In fact, any company with larger external monitoring has a poor performance, this relationship is driven by the influence of corporate governance on risk management and corporate finance policies on corporate governance impacts on company performance during the crisis in emerging markets different from emerging markets including Indonesia. Regarding PSAK No. 60 (Revised 2010) that companies should have a risk disclosure regarding financial instruments by disclosures. In addition, these required disclosure provides information to stakeholders as users of financial statements to evaluate the nature and extent of risks arising from financial instruments that the entity is reported at the end of the reporting period. The government regulation could be changed, due to actual economy occurs in those countries or the region that will affect every single company that is therein.

In those case, this study introduces linkage between corporate governance and firm risk, and also linkage CSR and firm risk. Furthermore, we will observe to get empirical tests from 262 companies of Indonesian listed companies between 2010 and 2015.

Research Question
1) Do firms with better corporate governance have a lower risk.
2) Do CSR firms with higher CSR expense have lower risk.

LITERATURE REVIEW
1. Past Studies on Corporate Governance and Firm Risk
Ownership structure, in general, affects the way the company, where the person has influenced the company's performance in achieving company goal which is maximizing the value of the company. Monitoring is one of the tasks that affect it (Wahyudi and Pawestri, 2005). Therefore, the increase and decrease in corporate value are affected by the ownership structure. In general, the most important ownership structures in determining corporate value are (1) percentage of company ownership by outsiders (percentage of outsider ownership) and (2) percentage of ownership by company management (percentage of management ownership). The structure of share ownership in listed companies can determine the performance of the company as well as in achieving the maximization of the value of the company with respect to the principle of control that they have clearly illustrated the commitment of owners to save the company. Therefore, ownership structure has an important role in determining the value of the company.

1.1 Management Ownership
Ownership structure, in general, affects the way the company, where the person has influenced the company's performance in achieving company goal which is maximizing the value of the company. Monitoring is one of the tasks
that affect it (Wahyudi and Pawestri, 2005). Therefore, the increase and decrease in corporate value are affected by the ownership structure. In general, the most important ownership structures in determining corporate value are (1) percentage of company ownership by outsiders (percentage of outsider ownership) and (2) percentage of ownership by company management (percentage of management ownership). The structure of share ownership in listed companies can determine the performance of the company as well as in achieving the maximization of the value of the company with respect to the principle of control that they have clearly illustrated the commitment of owners to save the company. Therefore, ownership structure has an important role in determining the value of the company.

1.2 Board Size

Although the board independence has been seen as the primary driver for the firm performance, board size has attracted the attention of corporate governance researchers (Dalton et al., 1999). In particular, board size is likely to be directly related to the effectiveness of the decision-making process. Cheng (2008) contends that large board size alleviates the extremes of rash or self-serving strategic decisions in corporate governance. As a board size expands, the board tends to require more negotiations among board members: that is, the decisions of a large board reflect the coordination of the members. In this process, a large board can provide more protection from radical members in decision-making, and this may lead to more stable firm performance. Hence, this study proposes that a firm can reduce the firm risk if the firm retains a large board size. Hypothesis 1: Corporate governance is negatively associated with firm risk.

2. Past Studies on Corporate Social Responsibility and Firm Risk

CSR is generally useful not only for society but to the company itself. CSR proves that firms are able to increase management risk reductions thereby making 10 investors more strategically interested in approaches, better transparency, and easier access to financial markets and ultimately this could potentially reduce the risk of industrial firms. Researchers are increasingly convinced that companies must be accountable to multiple stakeholders, including not only shareholders but the natural environment, suppliers, units, employees, government, and society. The main objective of the stakeholder theory is to increase the diversity of stakeholders outside their traditional economic behavior (Freeman et al., 2004). In addition, stakeholder perspectives relate to stakeholder management and performance (Clarkson, 1995). Some researchers have investigated the relationship between CSR and firm performance (McWilliams & Siegel, 2000). Preston and O'Bannon (1997) observed a positive correlation between CSR and profitability. Companies can use external knowledge and information from multiple sources and combine internal and external capabilities to improve existing strategies. Choi and Wang (2009) Insist that the impact through stakeholder relationships should be more effective if companies build relational assets before they experience poor performance. Thus, we assume that CSR can be an effective strategy for risk management and, in turn, significantly reduces firm risk. Hypothesis 2: CSR is negatively associated with firm risk.

