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THE EFFECT OF CORPORATE GOVERNANCE STRUCTURE ON FINANCIAL DIFFICULTIES*

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Abstract. This study aims to examine the effect of Corporate Governance Structure (CG) and Corporate Social Responsibility (CSR) on Financial Difficulties. The contribution of this research is to explore the truth of CG goals and achieve quality CSR reporting and can provide solutions to conditions before and when companies experience financial difficulties and provide things that are considered important to anticipate the possibility of financial difficulties. CG in this study uses the size of the audit committee and independent commissioners, then CSR is measured by the quality of CSR disclosure. The data analysis method used is multiple linear regression. The results of this study are the audit committee has no effect on financial difficulties but the independent commissioner has a negative effect on financial difficulties. The contribution of the proportion of independent directors apparently contributed more to the proportion of the number of audit committees. The proportion of the audit committee is not able to minimize or even be a solutive effect on the financial difficulties of companies in Indonesia. The audit committee is a form of responsibility for compliance with government regulations only. The test results also support the influence of CSR on financial difficulties assuming that the quality of CSR disclosure has a significant negative effect on corporate financial difficulties. Disclosure and implementation of CSR activities can have an effect to minimize if in the future the company experiences financial difficulties, the guarantee of funds will remain well distributed so as to minimize the financial difficulties experienced by the company.

Keywords: quality; disclosure; corporate governance; corporate social responsibility; audit committee; independent commissioner

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1. Introduction

Problems of financial difficulties often occur in both large and small companies. Financial difficulties as a condition where the company's finances are in an unhealthy state, or a crisis that occurred before bankruptcy. In Indonesia there are a number of examples of cases that show the condition where companies in Indonesia experience financial difficulties. Some examples of companies in Indonesia experiencing financial difficulties such as PT. Asuransi Jiwasraya who is experiencing financial difficulties so that it results in late payment of the policy due (source: anonymous, www.cnbindonesia.com). Another example is the company PT. Krakatau Steel Persero Tbk (KRAS). This state-owned steel company is repeatedly troubled by problems. For 7 years in a row this company suffered losses and mass layoff issues until the resignation of independent commissioners recently. In addition, there is also PT. Garuda Indonesia Persero Tbk, which was recently highlighted by aviation public because it suffered losses of up to Rp. 2.45 trillion which shows the financial difficulties at this company (Mufti, 2019).

In its management system, companies must implement good corporate governance because it allows a company to experience a healthy condition and in good financial condition. Achievement of a financially healthy company is obtained through the results of management interaction in managing funds and the environment around the company both internal and external environment (Nuresa, 2013). Companies that experience financial difficulties relatively have weaknesses in corporate governance (Lu and Chang, 2009). The better corporate governance by a company, the better the performance of a company is expected. Based on these assumptions, it can be concluded that the failure of the company in overcoming financial difficulties due to poor corporate governance, for example, inappropriate decisions made by management or lack of efforts to oversee financial conditions so that there is improper use of funds (Nuresa, 2013).

Corporate governance has become very important in Indonesia after the financial crisis in Asian countries, including Indonesia, in 1997. The establishment of an audit committee is one of the important things in creating good corporate governance. The audit committee is expected to be effective and focus on optimizing shareholder wealth and prevent maximization of personal interests by top management (Nuresa, 2013). The audit committee is a strategy of the company's success and efforts to achieve the success of a company. Emrinaldi (2007) states that the more the number of independent commissioners in a company, the smaller the potential for financial difficulties because supervision of the implementation of company management gets more supervision from an independent party.

Every company tends to need support or injection of funds from investors. The funding support is one of the solutions in anticipating the problem of financial difficulties in order to achieve the image (picture) of a company with a good reputation. One way to maintain the good name of the company so that investors and shareholders trust is by disclosing quality corporate social responsibility. Disclosure of Corporate Social Responsibility (CSR) provides company information to the public relating to the environment, employees, customers, communities and energy used by the company (Said, Zainuddin and Haron, 2009). Disclosure of CSR is also based on Republic of Indonesia Law No. 40 of 2007 article 74 concerning social and environmental responsibility states that social and environmental responsibility, namely "the Company which carries out its business activities in the field and or related to natural resources must carry out social and environmental responsibility". This law is further strengthened by Government Regulation of the Republic of Indonesia No 47 of 2012 concerning Social and Environmental Responsibility of Limited Liability Companies article 2 states that every Company as a legal subject has social and environmental responsibility.

