The Effect of Company Characteristics and Corporate Governance on Corporate Social Responsibility Disclosure: A Study on SRI-KEHATI Index Listed on Indonesia Stock Exchange

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Abstract: The purpose of this research is to empirically test and analyse the influence of firm size, profitability, leverage, board of commissioner, industry type, and managerial ownership on corporate social responsibility disclosure, and also to compare and to improve the results of prior researches. The objects used in the research are companies listed in SRI-KEHATI index in Indonesia Stock Exchange over the 7-year period 2010-2016. The purposive sampling is used to obtain 8 companies listed in SRI-KEHATI index that meet the criteria, and they are analysed using descriptive statistics and multiple linear regression to test the hypotheses. The research finding can be summarized as follows; firm size, profitability, leverage, and board of commissioner influence corporate social responsibility disclosure while industry type and managerial ownership do not.

1 INTRODUCTION

In maintaining its existence, the company cannot be separated from the community as its external environment where there is a reciprocal relationship between the company and the people who give and need each other. The contribution and harmonization of both will determine the success of nation building. The company's commitment to contribute to national development by paying attention to financial or economic, social and environmental aspects (triple bottom line) is the main issue of the concept of corporate social responsibility (CSR).

Within the scope of Indonesia, Indonesian Financial Accounting Standards do not require companies to disclose social information which results in the practice that company just voluntarily disclose the information. Implicitly, the Indonesian Accounting Standards (IAI) in the Statement of Financial Accounting Standards (PSAK) Number 1 (revised 2009) paragraph 12 suggests that responsibility for social problems should be disclosed. In line with these developments, Law no. 40 of 2007 Article 74 concerning Limited Liability Companies is issued, and it requires companies whose fields of business are in the field or related to the natural resource field to carry out the reporting of social and environmental responsibilities. In addition to Law no. 25 Year 2007 on Capital Investment Article 15, it requires every investor to carry out corporate social responsibility and report it. Failing to do so will result in strict sanctions.

From the economic aspect, company must be oriented towards profit whereas from the social aspect, company must contribute directly to the community. If corporate social responsibility is properly designed and applied, it will be a useful long-term social investment, both to enhance the company's image as business strategies and to control of corporate social risk. The disclosure of CSR carried out by most companies in Indonesia is a motivation to increase public confidence of efforts to improve the environment around the company.

This research is a replication of the previous research by Subiantoro and Mildawati, 2015. This study does not examine the entire industry, but only on companies listed in the SRI-KEHATI Index as a population. The SRI-KEHATI (*Sustainable Responsible Investment*-KEHATI) Index is an index formed on the results of a cooperation between Indonesia Stock Exchange (BEI) and the Indonesian

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Biodiversity Foundation (KEHATI) engaged in conservation and biological use to create an alternative investment product that is an index or reflection of stock price movements. This served as guidance for investors in which the index contains shares of issuers that have considerations meeting the various criteria leading to companies which have been practicing CSR well. KEHATI has picked 25 selected companies considered eligible to meet SRI-KEHATI Index criteria. The presence of those companies will be evaluated twice a year, in April and October, and the result will be publicized by BEI.

Corporate Social Responsibility Disclosure (CSRD) in this study is measured by an index based on CSRD items in the third generation Global Reporting Intiatives (GRI) standard (3) or GRI G.3. These are used as guidelines in compiling corporate sustainability reports in Indonesia, and it has been regulated under Bapepam Regulation No. VIII.G.2 concerning annual reports suitable to be applied with business conditions in Indonesia. GRI's sustainability reporting guidelines provide reporting principles, standard disclosures, and implementation guidelines for the preparation of sustainability reports by organizations, regardless of size, sector, or location. The Code also provides international references for all parties involved in disclosing the governance approach and the performance, impact of the organization's environmental, social and economic. This guide is useful for preparing various types of documents that require such disclosures.

2 LITERATURE REVIEW

2.1 Corporate Social Responsibility

The agency theory suggests the relationship between the principal (owner) and the agent (manager) in terms of corporate management where the principal is an entity delegating the authority to manage the company to the agent (management). Agency theory defines the contractual relationship between the party delegating a particular decision (principal/ shareholder) and the party receiving the delegation (agent/management) (Wulansari, 2015).

