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Effect of Size, Profitability, Leverage and Size of the Board of Commissioners of Corporate Social Responsibility

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Abstract: This study aims to determine the effect of size, profitability, leverage, and board size on the disclosure of Corporate Social Responsibility (CSR). This research was conducted in the mining sector manufacturing companies listed on the Indonesian stock exchange on the observation period 2012-2014. This research method is using purposive sampling and obtained a sample of 10 companies. The results showed that the only variables that have an impact on the disclosure of CSR is the size of the board of directors. There is a possibility that the number of commissioners contained in a company will have an impact on CSR. While the other variables are size, profitability, leverage does not affect the extent of disclosure of CSR. While testing conducted jointly variable size, profitability, leverage and board size affect the company's CSR disclosure. The study is expected to be the company's management has the same view of the importance of CSR, so that will have an impact on the implementation of CSR is not just a mere social activities.

Keywords: corporate social responsibility, Size, Profitability, Leverage, Size BOC

1. INTRODUCTION

A company in carrying out its activities is not possible apart from the social contract with society. So the company should be responsible for the activities that have been done. Corporate responsibility is not only focused on the shareholders (shareholder), but also to other stakeholders (stakeholders).

Corporate Social Responsibility (hereinafter referred to as CSR) is a concept that is growing. CSR implementation has been very widely not only industries that are directly related to environmental pollution, for example the mining sector. But already penetrated into other industry sectors that look "safe" for the environment, for example, the banking industry was under the spotlight with the policy of granting loans to projects that can harm the environment.

Implementation of CSR in Indonesia is growing by the issuance of Law No. 40 of 2007 on Limited Liability Company and Government Regulation No. 47 of 2012 which was published in April 2012. Article

74 paragraph 1 of the Act states that “the Company is conducting its business activities in the field and / or related to the natural resources required to implement social and environmental responsibility”. Although it has been the enactment of Law No. 40 of 2007, but the perception of CSR is still not the same, so that the term CSR has various interpretations and has many names. CSR is narrowly defined as the activities of donations made by the company (corporate philanthropy) while the viewpoint over the comprehensive CSR is actually not just philanthropy, but how to integrate social issues and the environment into the company’s operation and be able to communicate with stakeholders. By having the comprehensive viewpoint, it will be a new strategy to improve the competitiveness and corporate image and reach a sustainable business. Darwin (2006) explains that the company will be a success in carrying out CSR if it has three basic values (core value) among them 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). Sustainability report has basically three aspects that must be reported, namely economic, social and environmental aspects.

Research on the influence of corporate social responsibility has been done by previous researchers, but give inconsistent results as research conducted by Sembiring (2005), Sunarsih (2005), Anggraini (2006), Yuliana (2008), Fahrizqi (2010), Setyorini & Isaac (2012), Khasharmeh & Desoky (2013), Sunarsih & Windari (2015). The difference results of these studies into a motivation to re-examine with developing research that has been done (Anggraini, 2006).

Based on the above background, the research questions are: (1) Is the size effect on CSR disclosure in the annual report the company? (2) What is the effect on the profitability of CSR disclosure in the company’s annual report? (3) Is the leverage effect on CSR disclosure in the annual report the company? (4) Is the board size effect on CSR disclosures in annual reports?

This study aims to determine the effect of size, profitability, leverage and board size on the disclosure of CSR in the Chemical and Pharmaceutical companies listed on the Indonesia Stock Exchange on the observation period 2012-2014. This research is expected to provide a wide range of contributions, including contributions of theoretical and practical contributions are:

1. Contributions Theory: The results of this study are expected to provide empirical evidence that in addition to the financial statements are taken into consideration in decision making, the report on sustainability as important to establish a corporate image.
2. The contribution of Practice: For the management of the company is expected to have a broader view of the comprehensive manner of CSR so that the application is not just philanthropy alone, but how to integrate the management of social issues and the environment into the daily activities of the company and communicate with stakeholders in the sustainability report.

2. THE STUDY LITERATURE AND HYPOTHESES DEVELOPMENT

2.1. Agency Theory

Agency theory has a firm view that there are two interrelated party, the principal and the agent. This is consistent with Jensen and Meckling (1976) which states that an agency relationship is a contract between the managers (agent) to the investor (principal). Conflicts of interest between owners and agents occurred

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because of possible agents do not always act in accordance with the interests of the principal, thus triggering the agency fee (agency cost).

