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Corporate Social Responsibility Disclosure in 45 Liquid Companies

Abstract. Introduction*. Company characteristics are divided into three groups. There are structured related variables (likes company size, leverage and type of stock ownership), performance related variables (like profitability, company type and company basis) and market related structured (like industry type). The company characteristics in this study consisted of company size, leverage, and profitability. The company size was measured by the Natural Logarithm from the total assets, leverage was assessed by Debt to Equity Ratio, profitability was evaluated by Earning Per Share, and corporate social responsibility disclosure was observed by the Global Reporting Initiative Generation 4 checklist. The obtained data were secondary data from the annual reports of 45 liquid companies listed on the Indonesia Stock Exchange in 2016-2018. The sampling method in this study was purposive sampling. Hypotheses testing in this study used multiple regression analysis in SPSS version 16.*

Purpose. *The purpose of this study was to provide empirical evidence about the influence of company size, leverage, and profitability on corporate social responsibility disclosure.*

Results*. The results showed that company size affected corporate social responsibility disclosure in Indonesia's 45 liquid companies with Sig. 0.003 < 0.005. Leverage did not affect corporate social responsibility disclosure in 45 liquid companies with Sig. 0.104 ≥ 0.005. Profitability did not influence corporate social responsibility disclosure in 45 liquid companies with Sig. 0.399 ≥ 0.005. Concurrently, all independent variables affect 0.215 of the corporate social responsibility disclosure, while other factors controlled the rest 0.785.*

Conclusions*. The results showed that company size affected corporate social responsibility disclosure in Indonesia's 45 liquid companies. Leverage and profitability did not affect corporate social responsibility disclosure in 45 liquid companies. Concurrently, all independent variables affect 0.215 of the corporate social responsibility disclosure.*

Keywords*: company size; leverage; profitability; corporate social responsibility disclosure; Global Reporting Initiative Generation 4.*

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Розкриття інформації про корпоративну соціальну відповідальність у компаніях

Анотація. *Характеристики компанії поділяються на три групи. Існують структуровані змінні (наприклад, розмір компанії, леверидж і тип володіння акціями), змінні, пов'язані з ефективністю (наприклад, рентабельність, тип компанії та основа компанії), і ринкові структуровані змінні (наприклад, вид галузі). Характеристики компанії в даному дослідженні включали розмір компанії, леверидж і рентабельність. Розмір компанії визначався натуральним логарифмом від загальної величини активів, леверидж оцінювався як співвідношення власних і позикових коштів, рентабельність оцінювалася за прибутком на акцію, а розкриття корпоративної соціальної відповідальності відслідковувалося на основі Глобальної ініціативної звітності Покоління 4. Отримані дані були вторинними даними з щорічних звітів 45 ліквідних компаній, зареєстрованих на Індонезійській фондовій біржі у 2016-2018 роках. Метод вибірки в даному дослідженні – цілеспрямована вибірка. Перевірка гіпотез у дослідженні здійснювалася на основі множинного регресійного аналізу в SPSS версії 16.*

Мета дослідження полягала в отриманні емпіричних даних про вплив розміру компанії, левериджу і рентабельності на розкриття інформації щодо корпоративної соціальної відповідальності.

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Результати дослідження свідчать, що розмір компанії вплинув на розкриття корпоративної соціальної відповідальності в 45 ліквідних компаніях Індонезії з Sig. 0,003 < 0,005. Леверидж не вплинув на розкриття корпоративної соціальної відповідальності в 45 ліквідних компаніях із Sig. 0,104 ≥ 0,005. Рентабельність не вплинула на розкриття корпоративної соціальної відповідальності в 45 ліквідних компаніях із Sig. 0,399 ≥ 0,005. Одночасно всі незалежні змінні впливають на 0,215 розкриття корпоративної соціальної відповідальності, у той час як решта факторів контролюють інші на 0,785.

Таким чином, проведені дослідження свідчать, що розмір компанії впливає на розкриття корпоративної соціальної відповідальності в 45 ліквідних компаніях Індонезії. Леверидж і рентабельність не вплинули на розкриття корпоративної соціальної відповідальності у них. Одночасно всі незалежні змінні впливають на 0,215 розкриття корпоративної соціальної відповідальності.

Ключові слова: *розмір компанії; леверидж; рентабельність; розкриття корпоративної соціальної відповідальності; Глобальна ініціативна звітність Покоління 4.*

Formulation of the problem. In the utilitarian theory of John Locke (1632-1702), admissible activities lead to an equalization of most prominent advantages and least cost [42, p. 118]. The company plans to accomplish the most extreme benefits with negligible expenses. Thus, enterprises are less worried about the natural and social effects brought about by them. Objections from the public, the administration, and Non-Governmental Organizations about the ecological contamination because of the company's operations are at the center of attention.

