

## Determinant of The Corporate Social Responsibility Disclosure

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### Abstract

*Corporate Social Responsibility (CSR) has a very important role for the company and now become an obligation for every company. The purpose of this study examined the effect of institutional ownership, board of commissioners, profitability and size on CSR disclosure. This research conducted at mining manufacturing companies listed in Indonesia Stock Exchange period 2013-2014 and obtained 76 sample companies. The method used is multiple regression analysis. The result showed only institutional ownership affecting CSR disclosure. This suggests institutional ownership structure can act in monitoring the company. Independent board has not effected on CSR, it failed to monitor the actions of top management. Profitability has not effected on the disclosure of CSR, it enabled the company to have two perspectives on CSR. The most companies view CSR as a deduction from earnings. CSR disclosure has not affect the size of the CSR disclosure area.*

**Keywords:** disclosure, corporate social responsibility, good corporate governance.

### Abstrak

*Tanggung jawab sosial perusahaan (CSR) memiliki peranan yang sangat penting bagi perusahaan dan saat ini telah menjadi kewajiban bagi setiap perusahaan. Tujuan penelitian ini adalah untuk menguji pengaruh kepemilikan institusional, dewan komisaris, profitabilitas dan ukuran terhadap pengungkapan CSR. Penelitian ini dilakukan pada perusahaan manufaktur sektor pertambangan yang terdaftar di Bursa Efek Indonesia periode 2013-2014 dan diperoleh 76 sampel perusahaan. Metode yang digunakan adalah analisis regresi berganda. Hasil penelitian menunjukkan bahwa hanya kepemilikan institusional yang berpengaruh terhadap pengungkapan CSR. Ini menunjukkan bahwa struktur kepemilikan institusional dapat bertindak dalam memonitor perusahaan. Dewan komisaris independen tidak berpengaruh terhadap CSR, karena tidak berhasil memonitor tindakan manajemen puncak. Profitabilitas tidak berpengaruh terhadap pengungkapan CSR, dimungkinkan perusahaan memiliki dua cara pandang terhadap CSR, yaitu sebagian perusahaan memandang CSR sebagai pengurang laba dan sebagian ada yang berpendapat sebaliknya. Ukuran perusahaan tidak berpengaruh terhadap pengungkapan CSR sehingga dapat disimpulkan bahwa besar kecilnya size tidak mempengaruhi luas pengungkapan CSR.*

**Kata Kunci:** pengungkapan, tanggung jawab sosial perusahaan, good corporate governance.

Received: April, 07, 2017; Revised: July 03, 2017; Approved: July 10, 2017

## INTRODUCTION

Company in maintaining its existence, cannot be separated with society as external environment. Companies with communities have a reciprocal relationship of mutual giving and need. Contributions and harmonization will both determine the success of nation building. To maintain harmony there are two important aspects, namely economic aspects and social and environmental aspects. The economic aspect is the first aspect, in which the community benefits from the existence of the enterprise by providing employment opportunities to the community and the company also benefits. Furthermore, the social aspect in which the company is required to be able to contribute directly to the community. Both of these aspects must be considered in order to create a synergistic condition between the company and the community, so the existence of the company brings changes to the improvement and improvement of living standards of the community.

Recently, the company is not only faced with the responsibility on the economic aspects, but also must pay attention to the social and environmental responsibility. If the public considers the company not to pay attention to social and environmental aspects and do not feel the contribution directly and even feel the negative impact of the operation of a company then this condition will cause resistance from society. In order for the company to be sustainability, the company must perform corporate responsibility to shareholders and also to stakeholders. Corporate social responsibility is referred to as Corporate Social Responsibility (CSR).

Stakeholder awareness about the importance of sustainable development, encouragement companies to disclose CSR practices or activities undertaken. The stronger stakeholder pressure in disclosure of CSR practices undertaken by the company leads to the need to include social elements in corporate accountability into accounting. CSR is one of the important elements that cannot be separated from the company's routine activities. CSR has a very important role even has become an obligation for every company today. Awareness of the importance of CSR is based on the idea that the company not only has economic and legal obligations to shareholders, but also has obligations to other stakeholders. The company to create sustainability does CSR. Therefore the company performs its obligations must be balanced to the shareholders and stakeholders. The object of this research is a mining manufacturing company that is directly related to the surrounding environment so that it will have a negative impact on environmental damage.

Thus, need an implementation of the company to carry out social responsibility (Khasharmeh and Desoky, 2013).