According to Gitman dan Zutter (2015, 68) *"Agency problems is problems that arise when managers place personal goals ahead of the goals of shareholders"*. The existence of this agency problem arises when managers put personal interests ahead of the interests of shareholders. The costs arising from the agency problem are then called the Agency Cost.

Theory of Legitimacy according to Mousa and Hassan (2015) is "*Legitimacy theory is one of the most discussed theories to explain the phenomenon of voluntary social and environmental disclosures in corporate communication.*"Consistent with the theory of legitimacy, companies seek to obtain, maintain or improve their legitimacy by using social and environmental reporting.

Corporate social responsibility stated in Law no. 40 of 2007 regarding Limited Liability Company article 1 point 3 mentioned that corporate social responsibility is the company's commitment to participate in sustainable economic development in order to improve the quality of life and become a useful environment for the company itself, local communities, and surrounding communities.

Disclosure is the expenditure of information intended for interested parties. The purpose of disclosure of CSR is that companies can convey social responsibility that has been implemented by the company in a certain period. The CSR application can be disclosed by the company in the company's annual report.

2.2 Firm Size on Corporate Social Responsibility Disclosure

According to Hartono (2013, 392), "*The size of assets (asset size) is measured as the total logarithm of assets. Asset size is used as a proxy for the size of the company.*" According to Subiantoro and Mildawati (2015) "*Firm size is a scale that serves to classify the size of business entities"*. Furthermore Purwanto (2011) said *"The size of a company is the size or the extent of the company in carrying out its operation."*

H1: There is an influence of firm size on *corporate social responsibility disclosure*

2.3 Profitability on Corporate Social Responsibility Disclosure

According to Weygant et al., (2015, 723), "*Profitability ratios measure income or operating success of a company for a given period of time". Meanwhile, according to Brigham et al (2014, 111) "Profitability reflect the net result of a number of policies and decisions."*

If the company has a high ROA, the company will have sufficient funds to be allocated to social and environmental activities so that the level of disclosure of social responsibility by the company will be higher.

H2: There is an influence of profitability on *corporate social responsibility disclosure*

2.4 Leverage on Corporate Social Responsibility Disclosure

According to Saputra (2016), "*Leverage is a tool owned by stakeholders to know the ability of companies in managing the source of funds, especially debt and capital owned by the company*." Leverage reflects the financial risks of the company which describes the company's capital structure and also able to know the risk of uncollectible debt (Wiyuda and Pramono, 2017).

If the company provides more comprehensive information such as disclosure of corporate social responsibility, it will require higher agency costs, then companies with high leverage will reduce information about the company as not to be the spotlight of creditors or outside parties

H3: There is an influence of leverage on *corporate social responsibility disclosure*

2.5 Board of Commissioner on Corporate Social Responsibility Disclosure

According to Subiantoro and Mildawati (2015): "*Board of Commissioners is a shareholder representative within a company incorporated as a limited liability company that serves to oversee the management of the company carried out by management"*. According to the Forum for Corporate Governance in Indonesia (FCGI, 2001) "*Board of Commissioners – the bottom line of corporate governance – is assigned to ensure the implementation of corporate strategy, overseeing management in managing the company, and requiring accountability.*"

Thus, the size of the board of commissioners is how many people are serving as the board of commissioners where the main task is to exercise control and oversight functions over the management of the company, so the objective of the company to gain legitimacy from stakeholders by disclosing social responsibility will be obtained because the existence of the board of commissioners will provide control and supervision, especially in the practice of *corporate social responsibility*.

H4: There is an influence of the size of the board of commissioners on *corporate social responsibility disclosure*.

2.6 Industry Type on Corporate Social Responsibility Disclosure

According to Wiyuda and Pramono (2017) "*Type of industry is characteristic owned by companies related to business, business risks, employees owned, and environment.*" Industry type is measured by differentiating *high-profile* and *low-profile* industries. Thus, the type of industry is a characteristic of the company in carrying out its operational activities. High-profile companies usually disclose corporate social responsibility more widely than low-profile companies.

