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Determinants of corporate social responsibility disclosure in Indonesian manufacturing companies

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Abstract

Financial report information users needed complete and disclosed information. One of the pieces of information was Corporate Social Responsibility (CSR) activity disclosure. The objective of the research was to find the influence of company size, leverage, profitability, the size of the commissioner board, and shareholdings towards the CSR disclosure. Manufacturing companies' populations in sectors 1, 2, and 3 were recorded in the Indonesian Stock Exchange. The research sample which used in this research was manufacturing companies in the sector of cement, ceramics, porcelain, and glass, also metal and it is kind with the period year from 2014 until 2018. The research sample was chosen using the purposive sampling method. Hypothetical measurement was analyzed by using the multiple regression method. From the research result, it was proven that profitability had a positive effect on CSR disclosure, and leverage had a negative effect, while variable of company size, the commissioner board size, and shareholdings did not influence the CSR disclosure.

Introduction

Economy advancement in Indonesia developed as time goes by. One by one, new companies were emerging with many innovations and creative ideas which suitable and relevant to the advanced technology. Competition in gaining higher profit was getting fiercer and competitive. However, the company could not be separated from society as the external environment. There was a mutual relationship between the company and society. Company and society were two entities that give and need each other.

In general, Corporate Social Responsibility (CSR) is seen as an ongoing commitment in the business world to be responsible economically, socially, and ecologically to prevent negative impacts that may occur and to improve the quality of communities and the environment as company's stakeholders (Lako, 2011). CSR leads to a close attachment to the environment, so that its responsibility for the environment is better, such as pollution control, reforestation programs, conservation of natural resources, and other environmental programs (Najamuddin, Haryanto, & Hamdani, 2019).

Operation activity in manufacturing companies brought an impact on the environment, especially in the production activity. The impact could either be positive or negative. One of the positive impacts of production activity was the society's needs fulfillment, while the negative impact was environmental pollution as the effect of the company's wastes. These wastes could create air pollution caused by CO2 and smoke from the factories which could cause acid rain. Water pollution, if the industrial waste is dumped into the sea, river, or lake, it would poison many water ecosystems that lead to death, moreover if the area is also used for people's activities. for example, Giyem, a farmer, had irritated skin from washing her feet in the Gupit river after working in the field. Turns out, a textile factory's waste pipe has leaked. Other than impact to the environment, a human would get the impact as well regarding soil pollution, which destroyed the soil quality because of the chemical and non-chemical wastes that were difficult to be recycled, which eventually affect the human's life.

The positive impact of production activity was of course welcomed. However, society was not quite thrilled with the negative effect caused by the company. There would be inconvenience and sympathy towards the problem. From the problem, it created social demand as a responsible action from the company towards related parties. From an economic perspective, the company should be focus to gain maximum profit but from the social perspective, the company should have a direct contribution to society. The company is not only facing responsibility to gain profit but also has the responsibility to its social environment. Octavia and Hermi (2014) revealed that nowadays the company is increasingly aware that the Company's survival also depends on the Company's relationship with the community and the environment where the Company operates.

Society's awareness regarding the role of the corporation in the social environment has increased. It is proven by many people follow or do a campaign about awareness of preserve the environment and there were many petitions about nature. Society needed information about how far the company has conducted its social activities to make sure that the society's rights were fulfilled.

One of the company's responsibilities towards the boards was social responsibility. By doing CSR, the company has conducted its activities continuously and did not malign the interest of the stakeholder. It would also become an investment for the company because CSR could increase the value of the company for the stakeholders.

CSR is important because it is the ethics in conducting business activities and it is also stated in the regulation. In the Constitution No. 40 in 2007, about Limited Corporation, Article 1 verse 1 stated, "Social and environmental responsibility is a company committed to participate in advance economic development to increase better life and environment quality, for the company, the related community, and the society. This Constitution (UUPT) had a specific article that discussed social and environmental responsibility, which is Article 47 verse 1, stated, "Corporation which runs in natural resource field is compulsory to conduct social and environmental responsibility."

Other than Constitution, CSR is also regulated under Government regulation No. 47 regarding the social and environmental responsibility of the limited corporation. Article 4 PP 47/2012, stated that CSR is conducted by Directors based on annual work plan corporation after receiving approval from Commissioner Board or Stakeholder Assembly according to corporation association article. The company's annual work plan consisted of an activity plan and budget needed for CSR implementation.

