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The Effect of GCG, CSR, Earning Management on the Capital Costs

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Abstract
This study aims to examine the effect of corporate social performance, earing management, independent institutional ownership on the cost of debt. The population in this study is the consumer goods industry on the BEI. The data collection technique used purposive sampling and obtained a sample of 30 consumer goods industry companies listed on the BEI. The research results conclude that corporate social performance hasn't a significant effect on costs, earning management has a significant effect on debt costs, the independent board of commissioners has a significant effect on costs, institutional ownership hasn't effect on the cost of debt.

Keywords **:** *Corporate Social Responbility, Earning Management, The Independent Board of Commisioners, Institutional Ownership and Cost of Debt.*

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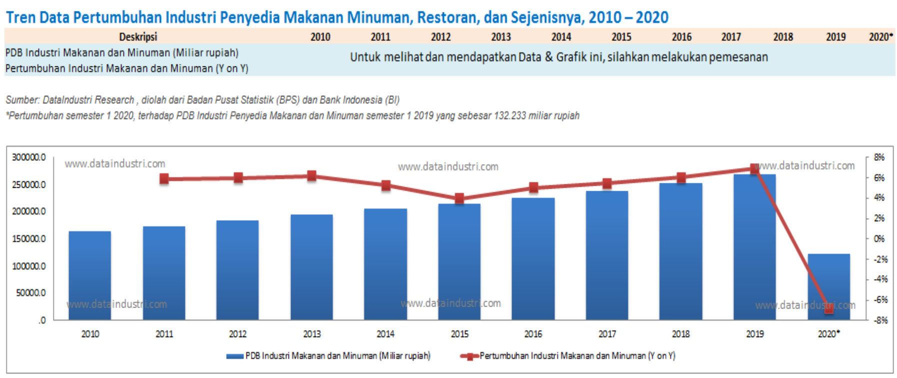
I. Introduction

Debt is an important source of financing to increase business capital which is used to cover required costs without having to drain operational costs in the investment company budget and maintain company cash flow. Debt is the company's obligation to other parties, among others, to suppliers or creditors that must be paid by the company (Murhadi, 2013). Debt based on a predetermined value in the transaction per economic second between the borrower and the lender which is measured based on the amount to be paid later, but also sometimes contains a value or amount that has discounted (Rohim, 2018).

However, if the company is not good at managing the cost of debt, the company will lead to potential bankruptcy. Several companies that went bankrupt, because they could not pay the cost of money, such as : PT Nyonya Meneer, which finally went bankrupt because it was unable to pay debts of 7.4 billion to financial institutions, The plaintiff (financial institution) filed a lawsuit because they were not satisfied with the debt payment process as stipulated in the agreement. PT Sariwangi agricultural Estate agency, which went bankrupt because it was unable to pay debts to financial institution. Financial problems PT Sariwangi agricultural Estate agency together with its affiliated company PT Indorub Plantation airline, Sumber Wadung, turned out to be entangled in debts of up to Rp.1.5 trillion to a number of creditors. There were 5 banks that submitted the Paiton bill, namely PT HSBC Indonesia, PT Bank ICBC Indonesia, PT Bank Rabobank International Indonesia,,PT Bank Panin Indonesia Tbk , and PT Bank Commonwealth.

The consumer goods industry borrows debt from financial institutions to increase people's purchasing power because according to the results of survey the consumer goods industry experienced a decline in the years before 2016, the consumer goods industry needs debt to increase consumer purchasing power. According to the results of the BI survey the industry experienced an increase in mid-2016 and entered its heyday in 2018 The third quarter proved that the consumer goods industry experienced an increase of 5%.



companies need to do business to be able to obtain relatively cheap debt costs. The business undertaken by the company and how to present financial reports in accordance with the number one objective of financial accounting standards, the purpose of presenting financial statements is to provide information related to the position, financial performance, and changes in company equity. Based on this information, there is monitoring the development of company performance. for creditors this information can be used to assess the company's future prospects. If the financial statements indicate good company performance, then the creditor's perception of the company is also good. Companies in influencing the perception of creditors use accounting management which is an accounting policy to reduce the cost of corporate debt so that it reflects a small risk to the company so that it can describe the company's good performance in the company's financial statements. It aims to describe the company's ability to meet its obligations so that creditors can use these conditions to appreciate positively through the interest rates charged. Conversely, if the company's performance is bad, creditors will also give appreciation, but that is given and a reason to cover the risk.

