THE DETERMINANTS OF CSR DISCLOSURE: EVIDENCE FROM INDONESIAN COMPANY

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ABSTRACT:

The awareness of the importance of implementing corporate social responsibility (CSR) is a trend that is widely discussed by companies around the world today, in line with the growing concern of the global community for products that are environmentally friendly and produced by paying attention to social principles. In Indonesia, there are already laws that regulate CSR, such as Law no. 40 of 2007 and Government Regulation No. 47 of 2012 concerning Social and Environmental Responsibility of Companies. But many Indonesian companies have not done CSR activities well, it appears that Indonesia still has a low level of CSR quality compared to other Southeast Asian countries such as Singapore, Malaysia and Thailand. The aim of this study is to investigate the potential effects of corporate governance and financial characteristics on the extent of corporate social responsibility (CSR) disclosure focusing on the Indonesian companies. The sample in this study were all companies listed on the IDX for the 2016-2018 period. The independent variable in this study is CSR disclosure. Meanwhile, the dependent variable consists of corporate governance as proxy for CEO duality, company size, women on board, board's age, industry profile, number of board meetings and board size. The other dependent variables consists of financial characteristic as proxy for protitability and financial leverage. Multiple regression analysis was developed to identify factors that affect the extent of CSR disclosure.

Keywords: Corporate Social Responsibility, Disclosure, Corporate Governance, Financiall Characteristic, IDX.

RESEARCH BACKGROUND

In the past, if they worked within the boundaries of the law, produced a profit and provided jobs for members of society, corporations were deemed to have fulfilled their duties (Epstein et al., 1976). Nevertheless, lately, businesses are also expected to be more socially conscious for the society in which they work.

Companies are expected to minimize waste, effectively and efficiently use natural resources, maintain a diverse workforce, provide minority and female jobs, eradicate racial and sexual discrimination, and more (Adebayo, 2000).

Despite an increased understanding of socially responsible practices globally, there are still many instances of less socially responsible businesses. For example, in Indonesia, the case of Teluk Buyat (which causes health problems for people living in Teluk Buyat) and the case of Lapindo (mud floods covering a massive area in Sidoarjo, forcing people living in those areas to evacuate). For example, there are several similar cases in other countries: Exxon Valdez (legendary environmental tragedy), Bhopal-Unior Carbide (citizens killed and injured), and Nike (employment of underage children).

In Indonesia, there are already laws that regulate CSR, such as Law no. 40 of 2007 regarding Limited Liability Companies and Government Regulation No. 47 of 2012 concerning Social and Environmental Responsibility of Limited Liability Companies. According to Article 1 point 3 of the Company Law, Social and Environmental Responsibility is the company's commitment to participate in sustainable economic development to improve the quality of life and the beneficial environment, both for the company itself and the local community and society in general. In general, policymakers' current attention to CSR has shown an awareness that there is a potential for adverse impacts from business activity. Of course, these bad impacts must be reduced in such a way that they do not endanger the safety of the community and at the same time remain conducive to the business climate. The concept and practice of CSR have shown new symptoms as a real imperative to be implemented. Capital owners no longer consider CSR as a waste. The community also sees this as something necessary. This is related to increasing social awareness of humanity and the environment.

The study aims to identify the important determinants that influence the degree of disclosure of CSR. More explicitly, it covers both corporate governance and financial indicators of the level of CSR data disclosed from 2016-2018 by the company listed in IDX. Nine variables are mentioned in total, namely: CEO duality, company size, women on board, board's age, industry profile, number of board meetings, board size, profitability and financial leverage. For the framework of CSR disclosure, which consists of three sub-dimensions, namely environmental, social and governance, the environmental, social and governance (ESG) disclosure score is used as a proxy. This research, unlike previous observational studies, involves a wider sample of firms extracting more accurate outcomes. As the dimension of the industry profile is restricted to use, this study incorporates this dimension into the proposed research model to assess the importance of the sector profile in the framework of CSR disclosure. The size of CSR disclosure based on GRI 4 guidelines using a list of 79 items. Finally, the role of modern corporate government features, such as women on board and the number of board meetings in the framework of CSR disclosure, is intended to be discussed for the first time. The study contributes to the understanding of CSR disclosure determinants in order to enhance the application of disclosure guidelines and allows stakeholders to classify the form of businesses through a CSR disclosure.

