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MOTIVATION FOR DISCLOSURE OF CORPORATE SOCIAL RESPONSIBILITY: EVIDENCE FROM BANKING INDUSTRY IN INDONESIA

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Abstract. This research aims to investigate determining factors that influence corporate social responsibility disclosure (CSR disclosure) by examining the effects of company size, profitability, leverage, public ownership, board of commissioner, independent commissioner, and the size of the audit committee. For this study, the samples are banking firms that are listed in Indonesian Stock Exchange between the year 2010-2014. The data were extracted from audited financial reports, and sustainability reports (if available). Quantitative using secondary data. Multiple regression is the analysis performed. Results from this study showed that profitability, public ownership, board of commissioner, and independent commissioner has a positive impact towards corporate social responsibility disclosure, whilst leverage and audit committee negatively affected the company. Furthermore, there was not enough evidence to prove that the size of the company is affecting companies to disclose their corporate social responsibility activities.

Keywords: corporate social responsibility disclosure; company characteristic; corporate governance; banking firms

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JEL Classifications: G21, G32, M14

1. Introduction

Corporate social responsibility has become major concern among academicians and managers (Moslemany & Etab, 2017); (Yevdokimova, Zamlynskyi, Kuznietsov, Sakovska & Anatolii, 2018) and very much relevant to the businesses. Issues such as global warming, social rift in the society, and also the environmental damage had triggered business to perform social responsibility activities (Rokhmawati, Gunardi, & Rossi, 2017); (Asmeri, Alvionita, & Gunardi, 2017); (Khoiruman & Haryanto, 2017). Social responsibility is a form of commitment from the company to take a part in sustainable development (Rokhmawati & Gunardi, 2017); (Jones, Wynn, Hillier, & Comfort, 2017).

CSR has received great attention among the world business communities in the last decade, and Indonesia is no exception. Albeit CSR phenomenon is still debatable in Indonesia. One of the evidence is shown in a research conducted by (Supriyono, Almasyhari, Suhardjanto, & Rahmawati, 2015) which found an indication that managements in Malaysia and Thailand were more aware of Corporate Social Disclosure (CSD) as compared to Indonesian businesses operators. CSD practices in these countries CSD were still considerably low due to CSD practices were not considered as important and were more on wasting company's funds.

Studies on CSR were more focused on the non-financial sector and there was still little CSR research focusing on the banking sector (Khan, 2010). Particularly in this case banking as part of the fast-growing financial industry coupled with issues of CSR disclosure practice has become increasingly prominent in social accounting and corporate governance.

Banking sector is one of the most aggressive industry in promoting CSR activities, despite there is no direct negative impact from its operations to the society (Semenescu & Curmei, 2015); (Aktan, Turen, Tvaronaviciene, Celik & Alsadeh, 2018). Bank is a profit oriented organization, but to gain their profit they use the resources trusted to them by the third party, which also mean that their activities are based on the public trust. Hence, the bank need to hold some responsibilities to the public (Krasodomska, 2015). Bank's social responsibility, as a part of the social system, is defined by public's expectations. Therefore, to fulfil the expectations, banks need to include the environmental and social impact as an integral part of their operational activities (Barako & Brown, 2008).

In Greece, for example, this kind of information are being disclosed through environmental accounting (Choudhury, Salim, Bashir, & Saha, 2013); (Nikolaou, 2007), stated that banks have to go green and to be proactive in preserving and protecting the environment. This is to assist the banks to operate better and also to change the nature of how customer deals with the business. The proper use of environmentally friendly technologies and also the good management system are not only bringing good impact for the environment, but also for the sake of operating the business efficiently.

This research aims to investigate the determining factors in Indonesian banks that influence corporate social responsibility disclosure (CSR disclosure) by examining the effects of company size, profitability, leverage, public ownership, board of commissioner, independent commissioner, and the size of the audit committee. This research is expected to contribute to the theory development by confirming the view that the implementation of CSR is one important factor for the future of the company. Moreover, to provide a proactive encouragement in the oversight function of corporate behaviors, and also to raise public awareness of their rights on the existence of the business. On the practical side, this research is expected to give an outlook for the managers in the process of adding values to the company though CSR. Finally, this research is expected to be used as a reference in research related to the effect of firm size, profitability, leverage, public ownership, board of commissioners, independent commissioners, and the size of the audit committee on CSR disclosure to banking firms.