companies to cover the risk do various ways, one of which is by using CSR. Financial institutions show an interest in investing in companies with good CSR tactics as companies do become more concerned about non-financial aspects of company performance (Galema et al., 2008). CSR may be considered as a new determinant of the choice of investors and financial institutions, especially those who are willing to sacrifice for non-financial utilities, as highlighted by (Derwall et al., 2011). On the other hand, the explanation of corporate leverage is considered a central problem in corporate finance. Companies are required to conduct CSR to make the company more eco-efficient, which means the ability to produce goods to satisfy consumers at competitive costs, but also at the same time reducing the negative impact of the environment. However, the impact of CSR in non-financial terms, analyzes the importance of CSR to increase the credibility of the company so that it has the opportunity to obtain a relatively good interest rate.

Financial institutions before giving debt to companies, financial institutions will see the implementation of GCG within the company. GCG is very important to increase the credibility of a company so that it has the opportunity to get a relatively good interest rate from financial institutions. Companies need independent boards of commissioners and institutional ownership to increase the company's credibility. The independent board of commissioners holds a board of commissioners meeting as a form of the board of commissioners' concern for the company, the indicator used is the number of meetings held by the board of commissioners in one year. (Suhardjanto & Permatasari, 2010). The board of commissioners' meeting was held to discuss corporate governance and discuss the risks inherent in the company due to the high cost of corporate debt. The board of commissioners to prevent high debt costs gives a warning and warning in an independent board meeting. In addition to the independent board of commissioners, the company assigns institutional ownership to strict supervision of the performance and management of a company management. ((Cornett et al., 2013) in (Juniarti & Sentosa, 2009)) there is evidence that the supervisory actions taken by a company and institutional investors can limit management behavior. The company assigns the task to institutional ownership to oversee and prevent the cost of corporate debt from being too high so that forest risks can be minimized so that the company can increase the company's credibility.

II. Theory, Framework, and Hypothesis

2.1 Agency Theory

(Jensen, M., C. & Meckling, 1976) stated that the agency relationship is a contact between the manager (agent) and the owner or (principal). Agency relationship arises when one or more people (principal) employ another person (agent) to provide one service and then delegates decision-making authority to that agent. The two parties are united by a work agreement or contract to regulate the relationship, powers and responsibilities between them. According to (Rebecca & Yulisa., n.d.) the separation between the ownership and management functions of the company raises the possibility of agency problems that can lead to agency conflicts, namely conflicts that arise as a result of the management (agent) desire to take actions in accordance with their interests which can compromise the interests of shareholders (the principal).

2.2 Signalling Theory

According to (Brigham & Houston, 2013), a signal or signal is an action taken by a company to provide guidance to investors or financial institutions on how management views the company's prospects. This signal is in the form of information regarding what management has done to realize the owner's wishes. Signaling theory Explains why companies have the urge to provide financial statement information to external parties. The encouragement of companies to provide information is because there is information asymmetry between the company and outside parties because the company knows more about the company and its future prospects than outsiders (investors and creditors).

2.3 Legimitasi Theory

Legitimacy theory states that organizations are continuously looking for ways to ensure their operations are within the limits and norms prevailing in society. according to (Deegan, 2014), in the perspective of legitimacy theory a company will voluntarily report its activities if management considers that this is what the community expects. Legitimacy theory relies on the premise that a "social contract" is between a company and the community in which it operates. The social contract is a way of explaining a large number of societal expectations about how the organization should carry out its operations. These social expectations are not fixed, but change over time. This requires companies to be responsive to the environment in which they operate (Deegan, 2014). (Dowling & Pfeffer, 1975) provide a very useful explanation of organizational legitimacy :

> "*Organisations seek to establish congruence between the social value associated with orimplied by their activities and the norms of acceptable behavior in the larger social system of whitch they are a part, in so far as these two value system are congruent, we can speak of organisational legitimacy. When an actual of potential disparity exists between the value systems, there will be a threat to organisational legitimacy."*

(Shocker & Sethi, 1974)provide periodically quoted explanations of the concept of social agreement :

> " *Any sosial institution and business with mo expection operates in society via a social contract, expressed or implied, where by its survival and growth are based on the delivery of some social desirable ends to society in general ; and the distributiom of economic, social, or political of groups from whitch it derivers its power".*