LITERATURE REVIEW

Stakeholder theory

Concepts of agency, signalling, authority, and stakeholder perspectives are often discussed in CSR discussions (Nugraheni & Khasanah, 2019; Amran, 2017; Ramdhony, 2015). Many of these theories has its own set of theoretical perspectives. The topic of stakeholder theory is the topic of the article. Since it includes the role of management in successful disclosure, (Clarkson, 1995) suggested stakeholder theory to analyze and examine CSR. Stakeholder theory, according to Ramdhony (2015) is suitable for organizations operating in developing countries (e.g. Indonesia).

The essential responsibility of management is to defend stakeholders' interests and to assure them that management can make decisions that help everybody. There are two kinds of stakeholders: main and secondary stakeholders (Clarkson, 1995). Shareholders, owners, staff, consumers, and vendors are examples of primary stakeholders; they are people or entities that have an impact on the business and without which it will not be able to exist as a going concern. Secondary stakeholder classes are those that can influence or are influenced by the firm but have little connection to the transactions and vital market continuity (Clarkson, 1995). According to stakeholder philosophy, a corporation is an organization that may deliver benefits to the local society or atmosphere (stakeholders) in addition to performing activities for its own internal purposes (Clarkson, 1995). The aim of stakeholder theory is to raise consciousness and accountability in an institution for its stakeholders; hence, social reporting aids in balancing stakeholders' divergent interests (Al-shamali et al., 2013)

Corporate Social Responsibility

Firms should plan CSR to advise shareholders and other stakeholders about the CSR activities of the company. What exactly is corporate social responsibility? Corporate social monitoring or sustainability reporting is a mechanism for publicly revealing an organization's fiscal, financial, and social success, according to Global Reporting Initiatives (GRI) (www. globalreporting.org/AboutGRI/FAQs/FAQSustainabilityReporting.htm). Many companies have discovered that financial statements alone no longer meets the knowledge requirements of shareholders, consumers, societies, and other stakeholders about overall corporate success. Meanwhile, (Gray et al, 1987) define CSR as "the method of transmitting the social and environmental implications of organizations' economic behavior to specific interest groups within society and to society at large." As such, it entails expanding organizations' (especially companies') responsibility outside the conventional position of offering a financial report to capital owners, particularly shareholders. Such an extension is predicated on the fact that corporations have obligations that go beyond merely making profits for their owners.

CSR is now usually prepared on a cooperative basis, resulting in companies disclosing a variety of products and using a variety of notification formats (Veronica Siregar & Bachtiar, 2010). As a result, comparing social activities among firms becomes difficult. GRI was established in 1997 to solve this problem by developing guidelines that can be implemented internationally for fiscal, environmental, and social performance reporting (Bhimani and Soonawalla, 2005). GRI also published sustainability reporting standards, which

can be found at www.globalreporting.org.
Many studies regarding CSR have been done in many countries. Garas & ElMassah (2018) examined 147 firms in the Gulf Cooperation Counci (GCC) countries and found that internal CG mechanism such as independence of board members, the separation of powers, between the CEO and chairman positions and the existence of an independent audit committee, also have a positive influence on CSR disclosures. Javaid Lone et al (2016) found that corporate social responsibility (CSR) disclosure in Pakistani companies has increase in the extent of CSR disclosure after the introduction of CSR voluntary guidelines in 2013. Fallah & Mojarrad (2019) found that ownership concentration as the most influential variable on CSR disclosure heavy-pollution industries in Iran. Naseem et al (2017) found that board size, number of meetings and board independence are significant corporate governance characteristics to establish the link with corporate social responsibility disclosure in Pakistani Stock Exchange. Other studies have shown an increase in the quality and quantity of CSRD in Malaysian firms (Esa & Ghazali., 2012; Sadou et al., 2017). Hamrouni et al., (2019)found that leverage ratios are positively related to CSR disclosure scores in French companies. Isabel & Montero, (2018) found that income and expenditure policies have a direct impact on their level of CSR in Spanish Municipalities.