Disclosure and implementation of CSR activities provide several benefits such as products favored by consumers and investors, sales and market share increases, brand positioning becomes known, employees become loyal and operational costs fall (Kolter and Lee, 2005). This has led companies in Indonesia to generally disclose CSR

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voluntarily in the company's annual report. Few companies in Indonesia have even disclosed CSR reports separately, known as standalone reports. Several other companies disclose CSR by using external verification services (assurance) and reporting guidelines. Basically CSR information disclosure through standalone report, assurance and reporting guidelines aims to improve the quality of disclosure. Standalone report focuses on social and environmental information aimed at stakeholders (Dhaliwal et al., 2012; Anugerah, Saraswati, Andayani, 2018). Assurance services can increase the credibility of CSR reporting (Cohen & Simnett, 2015; Habek & Wolniak, 2015; Anugerah, Saraswati, Andayani, 2018). The third reporting practice is to guide the preparation of the report, namely the Global Reporting Initiative (GRI). The use of the GRI reporting framework is used as a guide to standardizing sustainable reports internationally (Gray, 2001). The GRI Guidelines are used as a guide in the preparation of ongoing reports, to enhance the credibility of information disclosed by companies.

The quality of CSR disclosure is important to pay attention to in order to control social and environmental risks (Gray, 2001; Quattrociocchi et al., 2019; Wu & Hu, 2019) and produce relevant information for stakeholders. However, in research conducted by Anugerah, Saraswati, Andayani (2018) using a quality measurement framework made by Michelon, Pilonato, & Ricceri (2015) as a tool to measure the quality of CSR disclosure in the Indonesian state, different assumptions were found that state voluntary practices from the stand alone report, assurance and reporting guidelines do not improve the quality of disclosure. Friedman (1970) also states that disclosures have high quality when able to provide useful information to external users.

These different assumptions form the basis of research in research. So as to be able to explore the truth of corporate governance goals and achieve quality CSR reporting. This research can also provide solutions to conditions before and when the company is experiencing financial difficulties and provide things that are considered important to anticipate the possibility of financial difficulties.

2. Literature review

2.1. Agency Theory and Stewardship Theory

Agency theory has its basis in economic theory which was coined by Alchian and Demsetz (1972) and developed by Jensen and Meckling (1976). Agency theory is defined as the relationship between principals such as shareholders and agents such as managers and corporate executives. Clark (2004) states that the owner delegates his company to Principal directors and managers or the company owner pays the agent to carry out his work. Daily et al (2003) state that there are two factors that can arise in agency theory. First, this theory can reduce the corporation of two participants, namely managers and shareholders. Second, agency theory states that employees or managers focus more on their own interests. The basic premise of agency theory between the owner and agent, as stated by Jensen and Meckling (1976), is that there is a contractual relationship between the owner and agent. In agency theory, shareholders expect that agents act and make decisions in accordance with the interests of the owner. Instead, the agent does not make the best decision in accordance with the interests of the owner. Agency problems arise from the separation of owner and control in agency theory as stated by Davis, Schoorman and Donaldson (1997). In agency theory, agents can act in their own interests, and behave opportunistically. Providing incentives to the agent will result in the agent focusing on the interests of the owner. Agency theory further explores the relationship between owner and management structure. The separation between owner and agent allows the agency model to be applied to harmonize between management and owner's goals. In family businesses, management consists of family members, so agency costs can be minimized (Eisenhardt, 1989).