Every movement has a relationship with other activities. Negative externalities occur when individual or group actions produce destructive consequences for other people [11, p. 1]. Externality is an effect of transaction between a buyer and a seller directly affects a third party. Negative externalities, such as pollution, cause the socially desirable quantity in a market to be less than the equilibrium quantity. Positive externalities, such as technology spillovers, cause the socially desirable quantity to be greater than the equilibrium quantity [21, p. 239]. When externalities are present, private and social costs diverge, so that profit maximizing decisions are socially inefficient because prices do not carry all the relevant information. If the social cost of an activity is higher than its private cost/ negative externalities [6, p. 23].

In Buyat Beach, pollution and environmental damage caused malaria and diarrhea. The case of PT Inti Indorayon Utama in North Sumatra harming river water and vegetation sources, and PT Freeport Indonesia in Papua dumping its waste into mountains and streams [34, p. 2]. This phenomenon causes the corporate social responsibility disclosure is intriguing to examine.

Companies focus on developing operational performance to achieve profits. In business structure and practice, it is important to synergize the three fundamental pillars; company earnings (profit), environment (planet), and society (people). These fundamental pillars are known as the Triple Bottom Line [14, p. 72].

Various rationales have been advanced to explain the phenomenon of corporate social reporting. Among these has been legitimacy theory which posits that corporate disclosures are made as reactions to environmental factors and in order to legitimize corporate actions [23, p. 1]. There would appear to be not direct connection between ethical behavior by the management of organizations and the enlarged scale of disclosures [41, p. 670].

The same limitation applies to environmental disclosures which may be motivated by organizational legitimacy or market pressures, or by a belief in the social contract. It is also important to consider the level of detail in which information will need to be given because of the fact that such forms of reporting are voluntary to some extent, but, at the same time, not really in view of disclosure requirements on risk and control management (including social, ethical and environmental aspects), brand and reputation issues and the ethical dimensions of remuneration and auditing [36, p. 12]. Corporate reputation is a multi-stakeholder concept that is reflected in the perceptions that stakeholders have of an organization. The instruments used for measuring and managing reputation can also be usefully employed in terms of corporate responsibility [3, p. 1].

GRI G4 defines the contents of the report and ensures the quality of information reported in terms of company sustainability reporting. GRI consists of 3 categories (91 items), namely economy (9 items), environment (34 items), and social, which comprises of sub-categories of labor practices and decent work (16 items), human rights (12 items), community (11 items), and product responsibility (9 items). The company uses GRI as a standard for conveying corporate sustainability [20, p. 47].

Legitimacy theory relies upon the notion of a social and on the maintained assumption that managers will adopt strategies, inclusive of disclosure strategies, that show society that the organization is attempting to comply with society's expectations (as incorporated within the social contract). Moreover, Community expectations are not considered static, but rather, change across time thereby requiring organizations to be responsive to the environment in which they operate. An organization could, accepting this view, lose its legitimacy even if it has not changed its activities from activities which were previously deemed acceptable/legitimate [12, p. 319].

Company with higher corporate social responsibility ratings present a statistically larger size and a higher media exposure, and belong to more environmentally sensitive industries, as compared to company with lower corporate social responsibility ratings. The most influential variable for explaining company's variation in corporate social responsibility ratings is media exposure, followed by size and industry. Therefore, it seems that the legitimacy theory, as captured by those variables related to public or social visibility, is the most relevant theory for explaining corporate social responsibility disclosure practices of Spanish listed companies. Thus, Spanish companies report on corporate social responsibility activities mainly to act and be seen acting within the bounds of what is considered acceptable according to the expectations of stakeholders on how their operations should be conducted [50, p. 361].

Businesses succeeded in changing the minds of their critics in a number of important respects. While social and environmental initiatives by companies should continue to be judged by their level of sincerity and real contributions, companies themselves showed in a significant way that corporate attitudes to sustainable development are evolving. Companies operating around the world realize they can no longer afford to ignore the global ramifications and responsibilities associated with their business activities [18, p. 69]. Larger companies demonstrate better corporate social responsibility performance than smaller companies. Small companies and/or large companies are equally motivated to participate in corporate social responsibility activities. However, compared to smaller companies, larger companies tend to do better in corporate social responsibility, due to higher visibility, greater resource access, and better internal operating system [57, p. 480].