HYPOTHESIS DEVELOPMENT

CEO duality refers to the case in which the same person holds the positions of CEO and Chairman at the same time. CEO duality has not been thoroughly studied as an explanatory variable concerning the degree of CSR disclosure. The regulators and investors in the USA suggest the separation between the position of the CEO and the duties of the chairman because companies with CEO duality can suffer from weak corporate governance in the US (Chen et al., 2008). Said et al., (2009) did not discover any link between the duality of the CEO and the degree of Disclosure of CSR inside Malaysian businesses. Gul and Leung (2004) found that in 1996, CEO duality was correlated with lower levels of corporate voluntary disclosures in a sample of companies listed in Hong Kong; therefore, CEO duality reduces the probability of companies extensively communicating CSR. The separation of the CEO from the duties of the President and the placement of an outside member with diverse experience can be suggested as a solution (Li et al., 2010). This research hypothesizes that it is anticipated that businesses with CEO duality would present lower CSR disclosure levels:
H1: CEO duality has a negative effect on the extent of CSR disclosure.

Normally, the company’s size is used as a proxy of its exposure. Regarding larger businesses, the CSR disclosure can be used as a weapon by the managers to handle or reduce the political expense (Mohd Ghazali, 2007). Anumber of different metrics have been used to measure the company’s size, including as the overall asset (Siregar & Bachtiar, 2010; Esa & Ghazali, 2012; Khan, 2010; Rahman et al., 2011). The positive relationship between the company’s size and the degree of CSR disclosure has been recorded by numerous empirical studies in different countries (Siregar & Bachtiar, 2010; Khan, 2010; Rahman et al.,

2011; Esa & Ghazali, 2012; Giannarakis, 2014; Sadou et al., 2017; Welbeck et al., 2017)). Thus, the underlying presumption is:
H2: Company's size has a positive effect on the extent of CSR disclosure

The presence of women on the board of directors can be used as a proxy of board diversity. Gender composition has been traditionally associated with the financial performance, and no satisfactory evidence exists regarding this and the CSR disclosure. Women's experiences may force the board to meet a wider variety of customer's expectations and establish more effective stakeholder management (Zhang et al., 2013); (Naseem et al., 2017); thus, the implementation of CSR initiatives is more feasible. In contrast, Khan (2010) and (Giannarakis, 2014) did not find a significant relationship between the women's representation on the board and CSR reporting by private commercial banks of Bangladesh. Thus, based on the above studies, the hypothesis is:
H3: The presence of women on the board of directors has a positive effect on the extent of CSR disclosure.

As far as the age of the board and the level of CSR disclosure, there is no available empirical research. The age of the board is used as a proxy for the corporate experience of directors (Andersona et al., 2004). Khan et al., (2019) and (Giannarakis, 2014) found that age diversity to be negatively associated to CSR disclosure. However, Ibrahim & Hanefah, (2016) states that there is a positive relationship between young board members and CSR disclosure.
H4: The board's age affects the extent of CSR disclosure.

CSR strategies adopted by firms in a specific sector vary considerably from other sectors. Certain sectors aim to outperform other industries. Chemical, fertilizer, oil and gas firms from the polluting sectors possess a higher level of CSR disclosure (Gamerschlag et al., 2011). Likewise, in comparison to the service industry, the consumer and energy supply sectors tend to reveal more CSR detail. Due to comprehensive financial, industrial, environmental and regulatory controls, European companies operating in the manufacturing sector have higher CSR reports compared to other sectors (Ho and Taylor, 2007). Financial sector businesses disclose more CSR to show that benefit maximization is not the primary aim of organizations (Giannarakis, 2014).
H5: The extent of CSR disclosure significantly differs among different industries.

The number of board meetings is used as a proxy for board vigilance (Laksmana, 2008), and it is a deciding factor in improving a board's effectiveness and the extent of monitoring activity carried out (Laksmana, 2008). Naseem et al., (2017); Nugraheni & Khasanah, (2018) state the positive relationship between board meeting and CSR disclosure. As CSR programs are integrated into company activities, in each board meeting, CSR strategy and policy are required to be addressed. The increased number of board meetings is hypothesized to be more likely to be correlated with CSR tasks, such as CSR disclosure:
H6: The number of board meetings has a positive effect on the extent of CSR disclosure.