Research about CSR had been conducted by Indraswari and Astika (2014), the result proved that profitability and the company size had a positive impact on CSR disclosure, while public stakeholders had a negative impact. Another research also had been conducted by Nur and Priantinah (2012) with the research result that ROA, public stakeholders, media disclosure had no impact on CSR disclosure, while the boards of commissioners and leverage had a negative impact on CSR disclosure. Other research was conducted by Wijaya (2012) had resulted that the size of the commissioner board, leverage, profitability, and working environment has no negative impact on the CSR disclosure, while the size of the company had a positive influence. Based on the research result, it showed inconsistency. This factor triggered the researcher to conduct further research by using variables of company size, leverage, profitability, size of commissioner board, and stakeholders to find out their impact on CSR. This research aims to determine the factors that influence CSR disclosure, such as company size, leverage, profitability, the commissioner board size, and shareholdings.

Literature Review

Disclosure

Disclosure is an English word, which means uncovering, opening, revealing, or telling a secret. From the meaning, it showed clearly that disclosure was aimed to reveal important information to other people, without any intention to cover it. If it is related to the financial report, disclosure meant the financial report had to give sufficient information and explanation regarding the unit's activity result. Therefore, that information must be complete, clear, and could systematically describe the economic events which influencing the unit operation result. The information revealed had to be useful and was not confusing for the financial report users in helping economics decision-making. How much information must be revealed was not only based on the reader's capability but also based on the required standard (Ghozali & Chariri, 2007).

As had been explained above about disclosure, information being published by the company must be clear and transparent, so it would not be confusing for the financial report users. Information revealed must not be too little, or too much. The disclosure was given a certain standard or limitation so all companies could give the same amount of it. The decision of which to be disclosed must be based on the objective of the financial report. If the financial report is emphasized on the investors, then one of the objectives is sufficient information so that it can be compared with the results which were expected by the investors.

There are two types of disclosure, mandatory and voluntary. Mandatory is a compulsory information disclosure which must be conducted by the company based on regulation or certain standard, while voluntary is an information disclosure which exceeds the minimum requirements from the regulation.

Stakeholder Theory

Stakeholder theory explained that a company is not only an entity that runs for self-interest, but it must also give benefits to its stakeholders. Then it can be said that the existence of a company was heavily influenced by the support given by the stakeholders (Ghozali & Chariri, 2007).

Stakeholder definition is the interested parties in the company who can influence the company's activity. In his book, Suwardjono (2014) stated that stakeholders were all participants who responsible for all activity aspects in the enterprise, so they were called stakeholders who consist of a manager, employee, shareholder, creditor, customer, government, and the society. While the company is functions as the binder or activity center.

Stakeholders and the company had an influential relationship, so changes from one party can trigger changes from the other party. Stakeholder consists of many different groups, which can be categorized into many types: internal stakeholder and external stakeholder; primary, secondary, and marginal stakeholder; traditional stakeholder and future stakeholder; proponent, opponent, and uncommitted stakeholder; and silent majority and vocal minority (passive and active)

Legitimacy Theory

Legitimacy theory had a close relation with stakeholder theory. Generally, legitimacy theory stated that a company would always find a method to guarantee the operation activities which were conducted would have boundaries dan be based on social norms in the society. In the perspective of legitimacy theory, a company would voluntarily report its activities if the management felt that it was the community's expectation (Deegan, 2000).

Legitimacy theory depended on assumption that there was a social contract between a company and the society, in which the company runs. The social contract is a method to explain society's expectations about how the organization is conducting its operation. Society's expectations would change over time. It made the company responsive towards the environment where they operate. An important issue that supports the need to generate business reviews in corporate management reports is whether or not the review provides legitimacy for organizational activities (Williamson & Lynch-Wood, 2008). In legitimacy theory, corporate social responsibility is one way to gain legitimacy from all stakeholders, the higher the level of disclosure of a company's corporate social responsibility, the higher the company's reputation in the eyes of the community (Faradisty et al., 2019).

Based on the study about stakeholder theory and legitimacy theory, it can be concluded that both theories have different emphases regarding parties who can influence the coverage of the information disclosure in the company's financial report. Stakeholder theory was more concerned about the stakeholder's position who is considered powerful. This stakeholder group became the main concern for the company whether to disclose or not the information in the financial report. While legitimacy theory placed perception and public confession as a main concern in disclosing information in the financial report.

