Company Characteristics and Corporate Social Responsibility Disclosures

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Abstract. *Corporate Social Responsibility* is an idea that emphasizes corporate responsibility on the balance between attention to economic, social, and the environment (*triple bottom lines)*. *Corporate Social Responsibility is* intended so that the business world can minimize the negative impacts on social and environmental aspects that are caused during all its activities, and it is hoped that it can improve the company's image and public trust in the company. This study aims to examine the impact of profitability, type of industry, and company size on disclosure of corporate social responsibility. 100 manufacturing companies listed on the Indonesia Stock Exchange for 3 periods, namely 2017-2019 were sampled in this study. The used was *purposive sampling method* technique with data analysis techniques, namely multiple linear regression analysis. The results showed that the increase in profitability and company size was able to increase the disclosure of *Corporate Social Responsibility,* meanwhile, the type of industry does not affect the company in disclosing *Corporate Social Responsibility.* The increase in disclosure of corporate social responsibility indicates the better the company's attention to the environment so that it will improve the company's image in the eyes of the community.

1 Introduction

The company has the main goal of obtaining maximum profit. However, making a profit alone is not sufficient to keep the company operating in the long term. A company is also required to pay attention to external conditions which are the company's social responsibility to *stakeholders*. Corporate social responsibility is often referred to as *Corporate Social Responsibility (Hereafter, CSR)*. According to [1], *Corporate Social Responsibility* is an idea that emphasizes corporate responsibility on the balance between attention to economic, social, and environmental aspects (*triple bottom lines)*.
Corporate Social Responsibility is the company's responsibility towards the external community caused by the company's operating activities. *Corporate Social Responsibility is* intended so that the business world can minimize the negative impacts on social and environmental aspects that are caused during all its activities [2]. The concept of *Corporate Social Responsibility* currently no longer voluntary or a commitment made by companies in being responsible for the company's activities, but is mandatory or an obligation for several companies to implement it [3]. This is regulated in Law Number 40 of 2007 concerning

Limited Liability Companies which was passed on July 20, 2007. Article 74 of the Limited Liability Company Law states 1) Companies that carry out their business activities in the fields and/or related to natural resources are required to carry out Social and Environmental Responsibility. 2) Social and Environmental Responsibility is a company obligation that is budgeted and calculated as company costs, the implementation of which is carried out with due regard to appropriateness and fairness. 3) Companies that do not carry out their obligations are subject to sanctions by the provisions of laws and regulations. Corporate Social Responsibility is also regulated in Law Number 25 of 2007 regarding Investment. Article 15 letter (b) states that every investment transaction is obliged to carry out corporate social responsibility. So that limited liability companies, especially those related to natural resources, are obliged to carry out their social responsibility to the community.

As a result of company operations, Corporate Social Responsibility is one of the solutions that companies use in improving social and environmental problems. Pengungkapan corporate social responsibility is intended to encourage businesses more ethically in carrying out its activities from taking effect or an adverse impact on society and the environment so that eventually the business will be viable on an ongoing basis to obtain economic benefits that became the purpose of establishing the business world. *Corporate Social Responsibility* aims to provide benefits and various benefits for *stakeholders* and *shareholders*. Also, according to [4], disclosure of *Corporate Social Responsibility* aims to improve the company's image without leaving ethical values and is also the company's commitment to supporting the creation of sustainable development. Disclosure of *Corporate Social Responsibility* in a company can improve the company's *image* and good image in society so that consumer loyalty will be even higher. Along with increasing consumer loyalty over a long period of time, company sales will increase. The company's economic performance will increase along with the increase in the company's CSR activities in the economic, social, and environmental fields [5]. To increase company value, companies must provide information that can increase investor perceptions of the company [6]. Several factors can influence the disclosure of *Corporate Social Responsibility*, a company namely Profitability, Industry Type, and Company Size.