3. Past Studies on Corporate Governance, CSR, and firm risk
Corporate social disclosure informs an organization's interaction with its physical and social environment, as stated in the financial and non-financial separate annual or financial reports (Hackston and Milne, 1996). CSR should disclose environmental, energy, human resources, product and community involvement issues to improve the economy of the community. According to Gray et. al. (2001), adding social and environmental disclosures will create good corporate 12 aspirations and images and leads to better corporate governance image as well. On an ongoing basis, good corporate governance will result; creation and enhancement of corporate competitive advantage, enhancing corporate value, and poverty alleviation through increased social responsibility. In terms of developing countries, Indonesia has a pressure from environmental organizations and activists, and also have regulations from capital markets, which has triggered listed companies to disclose sustainability reporting. Lindgren and Hendeberg (2009) studied CSR from the managerial point of view as well as the positive and negative impacts of the Indonesian CSR in a qualitative manner. They found CSR could have the impact on stakeholder as wide range that implies to help corporate governance reducing firm risk. Therefore, this study expects that more CSR expense and better in corporate governance will reduce firm risk. Hypothesis 3: Corporate governance and CSR are negatively associated with firm risk

DATA AND RESEARCH METHODOLOGY

1. Data

This study examines a sample of 262 Indonesian listed firms excluding financial and insurance companies from 2008 to 2015. Data on CSR are collected from Nainggolan, et. al. (2017). We get all corporate governance variables excluding ownership data from the annual report and financial report. We get a number of all control variables from Oriana Bvd database. Ownership data are collected from Kustodian Sentral Efek Indonesia (KSEI).

2. Research Methods

To test Hypothesis 1, we build regression analysis model to see the impact of corporate governance (CG) on firm risk.

\[ \text{Risk} = \alpha + \beta_1 \text{Governance} + \beta_2 \text{Controls} + \varepsilon \]  

(1)

Where:

- \( \text{RISK} \) = the total risk combined with systematic risk and unsystematic risk,
- \( \text{Governance} \) = foreign ownership, local ownership, management ownership, board size commissioners, board size directors, independent management ratio, and audit committee

In financial theory, the total risk is composed of the firm-specific unique risk and the market risk. Following extant accounting and finance literature, we measure firm risk by the total risk. The total risk of an investment is typically measured by the variance or, more commonly, the standard deviation of its return (Ross et. al. 2011). Although the market risk is a representation of well-diversified portfolios, Bennett and Sias (2008) show that the formation of well-
diversified portfolios in practice is virtually impossible. Thus, we use the total risk combining both the market and the idiosyncratic risk as our main measure of firm risk as follows:

$$\sigma_1 = \sqrt{\sum_{t=1}^{T} \frac{(r_{i,t} - \bar{r})^2}{T-1}}$$

Where:
- $\sigma_1$ = Daily Standard Deviation
- $T$ = days in a year
- $r_{i,t}$ = In $r_{i,t}$, $r_{i,t} = \frac{r_{i,t}}{r_{i,(t-1)}}$

We follow Anson, Mark, et. al, (2013) in order to annualize our daily standard deviation into yearly standard deviation as follow:

$$\sigma_1 = \sigma_1 \sqrt{T}$$

Where:
- $\sigma_1$ = Daily Standard Deviation
- $\sigma_T$ = Yearly Standard Deviation
- $T$ = days in a year

Following Huang (2010), KNKG (2006) measure corporate governance using several variables. We classified and measured these variables as follow:

**Foreign Ownership** The one who comes from outside Indonesia and holds some share is defined as foreign ownership in this research. Foreign ownership is calculated by foreign shareholders divided by a total number of shares issued. They might be a bank, foundation, companies, individual, corporate insurance, mutual funds, securities companies, and others. **Local Ownership** Local ownership is calculated by the proportion of equity held by local investors. Total foreign ownership adds to local ownership must equal to 100%. **Government Ownership** Government ownership is measured by the proportion of government shares to a total number of shares issued. **Management Ownership** Management ownership is measured by the proportion of commissioners and directors shares to a total number of shares issued. Board of Commissioners Based on 33/POJK.04/2014 Financial Services Authority (OJK) regulation Board of commissioners function are controlling, evaluating company daily activity, and giving their a such of suggestions to the board of directors so that the company doing better. Board of commissioners should consist of at least 2 members. In this 15 study, we measure board size commissioners by total person board of commissioners which stated in annual reports. Board of Directors Indonesia adopts two board system indicates that board of director function are responsible performing well to maximize shareholder welfare. Board of directors has to consists of at least two directors. We measure board of directors from the total board of directors which stated in annual reports. **Independent Managerial** We measured Independent outside managerial by the proportion of independent commissioners plus independent directors to total board directors and board size commissioners. independent commissioners are commissioners that come from outside public company and fulfill the requirement. Independent commissioners
must not hold any company shares, and, other commissioners, other directors, and other controlling shareholders, and should not in charge of managing other companies. However, independent directors have no specific requirement about their existence in a public company. Independent directors must not hold any company shares, and, other commissioners, other directors, and other controlling shareholders, and should not in charge of managing other companies. Audit Committee Regarding compliance with the regulation that stated on Bapepam regulation no. 1X.15. According to Bapepam chairman attached that stated on Kep-64/BL/2012 page 3, tasks and obligations of the audit committee, among others, are; conducting a review of financial information to be issued to the public and/or the authority, among others, financial statements, projections, and other reports related to corporate financial information. We measured audit committee from the proportion of independent commissioners sitting in audit committee divided by the total audit committee in the company. Controls are firm size, return on assets (ROA), (Lee, Sewon, 2016). We use natural logarithm of sales as a proxy to measure firm size. ROA is measured by dividing earnings before interest depreciation and amortization (EBITDA) by the total assets. Many researchers assume a negative relationship between a firm’s size and its risk under the assumption that a larger firm creates cash flows 16 invariant to the economy (Scordis, et. all, 2008). We expect the firm size and ROA is negatively associated with firm risk. We also expect firm size and ROA is positively associated with all our independents variables. Another control is cash flow. We calculated cash flow by a sum of earnings before extraordinary items and depreciation over fixed asset at the beginning of the fiscal year. We expect cash flow is negatively associated with firm risk and positively to all independent variables. We mitigate the serially correlated residuals in our model by clustering all the standard errors at the firm level. We also control the presence of heteroscedasticity by ensuring that all our standard errors are robust. To control macroeconomic factors, we follow the standard practice to include year dummies variables in the estimation. In that result, we expect a negative relationship following Hypothesis 1. We also use the CAPM beta as our second measure of firm Risk because of Sharpe (1964), Lintner (1965), and Mossin (1966), who are the original developers of the CAPM, assert that systematic risk should matter in pricing. We try comparing it using measurement of risk between total risk and systematic risk. Local ownership and foreign ownership plug into our model respectively due to multicollinearity problem. We calculated beta as follows:

\[
\text{Beta} = \frac{\text{Covariance}(r_{i,t}, r_{m,t})}{\text{Variance}(r_{m,t})}
\]

Where:

\[r_{i,t} = \text{return on each individual firm}\]
\[r_{m,t} = \text{return on Jakarta Stock Exchange Composite (JKSE)}\]

To continue comparing our model with changing our dependent variabel proxy into systematic risk (Beta), our regresion analysis model will be:

\[
\text{Beta} = \alpha + \beta_1 \text{Governance} + \beta_2 \text{Controls} + \varepsilon
\]
Where:
Beta = systematic risk, Governance = foreign ownership, local ownership, management ownership, board size commissioners, board size directors, independent management ratio, and audit committee,
Controls = firm size, return on asset (ROA), and cash flow.

To test our Hypothesis 2 used regression analysis model to see the impact of CSR on firm risk. Thus, the main econometric models used to test the hypotheses were the following:

\[ \text{Risk} = \alpha + \beta_1 \text{Governance} + \beta_2 \text{Controls} + \epsilon \]

Where:
Risk = the total risk combined with systematic risk and unsystematic risk,
CSR = total amount of CSR expenses, Controls = firm size, return on asset (ROA), and cash flow

We also comparing this model using measurement of systematic risk. We extend our CSR variable into three categories those are CSR environment (CSR_ENV), CSR social (CSR_SOC), and CSR economy (CSR_ECO) so that we have to plug into our model respectively

\[ \text{Beta} = \alpha + \beta_1 \text{Governance} + \beta_2 \text{Controls} + \epsilon \]

Where:
Beta = systematic risk,
CSR = total amount of CSR expenses,
Controls = firm size, return on asset (ROA), and cash flow.