2.4 The influence of corporate social responbility on the cost of debt

(Spicer, 1978) indicates that institutional investors perceive companies with CSR as a riskier investment. This risk arises, among other things, from the possibility of being subject to costly sanctions due to regulatory legislative action, and adverse judicial decisions that can affect consumer perceptions of the distribution of future costs and revenues. (Spicer, 1978) notes that, in terms of financial theory, investing in socially irresponsible companies can be inefficient. By choosing a similar but socially responsible company, investors may achieve the same returns with less risk. investors are assumed to consider risk and return. in this case, investing in companies with high social responsibility can reduce the risk (Story & Price, 2006).

OJK and the government in reducing the impact of environmental damage and high social responsibility, OJK and the Government make new regulations for companies. OJK and the government in collaboration with financial institutions will blacklist companies that don't conduct CSP and damage the environment. Companies are required to carry out CSR to increase the company's credibility so that they have the opportunity to earn a relatively good interest rate. This is in accordance with (Magnanell & Izzo, 2017) previous research, the results show a positive relationship between CSP and the cost of debt, indicating that CSR is not a decline in value that has an impact on the company's risk profile. (Suto & Takehara, 2017) CSP is considered by debtors as not reducing information for the observed period. The relationship between CSP and Bang dependence increases the cost of debt. (Gong et al., 2016) the relationship between the quality of CSR disclosure and the cost of corporate bonds in Chinese companies and high quality of CSR disclosure is associated with lower corporate bond costs.

H1 : Corporate Social performance has a significant effect on the cost of debt

2.5 The effect of earning management on the cost of debt

Companies in influencing the perception of creditors use management tools which are accounting policies to reduce the cost of corporate debt, the goal is to give a signal to creditors if they try to think small about the company so that they can develop good company performance in the company's financial statements.. It aims to describe the company's ability to meet its obligations, so that creditors can use these conditions to appreciate positively through the interest rates charged. Conversely, if the company's performance is poor, creditors will also give appreciation, but the appreciation is negative, as reflected by an increase in loan interest rates on the grounds of covering risks. (Kieso et al., 2018) defines earning management *:*

> *"It is often defined as the planning timing of revenues, expenses, gains, amd losses to smooth out bumps in earnings. In most cases, companies use earnings management to increse income in the current year at the expensof income in future years."*

(Breton & Stolowy, 2000) explain that manipulation will be carried out solely based on management's desire to influence investors' perceptions of corporate risk. These risks can be broken down into two components, namely: (1) risk associated with variations in return, as measured by earnings per share: and (2) risk associated with the company's financial structure, as measured by a debt equity ratio. According to (Scott, 2015) defines earning management

"*Earnings management is the choice by a manager of according policies, or real actions, affecting earnings so as the achieve some spesific reported earnings objective.*"

This study is in accordance with (Safiq et al., 2018) that company performance has a negative effect on cost of debt and secondly, earnings management moderates (facilitates) the relationship between company performance and cosg of debt. (Rieke, 2018) earning management has a significant effect on debt costs.

H2: Earning Management has a significant effect on the cost of debt

2.6 Good Corporate Gorevernance

Good Corporate Governance or abbreviated as GCG, are the principles that underlie a company's processes and mechanisms based on laws and regulations and business ethics. The application of the principles of good corporate governance can improve company performance and long-term economic value for investors, creditors and stakeholders. Examples of GCG implementation are internal control and supervision systems, reporting mechanisms for suspected irregularities, information technology governance, ethical code of conduct, debt cost governance, and etc. GCG principles are very important in managing the company, therefore to oversee that GCG principles have been implemented properly requires a board of commissioners and institutional ownership to control the company.