Profitability is one of the factors that can affect the disclosure of *Corporate Social Responsibility* in the company. The company's ability to generate profits is a vital matter that concerns stakeholders through [7]. Profitability can maintain the survival of the company in the long term as an indicator in determining whether the entity has good prospects in its future. Theoretically, the higher the level of profitability achieved by the company, the stronger the relationship between corporate social disclosure will be [8]. Each company will always try to increase its profitability, because the higher the company's profitability, the higher the *return* expected by investors. [9] state that a large company with a high level of profitability will disclose greater social information due to a large amount of attention from the public towards the company. Profitability is a factor that provides freedom and flexibility to management to disclose social responsibility to shareholders. Also, according to [10], a company has a high level of profitability, so it will disclose more extensive information as an effort to convince external parties that the company is in a convincing competition and features a good company capacity at that time. In [11], note that profitability can determine the increase or decrease in the disclosure of corporate social responsibility, but [4] states the opposite, namely profitability is not a determinant of companies in implementing disclosures of Corporate Social Responsibility.

The potential factors identified that affect the disclosure of corporate social activities are the type of industry [11]. The industry type is a type of business entity based on the business sector it moves. Industry types are classified into two, namely industries *high profile* and *low profile*. According to [12], companies that are included in the type of industry *high profile* are companies that have a high level of environmental sensitivity, a high level of political risk, or a strong level of competition. Also, companies that are included in the category are *high profile* generally companies that get the spotlight from the public because the company's operating activities have the potential and the possibility of relating to the interests of the wider community. The characteristics of a company that is classified as a low profile are a company that does not have a significant impact on the wider community, has low risk and competition, although in carrying out its activities the company makes mistakes in its production processes and results, this will not really affect the wider community[11,12] research results show that the type of industry affects the disclosure of *corporate social responsibility*, but the company profile (a type of industry) does not affect disclosure of *corporate social responsibility*.

Company size is also an important variable in the practice of *Corporate Social Responsibility*. Company size is the total value of assets owned by the company. The indicators used in measuring the size of a company (the size of a company) are the capital used, the number of assets owned by the company, or the total income earned [8]. Company size is something that is widely associated with social activities that companies disclose in their annual reports [13]. In relation to these characteristics, it is stated that more and more informative disclosures related to their social activities will occur more in large companies than This is motivated by the greater political risk faced by large companies compared to smaller companies, large companies also have activities that have a major impact on community activities. Another thing that affects the amount of disclosure of social activities in companies with a large number of assets greater is the encouragement from shareholders who are more focused on improving the image in the eyes of the community by carrying out environmental activities [4].Company size is generally based on the number of assets the company owns. According to [14], total assets are all assets owned by a company, both tangible and intangible, which are valuable or valuable and will provide economic benefits for the company in the future. In the research of [15], the results show that company size does not affect the disclosure of *corporate social responsibility,* while [16], state that company size affects the disclosure of *corporate social responsibility*.

This study uses manufacturing companies listed on the Indonesia Stock Exchange (BEI) as research samples. This is because manufacturing companies have a big impact on the surrounding environment caused by the final production process that produces waste and pollution, which is one aspect of disclosing *Corporate Social Responsibility*. Also, manufacturing companies are companies that process raw materials into semi-finished goods until they become finished goods that can be sold through the manufacturing process and this process requires companies to have workers in the production section and this is closely related to labor safety issues which are also an aspect of implementation *CSR*.

Based on the description above, it can be seen that there are inconsistencies in the results of previous studies so that the purpose of this study is to obtain empirical evidence regarding the effect of profitability, industry type, and company size on disclosure of *Corporate Social Responsibility*.

2 Literature Review and Hypothesis

2.1 Legitimacy Theory

The theory is an idea about the legitimacy of the social contract between the company and the community. According to this theory, to be accepted by society, companies must disclose the company's social activities so that it will ensure the company's survival [17]. Legitimacy theory also argues that companies must carry out and disclose *Corporate Social*

Responsibility activities as much as possible so that company activities can be accepted by the community. With this acceptance from the community, it is hoped that it can increase the value and positive image for the company so that it can increase company profits. This can encourage or assist investors in making investment decisions [18].