2.2. Legitimacy Theory

Legitimacy theory explains that an organization as sustainable should ensure it is operating within the norms upheld the public and ensure that the activities of the company can be accepted by the parties outside the company. O'Donovan (2015), arguing that the legitimacy of the organization may be accepted as something given to the company and the community something to be sought or expected the company from the public. So that legitimacy has benefits in supporting the survival of the company (going concern).

2.3. Stakeholders Theory

Stakeholder theory portray that the company is not an organization that merely responsible for the owners (shareholders), but also should attach importance and benefit of its stakeholders. Freeman & Veal (2001) defines ... (stakeholders are) individuals and groups who have a legitimate claim on the organization to Participate in the Decision making process simply Because they are affected by the organization practices, policies and actions. The stakeholder restrictions imply that companies should pay attention to stakeholders, since they are the ones who influence and are influenced either directly or indirectly on the activity as well as the measures taken and the company. If the company does not pay attention to stakeholders it is certain that the company will reap outcry.

1 2.4. Corporate Social Responsibility

CSR is one of the activities undertaken by the company and is considered as a business ethics. CSR is a company's commitment as a continuing responsibility towards society and the environment and can be used as an investment for the company for the long term.

According to the WBCSD (World Business Council for Sustainable Development) in (Setyorini & Isaac, 2012) defines CSR as: "CSR is the continuing commitment by business to behave ethically and Contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. "of understanding that CSR can be concluded that the company should contribute to economic development, while improving the quality of life of workers and their families as well as local communities and society at large.

2.5. Hypothesis Development

2.5.1. The effect size of the CSR

Size is frequently used variables researchers in disclosing CSR. In general, a large-scale company will conduct CSR activities more than the small-scale enterprise. This is in line with Sembiring (2005), which connects with the size of agency theory; in which large companies have greater agency costs will disclose more extensive information to reduce the agency costs. While Fahrizqi (2010) states that large companies will disclose more information than small companies, because large companies will face greater political risk than small firms. Some research suggests that the size shown to affect the disclosure of CSR in the annual

financial statements of the research done by Sembiring (2005), Sunarsih (2005), Fahrizqi (2010), Setyorini & Isaac (2012), Khasharmeh & Desoky (2013) and Sunarsih & Windari (2015). Meanwhile, Anggraini (2006) and Juliana (2008) failed to find a relationship between two variables. The first hypothesis formulation associated with the size of the company's CSR disclosure is as follows:

H1: Size positive effect on CSR disclosure.

2.5.2. Profitability

Kokubu *et al.* (2001) in Sembiring (2005) stated that there is a positive correlation between the performances of companies with CSR, based on agency theory that the greater the profit that would make companies discloses social information more widely. The second hypothesis formulations of profitability on the disclosure of CSR are as follows:

H2: Profitability positive effect on CSR disclosure.

2.5.3. Leverage

Similar research conducted by Sembiring (2005), Anggraini (2006), and Fahrizqi (2010) concluded that the higher the level of leverage the more likely the company will be in violation of the loan agreement so that the company will strive to report the income is now higher, so that reported earnings higher than the manager should reduce the costs, including social costs to disclose information. Based on the above, and then formulated the hypothesis that the three associated leverage the company as follows:

H3: Leverage negative effect on CSR disclosure.

2.5.4. The size of the Board of Commissioners

Board size is the independent variable associated with CSR. Among them conducted by Collier and Gregory (1999) in Sembiring (2006) which states that the greater the number of commissioners it will be easier to control and monitoring conducted by the CEO will be more effective. The existence of independent board will further increase the effectiveness of supervision. Based on the description, the fourth hypothesis related to the size of the board of directors of the company, are as follows:

H4: Size BOC positive effect on CSR disclosure.

3. METHODOLOGY

3.1. Types and Data Research

This research is a quantitative study using secondary data. The data used in the study is data that panel's annual report mining sector manufacturing companies listed on the Indonesian Stock Exchange (BEI) in the observation period from 2012 to 2014 year.

3.2. Population and Sample Research

The population in this study are all manufacturing companies mining sector listed in Indonesia Stock Exchange in the year observation period 2012-2014. Selection of the sample using purposive sampling

method, with a defined characteristic among them is (1) Company manufactures coal mining sector listed on the Stock Exchange during the observation period 2012-2014 year. (2) Publish complete annual report during the observation period 2012-2014. (3) Has a complete data corresponding to the variables used in the study. Based on these criteria, and then obtained a sample of 10 companies.