Corporate Social Responsibility

The responsibility concept is how the company gave attention to its environment, towards the effect arise because of company operational activities. CSR is a concept of an organization, especially a company which has a responsibility towards community, consumers, employee, shareholder, and environment in various aspects of company operation such as problems affecting the environment in terms of waste, pollution, product safety, and worker. CSR is not only a concept that gives financial aid to the social environment, but also how the corporate treats the employee without discrimination, maintains a good relationship with suppliers, etc.

CSR based on ISO 26000 is a company responsibility or effect of decision and activity towards the society and environment through transparent and ethical behavior which contributed to continuous development, health, and society's prosperity, considering the expectation of stakeholders which by the Law and consistent with international norms, and also integrated to all organization and practiced the relationship.

According to Kotler and Lee (2005), CSR is mentioned as discretionary, which meant that something must be conducted. If it is not being conducted, it can be a boomerang. However, this regulation is not compulsory (but at the moment, in Indonesia is compulsory based on Corporate Law). According to World Business Council for Sustainable Development, CSR is not merely discretionary, but a commitment that becomes a need for good company as life quality remedy (Rachman et al., 2011).

Effect of Company Size towards CSR Disclosure

Larger companies conduct more activities, so it has a bigger influence on society. Legitimacy theory explains the relationship between the company and the surrounding social communities where the company operates. The bigger the size of the company, the bigger its operational activities, so that the operational activities are expected to have a greater impact on the lives of the surrounding communities. The communities must be assured that the company carries out its operational activities by social norms by disclosing their CSR activities, so the company will gain legitimacy from the surrounding communities.

Larger companies also had more shareholders who have attention towards the social programs conducted by the company dan financial report is one of the efficient methods to share this information. Research being conducted by Novrizal and Fitri (2016), Wijaya (2012), Indraswari and Astika (2014) and Nur and Priantinah (2012) stated that the company size gave a positive effect on CSR disclosure, while research by Rahayu and Cahyati (2014), a state in their result that company size did not affect the CSR disclosure. Therefore, based on those researches, the hypothesis of this research is:

H1: Company size positively influences CSR disclosure

Effect of Leverage towards CSR Disclosure

By agency theory, company management, which has a high leverage level, will decrease its social responsibility disclosure so it will not become attention for the debtor. Research result from Nur and Priantinah (2012) stated that leverage which proxied with debt-equity ratio (DER) gave a negative effect on CSR disclosure, because the higher the leverage level is, the more reluctant the company to disclose the CSR. Research by (Putri & Christiawan, 2014) stated that leverage did not give any effect on CSR disclosure, similar to Suaryana and Febriana (2012), Wijaya (2012), and Rahayu and Cahyati (2014). Therefore, based on those research, the hypothesis of this research is:
H2: Leverage negative influences CSR disclosure

Effect of Profitability towards CSR Disclosure

If the profitability of a company is high, then the coverage for social responsibility disclosure would be wider. The company tried to show evidence that the profit received is followed by activities that can change the environment and society better. Companies with high profits have sufficient funds to carry out CSR activities for the communities. Those companies have the opportunity to disclose CSR activities that have been carried out, so they can obtain social legitimacy from the communities. The legitimacy theory states that companies must be able to convince the communities with their social activities through CSR activities to gain trust from the communities.

This can attract more investors and debtors to invest in the related company. Research by Indraswari and Astika (2014) had a result that profitability gave a positive effect on CSR disclosure. Therefore, based on those researches, the hypothesis of this research is:
H3: Profitability positively influences CSR disclosure

Effect of Commissioner Board Size towards CSR Disclosure

The Commissioner board is the representative of shareholders in the company. Commissioner can give strong influence to suppress the management to disclose social responsibility. The company which has a bigger commissioner board will disclose social responsibility more. Based on Rahayu and Cahyati (2014) research results, they stated that commissioner board size gave a positive effect on CSR disclosure. Therefore, based on those researches, the hypothesis of this research is:
H4: Commissioner Board Size positively influences CSR disclosure

Effect of Shareholdings towards CSR disclosure

The more public shareholdings, the more information which will be disclosed in the annual report of the company, because investors want to receive more information about the company in which they invested and can supervise the management's activities. Nur and Priantinah (2012) in their research stated that public shareholdings did not give an effect on CSR disclosure. However, the research of Indraswari and Astika (2014) stated that the variable gave a negative effect on CSR disclosure. Nevertheless, researchers predicted that public shareholdings would give a positive effect on CSR disclosure because there would be supervision by the society, so the company must give full disclosure in presenting the financial report, including obligation to disclose CSR to the public, as the main investors who invested in the company. Therefore, based on those researches, the hypothesis of this research is:
H5: Shareholdings positively influences CSR disclosure

Based on the literature review that has been carried out, a research model can be built as shown in Figure 1.