We use CSR expenses as our proxy to measure CSR following Nainggolan et al. (2017). This method more applicable and reliable than other CSR measurements which have been introduced for Indonesia context. We try to follow the triple bottom line approach (Nainggolan et al, 2017). CSR environment is CSR expenses allocated by environment protection action and natural conservation which is clearly stated in their annual or sustainability reports. CSR social is CSR expenses allocated by environment protection charity,
social donation, education, etc which are clearly stated on their annual or sustainability report. CSR economic is CSR expenses allocated by infrastructure project, business partnership, community development which are clearly stated in their annual or sustainability reports.

We test Hypothesis 3 by including Governance and CSR in the regression model. All variables have been explained in equations (1) and (6), our model shown as:

Risk = α + β_1 Governance + β_2 Controls + ε

We also extend this model with beta as dependent. All variables have been explained in equations (5) and (7), our model shown as:

Beta = α + β_1 Governance + β_2 Controls + ε

DATA ANALYSIS AND RESULT

1. General Information

Table 1 shows the descriptive statistics of corporate governance, CSR used as independent variables and risk used as dependent variable in regression analysis.
Table 1 represents the descriptive statistics like mean, maximum, minimum, and standard deviation of the independent variable, dependent variable, and control variable used in this research. It exhibits that Indonesian companies have mean of firm risk about 44 percent, while there has the maximum risk at 179 percent, it means Indonesian firms still have medium to high risk. Additionally, they also have high volatile regarding market prices. In terms of corporate governance, Indonesian companies still dominated by the local shareholders. Foreign shareholders hold approximately 37.5 percent of total shares in Indonesia companies. While government and managerial do not have a big proportion of Indonesia companies shares, which is meaning that local and government still dominated. In terms of compliance in fulfillment board of commissioners, there are several companies of 262 Indonesian companies do not have fulfilled the requirement of minimum total number of board commissioners, which are 3 people. In addition, there are some companies that do not have independent outside managerial and audit committee in their company’s structure. For the CSR, shows that Indonesian companies more concerned about an environment issue rather than a social and economic issue. It will be better if the companies can reduce the concern of CSR environment and improve the disclosure in all of CSR aspects. For the control variable, it shows that Indonesian firm size (log value to total asset) are generally similar, which describe less growth in terms of sales. While for the ROA, it shows big gaps between the maximum and minimum value, we predict that firms do not play performance well yet. Additionally, Indonesian firms ROA are still not normally distributed. Some of them have extremely low ROA and some of them have high

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Minimum</th>
<th>Median</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent Variable (RISK):</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BETA</td>
<td>1342</td>
<td>.025685</td>
<td>.1697292</td>
<td>-.6469257</td>
<td>.0192984</td>
<td>.6893959</td>
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<tr>
<td>RISK</td>
<td>1342</td>
<td>.4486812</td>
<td>.2295686</td>
<td>.0016685</td>
<td>.4143754</td>
<td>1.792998</td>
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<tr>
<td>CSR</td>
<td>823</td>
<td>1.71x10^11</td>
<td>3.42x10^13</td>
<td>56000</td>
<td>1.20x10^9</td>
<td>7.88x10^14</td>
</tr>
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<td>CSR_ENV</td>
<td>162</td>
<td>3.64x10^9</td>
<td>1.49x10^10</td>
<td>0</td>
<td>105000</td>
<td>1.06x10^11</td>
</tr>
<tr>
<td>CSR_SOC</td>
<td>178</td>
<td>1.18x10^10</td>
<td>3.69x10^10</td>
<td>0</td>
<td>5.39x10^9</td>
<td>2.53x10^11</td>
</tr>
<tr>
<td>CSR_ECO</td>
<td>177</td>
<td>4.47x10^9</td>
<td>1.54x10^10</td>
<td>0</td>
<td>0</td>
<td>1.46x10^11</td>
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<tr>
<td><strong>Independent Variable (CG):</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LOC</td>
<td>1340</td>
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<td>.3100105</td>
<td>.0000283</td>
<td>.6240763</td>
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<tr>
<td>FOR</td>
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<td>.3100105</td>
<td>0</td>
<td>.3759237</td>
<td>.9999717</td>
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<tr>
<td>GOV</td>
<td>1328</td>
<td>.0514893</td>
<td>.1789616</td>
<td>0</td>
<td>0</td>
<td>.9675</td>
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<tr>
<td>MGT</td>
<td>1319</td>
<td>.0322001</td>
<td>.1017789</td>
<td>0</td>
<td>0</td>
<td>.8944</td>
</tr>
<tr>
<td>BC</td>
<td>1317</td>
<td>452.164</td>
<td>21.689</td>
<td>1</td>
<td>4</td>
<td>22</td>
</tr>
<tr>
<td>BD</td>
<td>1317</td>
<td>5.208.049</td>
<td>2.165.808</td>
<td>2</td>
<td>5</td>
<td>13</td>
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<tr>
<td>IND</td>
<td>1318</td>
<td>.2158268</td>
<td>.1184011</td>
<td>0</td>
<td>.2</td>
<td>.5714286</td>
</tr>
<tr>
<td>AC</td>
<td>1311</td>
<td>.6631107</td>
<td>.0893881</td>
<td>0</td>
<td>.6666667</td>
<td>1</td>
</tr>
<tr>
<td><strong>Control Variable:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SIZE</td>
<td>1266</td>
<td>2.805.983</td>
<td>1.911.648</td>
<td>1.884.595</td>
<td>2.815.524</td>
<td>3.223.443</td>
</tr>
<tr>
<td>ROA(%)</td>
<td>1268</td>
<td>.0882239</td>
<td>.1281131</td>
<td>-.6679232</td>
<td>.06795</td>
<td>1.205.128</td>
</tr>
<tr>
<td>CF(%)</td>
<td>1029</td>
<td>.25808</td>
<td>.2646203</td>
<td>.0009513</td>
<td>.170513</td>
<td>1.364.273</td>
</tr>
</tbody>
</table>
ROA. In term of cash flow, it’s also describing that Indonesian firms tend to have leverage in their operation due to a small percentage of it.