Investors see social and environmental information as very important in making investment decisions and hence demand adequate disclosure of such information. The community has been identified as an important member of the stakeholder system. Information on community involvement in annual report should have a significant relevance to investment decision [65, p. 1]. Companies with lower leverage ratios demonstrate better corporate social responsibility performance than companies with higher leverage ratios [57, p. 480]. Leverage is the amount of debt used to finance company resources [7, p. 27]. Profitability is the main determinant for the aggregated and most of individual corporate social responsibility information in Egypt [29, p. 432].

Previous researches such as [8, p. 124], [19, p. 583], [46, p. 101], and [52, p. 42] concluded that there was a relationship between company size and corporate social responsibility disclosure. [59, p. 314], [46, p. 101], and [52, p. 42] stated there was a positive correlation between leverage and corporate social responsibility disclosure. On the other hand, there was a positive correspondence between profitability and corporate social responsibility disclosure, which was in line with [19, p. 583], [46, p. 101], [52, p. 42], and [59, p. 314].

Based on previous research, the outcomes show that corporate social responsibility disclosure was less accurate and biased. While the factors were investigated to influence the precision of corporate social responsibility disclosure, the inconsistencies between the studies have been examined. Based on the research gap, the researcher wants to reevaluate the elements that can impact the accuracy of corporate social responsibility disclosure such as company size, leverage, and profitability with the latest periods and data to acquire representative samples and results.

Analysis of recent research and publications. Determinants of the corporate social responsibility disclosure are considered by researchers, including [49, p. 25], [56, p. 241], [29, p. 441], [47, p. 31], [53, p. 138], [8, p. 124], [19, p. 583], [7, p. 23], [45, p. 6], [63, p. 129], [51, p. 212], [64, p. 5], [22, p. 385], [24, p. 12], [37, p. 125], [59, p. 314], [2, p. 112], [28, p. 62], [61, p. 35], [46, p. 101], [52, p. 42], [54, p. 64] and [62, p. 32].

Formulation of research goals. The purpose of this study was to provide empirical evidence about the influence of company characteristics (company size, leverage, and profitability) on corporate social responsibility disclosure.

Outline of the main research material. In legitimacy theory, organizations create a balance between social values related to their activities with the estimation of standards of conduct in social frameworks. If the two are balanced, then organizational legitimacy is formed. In stakeholder theory, organizations willfully reveal information about environmental, social, and intellectual performance

[12, p. 293]. Legitimacy itself has been defined as a condition or status which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two values systems, there is a threat to the entity's legitimacy [40, p. 2].

Organizations seek to establish congruence between the social values associated with or implied by their activities and the norms of acceptable behavior in the larger social system of which they are a part. Insofar as these two value systems are congruent is called organizational legitimacy. When an actual or potential disparity exists between the two value systems, there will exist a threat to organizational legitimacy [13, p. 122].

In agency theory, an agency relationship as a contract under which one more persons (the principal) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. If both parties to the relationship are utility maximizers, there is good reason to believe that the agent will not always act in the best interests of the principal. The principal can limit divergences of its interest by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit the aberrant activities of the agent [30, p. 5].

Specific and material expenditures are necessary to achieve social performance goals. The same expenditures reduce net income. While the image building and public interest concern may govern the decision to spend for social performance and to disclose social information, more partical considerations may also play a role

[4, p. 38]. The common apex of the decision control systems of organizations, large and small, in which decision agents do not bear a major share of the wealth effects of their decisions and chooses, dismisses, and rewards important decision agents

[16, p. 323]. Such behavior can result in decreased stock performance (as when high executive bonuses reduce corporate earnings) and in strategic decisions that point the firm in the direction of outcomes that are suboptimal from a stakeholder's perspective. As agency theory argues, self interested managers act in ways that increase their own welfare at the expense of corporate stockholders the gain, then owners who delegate decision making authority to their agents will incur both the loss of potential gain [48, p. 36].

Agents must report financial statements to the principal so that the principal can quantify and administer the performance of the agent and the basis for providing compensation to the agent [30, p. 46]. The corporate monitoring by institutional investors can force managers to focus more on corporate performance and less on opportunistic or self-serving behavior. If institutional ownership enhances monitoring, it could also be associated with lower use of discretionary accruals. However, at least in principle, it is possible that managers might feel more compelled to meet earnings goals of these investors, and thus engage in more earnings manipulation [9, p. 4]. According to the agency conflicts hypothesis, the ability of managers to distort information and manipulate earnings depends on the firm's degree of organizational complexity and on the potential for agency gains which may prove to be highly important [43, p. 177]. Businesses consisting of several different industries make it increasingly hard for investors to carefully assess the company's financial statements. In diversified companies, they tend to be less transparent when compared to corporations that focus on one segment [32, p. 626].