As a proxy, board size may be used to calculate board governance (Zainon et al., 2012). Research conducted in several countries shows that there is a positive rellationship between the degree of CSR disclosure and the board size (Siregar & Bachtiar, 2010; Esa & Ghazali, 2012; Giannarakis, 2014; Sadou et al., 2017; Naseem et al., 2017). It is maintained that the control mechanism becomes more effective as the board size becomes greater.
H7: Board size has a positive effect on the extent of CSR disclosure.

The positive relationship between profitability and disclosure of CSR can be attributed to the independence and versatility of a profitable business to disclose its CSR activities to stakeholders more extensively, thereby legitimizing its presence (Haniffa and Cooke, 2005; Khan, 2010). CSR is expected to create higher demand and greater growth for firms. These firms should realize the value that CSR adds through reduced business risks.
H8: The profitability has significant effect on the extent of CSR disclosure.

As a proxy for the creditor's strength, the amount of corporate financial leverage may be used (Liu and Anbumozhi, 2009). Alsaeed (2006) argued that more information should be revealed by those leveraged companies to meet the requirements of data creditors. There are a positive correlation between leverage and the degree of CSR disclosure (Rahman et al, 2011; Esa & Ghazali, 2012; Hamrouni et al., 2019).
H9: The financial leverage has significant effect on the extent of CSR disclosure.

RESEARCH METHODOLOGY

Our samples consists of all public firms listed in the Indonesian Stock Exchange (IDX) in 2016-2018, with complete data. Annual reports were analyzed by content analysis method and multiple regression was used to test hypotheses. Research model for this researsh is:

$CSDI = a_0 + b_1CEOD + b_2CSIZE + b_3WOB + b_4BAGE + b_5INDS + b_6NOBM + b_7BSIZE + b_8PROFt + b_9 DER_t + e$

CSDI = corporate social disclosure index (CSDI);
CEOD = Dummy variable (value 1 = CEO and Chairman, value 0 = otherwise);
CSIZE = Total Assets;
WOB = Percentage of women on board;
BAGE = Board average age;
INDS = Dummy variables for different industry profiles: financial, industry, information technology, utilities companies, materials, consumer staples, consumer discretionary, energy and telecommunication, while health care is used as a reference variable;
NOBM = Total number of corporate board meetings for the year 2016-2018;
BSIZE = Number of directors on the company's board;
PROF = Return on equity;
DER = Debt to equity ratio;

Classic Assumption Test.

Normality test, this test is used to test whether the data is normally distributed or not in the regression model on the independent variable and the dependent variable. Kolmogorov-Smirnov non-parametric statistics were used in the test. Stated normal if the significance> 0.05. Multicollinearity test, this test is used to test whether the regression model correlates with the independent variables. A good regression model should not correlate with the independent variables or not experience multicolonierity. The regression model can be seen from the tolerance value and variance inflation factor (VIF) to detect multicollinearity in the regression model. Multicollinearity will occur if the tolerance value is ≤0.10 or equal to VIF ≥ 10. Autocorrelation test, this test is used to test whether the regression model correlates with the confounding error of period t and period t-1 (previous). If there is a correlation, then there is an autocorrelation problem. To test autocorrelation, it can be done with the Durbin-Watson test (DW test). If the value dw> du, then the data is declared there is no autocorrelation.

Hypothesis test

T-Test (Partial) is used to shows how much the independent variable can individually influence the dependent variable. If the significance value of t <0.05, then the hypothesis is accepted, indicating a significant influence between the independent variable on the dependent variable. Statistical Test F

Is used to shows whether all the independent variables used in this research model have a simultaneous influence on the dependent variable. If the significance value <0.05, simultaneously, the independent variable significantly affects the dependent variable. Determination Coefficient Test is used to see the value that shows the extent of the ability of the independent variable to explain the dependent variable with a range of values between 0 and 1.

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