H5: There is an influence of industry type on *corporate social responsibility disclosure*

2.7 Managerial Ownership on Corporate Social Responsibility Disclosure

Managerial ownership is a condition indicating that managers within the company also become shareholders of the company (Subiantoro and Mildawati, 2015). Badjuri (2011) found that managerial ownership succeeded in becoming a mechanism for reducing agency problems from managers by aligning the interests of managers with shareholders. By increasing the number of managerial ownership, management will feel the direct impact on every decision they make because they become owners of the company so that the practice and disclosure of CSR tends to be more prevalent and higher.

Ha6: There is an influence of managerial ownership on *corporate social responsibility disclosure*.

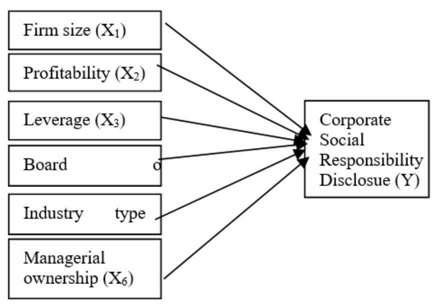

Figure 1: Research Model.

3 RESEARCH METHODOLOGY

3.1 Sample and Data Collection Procedures

The form of research used to examine the Corporate Social responsibility Disclosure is causal study. According to Sekaran and Bougie (2013, 98), “In a causal study, the researcher is interested in delineating one or more factors causing the problem.” In this study there are six independent variables, namely, firm size, profitability, leverage, board, industry type, and managerial ownership. The dependent variable is Corporate Social Responsibility Disclosure. This research uses a panel data. Gujarati and Porter (2009, 591) define that panel data or pooled data (pooling of time and cross-sectional observations) is a combination of time series and cross-section data.

In this study, the object used are companies registered in the SRI-KEHATI Index for the period of 2010-2016. The sample selection method used is purposive sampling. The sample selection procedure can be seen in the following table:

Sample Selection Criteria	Number
1. Companies registered in the SRI-KEHATI Index continuously during the period 2010-	13
2. Companies in the SRI-KEHATI Index that do not publish financial statements on a continuous basis during the period 2010-2015.	(0)
3. Not using the rupiah currency in the presentation of the company's financial	(0)
4. Companies in the SRI-KEHATI Index that have no managerial ownership during 2010-	(5)
The number of companies in the SRI-KEHATI Index chosen as sample	8
Number of study periods	7
Total data sampled	56

Analyzed data uses regression model and methods uses SPSS 22 software.

3.1.1 Corporate Social Responsibility Disclosure

Corporate Social Responsibility Disclosure is the disclosure of a form of corporate responsibility from economic, social, and environmental aspects to all *stakeholders* calculated under Bapepam Regulation no. VIII.G.2 on the annual report. The report states that there are 12 items of 90 disclosure items not suitable to be applied to the conditions in Indonesia, thus, it remains 78 items of disclosure. If the disclosure item is present in the company's annual report then it is given a score of 1, and if the disclosure item is not present in the company's annual report, it is given a score of 0 (Sembiring, 2005). CSRD index measurement is done with the following formula (Subiantoro and Mildawati, 2015).

$$\text{CSRD} = \frac{\text{The Actual number of item disclosure by the company}}{\text{The number expected to be disclosure by the company}}$$

3.1.2 Firm Size

According to Subiantoro and Mildawati (2015), the size of the firm is proxied by the total asset log, the goal is to reduce the significant difference between large firm size and small firm size so that the total asset data can be normally distributed.

3.1.3 Profitabillity

Profitability is proxied by using *return on assets*. Return on assets is a ratio that reflects a company's ability to earn net income by using assets owned by a company for its operations according to Gitman and Zutter (2015, 130).

3.1.4 Leverage

Leverage is proxied by using *Debt to Equity Ratio*. DER is the ratio used to determine the amount of comparison between the amount of funds provided by creditors with the amount of funds derived from the owner of the company and what part of the capital used as debt guarantees(Gitman, 2015).

3.1.5 Board of Commissioners

The size of the board of commissioners is the number of persons who serve as board of commissioners whether they are independent or not within a company (Subiantoro and Mildawati,2015).