In contrast to agency theory, stewardship theory focuses on non-economic influences (Mason et al, 2007). Agency theory provides the view that governance is based on economic interpretations of relationships in organizations, stewardship theory is more a series of non-financial motivations of management activities. These management activities include the need for achievement and recognition, intrinsic satisfaction achieved from successful performance and full ethical work. The basic premise of stewardship theory is stated by Donaldson and Davis

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(1991) that managers are stewards of the corporation and work to obtain high profits and returns for shareholders. The financial performance of the organization and shareholder wealth will be maximized by empowering managers to work with authority that does not burden and remains responsible.

Stewardship theory emphasizes more on managers acting as stewards who are a team and are not motivated by individual goals, but are motivated by goals that are aligned with the owner's goals (Davis et al, 1997). Stewardship theory positions managers as rational and opportunistic individuals who will maximize their own utility. The basis of the Stewardship model is a culture of trust between owners and managers (Mason et al, 2007).

2.2. Audit Committee and Independent Commissioner

Financial Services Authority Regulation No. 55/POJK.04/2015 concerning the Establishment and Guidelines for the Work of the Audit Committee states that the Audit Committee is a committee formed by and responsible to the Board of Commissioners in helping to carry out the duties and functions of the Board of Commissioners. The Audit Committee consists of at least 3 (three) members who are from Independent Commissioners and Parties from outside the Issuer or Public Company. The audit committee is chaired by an Independent Commissioner. The Audit Committee acts independently in carrying out its duties and responsibilities.

Article 10 explains that the Audit Committee has the duty and responsibility to review financial information, review compliance with laws and regulations, provide independent opinions in the event of disagreements between management, provide recommendations to the Board of Commissioners, examine internal auditors' audits, review risk management activities, examines complaints about the accounting process and financial statements and provides advice to the Board of Commissioners if there is a potential conflict of interest of the issuer and maintains the confidentiality of the issuer's documents, data and information.

2.3. Corporate Social Responsibility

The concept of CSR emerged around the 1950s, after which it developed in the USA and Europe. CSR is a company's commitment to contribute to sustainable economic development, working with employees, their families, local communities and the larger community to improve their quality of life (World Businesses Council for Sustainable or WBCSD, 2004). Servaes and Tamayo (2013) state that this definition consists of components in CSR research, namely: community, human rights, the environment and treatment of employees.

Several studies have shown the contribution of CSR activities that can be used to reduce risk. Attig et al. (2013) describe three channels for CSR and risk relationships. First, by increasing a company's relationship with stakeholders, this can improve the long-term sustainability of the company. Secondly, by engaging in CSR activities, a company shows efficient use. Third, with positive CSR involvement, companies can reduce the likelihood of costs associated with socially irresponsible behavior. In line with their postulations, Attig et al. (2013) shows a positive relationship between CSR activities of companies and credit ratings. This is reinforced by the findings of Kim et al. (2014) who discovered the contribution of CSR in reducing the risk of stock price collisions.

2.4. The relationship between the audit committee and financial difficulties

The audit committee must have enough members to carry out its responsibilities so that the audit committee is effective in carrying out its duties in monitoring and controlling the activities of the board of directors (Rahmat et al., 2009). Based on BAPEPAM-LK regulation No. IX of 2004 concerning "the establishment and Implementation Guidelines for the work of the audit committee", the audit committee has at least three members who are considered capable of protecting the interests of shareholders. Based on the theory of resource dependency, it can be assumed that the increasing number of members will make the audit committee have more resources, especially to deal with problems that are being experienced by the company. Therefore, the

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effectiveness of the audit committee will increase when the size of the committee also increases so as to prevent the company from financial difficulties. Based on the description above, the following hypothesis is formulated:

H1: The size of the audit committee has a negative effect on financial difficulties

2.5 Relationship between independent commissioners on financial difficulties

The Independent Commissioner has a function to oversee the performance of directors in running the company as well as the implementation of good corporate governance in addition to the board of commissioners in the company. The independent board of commissioners monitors the performance of the board of directors led by the director and acts independently without any influence from parties in the company. Research conducted by Hong-xia Lie, et al. (2008) succeeded in proving that the proportion of independent directors was negatively related to financial distress. These results support research conducted by Nur (2007) which states that there is a significant negative effect of the proportion of independent directors on financial distress. The higher the proportion of independent directors, the smaller the possibility of financial distress. Based on the description above, the hypothesis is formulated as follows:

H2: Independent Commissioner has a negative effect on financial difficulties

2.6 The relationship between CSR and financial difficulties

Godfrey (2005) theorizes that CSR can provide protection such as insurance when a company enters a crisis. For example, companies with proactive CSR involvement in managerial practices such as environmental assessment and stakeholder management (Wood, 1991) tend to be able to anticipate and reduce potential sources of business risk, such as potential government regulations, labor unrest, or environmental damage (Orlitzky & Benjamin, 2001).

Smith and Stulz (1985), who explain that companies that maximize value rationally acquire risk management instruments when companies expect financial difficulties in the future. This is because the most valuable risk management instruments for companies when the expected financial distress costs become so burdensome that bankruptcy becomes close. CSR involvement can be used as an instrument of risk management in the hope that previous CSR involvement can reduce the cost of distress and will reduce the possibility of bankruptcy. Based on the description, the suggested hypothesis is:

H3: CSR has a negative effect on financial difficulties

3. Research Methods

3.1 Population

The population in this study are all companies listed on the Indonesia Stock Exchange (IDX). Companies engaged in the field of natural resources (SDA) were not included in this study on the grounds there were differences in obligations in reporting CSR. Companies engaged in the field of natural resources are required to report their social responsibility in accordance with Law number 40 of 2007 article 74, while companies other than these fields are still voluntary. This research focuses on voluntary CSR reporting, so companies engaged in natural resources are not included in the population.

3.2 Research Samples

Samples were taken from the companies financial statements. The sampling method used in this study is nonprobability sampling with a purposive sampling technique. Purposive sampling is a sampling technique based on a certain or specific criteria (Sekaran & Bougie, 2013: 252). The criteria used to take this research sample are:

1. Companies listed successively on the Stock Exchange from 2014 to 2016.
2. The company issues a stand-alone report or an annual report that can be accessed from both the IDX and the company's website.
3. The company has CSR or sustainability information in the annual report.

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Year from 2014 to 2016 was chosen as the sample of this study because in that year it was a period of using GRI G4 in Indonesia. This was chosen by the researcher to get specific results. The sample in this study are (see Table 1).

Table 1. Sample Selection

No.	Sample Selection	Total
1.	Public companies listed on the Indonesia Stock Exchange from 2014 to 2016	1538
2.	Companies engaged in the field of natural resources listed on the Stock Exchange from 2014 to 2016	(185)
3.	Sample Selection	1353

From the population that has been determined, researchers then determine a sample that represents the population using the Slovin formula (Sevilla et al, 2007). Application of Slovin formula can be seen in the following formula.

$n = N/1 + Ne_2$

Information:
n = Sample size
N = Population Size
e = significance level (5%)

Researchers used the Slovin formula to get the number of samples to be used in this study. The details are as follows:

$n = N/1 + Ne_2$

$n = 1353/1+1353(0.05)^2 = 308.72 = 309$

Information:
n = Sample size
N = Population Size
e = significance level (5%)

3.3. Operational Definition and Measurement

3.3.1. Independent Variable

Corporate governance

Corporate Governance in this study was measured using the size of the audit committee and the size of the independent commissioner. The size of the audit committee is the number of people serving on the audit committee, while the size of the independent commissioners is the percentage of the Independent Commissioners divided by the number of the board of commissioners.

