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Determinants of Corporate Social and Environmental Disclosures in Indonesian Listed Companies

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***Abstract*--The intention of this research study is to examine and analyze the determinants of corporate social and environmental disclosures (CSED) produced by the top Indonesian companies. The population of this study is the companies listed in LQ45 index, which is issued annual and sustainability reports from 2015 to 2017. The sample selection method uses purposive, which resulted 102 samples. Methods of data analysis is using multiple linear regression proceeded by Eviews with 5% significance level. Capital intensity, company profile, firm size, net profit margin, and return on asset will be prepared from the annual reports. Information related to CSED will be handled from annual reports and sustainability reports. Content analysis technique is used to measure CSED, one score given if the item is disclosed, otherwise assigned zero. Firm size has positive significant relationship with CSED, and it is found that capital intensity and net profit margin have negative significant relationship with CSED. On the other hand, return on asset and company profile has no significant relationship with CSED. It indicates that size, experience, and investment still consider as the determinants of CSED in Indonesia case.**

Keywords--Capital intensity; CSED; Firm size; NPM

I. INTRODUCTION

The world economy contributes to environmental damage. Economic improvement over the past two centuries helped increase resource use and emissions during this period. Furthermore, the researchers believe that the consequences of high global economic growth can easily increase pollution effects more than tripled over the next 40 years; this is predicted for all around the world (Wolf, 2014). This will put pressure on energy resources, and the effects of increasing carbon dioxide emissions. In addition, this development tends to produce large, unpredictable, and possibly catastrophic climate change. Therefore, the company's concern for social and environmental disclosures are increasingly becoming immersion, enterprise is expected to exploit nature carefully so that economic growth can be carried out in a sustainable manner, while still paying attention to the environment.

Rules regarding CSED in Indonesia began to be a concern since the statute of Law No. 40 of 2007 concerning Limited Liability Companies. Based on the Act, the Government issued a Government Regulation concerning CSED of Limited Liability Companies No. 47 of 2012. This rule emphasizes that every limited liability company has social and environmental responsibility to be fulfilled. It also explains that companies, whose business activities are in the field or related to natural resources, must provide social and environmental activities in the annual report.

Hosain, Islam & Andrew (2006) states that CSED, in various parts of the world, may differ in terms of economic development, awareness and level of disclosure. Not to mention foreign companies in certain countries that will face differences in economic and cultural environments, moral judgments, and political systems. The good news is that, along with potentially global economic growth, companies will be faced with increasing convergence in CSED.

Firm size can be calculated by net sales, although it is unable to influence CSED practices in Indonesia (Zaenuddin, 2007). Total assets are also popularly used to see its relationship with CSED on research conducted in Canada. Cormier, Ledoux & Magnan (2011) shows that there is a positive effect between firm size and CSED. Based on research, firm size has a positive effect towards CSED. It is supposed that large firms will expose more information in their annual and sustainability reports. Capital intensity has an influence on CSED, which is reinforced by research by Dobler & Zeghal (2015). They prove that capital intensity has a negative effect on CSED.

Research conducted by Hosain, Islam & Andrew (2006) uses Net Profit Margin (NPM) and Return on Assets (ROA) to measure financial performance with the result that NPM has a positive and significant effect on CSED, while ROA has a negative effect on companies in Bangladesh. The use of ROA and NPM to see its effect on CSED has proven to have conflicting results, therefore it is important to see how ROA and NPM influence the CSED.

Research using all companies listed in the capital market such as Barus & Maksum (2011) and Djajadikerta & Trireksana (2012) shows significant differences in the presentation of a number of social and environmental disclosures between companies in-group of high profile industry with companies in low profile industry group. Especially in the case of Indonesia, it is influenced by Law No. 40 of 2007 about Limited Liability Companies, Article 74 concerning Corporate Responsibility. In the Act, publicly traded companies in Indonesia, that have an obligation to disclose the practice of social and environmental responsibility, are only companies whose fields of business are related to natural resources.

II. METHOD

A. Sample

The sample on this study consists of LQ45 index, whose companies consecutively listed from 2015-2017, resulted 102 cases.

B. Measurement

The dependent variable used in this study is CSED collected from in the annual and sustainability report. CSED is measured using the fourth generation of GRI guidelines as many as 91 items with three dimensions, namely economic, social and environmental. The approach to calculate the Social and Environmental Disclosures Index (SEDI) used is a dichotomy approach with a ratio scale. Each item in the research instrument is rated one if the firm discloses the item and is given a value of zero if the firm does not disclose. The score of each item is summed to get the overall SEDI score for each firm. The definition and measurement of each variable used are listed in Table I.

TABLE I. DEFINITION AND MEASUREMENT OF VARIABLES

Variable Acronym	*Definition*	*Measurement*
CSED	Corporate Social and Environmental Disclosures	Self-constructed disclosure index
Size	Firm Size	Log natural of total assets
CI	Capital Intensity	Total assets divided by total sales
ROA	Return on Asset	Earnings before interest and text divided by total assets
NPM	Net Profit Margin	Net profit divided by total revenue
Profile	Company Profile	Dummy variable, one if it is high profile and zero if it is low profile.

C. Analysis

Analysis in this study is conducted using eview software. After collecting the data for firm size, capital intensity, ROA, NPM, and CSED, the samples are classified into two groups based on the company profile. The sample collection method carried out has a span of three years; the authors take consistent company data for three consecutive years in the LQ45 index. Total companies amounted to 34 times 3 years of observation resulting in 102 units of analysis. The multiple linear regression analysis is used to analyze the data. Next, the test is done to know the determinants of CSED.