Externalities are the effects on parties that have not participated in the decision and lack an effective feedback mechanism to compensate [31, p. 151]. Profit/loss reflects injustice between parties appreciated or endured by a company, so the company is required to act reasonably towards the community and the surrounding environment that bears the impact of company externalities through corporate social responsibility programs [38, p. 6].

Company characteristics can be a predictor guidelines of quality disclosure Theoretically and empirically, some literature reviews explain company characteristics that capable to explain variation of voluntary disclosure in the Annual Report. Each company has special characteristic that different between one entity to another. Company characteristics are divided into three, there are structured related variables, likes company size, leverage and type of stock ownership. The second, performance related variables like profitability, company type and company basis. The third is market related structured like industry type. Company characteristics explain wider variation of voluntary disclosure in the financial report [39, p. 248].

Theoretically, large companies will not escape pressure. They have more activities, give more influence to the community, and have shareholders who pay more attention to social programs. Large companies are more likely to realize economies of scale in corporate social responsibility activities. Big corporations likewise deal with more oversight from the government and the community. Company size is the most significant explanatory variable of corporate social responsibility [10, p. 117].

Total asset is used to measure the size of the company. Company size has correlated with the level of corporate social responsibility activity. Larger companies which arguably are more visible in the public eyes and more politically sensitive disclosed more corporate social responsibility information perhaps to manage their political costs and legitimize their existence. Additionally he stated that larger companies may also engage in more social activities as part of their image building exercise [8, p. 124].

There is a relationship between corporate social responsibility disclosure and company size. The researchers estimate that the larger the size of the company, the higher level of corporate social responsibility disclosure [56, p. 241], [47, p. 31], [53, p. 138], [8, p. 124], [7, p. 30], [19, p. 583], [45, p. 6], [63, p. 129], [51, p. 212], [64, p. 5], [22, p. 385], [37, p. 125], [2, p. 112], [28, p. 62], [46, p. 101], [52, p. 42], [54, p. 64], and [62, p. 32]. However, the results of the study contradict the research results that company size has a negative effect on corporate social responsibility disclosure [24, p. 12]. On the other hand, company size has no effect on corporate social responsibility disclosure [49, p. 25], [29, p. 441], [59, p. 314], and [61, p. 35].

Based on agency theory, companies with elevated levels of leverage will make more social responsibility disclosures so that companies do not turn into the spotlight of creditors [30, p. 52]. Companies with high debt levels will focus on managing corporate social responsibility [59, p. 314]. Leverage affect the corporate social responsibility disclosure [53, p. 138], [63, p. 129], [64, p. 5], [59, p. 314], [61, p. 35], [46, p. 101], [52, p. 42], and [54, p. 64]. The results of this study relate to agency theory which states that larger company tends to disclose broader information. On the other hand, leverage negatively affects the corporate social responsibility disclosure [47, p. 31], [19, p. 583], [24, p. 12]. Beside that, leverage do not affect corporate social responsibility disclosure [49, p. 25], [56, p. 241], [8, p. 124], [7, p. 30], [45, p. 6], [51, p. 212], [22, p. 385], [28, p. 62], and [62, p. 32].

Profitability affect the corporate social responsibility disclosure [29, p. 441],

[53, p. 138], [19, p. 583], [45, p. 6], [71 p. 129], [64, p. 5], [22, p. 385], [59, p. 314], [46, p. 101], [52, p. 42], and [54, p. 64]. The results of this study identify to agency theory, which states that high profits for a company will provide an opportunity for management to bring out and express forms of corporate social responsibility to the wider community. Profitability negatively affects corporate social responsibility disclosure [7, p. 30] and [28, p. 62]. On the other hand, profitability does not affect corporate social responsibility disclosure [56, p. 241], [47, p. 31], [8, p. 124], [24, p. 12], [49, p. 25], [51, p. 212], [37, p. 125], [2, p. 112], [61, p. 35] and [62, p. 32].

Corporate social responsibility disclosure as the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large. As such, it involves extending the accountability of organizations (particularly companies), beyond the traditional role of providing a financial account to the owners of capital, in particular, shareholders. Such an extension is predicated upon the assumption that companies have wider responsibilities than simply to make money for their shareholders

[21, p. 9]. Corporate social responsibility disclosure is a company's operation disclosure in which a company voluntarily contributes to the society in terms of financial, environmental, moral and social investment [7, p. 24].