CSR

The independent variable in this study is CSR which is measured by the quality of CSR disclosure. Researchers used the Michelon, Pilonato, & Ricceri (2015) model to evaluate the quality of CSR disclosures. Measurement of disclosure quality consists of quantity (relative quantity), information density (density), accuracy of information (accuracy), and management approach (managerial orientation). Relative quantity measures how many items are expressed by a company compared to the average of items expressed by other companies in the same industry. Relative quantity can be seen in the following formula:

$$RQT_{it} = DISC_{it} - \widehat{DISC}_{it}$$

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Information:
RQT_{it} = Relative quantity index for company i in year t.
$Disc_{it}$ = The number of items disclosed by company i in year t.
$\widehat{DISC}_{it}$ = Estimated level of company disclosure i in year t

Density measures how many sentences are relevant to the GRI G4 core options compared to the total sentences expressed. Density can be seen in the following formula:

$$DEN_{it} = \frac{1}{K_{it}} \sum_{j=1}^{K_{it}} CSR_{ijt}$$

Information:
DEN_{it} = Desity index for company i in year t.
K_{it} = The number of items disclosed by company i in year t.
CSR_{it} = The value is 1 if sentence j contains CSR information on company i in year t, conversely the value is 0.

Accuracy measures the way a company discloses information, such as disclosing information in qualitative, quantitative or monetary sentence form (in currency). Accuracy can be seen in the following formula:

$$ACC_{it} = \frac{1}{n_{it}} \sum_{j=1}^{n_{it}} (w * CSR_{ijt})$$

Information:
ACC_{it} = *Accuracy index* for company i in year t.

n_{it} = Number of sentences containing CSR information in the company report i in year t.
CSR_{ijt} = The value is 1 if sentence j contains CSR information on company i in year t, conversely the value is 0.
W = The value is 1 if the sentence j in company report i in year t is in the form of qualitative, the value is 2 if the sentence j in report company i in year t is monetary.

Managerial Orientation measures the approach the company adopts in disclosing CSR information, whether using the boilerplate or committed approach. The boilerplate approach is a company approach that tends to express expectations and hypotheses in providing expectations in the future, and provides rules, initiatives and strategies in expressing the results. While the committed approach is a company approach that tends to reveal the targets and goals in the future, by disclosing the results and outputs of the realization that has been done. Managerial orientation can be seen in the following formula:

$$MAN_{it} = \frac{1}{n_{it}} \sum_{j=1}^{n_{it}} (OBI_{ijt} * RES_{ijt})$$

Information:
MAN_{it} = *Managerial orientation index* for company i in year t.
n_{it} = Number of sentences containing CSR information in the company report i in year t.
OBJ_{it} = The value of 1 sentence j on company report i in year t contains CSR information in the form of targets and objectives, otherwise the value is 0.
RES_{it} = The value is 1 if sentence j on company report i in year t contains CSR information in the form of results and outputs, otherwise the value of 0.

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The four indices are then synthesized using the following formula:

$$Quality_{it} = \frac{1}{4\left(RQT_{S_{it}} + DEN_{S_{it}} + ACC_{S_{it}} + MAN_{S_{it}}\right)}$$

Information:
$Quality_{it}$ = The quality of disclosure obtained from the combination of the four indices whose values have been standardized.
RQT_{sit} = *Standardize relative quantity index* for company i in year t.
Den_{sit} = *Standardize density index* for company i in year t.
ACC_{sit} = *Standardize accuracy index* for company i in year t.
MAN_{sit} = *Standardize managerial orientation index* for company i in year t.

In summary the disclosure variables can be seen in the table 1 below (Appendix 1). Disclosure variables consist of Relative Quantity, Density, Accuracy, Managerial Orientation and Quality variables. CSR items using GRI and Michelon, Pilonato, Richeri (2015) can be seen in Appendix 2. These items include environmental items, social items, human rights items, community items and product responsibility items.

3.3.2. Dependent Variable

The dependent variable in this study is financial difficulty. financial difficulties are measured by the value of earnings before tax (EBT). The greater the value of EBT, the less likely the company is experiencing financial difficulties. Earning before tax (EBT) is used because if this ratio is high shows that the company can utilize its assets rationally so that profits can be generated and reduce the possibility of financial difficulties (Rahmawati and Hadiprajitno, 2015).