Legitimacy theory in its general form provides important insights into the practice of corporate social disclosure. [19] in their research state that the focus of legitimacy theory is a two-way relationship between companies and communities. The basis of this is the view which states that the company always tries to create harmony and harmony between the social values in its activities and the norms that apply in the social system of society that the company is part of the system. According to [20], legitimacy theory recommends companies to ensure that their activities and performance can be accepted by the community. The manifestation of legitimacy in the business world can be in the form of reporting on corporate social and environmental activities. By disclosing *Corporate Social Responsibility*, it is hoped that the company will gain social legitimacy and maximize its financial strength in the long term.

2.2 The Influence of Profitability on Disclosure of Corporate Social Responsibility

Profitability describes a company's ability to create profits by using sufficient available capital. The profitability of a company will affect the policies of investors on the investment made. This ratio measures the level of productivity of the assets used in achieving profit. The greater the level of this ratio, the more productive the use of assets is to gain profit. According to [21], CSR will have an impact on increasing consumer intention to buy company products, increasing prospective employee candidates who want to work in the company, and increasing the interest of potential investors to invest in the company. One of the things that causes management to feel flexible in terms of disclosing its social activities to stakeholders is related to company profitability. [9] state that a large company with a high level of profitability will disclose greater social information due to a large amount of attention from the public towards the company. [15], state that profitability can increase the number of company CSR disclosures. This study succeeded in proving that the higher the level of profitability of a company, the more CSR disclosure the company makes. The first hypothesis can be concluded that:
H1: Profitability has a positive effect on the disclosure of *Corporate Social Responsibility*.

2.3 The Influence of Industry Type on Disclosure

There are two types of industry, namely the *high-profile industry* and the *low-profile industry*. According to [12], industries *high-profile* are companies that have a high level of sensitivity to the environment, or also called *consumer visibility,* a high level of political risk, or high level of competition. Companies with this type of industry have risks-high so that a lot of attention from the wider community. While industries *Low-profile* is companies that have low *consumer* and *political visibility*. Companies with this type of industry have a fairly low risk, so very little gets it to spotlight from the wider community.

Industries *High profile* will conduct more disclosure of social responsibility than industries' *low profile*. This is related to the variation in the impact of company operations on the environment and society. Companies *High profile* tend to have risks-high so that a lot of attention from the wider community. Society in general is more sensitive to *high profile* companies because company negligence will have fatal consequences for society. Therefore, companies *high profile* tend to disclose more information in their annual reports to avoid unwanted problems later. The type of industry can increase the number of disclosures of

Corporate Social Responsibility. Based on the description above, the second hypothesis in this study is [11, 22]:
H2: Industry type has a positive effect on the disclosure of *Corporate Social Responsibility.*

2.4 The Influence of Company Size on Disclosure

Company size is the total value of assets owned by the company. indicators to measure the size of the company can be seen from the amount of capital used, the amount of assets owned by the company, or the total income earned. Company size is something that is widely associated with social activities that companies disclose in their annual reports [13]. In relation to these characteristics, it is stated that more and more informative disclosures related to their social activities will occur more in large companies than This is motivated by the greater political risk faced by large companies compared to smaller companies, large companies also have activities that have a major impact on community activities. Another thing that affects the amount of disclosure of social activities in companies with a large number of assets greater is the encouragement from shareholders who are more focused on improving the image in the eyes of the community by carrying out environmental activities [4]. Company size is generally based on the number of assets the company owns. Company size is also an important variable in the practice of *Corporate Social Responsibility*. Research by [8, 23], found that company size has a positive and significant effect on disclosure *CSR*. Large companies will win more competition when they carry out more social activities [24]. CSR activities can create shareholder value as long as managers are well supervised by long-term investors [25]. Based on the description above, the third hypothesis in this study is:
H3: Company size has a positive effect on the disclosure of *Corporate Social Responsibility.*