2. Determining Factors for CSR

Many researchers have done empirical studies with regards of banks' practices on CSD (Barako & Brown, 2008); (Branco & Rodrigues, 2006); (Choudhury et al., 2013); (Hamid, 2004); (Hossain & Reaz, 2007); (Khan, Halabi, & Samy, 2009); (Khan, 2010); (Krasodomska, 2015); (Menassa, 2010); (Nikolaou, 2007); (Semenescu & Curmei, 2015); (Wu & Shen, 2013), (Kunitsyna et al., 2018). These studies revealed variations of factors affecting banks CSD practices, which are company size, profitability, leverage, public ownership, commissary board, independent commissary, and the size of audit committee.

2.1. Company Size

Previous research on the disclosure of social responsibility has used firm size to explain variations in corporate social responsibility disclosure. Company size has been hypothesized and found by several studies to have a positive relationship with the level of social disclosure (Giannarakis, 2015); (Gunardi, Febrian, & Herwany, 2016); (Semenescu & Curmei, 2015).

2.2. Profitability

Variations on social responsibility disclosure in previous studies suggested that it can be explained by profitability. It is recorded that some theorists mentioned profitability as a factor that allows, or may encourage, management to undertake and disclose a broader program of social responsibility to shareholders (Giannarakis, 2014); (Giannarakis, 2015); (Gunardi et al., 2016); (Semenescu & Curmei, 2015).

2.3. Leverage

Leverage is used as a variation on the disclosure of social responsibility in previous researches argued that a low leverage ratio confirmed that creditors will not put much pressure on limiting the flexibility of management of CSR activities (Andrikopoulos & Kriklani, 2013); (Giannarakis, 2015); (Uwuigbe & Egbide, 2012).

2.4. Public Ownership

Previous studies have also shown that proprietary dispersion in many investors contributes to increased pressure for CSR disclosure (Khan, Muttakin, & Siddiqui, 2013); (Gunardi et al., 2016). The significant number of stakeholders in the dispersed company means that the benefits of disclosure tend to outweigh the costs associated with public companies. It is also become very important for a company to be seen as publicly accountable.

2.5. Board of Commissioner

Another variation of social responsibility disclosure is by forming a board of commissioners dedicated to addressing CSR issues to show serious concerns about non-financial performance and have a higher tendency to report on their CSR policies and practices (Esa & Ghazali, 2012); (Giannarakis, 2014); (Haji, 2013); (Naseem, Riaz, Rehman, Ikram, & Malik, 2017); (Rao, Tilt, & Lester, 2012).

2.6. Independent Commissioners

Independent commissioners significantly characterize the corporate governance to build relationships with corporate social responsibility disclosures found that independent commissioners contributed positively to increasing CSR reporting rates (Naseem et al., 2017); (Cuadrado-Ballesteros, Rodríguez-Ariza, & García-Sánchez, 2015); (Khan et al., 2013).

2.7. Audit Committee

The final variation on the disclosure of social responsibility in previous studies can be explained by the audit committee (Akbas, 2016); (Khan et al., 2013); (Said, Zainuddin, & Haron, 2009). On the previous research has proven that audit committee has a positive and significant correlation with the level of CSR disclosure.

3. Methods

The population in this research is all companies in banking sector listed in Indonesia Stock Exchange between 2010-2014. Choosing the banking sector as a framework for our research is not done arbitrarily. Since financial activities are not expected to result in damage to the environment, the bank's decision to undertake CSR projects can be considered to be entirely voluntary. It is interesting to investigate under which conditions managers prefer to invest in CSR projects in order to understand the way they consider CSR to be beneficial for banking institutions.

The range of study periods will be expanded over five years of observation, starting from 2010-2014 for the reasons of obtaining a sufficient number of samples and observations statistically. Longer periods of study will provide greater possibilities for obtaining results that are closer to the actual conditions. The sample is taken by using purposive sampling method (Rahmawati, Rispantyo, & Djamaluddin, 2017). The total sample was selected as many as 15 companies. In this study, the sample are specialized on banking companies listed on the BEI. Specialization of the sample can avoid results biased due to different characteristics of companies listed on the BEI. The data are being extracted from audited financial reports, and sustainability reports (if available) obtained from the official website of Indonesia Stock Exchange. The following operational definitions of the research variables are presented in Table 1.

The multiple regression model used to test the hypotheses of this research are:

$$CSR = \beta_0 + \beta_1SIZE + \beta_2PROFIT + \beta_3LEV + \beta_4PO + \beta_5BOC + \beta_6IC + \beta_7AC + \varepsilon$$

Table 1. Defining the Variables

Variables	Code	Measure
Company size	SIZE	Total asset natural logarithm
Profitability	PROFIT	Company's profit after tax divided by total equity
Leverage	LEV	Company's total liability divided by total equity
Public ownership	PO	Total amount of public ownership
Board of commissioner	BOC	Number of board of commissioners in the company
Independent commissioners	IC	Percentage of independent commissioners out of total members of the board of commissioners.
Audit committee	AC	Number of audit committees in the company
CSR disclosure	CSR	GRI G3.1 social responsibility disclosure index consisting of 79 items and 6 aspects, namely environmental, human rights, labor practices and decent work, society, product responsibility, and economic by using content analysis method

4. Results and Discussion

Descriptive statistics (Table 2) show that the level of social responsibility disclosure done by the average of listed banking companies in BEI is still relatively low, amounting to 22.01% of the overall GRI component. This research uses CSR disclosure indicator from GRI G3.1.