Implementation of CSR in Indonesia is growing with the enactment of Law No. 40 of 2007 on Limited Liability Company and Government Regulation No. 47 of 2012, which was published in April 2012. The obligation to implement a normative social responsibility is a moral obligation for any type of company, including manufacturing companies inside it. Although Law No. 40 of 2007 has been applied, but each companies still has different views on CSR. The divergent views make the most short sighted of CSR, and partly sighted integrally on CSR. CSR within a narrow view can be defined as an activity contribution by the company (corporate philanthropy) whereas in view of the integral, CSR actually means not just philanthropy, but rather how to integrate social issues and the environment into the company's activities and can then communicate with the stakeholders.

Companies that have an integral view of CSR will make a new strategy for the company is that it can improve the competitiveness and image of the company so as to achieve sustainable business. Darwin (2006) states that a company would be said to be successful in carrying out CSR if it has three basic values of which are economic strength, environmental responsibility and social accountability. A company's financial performance will be reflected in a financial report while CSR activities will be reflected in a report called "sustainability reporting". Sustainability report has basically three aspects that must be reported, namely economic, social and environmental aspects.

The implementation of CSR in Indonesia is highly dependent on the top leadership of corporations, such as independent board of commissioners. An independent commissioner may be defined as an unaffiliated person in all respects with the controlling shareholder, having no affiliation relationship with the board of directors or the board of commissioners and not serving as a director in a company related to the company owner under the rules issued by the Indonesia Stock Exchange (IDX) . The number of independent commissioners is proportional to the number of shares owned by shareholders who do not act as controllers with the provisions of the number of independent commissioners of at least thirty per cent of all members of the Board of Commissioners (Puspita and Harto, 2014).

Independent commissioners within a company are critical in disclosing the implementation of CSR. So if the leader of the company has a high moral awareness, chances are corporations are implementing the correct CSR. Conversely, if the orientation

of the leadership only focuses on the interests of shareholders' satisfaction and achievement of personal achievement, it can make CSR policy just as cosmetics only. The more members of the board of commissioners, the greater the company to disclose social information because it gives influences managers to disclose social information. This is in line with Sembiring (2005) study which shows the result that the proportion of independent board of commissioners influences the degree of disclosure of corporate responsibility.

Furthermore, affecting the disclosure of corporate responsibility is the structure of share ownership within a company. The structure of share ownership in the company is one of them is shares owned by the institutional. Institutional ownership is the ownership of shares owned by the institution (agency). The research conducted by Fauzi, *et al.* (2007), Machmud and Djakman (2008) and Said, *et al.* (2009) concluded that institutional ownership and foreign ownership negatively affect the disclosure of corporate responsibility. Another factor affecting the disclosure of corporate responsibility is profitability. Profitability is a company's ability to generate profits to increase shareholder value. Based on the agency theory the increasing profits will make the company disclose wider social information (Anggraini, 2006). Research conducted by Belkaoui and Karpik (1989), Hackston and Milne (1996), Sembiring (2005), Anggraini (2006) and Yuliana *et al.* (2008) there is no influence between profitability and disclosure of corporate responsibility. These results do not support agency theory which states profitability has a positive effect on CSR disclosure.

The companies in conducting social activities can also be seen from the number of assets owned, because in carrying out CSR activities the company requires funds. Size is a measure of assets owned by large and small companies. Based on the agency theory that explains that large companies have large agency costs, therefore large companies will more disclose broader information. In addition, large corporations are the highlighted issuers; greater disclosure is a reduction in political costs as a form of corporate social responsibility.

Research related to firm size variables has been done by Sembiring (2005), Belkaoui and Karpik (1989), Patten (1991,1992), Hackston and Milne (1996), Adam, *et.al.* (1998), Hasibuan (2001) showed a significant relationship between company size and corporate responsibility disclosure. Gray *et.al.* (2001) found no relationship between the two variables. Based on the results of the above studies show different results, researchers are

motivated again to conduct similar research. This research basically developed a research that has been done by Sembiring (2005) by adding one variable that is institutional ownership. The difference of this study with Sembiring (2005) is in terms of measurement of variables namely size and profitability variables and CSR. This studies using total assets for size. Profitability uses Return on Assets (ROA). CSR in this study used performance indicators compiled by Global Reporting Initiative (GRI) consisting of 78 indicators.