3 Method

According to the World Business Council for Sustainable Development (WBCSD), the definition of corporate social activity is a business commitment to contribute to sustainable economic development, where companies collaborate with employees or employee representatives, employee families, local communities, and the general public with the aim of improving the quality of life in a way that is beneficial both for their own business and for development. The disclosure of *Corporate Social Responsibility* in this study refers to the *Global Reporting Initiative (GRI) standard* which includes 78 indicators and consists of 13 environmental indicators, 7 energy indicators, 8 health and safety indicators, 29 labor indicators, 10 product responsibility indicators and 9 social indicators and 2 general indicators. Each item *CSR* in the research instrument is given a value of 1 if disclosed, and a value of 0 if not disclosed.

The first variable that is thought to affect CSR is profitability. Profitability is the company's ability to create profits by using sufficient available capital. In this study, profitability is measured based *on Return on Assets (ROA). Return on Asset* shows the company's ability to use all assets to generate profit after tax. The second variable is the type of industry. The industry type is a type of business entity based on the business sector it moves. In this study, the type of industry has measured by variables *dummy*, namely giving a score of 1 for companies classified as industries *high profile* and a score of 0 for companies classified as *low profile*. This research includes chemical, paper, automotive, cigarette and tobacco, food and beverage, pharmaceutical, plastic, cosmetic, steel, and other metal industries into types of industry *high profile*. Meanwhile, the industry's *low profile* is ceramics, cement, animal feed, wood, footwear, textiles, machinery and electronic equipment, cables, and household appliances. The third variable is company size. Company size is the total value of assets owned by the company. The company size indicator can be seen from the size of the capital used, the number of assets owned by the company, or the total income earned [8]. In this study, company size is proxied by total assets. Company size is proxied by using *the natural log of* total assets to reduce excess data fluctuations. By using *natural logs*, the number of assets with a value of hundreds of billions or even trillions will be simplified, without changing the proportion of the actual total assets.

The population used in this study are all manufacturing companies listed consecutively on the Indonesia Stock Exchange for the 2017-2019 period, with a total population of 141 companies. The sampling technique used in this study was *purposive sampling*.

Table 1. Purposive Research Sampling

No	Information	Total
1	Manufacturing company listed consecutively on the IDX during the 2017-2019 period.	141
2	Manufacturing companies inaccessible to consecutive company annual reports during 2017-2019.	(24)
3	Manufacturing companies whose annual reports do not have complete data specifically regarding the variables related to this research consecutively during 2017-2019.	(17)
	Number of samples that meet the sample criteria	100
	Number of observations	300

4 Results and Discussion

4.1 Data Descriptive Statistics

Table 2. Descriptive Statistics Results

	N	Minimum	Maximum	Mean	Std. Deviation
PROFIT	300	-0.39	0.53	0.0453	0.09215
IT	300	0.00	1.00	0.6200	0.48620
SIZE	300	20.30	33.47	27.7307	2.43536
CSR	300	0.06	0, 58	0.2601	0.11295

From these statistical data, on average the sample companies experienced a profit, with an average ROA of 4.53%. Although there are sample companies that experience losses, it can be seen from the lowest ROA value of -39%. Regarding the industry type variable, on average the sample companies are dominated by high-profile industrial-type companies such as the chemical, paper, automotive, cigarette and tobacco, food and beverage, pharmaceutical, plastic, cosmetic, steel, and other metal industries. Company size as measured by the natural logarithm of total assets has an average value of 27.7307. Based on the disclosure of *Corporate Social Responsibility* which refers to the *Global Reporting Initiative (GRI) standard* which includes 78 indicators, on average the sample companies disclosed 21 indicators.