3.4 Data Analysis Methods

The method used in this study is multiple regression processed with the help of SPSS analysis tools. Before this model was regressed it had passed the classic assumption test. The model used to measure the three variables in this study are as follows:

$$FD = \alpha + \beta 1\ KA + \beta 2\ KI + \beta 3\ CSR + e$$

Information:
FD = Financial Difficulties/Financial Distress
KA = The number of Audit Committee.
KI = The number of Independent Commissioner.
CSR = Quality of Corporate Social Responsibility Dsiclosure.

4. Results of research and discussion

4.1. Descriptive statistics

This study examines the relationship of corporate governance (CG) and corporate social responsibility (CSR) in minimizing or preventing financial difficulties. The independent variables in this study consisted of two, namely CG, which was proxied by an audit committee (KA) and an independent commission (KI). Second is the CSR variable which is proxied by the quality of CSR disclosure. The dependent variable in this study is financial difficulty (FD). The results of descriptive statistical testing for this study are (see Table 2):

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Table 2. Descriptive Statistics

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
FD	309	-8634034000000	64506779000000	2639542084485,43	7059705943047,021
KA	309	1	4	2,24	0,807
KI	309	1	6	2,27	0,909
CSR	309	0,12	0,97	0,2636	0,13579

Descriptive statistical test results show that as many as 309 companies that were sampled listed on the Indonesia Stock Exchange reached a figure of financial difficulty (FD was measured by earnings before tax) of 2639542084485.43 from 2014 to 2016. The lowest minimum value of FD achieved by sample companies from 2014 to 2016 that is equal to -8634034000000 while the highest FD (earinings before tax) value achieved is 64506779000000. The achievement of FD values in 390 sample companies from 2014 to 2016 is caused by the average CG and CSR indicators that drive the achievement of FD values, where the average value of the audit committee that is, 2.24 with a minimum range of audit committees that is 1 and the maximum number of audit committees is 4. The average range of independent commissions for all samples is 2.27 with the minimum number of independent committees that is 1 and the maximum maximum number is 6. Results the test also showed the average achievement quality of CSR disclosure was 0.23 636 with a minimum quality range of 0.12 and a maximum quality of 0.97. Each average value on the independent variable is greater than the average value so it can be assumed that the data for the independent variable varies. Whereas the dependent variable does not vary.

The results of this test indicate that each company does not meet the standard number of audit committees and independent commissions set in POJK No.55/POJK.04/2015 which requires a minimum number of audit committee (KA) and independent commissioner (KI) to be around 3 people. This condition pushed the level of financial difficulties in all sample companies to become high. This is supported by the quality of CSR disclosure that does not even meet the average of 0.50%. CSR disclosure is bad in every sample company because the number of KA and KI that do not meet the standard criteria is not able to provide a preventive effect in order to minimize financial difficulties from 2014 to 2016 for all companies sampled.

4.2. Regression Test Results

In this study a logistic regression model was used to test the hypotheses of the relationship of corporate governance (CG) and corporate social responsibility (CSR) to the variable of financial difficulties. The logistic regression model will provide a significance value which is the contribution value of each CG (KA and KI) and CSR variables to financial difficulties (FD) to determine the hypothesis decision. The level of significance for hypothesis decisions is below 5% (<0.05). The regression test results are as follows (Table 3):

Table 3. Regression Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1501967565066,944	1643504657669,089		0,914	0,362		
	KA	252173998569,655	656777706380,595	0,029	0,384	0,701	0,532	1,880
	KI	-1298548917685,295	587090259606,889	0,167	2,212	0,028	0,525	1,906
	CSR	-9004541324196,800	2990162956676,884	-0,173	-3,011	0,003	0,907	1,102

The test results show the proxy measurement committee audit (KA) showed an insignificant significance value that is equal to 0.701 (above 5%) so that hypothesis 1 in this study was rejected. This shows that the audit committee has no significant effect on financial difficulties. This is in line with the assumptions developed by Hanifah and Purwanto (2013) and Mayangsari (2015) which assume that the audit committee in a company has

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insignificant influence on financial difficulties. More and more audit committees sometimes make it difficult to agree on decisions to improve financial performance. This is because the selection of the audit committee is still based on opportunistic encouragement and intense closeness with the board of commissioners (Effendi in Siagian, 2004).

