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Do Financial Ratios and Financial Characteristics Affect Corporate Social Responsibility Disclosure?

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ABSTRACT

Objective – The business world requires that companies not only focus on management and owners, but also that they pay attention to the sustainability of the social environment. This concept is better known as Corporate Social Responsibility. The purpose of this study is to obtain empirical evidence about the factors which influence corporate social responsibility.

Methodology/Technique – The independent variables used in this research are: board size, firm size, profitability, liquidity, public ownership, and firm age. The objects used in this study are non-financial companies listed on the Indonesian Stock Exchange (IDX) between 2016 and 2018. The data selected as a research sample of 183 non-financial companies. Sample selection procedures can be obtained from the results of purposive sampling.

Findings – The results show that board size, firm size, and profitability all have an influence on corporate social responsibility disclosure. On the other hand, liquidity, public ownership, and firm age have no influence on corporate social responsibility.

Type of Paper: Empirical

Keywords: Corporate Social Responsibility; Board Size; Firm Size; Profitability; Liquidity; Public Ownership; Firm Age.

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JEL Classification: M14, M41.

1. Introduction

Nowadays, world business development requires that company not only focus on the interest of management and owners, but also that they pay attention to the sustainability of the social environment. This concept is better known as Corporate Social Responsibility (CSR). CSR is regulated by the Indonesian Government in Limited Liability Company Law Number 40 of 2007 Article 74. CSR has a big impact on companies and society.

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CSR is considered as companies that are responsible and have good corporate governance. This paper examines the effect of board size, firm size, profitability, liquidity, public ownership, and firm age on CSR disclosure. The objects used in this study are non-financial companies listed on the Indonesian Stock Exchange (IDX) between 2016 and 2018. A total of 183 non-financial companies were selected as the samples. The aim of this study is to encourage companies to pay more attention to the disclosure of CSR and to provide insight on the factors that influence the disclosure of CSR reports so that investors are more interested in investing in the company and will be able to increase the stakeholders' trust. Information on CSR is disclosed in the company's annual report as a form of corporate transparency and communication between management, shareholders and other stakeholders.

2. Literature Review

2.1 Stakeholder Theory

Stakeholder theory states that companies must provide benefits for their stakeholders and not only operate for their own interests (Ghozali & Chariri, 2014). Stakeholders include both internal and external parties who have a relationship with the company, both influencing and being influenced, both directly and indirectly. The company discloses information with the aim of attracting the attention of potential investors and changing stakeholder perceptions of the company. Thus, stakeholders' support has a strong influence on the sustainability of a company (Ghozali & Chariri, 2014). CSR argues that the company should strive to meet the demands of several groups of stakeholders. CSR is a management tool for managing information to satisfy the needs of various stakeholders (Tan et. al., 2016).

2.2 Legitimacy Theory

Legitimacy theory posits that companies conduct business activities with restrictions that are determined by norms, social values and reactions to these limits encourage the importance of organizational behavior that pays attention to the environment (Ghozali & Chariri, 2014). In other words, legitimacy is a benefit or potential source for a company to survive. Companies use annual reports to describe environmental responsibility or CSR so that they can be accepted by the community. This acceptance is expected to increase the value of the company and company profits and help investors in making investment decisions. CSR reporting is intended to influence stakeholders and the perception of the public of the organization's legitimacy by providing information that will encourage the company to pay more attention to social responsibility (Tan et. al., 2016).

2.3 Agency Theory

An agency relationship is a relationship between the company management and stakeholders or the relationship between agent and principle. It is very important for the agent and principle to unite in their objectives, so that no party is harmed, and the company's operational activities can run optimally (Jensen & Mecking, 1976). The company or agent will disclose broader information, including disclosure of CSR to provide information about the company's operational activities and corporate social activities. This can create a sense of trust between the principle and the agent.

2.4 Corporate Social Responsibility Disclosure

The World Business Council for Sustainable Development (WBCSD) defines CSR as a business commitment to contribute to sustainable economic development, through cooperation with employees and representatives of the company, the local community and the general public to improve the quality of life (Effendi, 2016). Disclosure of CSR is a process carried out by the company to provide information about the company's operational activities benefits for the community as well as the company (Ghozali & Chariri, 2014).