We provide sample distribution by each industry. Table 2 are shows the distribution sample in nine sectoral industries as follows:

### Table 2. Sample Distribution by Industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>Total Companies</th>
<th>%</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGRICULTURE</td>
<td>15</td>
<td>5.73%</td>
<td>5.73%</td>
</tr>
<tr>
<td>TRADE, SERVICES &amp; INVESTMENT</td>
<td>46</td>
<td>17.56%</td>
<td>23.28%</td>
</tr>
<tr>
<td>CONSUMER GOODS INDUSTRY</td>
<td>19</td>
<td>7.25%</td>
<td>30.53%</td>
</tr>
<tr>
<td>PROPERTY, REAL ESTATE, AND BUILDING CONSTRUCTION</td>
<td>33</td>
<td>12.60%</td>
<td>43.13%</td>
</tr>
<tr>
<td>FINANCE</td>
<td>54</td>
<td>20.61%</td>
<td>63.74%</td>
</tr>
<tr>
<td>MINING</td>
<td>28</td>
<td>10.69%</td>
<td>74.43%</td>
</tr>
<tr>
<td>BASIC INDUSTRY &amp; CHEMICALS</td>
<td>34</td>
<td>12.98%</td>
<td>87.40%</td>
</tr>
<tr>
<td>INFRASTRUCTURE, UTILITIES, &amp; TRANSPORTATION</td>
<td>18</td>
<td>6.87%</td>
<td>94.27%</td>
</tr>
<tr>
<td>MISCELLANEOUS INDUSTRY</td>
<td>15</td>
<td>5.73%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Our total sample are 262 companies as the final sample. Of about 5.73% (n=15) sample come from agriculture industry; 17.56% (n=46) from trade, services & investment; 7.25% (n=19) consumer goods industry; 12.60% (n=33) from property, real estate, and building construction industry; 20.61% (n=54) from finance service industry; 10.69 (n=28) from mining industry; 12.98% (n=34) from basic industry & chemicals; 6.87% (n=18) from infrastructure, utilities, & transportation industry; 5.73% (n=15) from miscellaneous industry. We get the most sample from finance industry, and the second one is trade, services & investment. Our sample should describing population in management and finance knowledge, that implied from their decision making. Additionally, they should be considering all of matter in investment, managing, and finance decision. We also would like to see meaning of our distribution by year to help us describing all of the variable based on time series. Our distribution year is from 2010 to 2015 that shows in Table 3, as follows:
Table 3 shows mean for all variables (excluding dummy variable) over 2010-2015. The greatest mean of risk occurs in the year 2010. However, it has a downward trend because of their less volatile in a stock market. In terms of movement of stock prices, we do not find high relationship means of stock prices between each company to Jakarta Stock Exchange Composite (JKSE). Additionally, all of the risks are around 50% per year from their movement on their stock prices. In CSR area, range between the lowest mean and the highest mean are surrounding from 100 milliards to 2 billion rupiahs. It shows that CSR has been starting to apply. The highest amount of CSR expense was happening in the year 2013. We predict that caused by its also time for the highest firm size. Our control has decreasing point by year, except firm size is stable in range 27.6 to 28.1 from their natural logarithm of sales. The more amount of firm size that is meaning the more revenue or sales earned in that year. On another hand, we also see cash flow, range the companies have a cash is around 0.16 to 0.21, which is means that ratio is in between sum earnings before extraordinary items and beginning fixed asset. Before we running the regressions, we run correlation test. Table 4 presents the correlation among independent variables. The correlation among all independent variables are below 0.4 except for between and LOC; among CSR, CSR_ENV, CSR_SOC, CSR_ECO where we will substitute them in the regressions.