Inversely proportional to the proxy of an independent commissioner (KI). The test results show the significance value of KI is in the range of 0.028 (below 0.05) which shows the significance of KI against FD with a coefficient value of -1298548917685,295. This means that IC has a negative effect on financial difficulties and it can be concluded that the more the number of independent commissioners, the lower the percentage of the possibility of financial difficulties, therefore it can be concluded that hypothesis 2 suggested in this study was accepted. This supports the assumptions developed by Elloumi and Gueyie (2001) which assume that the greater proportion of independent directors in a company has a significant negative influence and reduces financial difficulties. However, the different test results between the audit committee (KA) and the independent commissioner (KI) which are the two main proxies in CG show that the governance system of companies in Indonesia has not become a solutive governance system in minimizing corporate financial difficulties.

The test results also show that the level of significance of CSR on financial difficulties (FD) is around 0.003 (below 0.05) which shows the quality of CSR disclosure will be able to encourage a decrease in the value of financial difficulties in the future. These results provide support for hypothesis 3, namely the application of CSR can be an insurance to form trust in the efficiency of company resources which has implications for stakeholder confidence so that the company's operational funds will increase through investment and will be a good solution in reducing future financial difficulties in the company in Indonesia. These results provide support for the assumptions developed by Godfrey (2005) and Smith and Stulz (1985) who assume the same thing.

Table 4. Adjusted R Square Value

Model	R	RSquare	Adjusted R Square	Std. Error of the Estimate
1	,291a	,085	,076	6786887573225 ,492

Table 4 shows the adjusted R2 value of the relationship between corporate governance (KI and KA) and corporate social responsibility (CSR) variables to financial distress (FD). The adjusted R2 value will show the value of the contribution in the relationship of the independent variable to the dependent variable (Ghozali, 2009). This value will explain what percentage of ability of the independent variable in explaining the dependent variable. The test results show that the adjusted R2 value is around 0.076 (7.6%). So it can be concluded that the contribution of CG through the proxy committee audit (KA) and independent commissioners (KI) and CSR to the magnitude of the value of financial distress (FD) is only around 7.6% while the rest is explained by other variables.

5. Discussion and Conclusions

This study examines the relationship between corporate governance (CG) and corporate social responsibility (CSR) on financial difficulties. The sample used in this study were all companies listed on the Indonesia Stock Exchange (IDX) with the exception of companies engaged in natural resource development (SDA). The observation period in this study is from 2014 to 2016. The CG variable measurement indicators use two proxies namely the audit committee (KA) and the independent commissioner (KI) while CSR uses the CSR disclosure quality index using the Michelon et al model. (2015).

The test results show that CG has no significant effect on financial difficulties. This is due to the absence of synergy or conformity in the level of significance between the two proxies used where KA is not significant (H1 is rejected) while KI is significant (H2 is accepted). The contribution of the proportion of independent directors apparently contributed more to the proportion of ownership of the audit committee. The proportion of the audit committee in fact was not able to minimize or even be the solutive effect of the company's financial difficulties in Indonesia. The composition of the number of audit committees regardless of the amount can be said to be a regulation which in fact does not bring profit because it does not become a point to optimize wealth. The most likely reason is that the audit committee is a form of responsibility for compliance with government regulations in BAPEPAM LK No. IX of 2004 and BAPEPAM Decree No. 29 of 2004. Besides Effendi dalama Siagian (2004) explains that the existence of audit committees in public companies is only shown to meet regulations, this is because the formation of an audit committee is still determined through personal closeness built with the board of commissioners. Inversely proportional, the composition of independent commissioners has significantly contributed to the reduction in financial difficulties. This supports the assumptions developed by Emrinaldi (2007) and Hong-xia Lie et al., (2008) who together assume that the proportion of independent directors can negatively affect the value of future financial difficulties of public companies through the principle of independence that is implemented. However, overall regulations in the GCG system of companies in Indonesia have not been able to prevent the percentage of financial difficulties in the future.