4.2 Multiple Linear Regression Test

After passing the classical assumption test, it is followed by multiple linear regression analysis techniques. The results of the Multiple Linear Regression test in this study are presented in the following table:

Table 3. Multiple Linear Regression Analysis

	Unstandardized	Coefficients	Standardized		
Model	B	Std. Error	Coefficients Beta	t	Sig.
Constant	-2.276	0.293		-7.759	0.000
PROFIT	1.445	0.279	0.289	5.183	0.000
IT	0.054	0.053	0.057	1.028	0.305
SIZE	0.026	0.010	0.139	2.526	0.012
R	0.346				
R square	0.120				
Adjusted R square	0.111				
F	13.451				
Sig	0.00				

Based on Table 3, the multiple linear regression equation in this study is as follows:

$$CSR = -2{,}276 + 1{,}445\ PROFIT + 0.054\ TI + 0.026\ SIZE \quad (1)$$

Adjusted R Square of 0.111 or 11.1% which is still relatively low related to the effect of profitability, type of industry, and company size in predicting CSR. And the results of the F test produce a significance value of 0.000, which means that the model is fitted with the data.

4.3 The effect of profitability on CSR

Profitability (PROFIT) has a value of 5.183, a coefficient of 1.445, and a significance value of 0.000, which means that profitability has a positive effect on disclosures related to *Corporate Social Responsibility (CSR)* carried out by the company. This shows that companies that have a high level of profitability will be motivated to disclose information on greater social responsibility. Increased profitability *(ROA)* in a company can describe the company's performance is getting better and of course, it has *return*ed a bigger that can attract investors to invest [26]. With the increase in company profitability, it can motivate companies to continue to disclose *corporate social responsibility* to get social rewards, improve company image, and trust from the community to ensure the company's long-term survival. This study supports research conducted by [12, 15, 22] which prove that profitability *(ROA)* has a positive effect on disclosure of *corporate social responsibility.*

4.4 The influence of industry type on CSR

Type of industry (IT) has a value of 1.028 and a significance value of 0.305, which means that the variable type of industry does not affect the amount or at least the disclosure of corporate social activities (CSR). This is due to the company's obligation to carry out its social activities and disclose it in the published annual report, which is stipulated in the Limited Liability Company Law Number 40 of 2007 article 66 paragraph (2). Moreover, companies that carry out business activities related to natural resources are obliged to carry out social and environmental responsibility. By implementing this regulation, it will be able to improve a harmonious relationship between the company and the surrounding environment and with the values, norms and culture prevailing in the local community. Another benefit that the company gets is realizing sustainable economic development to improve the quality of life and the environment. Social activities are no longer voluntary activities carried out by companies but are obligations that must be carried out by every company. So companies are required to carry out and disclose in the annual report every corporate social responsibility activity. The importance of compiling a work program within a company in planning social activities to be implemented. This research is in line with research conducted by [18] which states that the type of industry (Type) is not a factor that has an impact on disclosure of corporate social responsibility.

4.5 The influence of company size on CSR

Company size *(SIZE)* has a value of 2.526 and a significance value of 0.012, this means that the variable company size *(Size)* has a positive effect on disclosure of *Corporate Social Responsibility (CSR).* The size of the company can be said to affect the implementation of a company's social responsibility disclosure. This is because the greater the size of the company, the greater the pressure faced by the company in carrying out its social responsibility. Companies that have large operating activities will get more attention from the public because the impact of the company's operating activities can damage the environment. Therefore companies will tend to disclose *corporate social responsibility* to convince the public that the company has followed the prevailing norms and rules to improve the company's image in the eyes of the community. This research supports research conducted by [4, 12, 16, 18], which prove that company *size* has a positive effect on disclosure of *corporate social responsibility.*

5 Conclusion

Profitability as measured by *ROA* and company size has a positive effect on the disclosure of *corporate social responsibility* in manufacturing companies, while the type of industry does not affect the disclosure of *corporate social responsibility* in manufacturing companies. By having a high profit, to increase the stock price, the company must be able to attract the hearts of investors and society by carrying out social activities. And large companies will get much greater pressure from the community in their obligations to carry out these social activities. Based on Law No. 40 of 2007, it is stated that all companies are required to carry out social activities regardless of the type of industry.

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