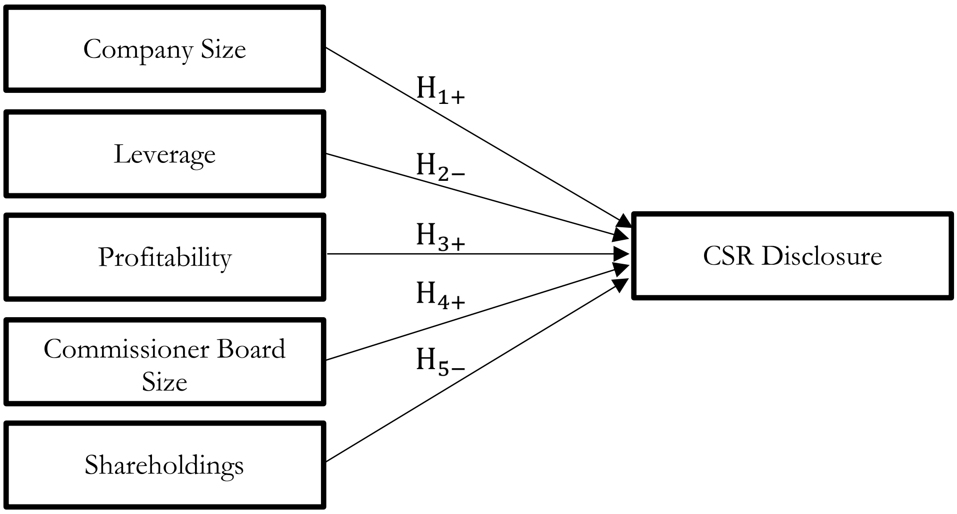

Figure 1. Research Model

Research Method

Population and Sample

Population in this research was manufacturing companies in sectors 1, 2, and 3, which listed in Indonesian Stock Exchange, which published annual report from period 2014-2018. The sampling was conducted with purposive sampling method, with criteria as follow:
1. Manufacturing companies listed on the Indonesian Stock Exchange from period 2014-2018.
2. Companies which published Annual Report every year in period 2014-2018.
3. Companies that use Rupiah as Currency in their financial report.
4. Companies get positive profit for comprehensive profit in period 2014-2018.
5. The financial Report published contained variable elements in the research being conducted.

Variable and Research Variable Measurement

CSR disclosure standard which is used in this research referred to as GRI G4. In calculating company social responsibility disclosure, it is used CSR Area Disclosure Index (CSRI), (Rahayu & Cahyati, 2014).

$$\text{CSRI} = \frac{M}{V}$$

Note:
CSRI : Corporate Social Responsibility Index
M : Amount of item being disclosed by the company
V : Amount of item by GR1 G4

Company size was measured with asset total natural logarithm. Company size was formulated as follows, like the one used by Rahayu and Cahyati (2014).

$$\text{SIZE} = log(Total\ Asset)$$

Leverage was calculated using the Debt to Asset Ratio. The measurement used a comparison between debt and active as the one used by Suaryana and Febriana (2012).

$$\text{Leverage} = \frac{Total\ Debt}{Total\ Assets}$$

The profitability which used in this research was Return on asset (ROA). ROA is a comparison between net income after tax and the total asset of the company, which is measured as the one used by Nur and Priantinah (2012).

$$\text{ROA} = \frac{Net\ Income\ after\ Tax}{Total\ Asset} \times 100$$

Commissioner Board Size was measured by the number of the commissioner's members in one company, using the formulation which used by Nur and Priantinah (2012).

$$\text{DK} = \Sigma \text{Commisioner Board of Corporation}$$

Public shareholdings were measured by comparing the number of shares owned by the public towards the total share of the company. Measurement was using a formulation which was used by Nur and Priantinah (2012).

$$\text{KP} = \frac{Jumlah\ Kepemilikan\ Saham\ oleh\ Publik}{Total\ Saham\ yang\ Beredar}$$