3.1.6 Industry Type

Type of industry is measured using dummy variables (Subiantoro et al., 2015). Companies included in the high profile industry include oil and gas, forestry, agriculture, mining, fishery, chemical, automotive, consumer goods, food and beverages, paper, pharmaceutical, plastics and construction industries. High Profile = 1 Low Profile = 0

3.1.7 Managerial Ownership

Managerial ownership is the proportion of the number of shares owned by the company's management compared to the total number of shares of the company in circulation (Gitman,2015).

4 RESULTS AND ANALYSIS

4.1 Descriptive Analysis

Descriptive analysis used to analyze CSRD included Size, ROA, DER, BOC and OW. CSRD variable has a mean value of 0.769, maximum value of 0.923, minimum value of 0.4743, and standard deviation of 0.1152. Firm size variable has a mean value of 13.933, maximum value of 14.833, minimum value of 12.769, and standard deviation of 0.5176. ROA variable has mean value of 0.090, maximum value of 0.2339, minimum value of 0.013 and standard deviation of 0.0568. DER variable has mean 2.0218, maximum value of 8.498, and minimum value of 0.338 and standard deviation of 2.263. BOC variable has a mean value of 6.93, maximum value of 12, minimum value of 5, and standard deviation of 1.896. OWN variable has mean of 0.00069, maximum value of 12, minimum value of 5, and standard deviation of 0.00099.

Table 1: Descriptive statistics.

	CSRD	SIZE	ROA	DER	UDK	KM
Mean	0,769689	13,933463	0,090324	2,021850	6,93	0,00069331
Median	0,807692	13,990398	0,078409	0,932464	6	0,00015717
Maximum	0,923077	14,830421	0,233997	8,498066	12	0,00285092
Minimum	0,474359	12,769459	0,013495	0,338468	5	0,00000029
Std. Dev	0,115862	0,517038	0,056822	2,263627	1.896	0,00099491
Observations	56	56	56	56	56	56

Table 2: Descriptive Statistics of Type Industry.

Industry Type	Frequency	Percent
Low Profile	21	37,5
high Profile	35	62.5
	56	100

Table 3: Model Summary.

Model	R	R Square	Adjusted R Square	Std Error of estimate	Durbin Watson
1	,815[a]	,663	0.622	,101955517285071	1.593

Tabel 4: ANOVA.

Model	Sum of Squares	df	Mean Square	F	Sig
Regression	1,004	6	,167	16,101	,000
Residual	,509	49	,010		
Total	1,514	55			

a. Dependent Variable: CSRD

b. Predictor:(Constant),KM,UDK,SIZE,TI,ROA,DER

Table 5: Result of Multiple Regression.

Variable	B	Std. Error	T	Sig
(Constant)	-4,795	1,566	-3,062	0,004
SIZE	1,880	0,617	3,049	0,004
ROA	-0,087	0,035	-2,462	0,017
DER	-0,249	0,046	-5,390	0,000
UDK	-0,310	0,085	-3,639	0,001
TI	0.051	0,041	1,228	0,225
KM	0,005	0,010	0,501	0,619

Corporate Social Responsibility Disclosure = - 4,795 + 1,880SIZE - 0,087ROA - 0,249DER - 0.,310UDK + 0,051TI + 0,005KM + ε

4.2 Regression Analysis

Analysis of multiple regression was carried out to access the statistical significance of the relationship of variables for its model fit. It is also to discover the impact of five independent variables on corporate social responsibility disclosure (Table4). Table 3 and 4 show the multiple regression analysis for all the variables of the study. The confidence level established for the statistical analysis is 95%. The analysis reported significant F change value of 0.000, hence it suggests that the model has explanatory power between the variables and is fit for analysis. The R^2 value of 0.663 indicates that 62% of the variance in CSRD can be predicted by the five dependent variables. Based on the results of research on 8 companies listed in the SRI-KEHATI Index 2010-2016 period, it can be deduced that the Company's Size, Profitability, Leverage, and Size of Board of Commissioners have influence on Corporate Social Responsibility Disclosure, while Industry Type and Managerial Ownership do not have an effect on Corporate Social Responsibility Disclosure. The effect of Company Size on Corporate Social Responsibility Disclosure according to table 3 is a t value of 3.049 which is greater than t-table 2.005 (df = nk-1 = 56-1-1 = 52, α / 2 = 0.05 / 2 = 0.025). Then, t-statistics located in the rejection area of H0. In addition, it is supported by a significant value of 0.004 which is smaller than alpha 0.05. Thus, it can be concluded that H0 is rejected and Company Size (SIZE) has a positive effect on Corporate Social Responsibility Disclosure. Associated with agency theory, the greater a company, the greater the agency cost to reduce agency costs, the more the company will disclose information. Small companies may not clearly demonstrate social responsibility because companies that are in the mature and growing stage will attract more attention from their environment and need a more open response.

