

The Determinant of Corporate Social Responsibility Disclosures: Evidence from Mining Company in Indonesia

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Abstract— This research is to make an empirical evidence of firm size, ownership structure and board of commissioners on corporate social responsibility disclosure. The data were collected from 16 mining companies listed on Indonesia Stock Exchange. The technique's used in this research are multiple regression analysis and simple regression analysis using SPSS application version 16. The study provides empirical evidence that the size of the company and ownership structure affect corporate social responsibility disclosure, while board of commissioners had no effect on the corporate social responsibility disclosure.

Keywords—firm size, ownership structure, board commissioners, corporate social responsibility disclosure

I. INTRODUCTION

In this recent decade, the company's priority is not only on economic's perspective but also on social and environment aspect. The company has responsibility both to shareholders and stakeholders (customers, employee, community, owners or investor, supplier, etc.) [1].

Companies from various business sector, especially the industrial sector, must carry out the social and environmental responsibility because they utilize of natural resources. They directly or indirectly have an impact to the environment.

The Lapindo mud problem in Sidoarjo, West Java, Indonesia is one example of negative effect to environment due to company activities. Lapindo Brantas, Inc is a company who engaged in mining sector. The Lapindo mud problem is caused by the company's negligence in drilling for oil, resulting overflow of hot mud to the surface which is dangerous for the surrounding residents and environment [2]. In Kalimantan, the large number of ex-mining pits left open, caused an environmental damage and has even killed 34 people from 2011 – 2019 [3]. In Papua, the community require PT. Freeport Indonesia to close the operation because considered to have committed a number of environmental damage due to the waste, human rights violation, social conflicts, etc [4].

Some of social and environmental cases have significant impact both to the company and the society. The bussiness who are not well managed by the company turned out to have a very large impact, even the goal of achieving profits turned into multiple losses. Therefore, social and

environmental issues cannot currently ignored and must be placed as an important thing in the company. The bussiness must considered the importance of corporate social responsibility disclosure (CSR disclosures). The government of Indonesia mandatory require a company to disclose their social reponsibility as state on clause 66 of Law No. 40 of 2007 on Limited Liability Company.

The CSR disclosures aims to provide information for both shareholders and stakeholders about the condition of product, employees, the community and the surrounding environment and this information will help in making decisions [5]. This disclosures also to help the society understand whether the company has achieved social performance [6].

The CSR theory, based on triple bottom line (profit, people, planet) require multi disciplines science, especially social science & environmental science. Social science focus on how to build relationship with the community, improve welfare. Environmental science focus on how to keep the environment from being polluted by company activities. The combination of social science, environmental science, business and economic science can create corporate sustainability in the long run.

The purpose of this research is to examine the effect of firm size, ownership structure and board commissioner to CSR disclosures. Mining company who listed in Bursa Efek Indonesia (BEI) from 2013 – 2016 are selected as an object at this research. The mining sector are assumed as the company who give the most influential impact to the social and environment.

II. BACKGROUND AND LITERATURE REVIEW

The problem of natural resource exploitation and environmental pollution has grow rapidly in Indonesia, recent years [7]. It shows that the operation of the company in Indonesia not pay attention on environment. The government in Indonesia issued the Law No. 40 of 2007, the company is required to carry out social and environmental responsibility. There are no standards on how the program should be formed and CSR is implemented based on the understanding of each company on CSR [8]. CSR in mining industry is regulated in Law No. 4 of 2009 on Mineral and Coal Mining. Mining company is often rate as the biggest cause to environmental damage due to its operation. In clause 3, the mineral and coal management has a purpose to

ensure the benefits of its operation to be going concern and environmentally friendly.

A. Agency Theory

Agency theory discusses the relationship between agent and principal. Principal provides fund to finance company, while the agent has an obligation to manage what the principal has mandated for the agent. The agency problem arise due to information assymetry between agent and principal. The principal does not have adequate information about the company and the agent has more information about the company. This condition has led to an imbalance of information between agent and principal. The assumption arise that agents cover up some information that is known by the principal. Information asymmetry and conflict of interest make the agent to reveal miss information to the principal.