III. FINDING AND DISCUSSION

Statistical descriptive research variables can be seen in Table II. The table contains the minimum, maximum, average, and standard deviations of each variable.

TABLE II. DESCRIPTIVE STATISTICS

No.		*Y*	*Size*	*CI*	*ROA*	*NPM*	*Profile*
1	Mean	32.01941	13.64298	5.118620	9.124902	15.98020	0.764706
2	Median	32.97000	13.49546	1.963313	6.385000	13.02000	1.000000
3	Maximum	64.84000	15.05163	101.3816	45.79000	49.93000	1.000000
4	Minimum	8.790000	12.58987	0.418081	-4.750000	-6.660000	0.000000
5	Std. Dev.	12.33014	0.608126	10.64871	10.04382	11.00333	0.426277
6	Skewness	-0.064537	0.758280	7.409017	1.924900	0.707233	-1.248075
7	Kurtosis	2.510292	3.015918	66.86054	6.271520	2.967425	2.557692

Hypothesis testing is done to analyze the relationship among each determinants of CSED, including firm size, capital intensity, and return on assets, net profit margin, and company profile in the annual report. Meanwhile, the analysis using linear regression is shown in Table III.

TABLE III. RESULTS OF DETERMINANTS OF CSED

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*
C	-85.03764	29.31131	-2.901188	0.0046
Firm Size	8.618105	2.095922	4.111844	0.0001
Capital Intensity	-0.275002	0.101304	-2.714633	0.0079
ROA	0.046286	0.126213	0.366727	0.7146
NPM	-0.239688	0.117289	-2.043568	0.0437
Company Profile	5.617798	2.898797	1.937976	0.0556

There are three variables that significantly influence CSED. Variable that has a positive relationship is firm size, while capital intensity and net profit margins have a negative relationship on CSED. Other variables such as return on assets and company profiles have no relationship on CSED of companies. The description of each variable can be seen as follows.

Firm Size. Based on the test obtained that the significance value is 0.0001 which is smaller than 0.05. This shows that the size of the company has a significant effect on CSED. The regression coefficient of 8.618105 means that each increase in total assets is worth Rp1 trillion, there will be an increase in disclosure of 8,618105, the greater the size of the company, the greater the disclosure made by the company. The results of this study are consistent with research conducted by Hosain, Islam & Andrew (2006), Joshi & Gao (2009), and Cormier, Ledoux & Magnan (2011). Out of a total of 102 units of analysis, 70.59% are in the category of large companies with total assets of 10-100 trillion.

Capital Intensity. Based on the test, it is found that the significance value is 0.0079 which is smaller than 0.05. This shows that capital intensity has a significant effect on CSED. The coefficient with a negative sign means that capital intensity has a negative effect, which means that every increase in assets experienced by the company against its sale, CSED will decrease. This is consistent with research conducted by Dobler & Zeghal (2015). Companies, which invest in assets, tend to have smaller income, this has an impact on the disclosure they do because the company will reduce the costs faced for the disclosures made. The higher the capital intensity value of a company, the lower the CSED will be.

Return on Asset (ROA). Based on the test, it is found that the significance value is 0.7146 which is greater than 0.05. This shows that ROA has no effect on CSED. This result is thought to occur because companies with ROA minus still make disclosures as part of their obligations to stakeholders.

Net Profit Margin (NPM). Based on the test in the table it is obtained that the significance is 0.0437 which is smaller than 0.05. NPM has a negative effect on CSED companies. These results indicate the company will reduce CSED when the company wants to maximize revenue. CSED is seen as increasing the cost of the company, so that every increase in social responsibility disclosure, the NPM will decrease. The research that supports this result is Hosain, Islam & Andrew (2006).

Company profile. Based on the test, it is found that the significance value is 0.0556 which is greater than 0.05. Company profile has no effect on CSED companies. This happens because the low profile category companies in this study also try to display the disclosure of their activities as a strategy to attract investors.

IV. CONCLUSIONS

It is a research study that will hopefully contribute a value to the current literature of CSED by investigating firm size, capital intensity, ROA, NPM, and company profile as the determinants of CSED. The accountability, legitimacy, and stakeholders theory for the model is adopted as a foundation of the study to understand the determinant of CSED that may cause variability in CSED.

We discover that firm size has positive relationship to CSED. It indicates that large companies are more concerned about the accountability of public, legitimacy of organization and their firm image. As the result, for the expansion of their legitimacy and image to the outside world, large companies are more likely to agree in validating CSED activity. More visibility of large companies attracts great expectation of higher disclosures from regulators, investors and general public. A negative relationship between capital intensity towards CSED is recited in this study for reasons explained earlier. Companies that invest in assets tend to have a smaller income, this has an impact on the disclosure they do because the company will reduce the costs faced for the disclosures made. The higher the capital intensity value of a company, the lower the CSED will be. NPM also has negative relationship to CSED. Meanwhile, there is no relationship between ROA, as well as, company profile.

CSED must focus on the reasons for disclosure; problems faced by the company, and differ CSED from other reports. The company must also disclose the performance in the CSED report to let the public to assess the fulfillment of the company's social and environmental obligation. Although useful, CSED levels in developing countries are relatively cliché, descriptive, and low.

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