Based on the above background, the research questions are: (1) is the effect of institutional ownership on the disclosure of CSR? (2) Is the size of the independent board affect the disclosure of CSR? (3) Is the effect on the profitability of CSR disclosure? (4) Is the size of the company (size) influences the disclosure of CSR? This study aims to determine the effect of institutional ownership in, the size of the independent board, profitability and size on the disclosure of CSR in Manufacturing Company listed on the Indonesia Stock Exchange on the observation period 2013-2014.

## METHOD

This research is a quantitative research using secondary data. Methods in this study using content analysis. This is done to find out how much the level of disclosure made by the company of 78 items CSR disclosure activities. The data used in this research is panel data that is annual report of mining manufacturing company listed in Indonesia Stock Exchange (IDX) in period of observation year 2013-2014 which can be accessed through website Bursa Effect Indonesia. Selection of the sample using purposive sampling method, with the following characteristics: (1) the entire mining sector manufacturing companies listed on the Stock Exchange during the observation period 2013-2014. (2) Publish complete annual report during the observation period 2013-2014. Based on these criteria, then obtained a sample of 76 companies. This research using multiple regressions as a method of analysis, the equation for this research as follows:

$$CSRDI = \alpha + \beta_1 \text{KepIns} + \beta_2 \text{KomInd} + \beta_3 \text{ROE} + \beta_4 \text{Size} + e$$

Where;

CSRDI = corporate social responsibility disclosure index

KepIns : Institutional ownership

KomInd: Composition of the board of commissioners

ROE : return on equity

Size : total asset

## RESULT AND DISCUSSION

Test for normality in this test using the normal chart analysis P Plot and Kolmogorov-Smirnov test with a significant level of 0.05. Normality test results showed that the variables used in the regression model are normally distributed. Multicollinearity test is done by analysing the correlation between variables by using the calculation tolerance value and variance inflation factor (VIF). The test results showed no tolerance for independent variables that have a value tolerance of less than 0.10 and less than 10. Therefore, it can be concluded that there is no multicollinearity between independent variables in the regression model. Heterocedasticity test is conducted by test Glejser. Based on the test results Glejser is the significance probability value above 5% confidence level. So we can conclude the regression model free from their heterocedasticity. Autocorrelation test is conducted by test Durbin Waton (DW-Test). Based on test results is obtained auto correction value of Durbin Watson (DW) of 1.921. While the lower limit value (dl) of 1,571 and the upper limit value (du) amounted to 1,679. Thus, the value of DW is between the value of du and 4-dl ( $du < DW < 4-du$ ). So we can conclude that the regression model free of autocorrelation.

**Table 1 Coefficient Determination Results**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.344 <sup>a</sup>	.118	.094	2.09649	1.921

a. Predictors: (Constant), The size of the company, the Board of Commissioners, Institutional Ownership, Profitability

b. Dependent Variable: CSR

Based on Table 1 test results obtained determination coefficient value of adjusted  $R^2$  of 0.094 (9.4%). This means that 9.4% variation CSR disclosure can be influenced by the institutional ownership, board of commissioners, profitability, size, while 90.6% of CSR disclosure can be affected by other variables not examined in this study. Multiple linear analyses is used to obtain the regression coefficients will determine whether the hypothesis made will be accepted or rejected. t-test aims to determine whether the independent variable partially significant effect on the dependent variable and to further examine which of the independent variables that significantly influence CSR disclosure.

Based on Table 2 the institutional ownership variable has a significant value of 0.000 smaller than the significance of 0.05 and has a t value of 3.809. This means the first hypothesis is accepted which means that the institutional ownership variable influences

CSR disclosure. One way to reduce agency cost is to increase institutional ownership that serves to oversee the agency. In other words, it will encourage optimal supervision of management performance. This suggests that an increase in the percentage of institutional ownership may decrease the percentage of managerial ownership because managerial ownership and institutional ownership are interchangeable as a monitoring function.

**Table 2. The t-test Result**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	5.088	2.387		2.132	.035		
Institutional ownership	.369	.097	.296	3.809	.000	.994	1.006
board of Commissioners	-2.604	1.109	-.185	-2.348	.020	.967	1.034
profitability	-.107	.253	-.034	-.423	.673	.928	1.077
Company size	-.044	.196	-.018	-.223	.824	.951	1.051

a. Dependent Variable: CSR

The results of this study are supported by Mursalim (2007), which states that institutional ownership can be used as an effort to reduce agency problems by improving the monitoring process within the company. Institutional shareholders also have opportunities, resources, and expertise to analyse performance and management actions. So, institutional investors as owners are very interested to build a company's reputation. In addition to Mursalim (2007), Karima (2014) expresses the same opinion that institutional ownership structures can generally act as a party to monitor the company. A high degree of institutional ownership will result in considerable oversight by institutional investors in order to impede opportunistic manager behaviour. This means institutional ownership can be a driving force for CSR disclosure. So it can be concluded that the high level of institutional ownership will affect the extent of corporate CSR disclosure.

