CHAPTER I

INTRODUCTION

1.1 Background

Good corporate governance reduces the occurrence of unethical actions that harm the company. Good corporate governance is needed because it helps build shareholder trust and ensures that all stakeholders receive equal treatment (Mahrani & Soewarno, 2018). Law Number 40 of 2007 concerning public companies explicitly regulates corporate governance. In addition, other regulations issued by the Financial Services Authority (OJK) through the Financial Services Authority Regulation (POJK) Number 21 / POJK.04 / 2015), regulate the implementation of public company guidelines which aim to improve corporate governance and corporate reputation.

The company's reputation describes the company's past performance and future prospects, especially when compared to other competitors. According to Kotha et al., (2001) corporate reputation can be a mechanism that reduces uncertainty for future customers. In addition, according to Leiva & Ferrero, n.d. (2014) the company's reputation is formed from financial health, management quality, and Corporate Social Responsibility (CSR) activities carried out by the company. In addition, Walker (2010) states that a good corporate reputation provides good benefits for the company. A good corporate reputation can reduce company costs, allow companies to provide premium prices, attract investors and customers, increase profitability and increase the company's competitive advantage. Thus, corporate reputation can be described as a potential competitive advantage because a good corporate reputation encourages stakeholders to take actions that have an impact on the company's financial condition and future market value.

Some of the following studies examine the effect of corporate governance structure on corporate reputation, for example, the results of the Ghuslan et al. study (2021) found that corporate governance has a positive effect on corporate reputation. Meanwhile, Jao et al. (2022) found that governance structure has no effect on corporate reputation. On the other hand, the study results show that the perceptions of the board of commissioners, the board of directors show constitional ownership of the company's reputation and a study conducted by Husnaini et al. (2018) shows that CSR has a negative effect on corporate reputation. The results of this study do not support the signal theory which states that the information released by the company, namely CSR activities, does not provide a positive signal but provides a negative signal for stakeholders, causing the company's reputation to decline. The non-uniform findings indicate that the effect of governance structure on corporate reputation is inconsistent. This inconsistency is suspected because there are other variables that mediate the relationship. A good governance structure will increase corporate disclosure and positive disclosure affects corporate reputation. Therefore, the CSR disclosure variable is a variable that mediates the influence of governance structure on good corporate reputation and encourages stakeholders to improve the company's financial condition and market value.

In addition to disclosing financial information, companies also disclose non-financial information such as corporate social responsibility CSR and CSR activities. CSR disclosure itself is regulated by Law Number 40 of 2007, in addition OJK issued Financial Services Authority Regulation (POJK) Number 21/POJK.04/2015), regarding public company websites. The regulation regulates the obligation of companies to disclose CSR activities on the website, this means that companies can use other sources to disclose their CSR.

In line with the research results of Gunawan & Tin, (2019) which states that 80% of CSR research in Indonesia uses secondary data sources such as GRI (Global Reporting Initiative) annual reports or other sources, meaning that 20% of CSR information sources have not been explored. In this study, the company's CSR disclosure comes from the company's website, the underlying argument is that the website can be an innovative medium for communication (Bagnoli et al., 2014) and the results of previous studies that examine the use of websites as a source of CSR information include (Kaur & Singh, 2018), (Axjonow et al., 2018).

In this study, the theories used to explain the influence of governance structure on corporate reputation mediated by the extent of CSR website disclosure are stakeholder theory and legitimacy theory. Carroll (2004) says that there is a relationship between CSR and stakeholders. This means that stakeholders determine how companies can build their CSR performance, stakeholder theory implies that companies operate not only for the benefit of the company alone, but also for the benefit of these stakeholders or profit-oriented alone, but companies must also provide benefits to stakeholders (Lindawati et al., 2015). Meanwhile, Legitimacy theory implies that companies need to maintain life which is achieved through company actions that are in line with the rules and can be widely accepted by society (O'Donovan, 2002).

This study aims to prove empirical evidence of the mediating effect of extensive CSR website disclosure on the influence of governance structure on corporate reputation. This is based on the results of previous research that examines the influence of governance structure on corporate reputation that has not been consistent, this inconsistency is suspected because there are other variables that mediate the relationship in this case the broad variable of CSR disclosure as moderation.

1.2 Problem Formulation

Based on the background of the problems described above, the problem formulations in this study are:

1. Does the governance structure affect the company's reputation?
2. Does governance structure affect the extent of CSR website disclosure?
3. Does the extent of CSR website disclosure affect corporate reputation?
4. Does the extent of CSR website disclosure mediate the effect of governance structure on corporate reputation?

1.3 Research Objectives

Based on the findings described above, the purpose of this study is to provide empirical evidence of the mediating role of CSR website disclosure on the influence of governance structure on corporate reputation. Therefore, the objectives to be achieved in this study are:

1. Proving empirically that governance structure affects corporate reputation.
2. Empirically prove that governance structure affects CSR website disclosure.
3. Proving empirically that CSR website disclosure affects company reputation.
4. Proving empirically that CSR website disclosure can mediate the effect of governance structure on corporate reputation.

1.4 Research Benefit

The results of this study provide input for the development and improvement of corporate governance structures in Indonesia. with this research, the authors hope to provide the following benefits:

1. The results of this study are expected to provide benefits for policy-making authorities in preparing standards related to information transparency because good corporate governance will increase investor confidence and attract investment.

2. The results of this study are expected to provide benefits for the development of science, becoming a foothold for future researchers to develop research models by considering other variables that mediate the influence of governance structure on corporate reputation.

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