Sriayu and Mimba (2013) state that the board of commissioners control the company's management activities. The size of the board of commissioners is seen from the large number of board members in a company. The greater the number of boards of commissioners, the more control there is over the company's CEO. In this case, management will be under greater pressure to disclose the company's CSR activities. Qa'dan and Suwaidan (2019) and Siregar and Bachtiar (2010) show that larger boards are associated with a greater level of CSR disclosure.

H1: Board Size has a positive effect on Corporate Social Responsibility Disclosure.

Firm size is used to determine the size of a company. Companies with operational activities and an influence on society might have shareholders who pay attention to companies' social programs so that disclosure of CSR will be more extensive (Badjuri, 2011). Sembiring (2003), Wang et. al. (2013) and Tan et. al. (2016) have provided empirical evidence that firm size has a significant relationship with CSR disclosure.

H2: Firm Size has a positive effect on Corporate Social Responsibility Disclosure.

Profitability is the evaluation of operating performance ratios that generally associate the income statement with sales. Profitability is also referred to as the company's ability to obtain a net profit from the company's operational activities within a designated period (Sriayu & Mimba, 2013). High profits motivate management to carry out CSR because management can allocate a portion of funds to the community and the environment that will be disclosed in company reports. This is in line with the company's efforts to maintain the company's image and reputation among the society in which they operate. Giannarakis (2014) and Gunawan et. al. (2018) have provided empirical evidence that profitability has a significant relationship with CSR disclosure.

H3: Profitability has a positive effect on Corporate Social Responsibility Disclosure.

Liquidity is the ability of the companies to meet its short-term financial obligations. The higher liquidity level of a company will cause the company to disclose information more broadly so that the company is considered better than other companies. This was achieved by revealing the CSR activities of the company (Sulistyawati et. al., 2016). Empirical evidence reported by Samaha and Dahawa (2010) shows that there is a positive association between liquidity and CSR disclosure.

H4: Liquidity has a positive effect on Corporate Social Responsibility Disclosure.

According to Sriayu and Mimba (2013), public shareholdings are company shares owned by the public in the country in which the company is located. To encourage public interest in investing, the company displays the advantages of the company, such as CSR activities that have been carried out. The greater the level of public investments in a company, the more stringent their CSR disclosure obligations are (Rindawati & Asyik, 2015). Research by Indraswari and Astika (2015) shows that there is a relationship between public ownership and CSR disclosure.

H5: Public Ownership has a positive effect on Corporate Social Responsibility Disclosure.

According to Sulistyawati et. al. (2016), the age of the company refers to the period of time in which the company has been operating. The longer the company has been established, the more benefits can be provided by the company to the community. Waluyo (2017) provides empirical evidence that firm age has a significant relationship with CSR disclosure.

H6: Firm Age has a positive effect on Corporate Social Responsibility Disclosure.

3. Research Methodology

The objects used in this study are non-financial companies listed on the Indonesian Stock Exchange (IDX) between 2016 and 2018. The data selected as a research sample of 183 non-financial companies. Sample selection procedures can be obtained from the results of purposive sampling.

3.1 Definition Operation

Corporate Social Responsibility Disclosure in this research is measured by the total number of items disclosed divided by the maximum number of items disclosed. Board size is measured by the total number of commissioners on the board. Firm Size is measured by the logarithm of the natural number of total assets. Profitability is measured by income after tax divided by total equity. Liquidity is measured by current assets divided by current liabilities. Public ownership is measured by total outstanding shares of public ownership divided by total outstanding shares of the company and firm age is measured by the number of years the company has been listed in BEI until the year of research.