B. Legitimacy Theory

Legitimacy is the psychological condition of people or groups of people who are sensitive to the surrounding environment both physical and nonphysical. Legitimacy of the company can be seen as something that attracted or wanted for people and society [9]. Legitimacy is potential benefits or resource for company to survive and going concern. The legitimacy theory encourage company to operates in accordance to the norm and boundaries that apply to the society. Legitimacy can be considered as aligning assumptions or perception that the companies actions are desirable, appropriate, and accordance to norm, values and beliefs [10].

C. Stakeholder Theory

Stakeholder theory explains how management of the company manages and fulfills stakeholder expectation [11]. Stakeholder theory emphasizes corporate accountability beyond financial or economic performance. Companies will voluntarily disclose information about their social, environmental and intellectual performance, exceeding their mandatory demands, to meet actual or recognized expectations of stakeholders [12].

III. HYPOTHESES DEVELOPMENT

A. Firm Size and CSR disclosures

Large companies are expected to provide broader voluntary disclosures in the company's annual report. Associated with agency theory, the greater a company, the greater agency costs, and to reduce agency costs, companies tend to disclose broader information. Larger companies are more highlighted by the community so that broad disclosure is one form of corporate responsibility [13].

H1: Company size increases the disclosure of CSR in Indonesia's Mining Company.

B. Ownership Structure and CSR disclosures

According to the theory of legitimacy, if the company wants going concern, the company requires acceptance from the public that can be obtained by carrying out CSR activities. CSR disclosures in annual report can be used as a

form of communication to stakeholders. If the proportion of public share ownership in a company is greater, the company must be more extensive in disclosing CSR in their annual report [14]. Public companies tend to disclose additional information than private companies, because the stakeholders need detailed information and the pressure from investors can realize accountability in form of information disclosure.

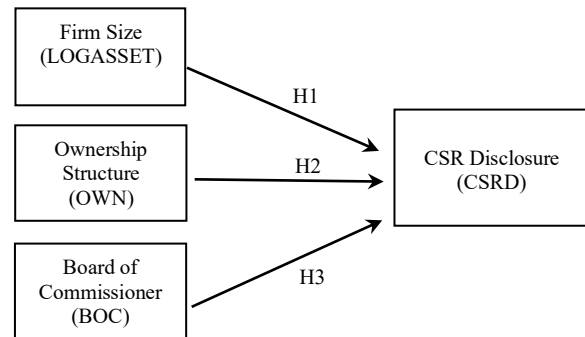


Fig. 1. The research framework.

H2: Public ownership increases the disclosure of CSR in Indonesia's Mining Company.

C. Board of Commissioner and CSR disclosures

Company does not only operate in their interests but must provide benefits to its stakeholder base on the stakeholder theory [11]. The board of commissioners will supervise and direct the business operation to make more benefits to the company and stakeholders. CSR disclosure is a form of corporate concern for stakeholders. The more boards of commissioners, the easier to control manager's performance and create effectiveness of disclosing CSR.

H3. The number Board of Commissioners increases the disclosure of CSR in Indonesia's Mining Company.

D. Research Framework

This research refers to [15] who examines company size and ownership structure as variables and find that variables influence the CSR disclosures. As novelty issues in this paper, the author add the independent commissioner as an additional variables to determines CSR disclosure [15] [16].

As stated in hypotheses, the relationship between independent and dependent variable is as follow in Fig. 1.

IV. RESEARCH METHOD

A. Sample Selection and Data Sources

Mining companies listed on Indonesia Stock Exchange (IDX) in 2013 – 2016 are the population used in this research. Mining companies are choosen as the research object because their business activities make a direct contact to the use of natural resources and have an impact to the environment. The sampling method used was purposive sampling method with criteria set as follows on Tabel I.

TABLE I. THE SAMPLE'S CRITERIA

No.	Criteria	Not Meets the Criteria	Total
1	Mining companies listed in IDX 2013 – 2016	-	39
2	Mining companies have never been delisted from IDX	(4)	35
3	Mining companies that have no loss during 2013 – 2016	(19)	16
	Number of sample		64

B. CSR Disclosure Instrument

CSR disclosure is a dialogue between company and stakeholders that have an interest in social & environmental activities, which is carry out to reveal the fulfillment of social responsibility by the company.