5 CONCLUSION

5.1 Conclusion

The results of this study are consistent with other studies conducted by Habbash (2016), Al-Gamrh and Al-Dhamari (2016) and Purwanto (2011). However, it is contrary to previous research conducted by Subiantoro and Mildawati (2015), Saputra (2016), Isa and Muhammad (2015), and Budiman (2015) which concluded that company size did not affect corporate social responsibility disclosure.

5.1.1 The Effect of Profitability on Corporate Social Responsibility Disclosure

According to table 5, the t-statistic has a value of -2.462 which is greater than the 2.005 t-table, then the t-statistic is located in the rejection area of H0. In addition, it is supported by the results of a significant value of 0.017 which is smaller than alpha 0.05. Thus, it can be concluded that H0 is rejected and Profitability (ROA) has a negative effect on Corporate Social Responsibility Disclosure. In terms of legitimacy theory, profitability has a negative effect on corporate social responsibility disclosure. This is supported by the argument that when a company has a high level of profit, the management considers it unnecessary to report things that can disrupt information about the company's financial success. Conversely, when the level of profitability is low, they expect to report users to read "good news" of company performance. This result is consistent with Budiman's research (2015) and Saputra’s (2016). However, contrary to Subiantoro and Mildawati (2015) research, Habbash (2016) and Purwanto (2011) concluded that profitability does not affect corporate social responsibility disclosure.

5.1.2 The Effects of Leverage on Corporate Social Responsibility Disclosure

According to table 5, the t-statistic has a value of -5.390 which is greater than the 2.005 t-table, then the t-statistic is located in the rejection area of H0. In addition, it is supported by the results of a significant value of 0,000 which is smaller than alpha 0.05. Thus, it can be concluded that H0 is rejected and Leverage (DER) has a negative effect on Corporate Social Responsibility Disclosure. Companies with high Leverage ratios result in high supervision carried out by debtholder against company activities. In accordance with agency theory, the management of companies with a high level of Leverage will reduce the disclosure of social responsibility that is made so as not to be the spotlight of the debtholders. The results of this study are consistent with the results shown in Saputra (2016) and Habbash (2016). However, it is not consistent with the results of Subiantoro and Mildawati's (2015) research which shows that leverage does not affect corporate social responsibility disclosure.

5.1.3 Effect of Board of Commissioners' Size on Corporate Social Responsibility Disclosure

According to table 5, the t-statistic has a value of -3,639 which is greater than t-table 2.005, so the t-statistic is located in the rejection area of H0. In addition, it is supported by the results of a significant value of 0.001 which is smaller than alpha 0.05. Thus, it can be concluded that H0 is rejected and Board of Commissioners Size (UDK) has a negative effect on Corporate Social Responsibility Disclosure. The size of the board of commissioners has a negative relationship direction, a reason that can explain this is because the small number of commissioners will have good effectiveness towards the supervision of company management. In addition, the large number of board of commissioners has also become less effective because the dominance of the board of commissioners who prioritizes personal interests or the interests of the group that overrides the interests of the company. Therefore, the formation of a board of commissioners should pay attention to the composition, ability and integrity of members.

5.2 Research Limitations and Direction for Further Research

The limitations in this study are the independent variables used, which are limited only to 7 variables. Then, this study is limited to companies listed in the SRI-KEHATI Index, so it is still not representative of all listed companies in the Indonesia Stock Exchange. Additionally, this study took only a sample of 7 years from in 2010 through 2016. The data may not reflect fully the company's long-term conditions, and the CSRD variable indicator by using *GRI* item *G.3* has a list of items with less extensive CSR disclosure.

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