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CSR	75	8.86	44.30	22.0081	9.44681
SIZE	75	9.97	20.57	15.0615	3.19379
PROFIT	75	-3.38	43.83	16.3776	10.38710
LEV	75	3.03	15.62	8.0033	2.18187
PO	75	.04	50.84	24.3161	17.92170
BOC	75	3.00	9.00	5.8533	1.79107
IC	75	25.00	80.00	54.8620	10.05761
AC	75	2.00	9.00	4.4133	1.46207

Thus, the number of CSR disclosures obtained by this study cannot be compared with other studies that use different indicators. 79 items of CSR disclosure were according to GRI G3.1, the average banking company only revealed 22.01%.

The size of banking firms that was used as samples showed a value in the range of 15.06 indicated by a low standard deviation and the range between the minimum and maximum is not too far apart. The result of descriptive analysis shows that profitability variable has a minimum value of -3.38% and a maximum value of 43.83% with standard deviation of 10.39. The low leverage average value is 8.00x with the standard deviation of 2.18 and the maximum value of 15.62x.

Corporate governance aspects are proxied by public ownership, board of commissioners, independent commissioners, and audit committees. The average public ownership of the sample is 24.32% with the standard deviation of 17.92. The average number of boards of commissioners is in the range of 5 people although large companies have up to 9 members in their board of commissioners, with the average percentage number of Independent Commissioners of 54.86%. The average audit committee is 4 persons with the highest number of 9 people.

Table 3. Multiple Regression Analysis and Hypothesis Testing

Variable	Hypothesis	Coefficient	t	p-value
(Constant)		.165	2.424	.018
SIZE	+	-.001	-.342	.733
PROFIT	+	.004	3.959	.000*
LEV	-	-.012	-3.002	.004*
PO	+	.001	1.830	.072**
BOC	+	.011	1.677	.098**
IC	+	.235	2.639	.010*
AC	+	-.029	-4.037	.000*
F	10.548			
Sign. F	.000*			
R ²	.524			

Dependent variable: CSR disclosure (CSR D)

** significant at level 10%, * significant at level 5%

The coefficient of determination (Table 3) shows that the model used in this study is only able to explain the variability of social responsibility disclosure of 52.4%. The remaining percentage is explained by other variables outside the study. There is not enough evidence to prove that there is any significant impact of firm size on CSR disclosure, which is in line with research conducted by (Sunarsih & Nurhikmah, 2017), that stated other arguments rejected the hypothesis because there is a variety of CSR views; a view that CSR implementation is important and some other views that CSR implementation is not important. This perspective will ultimately affect CSR practices by companies and also the impact of CSR disclosures that are structured within the company. Company will consider the costs and benefits to be gained when deciding to disclose social information. If the benefits to be earned exceed the costs incurred, the company voluntarily discloses social information, hence the size of the asset does not affect CSR disclosure. These results indicated to not having a positive relationship, the bigger the company does not align with complexity of its operation and cannot show broader disclosure of Corporate Social Responsibility (Sari, Sutrisno, & Sukoharsono, 2013).

Profitability has a positive influence on the disclosure of social responsibility in line with (Giannarakis, 2014); (Giannarakis, 2015); (Gunardi et al., 2016). Profitable companies provide more CSR information about disclosure to legitimize their existence. A positive relationship between profitability and CSR disclosure possibly due to the freedom and flexibility possessed by the profitable company has to expose its CSR practices more broadly to stakeholders, thereby legitimizing its existence. The profitability of banking institutions reflects its capacity to generate resources that will be directed to CSR actions (Semenescu & Curmei, 2015).

Regarding leverage has a negative influence on CSR disclosures is consistent with (Giannarakis, 2014); (Giannarakis, 2015); (Uwuigbe & Egbide, 2012). Companies with higher leverage ratios may avoid implementing social reporting initiatives to avoid checking from creditors. Companies do not seem to want to pay additional fees for social disclosure (Uwuigbe & Egbide, 2012). When the corporate leverage is low the activities of social responsibility to be performed by the company will be high, otherwise if the value of leverage is higher then, the activities of corporate social responsibility will be lower. This happens because when the company has a low leverage then the company does not have a big responsibility to the creditors, hence it has the freedom to do anything within the company including doing activities of social responsibility, so that social activities will be higher.