3.3. Model Research

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To test the hypothesis then created a model that describes the relationship between variables to be studied. Models were prepared using a multiple regression equation as follows:

$$CSDI = \alpha + \beta_1 SIZE + \beta_2 PROF + \beta_3 LEV + \beta_4 UKD + [\quad] \quad (1).$$

Information:

CSDI: Disclosure of Social Responsibility.

α : constant.

β_1 - β_4 : Regression Coefficients.

SIZE: The size of the Company.

PROF: Profitability.

LEV: Leverage.

UDK: The size of the Board of Commissioners.

[: Error.

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The model above is composed of: The dependent variable is CSDI, namely Independent Variable Size, Profitability, Leverage and size of the Board of Commissioners.

3.4. Variable Operationalization

The explanation of the measurement model variables such as the following:

3.4.1. Dependent variables

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The dependent variable in this study is the disclosure of CSR. CSDI counting is done by using a dichotomous approach, i.e. each item of CSR in the research instrument rated 1 if disclosed, and the value 0 if it is not disclosed. CSDI calculation formula is as follows:

$$CSDI_j = \frac{\sum X_{ij}}{n_j}.$$

Where:

$CSDI_j$: Corporate Social Responsibility Disclosure Index company j.

n_j : The number of items for company j, = 79.

X_{ij} : 1 = if the item I disclosed; 0 = if the item I was not disclosed.

Thus, $0 < CSDI_j < 1$

3.4.2. Independent Variables

The size of the company is a scale which can be classified on the size of the company. The size of the company can be measured by the natural logarithm of total assets (Sunarsih, 2005; Fahrizqi 2010). The measurement using the formula: $SIZE = \ln \text{ Total Asset}$.

Profitability is defined as a company's ability to generate profits. In this study, the indicator used is the Return on Assets (ROA) (Sunarsih, 2005; Yuliana, 2008; Fahrizqi 2010). The measurement using the formula: $ROA = \text{Profit before Income Tax} / \text{Total Assets}$.

Leverage can be defined as the level of the company's dependence on debt to finance its operations, thus leverage also reflects the company's financial risk level (Sembiring 2005). In this study, the indicators used to measure the level of leverage are Debt To Equity Ratio (DER). The measurement using the formula: $DER = \text{Total Liabilities} / \text{Total Equity}$.

Board size (UDK) referred to in this study is the large number of board members in a company. In calculating the board size in this study is the same as that already used Sembiring (2005) by looking at the number of board members in the company. Measurement of the board of commissioners in this study is as follows: $UDK = \Sigma \text{ Board of Commissioners}$

3.5. Analysis Method

The data is processed and analysed using SPSS version 20. The statistical method used to test the hypothesis in this study is to use multiple regression analysis to examine the relationship between independent variables and the dependent variable.

4. RESULTS AND DISCUSSION

4.1. Classical Assumption Test Results

Test for normality in this test using the normal chart analysis of P-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 of the value of tolerance and the variance inflation factor (VIF). The test results showed no tolerance for independent variables that have a value tolerance of less than 0.10. Therefore, it can be concluded that there is no multicollinearity between independent variables in the regression model. Heteroskedasticity test is conducted by test glejser. Based on the test glejser' results that the significance probability value above 5% confidence level. So we can conclude the regression model free from their heteroskedasticity. Autocorrelation test is conducted by test Durbin Waton (DW-Test). Based on test results, it obtained autocorrelation value of Durbin Watson (DW) of 1.556. While the lower limit value (dl) sebesar 1,071 and the upper limit value (du) amounted to 1,835. Thus obtained value DW is between the value and the value du (dl $\leq$ DW $\leq$ du), so the result of the autocorrelation test are inconclusive for regression models were used.

4.2. Hypothesis testing

Based on test results obtained by the value of the coefficient of determination adjusted R² of the value of Adjusted R² 0,478 (47.8%). This means that 47.8% of variation of CSR disclosure can be influenced or

explained by size, profitability, leverage and board size companies, while 52.2% of CSR disclosure can be influenced or explained by other variables not examined in this study.

Multiple linear analyses are used to obtain the regression coefficients will determine whether the hypothesis made will be accepted or rejected. Then, they obtained the following equation:

$$CSDI = .083 + 0.08 \text{ SIZE} + 0.008 \text{ PROF} + 0.349 \text{ LEV} + 0.070 \text{ UDK} + \epsilon$$

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 the company's CSR disclosure. The test results of the research hypotheses by t test as follows:

Variable size has a t value of -1.235 and a sign value 0.228. $T_{count} > t_{table}$ (-1.235 > -2.060) then H1 is rejected. It can be concluded that the variable size does not affect the company's CSR disclosure. Profitability variable t has a value of 1.063 and 0.298 sign value. $t < t_{table}$ (1.063 < 2.060), then H0 is accepted. It can be concluded that the variable does not affect the profitability of the company's CSR disclosure. Variable leverage has value of 1.983 and 0.058 sig. $t < t_{table}$ (1.983 < 2.060), the H3 is rejected. It can be concluded that leverage variable does not affect the disclosure of CSR Company. Variable board size has a value of 4.073 t and 0.000 sign value. $t < t_{table}$ (4.073 > 2.060), then H0 is rejected. It can be concluded that the board size variable effect on the company's CSR disclosure.