Measurement the CSR disclosure is by calculating the total items of CSR disclosed by the company. Score 1 if the company discloses all indicators in every aspect of disclosure. If the company only disclosed some of indicators in one aspect, the score 1 is divided by the indicators in each aspect. Previous studies only used number 1 and 0 to measure CSR disclosure. Score 1 if the company disclose one indicator and score 0 if the company did not disclose the indicator. This different assesment was expected to represent the actual condition of the company. The formula CSR disclosure is as follow in Eq. (1).

$$CSR D = n / k \tag{1}$$

where

- CSR D : CSR disclosure
- n : the number of item disclosed by the company
- k : the expected item

C. Firm Size

Firm size is the level of identification of large or small company. It can be assessed from the total value of assets, total sales, market capitalization, number of employees, etc. This research used total asset to measure the firm by transforming the value of total asset into logarithm as stated in equation (2). We need to transform the value because the total asset is relatively has a big value compare to the other variable in this study.

$$Firm Size = \log (\text{net value of total asset}) \tag{2}$$

D. Ownership Structure

The public ownership structure is used in this research, as stated in equation (3). The amount of public share is measured through the ratio of numbers of shares owned by the public to the total of shares. The measurement using the following formula:

$$OWN = \text{Shares owned by the public} / \text{total of shares} \times 100\% \tag{3}$$

OWN = Public ownership structure

E. Board of Commissioner

Board of commissioners (BOCs) are members who supervise the management. Independent BOCs are not the member of management nor the majority shareholders. The measurement of BOC follows the formula as stated in equation (4):

$$BOC = \text{number of independent commissioners} / \text{number of all commissioner} \times 100\% \tag{4}$$

F. Regression Model

Equation (5) shows the multiple regression analysis that used to analyze the effect of independent variables to the dependent variables.

$$CSR D = \alpha + \beta_1 LOGASSET + \beta_2 OWN + \beta_3 BOC + e \tag{5}$$

where

- CSR D : CSR disclosure
- LOGASSET : Logarithm of total asset
- OWN : Public ownership structure
- BOC : Board of commissioners
- e : Errors term

V. RESULT

A. Descriptive Statistics

Table II presents the descriptive statistics for the variables, to obtain an overview or distribution of the data, including minimum & maximum value, mean & standard deviation.

B. Empirical Result

Table III presents the multiple regression analyses for the firm size, ownership structure and board of commissioner to CSR disclosure. The model shows the adjusted R² measure of 0.263, implying that the explanatory variables explain 26.3% of the variance in CSR disclosure, while F-stat is 8.506 (p<0.05). As hypothesized, the coefficient on firm size is positively significant (p=0.000). As far as the ownership structure is concerned, the result show that it is significant and positively related at p=0.021. There is no significant association between board of commissioner to CSR disclosure.

C. The Effect of Firm Size to CSR Disclosure

The results show that the hypothesis 1 is accepted. The concept of agency theory, the greater a company, the agency costs greater is accepted because companies will tend to disclose broader information to reduce the agency costs. Large company are highlighted by the society, greater disclosure is a way to reduce political costs as a form of CSR [13].

TABLE II. DESCRIPTIVE STATISTIC

Variables	N	Mean	Minimum	Maximum	Std. Deviation
CSRD	64	12.676	11.514	13.943	0.574
LOGASET	64	0.260	0.025	0.535	1.137
OWN	64	0.398	0.200	0.667	0.104
BOC	64	0.202	0.029	0.629	0.138

TABLE III. MULTIPLE REGRESSION ANALYSIS

Dependent Variable: CSR Disclosure (CSRD)			
Variables	β	T	Sig.
LOGASET	0.120	4.594	0.000 ^a
OWN	0.291	2.361	0.021 ^a
BOC	0.099	0.611	0.543
Adjusted R ²	0.263		
F-statistic	8.506		
Sig.	0.000 ^a		

a. Significant at 0.05

Companies are trying to get public recognition related to their business based on the legitimacy theory. The greater the resources owned by the company, the greater the effort made to obtain that legitimacy through the implementation and disclosure of CSR widely. Authorizations from managers to carry out social activities also appear to be easier to obtain in large companies [17].