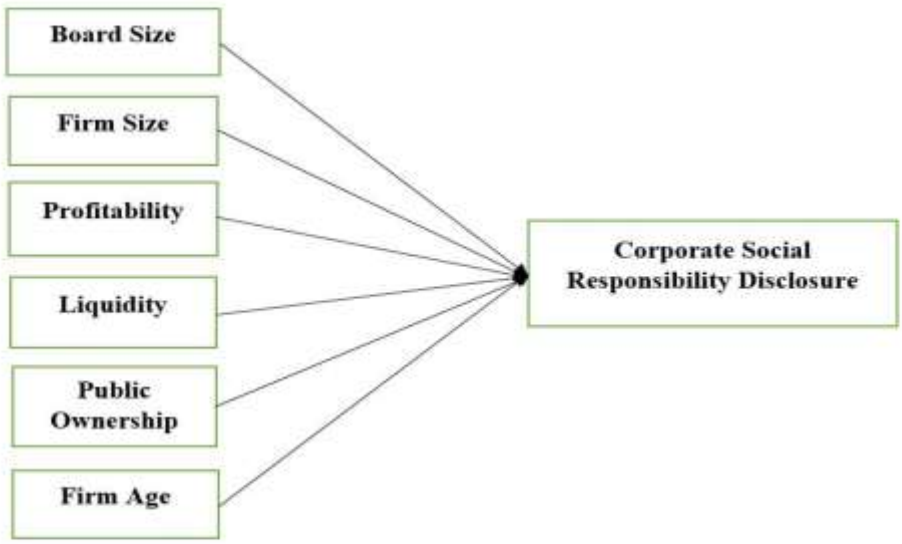

Figure 1. Research Framework

4. Results

The descriptive statistics and hypothesis results are shown below:

Table 1. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Standard Deviation
CSRD	550	0,02500000	0,57500000	0,28497268	0,11776333
DKOM	550	2,00000000	22,00000000	4,53369763	2,14553797
UKPER	550	22,96918352	33,19881203	28,74349499	1,57942405
PROF	550	-0,63887449	7,99097922	0,15821672	0,37702781
LIK	550	0,00444241	247,1270683	2,77881804	10,7845757
POW	550	0,00590000	0,82520000	0,28837121	0,16116128
AGE	550	1,00000000	36,0000000	15,9617486	9,10183633

Table 2. Hypothesis Results

Variable	B	Sig
DKOM	**0,008**	**0,001**
UKPER	**0,030**	**0,000**
LEV	**-0,007**	**0,081**
PROF	**0,036**	**0,013**
LIK	**-0,001**	**0,544**
POW	**0,031**	**0,502**
IOW	**-0,029**	**0,455**
AGE	**-0,000**	**0,523**
INDP	**-0,049**	**0,235**

The results reveal that Board Size has a significant positive effect on CSR disclosure. A large number of directors on the board brings a wide range of experiences from diverse backgrounds which has an effect on the extent of CSR reporting. Studies conducted in Pakistan (Lone et. al., 2016) and Jordan (Qa'dan & Suwaidan, 2019) are consistent with this finding. Frim size has a significant positive effect on CSR disclosure. The larger the company, the wider the social responsibility that they have to assume. This finding is in line with the results of Tan et. al. (2016) and Dias et. al. (2019). Profitability has a significant effect on CSR disclosure. This conclusion is in line with the results of Giannarakis (2014) and Gunawan et. al. (2018). Profitable companies provide more CSR disclosure to legitimize their existence.

5. Discussion

The results show that board size, firm size, and profitability all have an effect on CSR disclosure. The larger boards with diverse experience and backgrounds are more inclined to positive discussion toward CSR which forces companies to invest more in CSR. Firm size has a significant impact on CSR disclosure because large companies have human and financial resources to implement environmental management and reporting systems (Dias et. al., 2019). Companies with high profits have a wide range of stakeholders, so they are increasingly responsible for disclosing CSR. The results also support the stakeholder theory, which states that the higher the profits of the company, the greater the amount obtained by shareholders (Gunawan et. al., 2018).

Liquidity, public ownership, and firm age have no impact on CSR. This means that companies with high liquidity disclose less social responsibility reporting compared to companies with low liquidity, which are likely to publish more social responsibility information in their annual reports to satisfy the information requirements of their stakeholders (Ajmi et. al., 2015). Public ownership does not increase environmental and social concerns and hence, public ownership does not have a significant impact on CSR. Further, the older a company is, the more it will understand what information should be disclosed. The company does not need to disclose all information. They just have to disclose information that is considered to have a positive impact on the company (Gunawan et. al., 2018).

6. Conclusion

The size of the board influences the disclosure of CSR activities. As the top of the company's internal management system, the board of commissioners plays a large role in the company's activities and policies. A larger board will increase the control and supervision of the company's management more effectively. Company size also influences CSR disclosure. The larger the size of the company, the wider the disclosure of CSR will be. Companies that have more assets will receive more attention and pressure to carry out social responsibility. Profitability influences CSR disclosure. More profits obtained by the company will increase CSR activities because the company has more funds available to conduct CSR activities.

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