Next is the independent board of commissioners has a significant value of 0.020 is smaller than 0.05, but has a t value of -2.348. This means the second hypothesis is rejected, meaning that the independent board of commissioner variables have no effect on CSR disclosure. The results of this study are not in accordance with the agency theory, that the board of commissioners should represent the main internal to control the opportunistic behaviour of management so that it can help align the interests of shareholders and managers and can also be reviewed from the function of board of commissioners in

Indonesia. The Board of Commissioners is a board responsible for supervising and providing advice to the director of a Limited Liability Company (PT). The duties and authorities of the board of commissioners are to supervise the operation of the company and provide advice to the director. Thus, it can be seen that the board actually has a supervisory role on the company, including in determining the CSR programs that will be implemented company, but director who will take all operational decisions within the company. The rejection of the hypothesis stated that the independent board of commissioners influencing CSR disclosures may indicate that the lack of effective supervisory function of the board of commissioners against CSR disclosure of the company.

The results of this study are supported by the research of Yuliana, et al (2008), that the high level of composition of the company's board of commissioners cannot give a strong enough effect to pressure management in disclosing corporate social responsibility. This indicates that the board of commissioners residing in the mining company was unable to monitor the actions of top management and contrasted with Sembiring (2005) study which showed the result that the proportion of independent board of commissioners influences the level of corporate responsibility disclosure. The profitability does not affect CSR disclosure. The results of this study are not in accordance with the signalling hypothesis which states that a superior and well-earned company will reveal more detailed information, including freedom and discretion to show and account for all of its social programs. This is done because managers want to convince investors of the profitability of the company (Setyorini and Ishak, 2012).

Profitability is the ratio used to measure how effectively the company operates so as to generate profits for the company. The profitability ratios used in this study were obtained at one time and analysed together without distinction of industry type. This can be one of the causes of rejection of the hypothesis about the effect of profitability on CSR disclosure. Yuliana *et al.* (2008) provides another argument related to the rejection of this hypothesis because there are still many parties who have different views on CSR in which some companies view CSR as a deduction of profit and some Otherwise. The results of this study are in line with Sembiring (2005), Anggraini (2006), and Yuliana et.al. (2008) studies, which found that profitability, has no effect on CSR disclosure. This can be interpreted that the high level of profitability does not affect the extent of CSR disclosure.



Variable size has a significant value; this means the fourth hypothesis is rejected, meaning that the variable size affecting CSR disclosure is rejected. The results of this study contrast with the agency theory that explains that large companies have large agency costs, therefore large companies will more disclose broader information (Sembiring 2005; Sunarsih, 2009). Another argument rejected the hypothesis because there are various variations in the company's view of CSR, there is a view that the implementation of CSR is considered important and there is also a view that the implementation of CSR is not important. This perspective will ultimately affect CSR practices by companies and will also impact CSR disclosures that are structured within the company.

There are three ways companies look at CSR. *First*, that CSR is implemented as a corporate strategy that will ultimately bring benefits. *Second*, CSR is implemented as compliance against the Law that has forced the company to implement CSR in its operations. *Third*, it is beyond compliance. CSR is implemented because the company feels as part of the community.

## CONCLUSION

The results of this study conclude that institutional ownership indicates an influence on CSR disclosure. This can mean that the institutional ownership structure can act to monitor the company, thus affecting the disclosure of corporate CSR. In other words, institutional ownership will encourage optimal control over management performance. This suggests that an increase in the percentage of institutional ownership will lead to considerable oversight by institutional investors in order to impede opportunistic manager behaviour. Independent board of commissioners reject the hypothesis, it shows that the board of commissioners has no effect on CSR disclosure. The rejection of the hypothesis indicates that the lack of effective supervisory function of the board of commissioners against CSR disclosure of the company. Thus, the high level of composition of the company's board of commissioners cannot exert a strong enough influence to pressure management to disclose corporate social responsibility.

Profitability has no effect on CSR disclosure, because it is possible there are still many parties who have different views on CSR among which there are some companies who view CSR as a deduction of profit and some are opposite view. This can be interpreted that the high level of profitability does not affect the extent of CSR disclosure. And the last is the size of the company does not affect the disclosure of CSR.

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