Simultaneous testing the F value = 7.631 with probability 0.000. $F_{count} > F_{table}$ (7.631 > 2.76), then H0 is rejected, meaning together (simultaneously) No effect of firm size (size), profitability, leverage and board size to disclosure of CSR.

4.3. Discussion of Research Results

4.3.1. Size Effect To CSR Disclosure

Variable size proxied by total assets of the company. The test results show t value of 1.235 and a significant level of 0.228 is higher than $\alpha = 0.05$. This indicates that the first hypothesis is rejected, which states that the greater the total assets of the company, the greater the company's CSR disclosure.

The results support the research conducted by Anggraini (2006), which failed to prove the significant effect of firm size (size) of the company's CSR disclosure.

4.3.2. Influence Profitability To Disclosure CSR

Profitability variables proxy for the return of assets (ROA), showed no effect on the disclosure of CSR with t value of 1.063 and a significant level of 0.298 is higher than $\alpha = 0.05$. This may imply that the high and low level of profitability will not affect the broad disclosure of CSR. Capaldi (2006) in (Yuliana, 2008) found, relationship with the profitability level of CSR disclosure widest is influenced by the perspective associated with the company dualism CSR relationship with income. Most companies view CSR as a reduction to income and partially sighted unisex otherwise. Thus, the profitability variable effect on CSR disclosure on condition there is another factor in the relationship, namely the company's perspective on CSR. The results are consistent with research Sembiring (2005), Anggraini (2006), and Juliana (2008) who found influence did not affect the profitability of the company's CSR disclosure.

4.3.3. Influence Leverage to Disclosure CSR

Variable leverage proxied by the ratio of debt to equity showed no effect on the company's CSR disclosure with a t value of 1.983 and a significant level of 0,058 is higher than $\alpha = 0.05$. This may imply that the high and low level of leverage does not affect the broad disclosure of CSR. The results of this study are consistent with the results of research Sembiring (2005), Anggraini (2006), and Fahrizqi (2010) who found that the leverage does not affect the disclosure of CSR.

4.3.4. Effect Size BOC To Disclosure CSR

In this study, board size as measured by the number of board members that are owned by the company shows significant effects on the disclosure of CSR with t value of 4.073 and a significant level of 0.000 under $\alpha = 0.05$. It has been suggested that the high and low levels of board size affects the broad disclosure of CSR. The results of this study failed to show a positive effect on the disclosure of CSR. Thus, in this study are consistent with research conducted by Yidia Yulita who proved the positive effect of board size on the disclosure of CSR.

5. CONCLUSIONS AND LIMITATIONS RESEARCH

5.1. Conclusion

The results of this study concluded that company size has no effect on CSR disclosure, so that it can be concluded that the size does not affect the size of the area of CSR disclosure. The results of this study are not consistent with agency theory which states that large companies have a large agency costs. Therefore, large or small companies do not affect the disclosure of CSR. While no effect on the profitability of CSR disclosure. So the high and low level of profitability will not affect the broad disclosure of CSR. Profitability relationship with CSR disclosure level is influenced by the perspective associated with the company dualism CSR relationship with income. Most companies view CSR as a reduction to income and partially sighted unisex otherwise. Leverage has no effect on the disclosure of CSR, so that the high and low levels of leverage extensive disclosures would not affect the company's CSR. While the board size effect on the company's CSR disclosure, so that the number of commissioners will affect the extent of the company's CSR disclosure.

5.2. Suggestions for further research

Based on the limitations, then for further research, it is recommended to use a sample of companies that have made sustainability report in the disclosure of CSR activities in it, so CSR wider and not just limited to the annual report just as well as the addition of independent variables associated with the disclosure of CSR, such as the type industry growth, and others.

Contributions practical management of the company is expected to have a broader view of the comprehensive manner of CSR so that the application is not just philanthropy alone, and integrating social issues and the environment into the company's operations and communicate with stakeholders in the sustainability report.

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