2.6.1 The influence of the independent board of commissioners on the cost of debt

According to the general guidelines of Good Corporate Governance Indonesia(Komite Nasional Kebijakan Governance (KNKG), 2006) board of commissioners is a corporate organization that has the duty and responsibility to collectively supervise and provide advice to the board of directors. In addition, the independent board of commissioners serves as a balancing force. The position of each member of the board of commissioners is equivalent to that of the main commissioner. The independent board of commissioners who attend meetings as much as 100% a year indicates that the company's independent board of commissioners is active in overseeing the company's performance and in improving corporate governance and increasing supervision on the cost of debt. Board of commissioners 'meetings as a form of the board of commissioners' concern for the company, the indicator used is the number of meetings held by the board of commissioners in one year. (Suhardjanto & Permatasari, 2010) The independent board of commissioners will give a strong warning and warning to the board of directors and directors at a meeting of the independent board of commissioners, if the cost of debt has exceeded the limit set by the company. The board of commissioners does this so that the company can reduce the risk of financial distress due to the high cost of debt, the goal is to increase the credibility of the company so that it has the opportunity to get a relatively good interest rate from financial institutions. This study is in accordance with (Dewi & Hestina, 2018) that independent commissioners do not have a significant effect on debt costs. (Dwi & Wahyu, 2014) independent commissioners have a significant positive effect on debt costs.

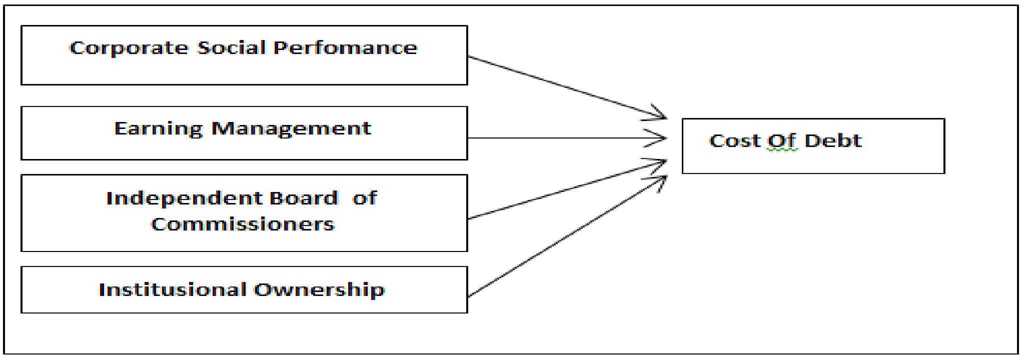
H3: The Independent Board of Commissioners has a significant effect on the cost of debt

2.6.2 The Effect of Institutional Ownership on the cost of debt

IFRS or (International Accounting Standards Board, 2008), defines owners to include equity interests in entities owned by investors as well as owners or participants in joint entities. Institutional ownership is managerial ownership whose task is to increase supervision of corporate governance including the cost of corporate debt, the company does this to ensure that the cost of the company's debt does not exceed the limit set by the company. The purpose of the company is to do this so that the company remains stable and can optimize company performance so as to increase the company's credibility so that it has the opportunity to obtain relatively good interest rates from financial institutions. This research is in accordance with previous research conducted by (Zulkufly Ramly, 2013) which shows that high quality corporate governance and concentrated ownership reduce the cost of corporate debt. Debt issuers consider board structure and procedures, board compensation practices, accountability and auditing, transparency and social and environmental activities as integral components of a good corporate governance framework. (Dwi & Wahyu, 2014) institutional ownership does not significantly affect the cost of debt. Overall it can be concluded from these results that good corporate governance affects the cost of debt.

H4: Institutional Ownership has a significant effect on the cost of debt

The following is an overview of the frame of mind used in examining the debt cost phenomenon:



III. Research Design and Methods

3.1 Type of research

This research uses a type of causal research (cause-effect), namely by testing the independent variable Corporate Social Performance (X1), Earning Management (X2), Independent Board of Commissioners (X3), Institutional Ownership (X4) affects the cost of debt (Y) as dependent variable. The population in this study were all consumer goods sector companies listed on the Indonesia Stock Exchange (ISE). The sample selection used purposive sampling which resulted in a sample of 30 companies in the consumer goods sector from 2016 until 2018. The research data source used secondary data obtained from the annual report on the Indonesia Stock Exchange (BEI).