The coefficient of public ownership shows that this explanatory variable has a positively significant correlation with CSR disclosure. Public ownership has a positive influence on disclosure of social responsibility in line with research by (Gunardi et al., 2016); (Khan et al., 2013). Transferring company ownership to the public brought the consequences of diminishing control of the shareholders themselves against the company. The greater the percentage of shares released, the greater the public's control over company policy, so the public needs to have more voluntary disclosure of information from the company to monitor its progress. It also shows that in general public ownership in Indonesia is concerned with social issues such as human rights, education, labor and the environment as critical issues that should be extensively disclosed in the sustainability report of the company. The positive influence on CSR disclosure occurs when the company has a board of commissioners in line with (Akbas, 2016); (Esa & Ghazali, 2012); (Haji, 2013); (Naseem et al., 2017); (Rao et al., 2012). Interventions given by the board of commissioners on the management side of the company's social performance have begun to be seen. Board of commissioners began to implement their supervisory function on social performance. This is because more productive discussions are held and hence more investments are made on those activities (Honggowati, Rahmawati, Aryani, & Probohudono, 2017).

Independent commissioners have a positive influence on the disclosure of social responsibility consistent with (A. Khan et al., 2013); (Naseem et al., 2017); (Rao et al., 2012), which indicates that independent commissioners encourage CSR disclosure. The existence of an independent commissioner within the board of commissioners may oversee the actions of the company's management and ensure that the board of directors can create policies consistent with the interests of stakeholders.

The independence of the board of commissioners may encourage management to disclose broader information to its stakeholders including social and environmental information. A high commitment in implementing CSR is demonstrated through CSR disclosure in the annual report. The level of independent directors in the board of directors can also act as a positive influence on the decisions of the board of directors on matters relating to corporate CSR programs.

Based on the results of the study, the audit committee was found to have a negative relationship associated with CSR disclosure. Management of companies with high audit committees tends to reduce the disclosure of social responsibility. These results are clearly contrary to the results of the study (Akbas, 2016); (A. Khan et al., 2013); (Said et al., 2009).

The forming of audit committee can also be caused only to meet government requirements without considering the competence of the audit committee. This is evident from the appointment of audit committee members in public companies that are largely not based on adequate competence and capability but are more based on proximity to the company's board of commissioners.

Conclusions

Research variables that can explain variations in social responsibility disclosure, such as profitability, public ownership, commissioners, and independent commissioners have a positive influence on disclosure of social responsibility, whilst leverage and audit committees have a negative effect. However, this study did not succeed in proving the effect of firm size on the disclosure of social responsibility.

In general, this research was able to support stakeholder theory which states that every stakeholder is able to influence the company. This is because profitability, leverage, public ownership, board of commissioners, and independent commissioners influence the disclosure of social responsibility. This research is also able to prove the theory of legitimacy. The stakeholders may begin to pay attention to the acquisition of legitimacy.

This paper has several major limitations. First, it is recommended to give an addition to the periods analyzed to provide more reliable results. Secondly, it is recommended to expand the sample to include companies from other equally developing countries in ASEAN to be able to compare the similarities and differences. Finally, social disclosure scores are based without taking into account the quality dimensions of disclosure developing interviews.

Furthermore, this study became incommensurable with other studies when each researcher used different indicators in assessing the extent of disclosure of social responsibility. Although the indicator issued by GRI is considered most appropriate for the purpose of this study, but did not rule out that other researchers have different indicators that are considered more appropriate. Different views of the use of appropriate indicators and the absence of certain rules on voluntary social responsibility disclosure has made it difficult to compare the results of similar researches.

Based on this research results, there are some suggestions that can be considered for further researches. This research suggested that future research includes the strength of state institutions (regulation) in CSR arrangements. For the government and the Institute of Accountants Indonesia is expected to formulate a policy to make corporate social responsibility as a mandatory disclosure given the low level of social responsibility disclosure. However, strict CSR regulation is only found in state-owned enterprises (BUMN) but not in companies in general. Furthermore, public awareness in developing countries on environmental conditions may affect corporate behavior in running and disclosing CSR. Building the proxy of institutional strengths in emphasizing CSR is a challenge for the future researches.

This study recommends for a follow-up study that attempts to compare the capabilities of each CSR disclosure framework. GRI updates its indicators on a regular basis as public perceptions and needs for corporate social responsibility are constantly changing and increasing. However, the use of GRI as an indicator of disclosure is not a corporate liability that ultimately opens the opportunity for researchers to develop diverse CSR disclosure indicators. As a consequence, the diversity of CSR disclosure indicators could influence the consistency of the research results.

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