Data analysis and Hypothesis Testing

Data analysis was conducted by Classic Assumption Testing, which is called Normality Testing, Multicolonierity Testing, Heteroscedastity Testing, and Autocorrelation Testing, Determination Coefficient Analysis (R^2 Testing) and t Testing, multiple linear regression analysis, with formulation as followed:

$$\text{CSRI} = \alpha + \beta_1 SIZE + \beta_2 LEV + \beta_3 ROA + \beta_4 DK + \beta_5 KP + e$$

CSRI : Corporate Social Responsibility Index
α : Constanta
SIZE : Company Size
LEV : Leverage
ROA : Profitability
DK : Commissioner Board Size
KP : Public Shareholdings
E : Error
β1– β3 : Regression Coefficient

Result and Discussion

The research sample which used in this research was manufacturing companies in the sector of cement, ceramic, porcelain, and glass, also metal, etc, which listed on the Indonesian Stock Exchange from the period year 2014-2018. The research sample was chosen using the purposive sampling method and got 11 manufacturing companies. The result of multiple linear regression analysis in this research can be seen in Table 1.

Tabel 1. Regression Results

Variable	B-value	*P*-value	Conclusion
(Constant)	.054		
SIZE	.057	.052	H1 not supported
LEV	-.143	.014	H2 supported*
ROA	.005	.024	H3 supported*
DK	.016	.168	H4 not supported
KP	-.093	.193	H5 not supported
R Square	.632		
Adjusted R Square	.594		

*significance 5%

Based on the result of multiple linear regression analysis from Table 1, it is found that regression formulation in this research is as followed:
CSRI = $0{,}054 + 0{,}057\,SIZE - 0{,}143\,LEV + 0{,}005\,ROA + 0{,}016\,DK - 0{,}093\,KP + e$

The value of Adjusted R Square was 0.594. It showed that statistically the number of variations in the dependent variable which was the company's CSR can be explained by the independent variable, which was company size, *Leverage*, Commissioner Board Size, Profitability, and Shareholdings, was 0.594 or 59.4%. While the rest was explained by other variables or other factors which excluded from the regression model.

Effect of Company Size Towards CSR Disclosure

The result of the significant value which was 0.052 can be inferred that the significant value was bigger than 0.05 which meant that company size did not give effect towards CSR Disclosure, therefore H1 was not supported. Company size in this research did not give an effect on CSR disclosure. The reason which can explain this result was the parameter of company size which can be viewed from the total asset owned, because the company size cannot be viewed only based on the size of the asset, but also viewed from liquidity ratio, solvability ratio, or profit gained.

This research was in line with research results from Rahayu and Cahyati (2014) which stated that profitability did not give an effect on CSR Disclosure. However, this result did not support the research and in contrast with research from Nur and Priantinah (2012), Wijaya (2012), and Indraswari and Astika (2014) which can prove that profitability gave positive effect towards CSR Disclosure, similar to research conducted by Novrizal and Fitri (2016).

Effect of Leverage Towards CSR Disclosure

The significance result which was 0,014 can be inferred that the significant value was smaller than 0,05, with a coefficient value -0.143, so H2 was supported. It meant that *leverage* had a negative effect on CSR Disclosure. Therefore, the second hypothesis stated that leverage gave a negative effect on CSR Disclosure was proven. Based on the company research result which had high leverage level tended not to disclose information about CSR. In this research, the leverage was proxied by the Debt to Asset Ratio which was a comparison between total debt and total asset. IF the leverage is high, it indicates that the asset gained, was financed more from liability, if compared with equity. Thus, funding for asset investment was more sourced from the creditor. For the company not to get attention from the creditors, the company tended not to disclose CSR, because the company needed funds for its CSR activities

This research was in line with research conducted by Nur and Priantinah (2012) which got evidence that leverage gave a negative effect on CSR disclosure. However, this research was not supported by the previous research which was conducted by Rahayu and Cahyati (2014), Putri and Christiawan (2014), Wijaya (2012), and Suaryana and Febriana (2012) which stated that leverage did not give effect towards CSR disclosure.