3.2 Operational Definitions of Variables and their Measurements

The operational definition of a variable is by testing whether one variable causes the other variable to change or not. This study uses 5 variables :

1. Corporate Social Responbility (X1)

According to (Guthrie et al., 2004), the best tool for measuring the development of CSR reporting at this time is by using content analysis. CSR measurements use content analysis (Abdul, 2009)) by means of the annual report being analyzed by calculating the volume of disclosure of 33 aspects of the sustainability report in the company's financial statements, but graphical diagrams or pictures cannot be used in content analysis because they have a high level of subjectivity (Ahmad & Sulaiman, 2004). This measurement uses the following criteria:

a. If there is a sustainability report in the financial report, it will be given a value of 1
b. If there is no sustainability report in the financial report, it will be given a value of 0

$$CSR = \frac{\text{Total sustainabily report disclosure}}{\text{33 Aspek sustainbility report}} x100\%$$

2 Earning Management (X2)

Earning Management is an accounting policy by managers or actions that affect company profits. Measurement of discretionary accruals as a proxy for earnings management using the Jones model (1991) which was modified by Dechow and friends. (1995) or commonly known as the modified Jones model. This model is used because it is considered to be the best model in detecting earnings management.

Dat = (Tat/At-1)-NDAt

Information :

TAt =*Total accruals* in year t
At-1 = *Total Activa* in year t-1
NDAt = *Non Discretionary Accrual* in year t
Dat = *Discretionary Accrual in year*

3 Independent Board of Commissioners (X3)

The independent board of commissioners is the supervisory board that oversees the management of the company according to the principles of GCG. The independent board of commissioners who attends meetings as much as 100% in a year indicates that the company's independent board of commissioners is active in supervising company performance and in increasing company value. Commissioners' meetings are measured by counting the number of meetings held by the board of commissioners in one year (Pradesta & Endang, 2013).

JRDK : the number of board of commissioners meetings in one year X attendance percentage

4 Institutional Ownership (X4)

Institutional ownership encourages a more optimal supervision of the company's management performance, so that the potential for financial distress can be minimized because larger company and institutional ownership increase the ability to monitor management. measuring institutional ownership will use a percentage of the proportion of institutional ownership in the company's share ownership structure to measure the level of control of the company using the following formula (Juniarti & Sentosa, 2009):

$$\frac{\text{(Institutional ownership in stock)}}{\text{Total of Share}} \text{ x } 100\%$$

5 Cost of Debt (Y)

In order to maintain and develop its business, the company also needs external funding sources from creditors in the form of debt. Debt is an alternative for companies to develop businesses and products that will be created or increase the company's production. Companies that owe to creditors must also think about the interest that the company must return to creditors until the debt is repaid. This rate of return will be the cost of debt for the company (Marcelliana & Purwaningsih, 2014). Systematically the cost of debt can be formulated as follows:

$$COD = \frac{Total\ Interest\ Cost\ Incurred}{total\ debt}\ x\ 100\%$$

IV. Research Results and Discussion

4.1 Descriptive Research

The results of the analysis of each research variable are: Corporate Social Performance (X1), Earning Management (X2), Independent Board of Commissioners (X3), Institutional Ownership (X4), cost of debt (Y).

Variabel	N	Minimum	Maximum	Mean	Std. Deviatition
Corporate Social Perfomance (X1)	90	,576	1,000	,66498	,05981
Earning Management (X2)	90	-,087	,124	,00118	,105304
Independent Board of Commissioners (X3)	90	,007	,217	,07940	,042887
Ownership Structure (X4)	90	,213	,986	,72673	,200201
Cost of Debt (Y)	90	,002	,359	,03771	,044118
Valid N (listwise)	90				

The result indicates that the company carries out Corporate Social Performance to influence the cost of corporate debt. The earning management variable shows an average of 0.00, which means that the average consumer goods sector company does not manage the cost of debt. The independent board of commissioners variable shows an average of 7.9%, this shows the concern of the independent board of commissioners in the annual meeting on the large and small value of the cost of debt. Institutional ownership variable shows an average of 72.6 7% this shows institutional ownership oversees the high and low cost of corporate debt. The variable cost of debt shows an average of 3.7%, indicating that the average level of debt costs in the consumer goods industry is very low.

4.2 Regression Test

Analysis of the moderator and mediator variables basically shows how far the independent variable affects the dependent variable.