2. Relationship Between Corporate Governance and Firm Risk

We examine our hypotheses with a number of nested regression models to elucidate more how corporate governance and CSR influence firm risk.
Corporate governance variables are divided into two proxy, which is using foreign ownership or local ownership respectively, due to they have collinearity. There is Table 5.

Models (1) to (2) show that there is a negative relationship between governance measures and risk, supporting hypothesis H1. The measures are GOV and BD have a significant level that also has a coefficient as -0.108 and -0.00859. For government ownership, every 1 percent of government ownership will reduce risk as amount as 1.08%. For a board of director, every additional 1 member of directors will reduce risk as amount as 0.8%. However, another corporate governance has a negative impact to risk even though they are not at a significance level yet. On control variables from a model (1) to model (2), there is a negative impact and significant level in firm size and ROA with firm risk. That indicates the more revenue and return firms can earn, the risk will reduce also. This condition as we expect that control variable also gives contribution to assist our independent variable. As we expect, that evidence is supporting Hypothesis 1. Corporate governance is negatively associated with firm risk, especially in government ownership. Hypothesis 1. Our results also show that the control variables have constant result regardless combination of all model.

3. Relationship Corporate Social Responsibility and Firm Risk

Models (3) to (6) show that there is a negative relationship between CSR expenses and risk, supporting hypothesis H2. The measures are CSR, CSR_ENV, CSR_SOC and CSR_ECO which has negative significant respectively in the amount of -1.43x10^-16, -1.63x10^-12, -9.78x10^-13, -2.0x10^-12, each coefficient are below 5% significance. As we expect the more spending on CSR expense the risk will reduce as well. That means, if total CSR expense in 10 billion rupiahs per year, it will reducing firm risk at 1.43 %. If companies expand CSR environment in an amount of 1 milliard rupiahs, companies will reduce firm risk in an amount of 1.63 %. If companies expand CSR social in an amount of 10 milliard rupiahs, companies will reduce firm risk in an amount of 9.78 %. If companies expand CSR economic in an amount of 1 milliard rupiahs, companies will reduce firm risk in an amount of 2%. Our control variables also have a negative and significant below 5% significant point and show a robustness. Firm size and cash flow are negatively and 27 significantly with firm risk as control and assist our CSR variables. It indicates the more cash flow and revenue earn, firms will reduce risk and consider to increase a CSR expense at the same time.

4. Relationship Corporate Governance, Corporate Social Responsibility, and Firm Risk

our models (7) to (10) show that when CSR and firm with local ownership are combined to determine risk, the results that when CSR and local are combined to determine risk, the results show all corporate governance proxy are negatively coefficient. There is a significant variable corporate governance and have negative coefficient such as government ownership with significance at below 1% and management ownership significantly at below 5%. That result indicates, every firm who held by the government at 1% it should reduce firm risk at 0.1%. On another hand, every firm who held by management at 1% it
should reduce firm risk at 0.18%. CSR also shows that negatively and significant, that implies every firm who hold by a government or local and expand CSR expense in the amount of 1 billion rupiahs per year could decreasing firm risk at 1.02%. If we expand CSR into its divisions independent managerial will be significant. It means the role of independent managerial could make company expand CSR in range 1 to 70 milliards rupiahs per year and decreasing firm risk as well. Models (11) to (14) show that when CSR and firm with government ownership are combined to determine risk, the results show almost all corporate governance proxy are negatively coefficient. There is a significant variable corporate governance and have negative coefficient such as government ownership with significance at below 1% and management ownership significantly at below 5%. That result indicates, every firm who held by a government at 1% it should reduce firm risk at 0.1%. On another hand, every firm who held by management at 1% it should reduce firm risk at 0.18%. CSR also shows that negatively and significant, that implies every firm who hold by a government or local and expand CSR expense in the amount of 1 billion rupiahs per year could decreasing firm risk at 1.02. However, it's better supporting our hypothesis if we use a local ownership than foreign ownership. As we expect Hypothesis 3 could be accepted from that evidence.