Effect of Profitability towards CSR Disclosure

The significance value result which was 0,024 can be inferred that the significant value was smaller than 0,05. It meant that profitability gave effect towards the CSR disclosure. Therefore, the third hypothesis was accepted. The coefficient was positive, which was 0,005, which meant that profitability had positive relation towards CSR disclosure which being conducted by the company. Thus, H3 stated that profitability gave a positive effect on CSR disclosure. In this research, profitability was proxied with ROA that is a comparison between net income after tax and total asset. From the day hypothesis research was supported, it can be inferred that companies which had high profitability would conduct CSR activities disclosure. It is conducted to attract more investors and investors' candidates because the higher ROA is, the higher the net income after tax is indicated. Main investors were acquired to know the company profit level, if the profitability was high, then the company could fund its-conducted CSR activities. Therefore, were not in doubt in disclosing its CSR activities in presenting the financial report, so investors' trust would get higher towards the company. It can be concluded that the higher the profitability level is, the wider CSR disclosure being conducted by the company.

This research was in line with research being conducted by Indraswari and Astika (2014). However, the research result did not support the research by Wijaya (2012), Nur and Priantinah (2012), Novrizal and Fitri (2016), Rahayu and Cahyati (2014), Putri and Christiawan (2014), and Suaryana and Febriana (2012) which stated that profitability did not give effect towards CSR disclosure. Hence, the researcher assumed that profitability was affecting CSR disclosure was proven.

Effect of Commissioner Board Size towards CSR disclosure

The significance value result which was 0,168 can be inferred that the significant value was larger than 0,05. It meant that commissioner board size did not give effect towards the CSR disclosure, therefore, H4 was not supported. It meant that the number of commissioner board members in a company did not give much effect towards the little or much CSR disclosure. In this research, it assumed that commissioner board size gave a positive effect on CSR disclosure, where the more people in commissioner board who had a role to supervise, the more pressure the company had to disclose more information, including CSR activities disclosure, which is conducted by the company, although the research result did not support the research hypothesis. It can be concluded that although the commissioner board had a role in giving pressure to the company to conduct full disclosure, it could not be proven in this research, which meant that commissioner board size did not give effect towards CSR disclosure.

This research result was not supported by research which was conducted by Rahayu & Cahyati (2014) which stated that commissioner board size gave a positive effect on CSR disclosure. Similar to research by Nur and Priantinah (2012), which stated that it gave negative effect. However, research results supported research which was conducted by Wijaya (2012) and Suaryana and Febriana (2012) which got evidence that commissioner board size did not give effect towards CSR disclosure.

Effect of Shareholdings towards CSR disclosure

The significance value result which was 0,193 can be inferred that the significant value was larger than 0,05. It meant that public shareholdings did not give effect towards the CSR disclosure, therefore, H5 was not supported. In this research, shareholdings were proxied with a comparison between the number of public shareholdings and total share in the market. This proved that whether high or low the public shareholdings is, it did not give effect towards CSR disclosure.

In this research it was assumed that the larger public shareholdings owned, would give pressure to the company to give information to the public widely, including the company's activities which related to CSR. However, the hypothesis research result was not supported. It was caused by the public shareholdings were generally owned by minority shareholdings, which in total less than 50%. There were even companies whose shares were owned by the public with small percentages. Usually, minority shareholders did not give many variations in making a decision which was done by company management. This was supported by the research result that public shareholdings did not give an effect on CSR disclosure.

This research was in line with research results which was conducted by Nur and Priantinah (2012) which stated that public shareholdings did not give an effect on CSR disclosure. However, it did not support the research conducted by Indraswari and Astika (2014) which stated that public shareholdings gave a negative effect on CSR disclosure.

Conclusion

The research result gained evidence that profitability gave a positive effect on CSR disclosure, while leverage gave a negative effect. Thus, the research result only can support two hypothesizes. On the other hand, this research failed to support company size, the commissioner board size, and shareholdings. Because the three variables did not give an effect on CSR disclosure.

Stakeholder theory stated that a company was not only an entity that operated for their interest, but also able to give benefit to their stakeholders. Hence, the existence of the company was influence by the support given by the company's stakeholders. Similar to legitimacy theory, the company would voluntarily report their activities if the management assumed that this was what the community expected. The research result gained two variables, profitability, and leverage, which supported both theories. This proved that CSR activities information disclosure which was conducted by the company was responded to by shareholders. However, this research failed to prove that company size, the commissioner board size, and public shareholdings gave an effect on CSR disclosure.

Recommendation for next research because public shareholding generally relatively small, which affecting the small involvement in decision making made by the company's management, does not affect information disclosure. Therefore, the variable of non-public shareholdings which relatively large and become the majority shareholders can be used as one of the variables to be conduct research on.

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