Furthermore, the company will reveal more social responsibility so that they continue to get a positive response from other parties. In the end, the business activities can run smoothly. Larger companies carries out more activity, they have a greater influence to communities and shareholders. The stakeholders are concern about the social programs made by the company, so that annual reports or sustainability reports are an efficient tool for communicating this information.

D. The Effect of Ownership Structure to CSR Disclosure

Empirical result shows that the ownership structure influence the CSR disclosure, the hypothesis 2 is accepted. A company can get a good valuation from the community by running their business well, complied with law, values and social norms (based on legitimacy theory). If the company wants going concern, they requires acceptance from the public and it can be obtained by carrying out social responsibility activities. One of the efforts that companies need to do in order to manage legitimacy is to carry out a strategy of legitimacy and disclosure especially related to the issue of social responsibility [18][6]. Company’s public share ownership in Indonesia is on average less than 5% from the total shares. This makes the public shareholders do not have much control over the company [19]. Public shareholders need protection for their funds that they invest. One form of protection is the disclosure of financial and nonfinancial information in annual reports and sustainability

reports for their decisions making. The financial information is used by the investors to analyzed the management performance and future company’s condition in order to reduce investment risk. In order to be interested in investing and believe in low investment risks, companies must display the advantages, strengths and the existence of the company to the public. One way is to disclose the social responsibility of the company. The greater the composition of public shares, it can pressure the company to make broad disclosures including disclosure of social responsibility. The pressure from shareholders make the company would pay more attention to its social responsibility towards the community [6]. The stakeholders are people who are interested in the company and can influence the activities of the company [20]. Stakeholder theory states that public ownership of shares has a role to influence the company in disclosing its social activities while the company will try to meet all the needs of stakeholders including the information needs of disclosure of corporate social activities. The practice of disclosing social responsibility plays an important role for the company because the company lives and operates in the community/public environment. Therefore, public shareholders need more comprehensive information about CSR activities as a form of accountability for the impact of the company’s operational activities. The company is expected to be able to meet the information needs through disclosure of CSR in the sustainability report and in company’s annual report. The existence of a public shareholding will require the company to more broadly express its social responsibility. If the number of shares owned by the public is greater, then oversight is greater by the public so that it can prevent managers from acting opportunistically. Therefore, the greater the number of shares owned by the public, the greater the level of completeness of disclosure by the company [19].

E. The Effect of Board Of Commissioner to CSR Disclosure

The board of commissioners has no effect on disclosure of social responsibility, so the hypothesis was rejected. There are some indications of the possibility in selecting and appointing an independent commissioner. If the company doesn’t effective in choosing the BOC, they cannot show his independence, so that the supervision cannot run properly. Therefore, the existence of a BOC in a company has not been influential in monitoring the quality of financial disclosure and corporate social responsibility. States that the BOC has not been able to play an important role in influencing the determination of strategy [21]. Company policy is still more dominated by the main goal to satisfy the interests of shareholders and not the stakeholders who have different interests. Shareholders have an interest in achieving high profits and high returns on the funds they invest, while other stakeholders have an interest in the company’s long-term sustainability. This may be because affiliated parties in the company are more dominant and can control the BOC so that their ability in order to monitor the process of disclosure and provision of information is limited [22]. In addition, the BOC has no influence on the responsibilities disclosed by the company because of the possibility that the independent BOC has weak competence.

The competence of the BOC plays an important role in decision making, so it is not only the composition of the independent BOC that is considered, but also the knowledge and educational background. The good competence of BOC can improve the quality of decisions making at the level of commissioners regarding CSR [23].

VI. CONCLUSION AND LIMITATION

From this study through the results of data analysis, hypothesis testing, and discussion, it can be concluded that the company size and ownership structure have a positive effect on disclosure of CSR while the board of commissioners variable does not affect the disclosure of CSR.

This CSR issues involve multi discipline science, besides bussiness & economics science. Therefore, for further work, we suggest the researcher to combine this science into one research, including social science, environtmental science and did not rule out the possibility in other science.

A limitation in this study is that researchers have difficulty analyzing the disclosure of CSR due to differences in disclosure of social responsibility information both in annual reports and corporate sustainability reports. The difference occurs due to the company's subjectivity in making disclosures. The absence of regulations that organize the extent of social responsibility that must be disclosed by the company is the main factor of the difference in disclosure.

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