5. Additional Analysis

In our additional research, we use beta as a second measurement of firm risk. Beta could describe relationship price movement among each Indonesian firms with Jakarta Stock Exchange Composite (JKSE). We find that there is no evidence to support our hypotheses. It means, our governance and CSR measures may be more reliable to determine total risk but not market risk. This is suggesting that governance and CSR could reduce firm risk which is related to non-market risk. That is Table. 6

6. Hypotheses Summary

From the table above, it can be seen that the modification could answer the hypotheses:

1) There is a relationship between firm’s corporate governance and firm risk.

H0: Corporate governance is not associated with firm risk.
H1: Corporate governance is negatively associated with firm risk.

Derived from a model (1) to (2) we conclude:
- Corporate governance has a significant level that is below our tolerance is 5%.
  This variable is government ownership (0.01%)
- H0 cannot be accepted

2) There is a relationship between firm’s CSR expense and firm risk.

H0: CSR is not associated with firm risk
H2: CSR is negatively associated with firm risk.

Derived from a model (3) to (6):
- CSR has a significant level that is below our tolerance is 5%. This variable is CSR (0.00%), CSR_ENV(0.00%), CSR_SOC(1.5%), CSR_ECO(2%)
- H0 cannot be accepted

3) There is a relationship between firm’s corporate governance, CSR

H0: Corporate governance and CSR are not associated with firm risk.
H3: Corporate governance and CSR are negatively associated with firm risk. Derived from model (7) to (14):
- Corporate governance and CSR has a significant level that is below our tolerance is 5%.
- Corporate governance with local ownership, GOV (0,7%), MGT(1.1%), CSR(4.2%), CSR_ENV(1.4%)CSR_ECO(1.2%)
- Corporate governance with foreign ownership, GOV (0,7%), MGT(1.1%), (IND 1.9%), CSR(4.2%)
- H0 cannot be excepted

CONCLUSION, IMPLICATION, FUTURE RESEARCH

Conflicts of interest may occur between the stakeholders, among others; shareholder conflicts with managers, conflicts between creditors and shareholders, conflicts between controlling shareholders and minority shareholders. Regarding that idea of good corporate governance still, concludes with the concept of corporate social responsibility. This means that the company must make sustainable development procedures in corporate governance responsible for its business activities and build social assets, such as CSR can affect member's motivation and decision-making. Thus, it is important to have transparency in governance mechanisms in maximizing shareholders from managerial ethical aberrations, as well as to reduce firm risk. This study expects to find the relationship between firm’s corporate governance and firm risk, the relationship between firm’s CSR expense and firm risk, and the relationship between firm’s corporate governance, CSR expense, firm risk. This study examines a sample of 262 Indonesian listed firms excluding financial and insurance companies from 2008 to 2015. The findings of this study have theoretical and practical implications. Regarding theoretical implications, this study provides a model linking corporate firm risk and corporate governance and CSR as well. We use a sample data from 262 Indonesia listed firms and 1,252 firm year observations over 2010 to 2015. We have a limited sample to only listed firms in Indonesia, otherwise, we have to have access to get a private firm's annual report. We also consider CSR to reduce stock volatility. We have result practical in Indonesian listed firms, that is the relationship among corporate governance, CSR, and firm risk derived from our models. Based on our result, CSR division makes firms will have less likely to volatile in a stock market. This finding is consistent with Lee, et. al., (2016) research idea, which concludes firms’ risk management with identifying that firm risk also can be reduced by including corporate social responsibility activities into the main strategy area. 33 We expect that future research in corporate governance area will employ a complete. Moreover, we suggest future research extend firm risk methodologies other than standard deviation to fit their model. We also expect to extend the sample and period of analysis of this empirical research due to the availability of data.
REFERENCES


297

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