The Global Report Initiative together with the National Center for Sustainability Reporting establishes a global and credible conceptual framework to sustainability reporting which can be used by various organizations with different company sizes, sectors and locations. Corporate social responsibility disclosure reporting guidelines are called as General Report Initiative Generation 4. The purpose of the establishment of General Report Initiative Generation 4 is to help reporters prepare sustainability reports, find valuable information about sustainability related to organizational critical issues, and create practical standards for sustainability report. Based on literature study, the hypotheses of this research are:

H_1: Company size gives effects on corporate social responsibility disclosure.

H_2: Leverage (Debt to Equity Ratio) gives effects on corporate social responsibility disclosure.

H_3: Profitability (Earning Per Share) gives effects on corporate social responsibility disclosure.

From the classical assumption deviation test, it was found that the data were normally distributed, were not affected by heteroscedasticity and were free from multicollinearity and uncorrelated residuals. Based on this assumption, it is expected that the regression model can be used as an unbiased estimation model or called BLUE (best linear unbiased estimator).

Table 1. **Regression Test Results**

Coefficients							
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-0.380	0.203		-1.874	0.064		
Company Size	0.020	0.007	0.348	3.067	0.003	0.737	1.357
Debt to Equity Ratio	0.007	0.004	0.184	1.642	0.104	0.754	1.326
Earning Per Share	-1.073	0.000	-0.085	-0.848	0.399	0.947	1.056

Source: Author's calculation

The company size shows a significant score of 0.003. It is smaller than the level of significance (α) = 0.05 (0.003 < 0.05). Then, it can be concluded that the company size has an effect on corporate social responsibility disclosure.

The results of this study is in accordance with [56, p. 241], [47, p. 31], [53, p. 138], [8, p. 124], [19, p. 583], [7, p. 30], [45, p. 6], [63, p. 129], [51, p. 212], [64, p. 5], [22, p. 385], [37, p. 125], [2, p. 112], [28, p. 62], [46, p. 101], [52, p. 42], [54, p. 64], and [62, p. 32]. It contradicts the results of a research conducted by [59, p. 314]. However, the test results are in line with statement that externalities occur when the linkage of a unit activities affect the welfare of other economic factors occurred out of the market mechanism. The greater the company size is, the more increasing welfare activities on other economic factors will be.

The leverage (measured by Debt to Equity Ratio) shows significance score of 0.104. It is bigger than the level of significance (α) = 0.05 (0.104 > 0.05). Therefore, it indicates that the leverage (measured by Debt to Equity Ratio) has no effect on corporate social responsibility disclosure.

The results of this study is compliant with the results of [49, p. 25], [56, p. 241], [8, p. 124], [7, p. 30], [45, p. 6], [51, p. 212], [22, p. 385], [28, p. 62] and [62, p. 32]. However, it does not support the results of a research by [9, p. 124]. Moreover, the result is in contrary to the agency theory. Companies with high levels of leverage will make more social responsibility disclosures thus those companies do not become the creditors' spotlight [30, p. 53].

The profitability (measured by Earning Per Share) shows significance score of 0.399. It is bigger than the level of significance (α) = 0.05 (0.399 > 0.05). Therefore, it can be identified that the profitability (measured by Earning Per Share) partially has no effect on corporate social responsibility disclosure.

The results of this study are in line with [56, p. 241], [47, p. 31], [8, p. 124], [24, p. 12], [49, p. 25], [51, p. 212], [2, p. 112], [61, p. 35] and [62, p. 32]. The test result shows that the profit earned which is measured by Earning Per Share has no effect on the society, as measured by corporate social responsibility disclosure although the average profitability measured by Earning Per Share has increased every year, and the increase is in line with the increasing average corporate social responsibility disclosure each year.

The test results are not in compliant with the opinion that profit or loss which was undergone by companies reflects the injustice between parties, hence the company must take reasonable responsibility to the community and the environment that bear the impacts brought about by company externalities through corporate social responsibility programs [38, p. 6].

Conclusions. The conclusions are based on the analysis and test on the effect of company size, leverage (Debt to Equity Ratio), and profitability (Earning Per Share) on corporate social responsibility disclosure, it can be concluded that company size gives effects on corporate social responsibility disclosure. The more enormous is the company size, the greater the corporate social responsibility disclosure will be required. Furthermore, leverage which is assessed by Debt to Equity Ratio has no effect on corporate social responsibility disclosure. The higher the leverage (Debt to Equity Ratio) of the company does not stand along with higher corporate social responsibility disclosure. Profitability which is evaluated by Earning Per Share, has no effect on corporate social responsibility disclosure. The higher the profitability (Earning Per Share) of the company does not require greater corporate social responsibility disclosure.

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