The test results also support hypothesis 3 with the assumption that the quality of CSR disclosure has a significant negative effect on the company's financial difficulties. Disclosure and implementation of CSR activities can have an effect to minimize financial difficulties through the option to reduce the risk of misuse of company operational funds that can provide guarantees for increasing operational funds for sustainable financial performance for the company so that if the company experiences financial difficulties in the future, the guarantee of funds will remain distributed both so as to minimize the financial difficulties experienced by the company. These results provide support for the assumptions developed by Attig et al., (2013), who assume that CSR practices improve a sustainable company relationship with stakeholders by using more efficient operational resources and reducing costs associated with behavior, which is socially not responsible. The effect of this implementation is the existence of operational value that is increasing and continuing. In addition, the results of this study also support the assumptions developed by Kim et al., (2014) who assume that CSR can be a preventive option in minimizing the risk of financial difficulties due to collisions or falling stock prices.

Overall, it can be concluded that the internal regulations of companies in the corporate governance system in this case the formation of the proportion of the audit committee and independent commissioners still need to be updated to be able to work together to prevent and minimize the possibility of financial difficulties in the future and also the implementation or implementation of CSR either in terms of disclosure and implementation of social activities or CSR needs to be strengthened so that it can be used as a solution in preventing and minimizing financial difficulties in the future.

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Appendixes:

Appendix 1

Disclosure Variable	Definition
Relative quantity	RQT_{it} is relative quantity for company i in year t, $Disc_{it}$ is the number of items disclosed by company i in year t, and $Disc_{it}$ is the estimated level of company i disclosure in year t.
Density	Den is density index for company i in year$t_{1,}$ k_n is the total sentences on company i's report in year t_1 and CSR_a=1 if sentence j contains CSR information on company i in year t vice versa then CSR_a=0
Accuracy	Acc_i is *accuracy index* for company i in year t_1, n_1 is the number of sentences containing CSR information in company i report in year t_1 and CSR_a=0 otherwise and w=1 if sentence j on company report I jika kalimat j pada laporan perusahaan i di tahun t berbentuk kualitatif, w=2 jika kalimat j pada laporan perusahaan i di tahun t berbentuk kuantitatif, dan w=3 jika kalimat j pada laporan perusahaan i di tahun t berbentuk monetary.
Managerial Orientation	MAN_{it} adalah *managerial orientation index* untuk perusahaan i di tahun t, n_a adalah jumlah kalimat yang mengandung informasi CSR pada laporan perusahaan i in year t, OBJ_a=1 if the sentence on company report i contains CSR information in the form of mission and objectives, and OBJ_{it}=0 if in the form of results and output, and RES_{it}=0 otherwise
Quality	Combine of the four indices above.

Appendix 2

Content	*Sustainability Information*
Environmental Items	Materials
	Energy
	Water
	Biodiversity
	Emissions
	Effluents and Waste
	Products and Services
	Compliance
	Transport
	Overall
	Supplier Environmental Assessment
	Environmental Grievance Mechanisms
Social Items	Employment
	Labor/Management Relations
	Occupational Health and Safety

	Training and Education
	Diversity and Equal Opportunity
	Equal Remuneration for Women and Men
	Supplier Assessment for Labor Practices
	Labor Practices Grievance Mechanisms
Human Rights	Investment
	Non-discrimination
	Freedom of Association and Collective Bargaining
	Child Labor
	Forced or Compulsory Labor
	Security Practices
	Indigenous Rights
	Assessment
	Supplier Human Rights Assessment
	Human Rights Grievance Mechanisms
Society	Local Communities
	Anti-Corruption
	Public Policy
	Anti-competitive Behavior
	Compliance
	Supplier Assessment for Impacts on Society
	Grievance Mechanisms for Impacts on Society
Product Responsibility	Customer Health and Safety
	Product and Service Labeling
	Marketing Communications
	Customer Privacy
	Compliance

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