Model	Unstandardized coefficient		Standardized coefficient	t	Sig.
	B	Std. Error	Beta		
Constant	-,669	,285		-2,344	,021
CSP (X1)	-,310	,218	-,129	-1,422	,159
Earning Management (X2)	,980	,172	,518	5,700	,000
Independent Board of Commissioners (X3)	,211	,092	,204	2,297	,024
Institusional Ownership (X4)	,002	,058	,002	,028	,978

The results of the Corporate Social performance research report on the cost of debt show an output of 0.159 greater than 5% which indicates the hypothesis is rejected, there is no significant influence between the independent variable Corporate Social performance (X1) on the dependent variable on the cost of debt (Y). This proves that the company carries out a Corporate Social performance only to comply with regulations made by the OJK and the government as a requirement for borrowing debts from creditors. Corporate Social performance carried out by companies cannot determine the creditors' decision to provide debt loans to the company and cannot determine the interest rate given by creditors. According to the research results, CSP does not play an important role in the cost of debt, this proves that Corporate Social performance has no effect on the cost of corporate debt, the results of this study are not in line with previous studies due to differences in regulations in various countries and the research methods adopted. (Magnanell & Izzo, 2017) state a positive relationship between Corporate Social performance and debt costs. Megumi and Hitoshi (2017), the relationship between corporate social performance and bank dependence increases the cost of debt. (Gong et al., 2016) the relationship between the quality of CSR disclosure and the cost of corporate bonds in Chinese companies and high quality of CSR disclosure is associated with lower corporate bond costs.

The results of the earnings management report on the cost of debt show an output of 0,000 less than 5% which indicates that the hypothesis is accepted, that there is a significant influence between the independent variable Earning Management (X2) on the dependent variable Cost of Debt (Y). This proves that the company uses earning management to reduce the cost of corporate debt with the aim of giving a signal to creditors that the company has a small risk so that it describes the company's good performance in the financial statements. companies that have good company performance will be given low interest rates and companies whose company performance is not good will be given high interest rates to cover risks, Because the company is not performing well. The results of this study are the same as previous research by (Rieke, 2018) which states that accrual earnings management has a significant effect on debt costs.

The results of the research report by the independent board of commissioners on the cost of debt showed an output of 0.074 which was smaller than 5% which indicated that the hypothesis was accepted, that there is a significant influence between the independent variable of the Independent Board of Commissioners (X3) on the dependent variable Cost of Debt (Y).This shows the concern of the independent board of commissioners, which can be seen from their attendance at the annual meeting of the independent board of commissioners to discuss ways to improve oversight of corporate governance and how to increase supervision on the cost of corporate debt. The independent board of commissioners will give a warning and warning to the board of directors and directors at the meeting of the independent board of commissioners, if the cost of company debt exceeds the limit set by the company. The goal is that the company remains healthy so that the company can increase the company's credibility so that it has the opportunity to get a relatively good interest rate. This research proves that the board of commissioners cannot directly control the cost of company debt. This result is in accordance with (Dwi & Wahyu, 2014) that the independent board of commissioners is significantly positive with debt costs.

The results of the research report on institutional ownership on the cost of debt show an input of 0.978 which is greater than 5% which indicates that the hypothesis is accepted, that there is no significant influence between the independent variable Institutional Ownership (X4) on the dependent variable Cost of Debt (Y). The results of the institutional ownership test do not have a significant effect on the cost of debt. Institutional ownership contained in the company is an external party who has the task of overseeing corporate governance and performance, the goal is for the company to provide feedback on institutional ownership. But institutional ownership has no effect on the interest rate that financial institutions will pay and on the size or size of the company's debt costs. The results of this study are the same as previous research by (Dewi & Hestina, 2018) that managerial ownership has a significant positive effect on debt costs. (Dwi & Wahyu, 2014) institutional ownership does not significantly affect the cost of debt.

V. Conclusion

The conclusion from the research and hypothesis testing that has been done is that corporate social performance does not have a significant direct effect on the cost of corporate debt. This shows that Corporate Social performance is only used as a non-financial terms and conditions for borrowing debt from financial institutions. Earning management has a significant effect on the cost of debt. The company performs earning management to increase the company's credibility so that the company has the opportunity to get a good interest rate. Independent board meeting has a significant effect on the cost of debt. The independent board of commissioners has no direct influence on the size or size of the cost of debt to the company, but the independent board of commissioners can give a warning or warning at a meeting of the independent board of commissioners if the cost of debt is too high. The goal is that the cost of company debt is still at the stage determined by the company so that the company remains healthy. Institutional ownership does not have a significant effect on the cost of debt. Institutional ownership in the company is an external party whose job is to oversee the governance and performance of the company, but institutional ownership has no effect on the amount of the debt cost of a company.

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