Qualitative and Quantitative Research Review, Vol 2, Issue 2, 2017
ISSN No: 2462-1978
eISSN*No:* 2462-2117

FACTORS AFFECTING DISCLOSURE OF MINING CORPORATE SOCIAL RESPONSIBILITY IN INDONESIA

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ABSTRACT

This study aims to examine the relationship between governance and disclosure of corporate social responsibility. Governance is proxy with corporate profitability, stock ownership, and audit committees. The populations in this study are all of mining companies listed on Indonesian Stock Exchange. Purposive sampling used in this study with criteria as following that company listed on Indonesian Stock Exchange; have been publishing financial reports and annual reports; and have all of the data required. The total of sample was 39 observations. The method of data analysis that used in this study is multiple regression analysis. The result of testing in this study show that all of variables of corporate governance in research model include profitability, share ownership, and audit committee have associated and significant with disclosure of corporate social responsibility.

Keywords*:* profitability, share ownership, audit committee, disclosure of corporate social responsibility

INTRODUCTION

Societies right now tends to deny the existence of companies that manage resource of area because they were worried about the imbalance that made by the companies to surrounding environment. Therefore, companies need to implement strategies that able attract public trust to manage the resource of area. One of strategy that convincing is corporate social responsibility (CSR). Awareness of importance of corporate social responsibility (CSR) which is also one of the strategies and policies of management will work up an integrated world balance within company and environment. Furthermore, the application of principle of good corporate governance in Indonesia was experiencing rapid development over the last few of years even though its application recognized as a modern economic demands for companies, corporate governance, and accountability.

Issues of corporate social responsibility (CSR) have been being understood as basis underlying the development of social accounting. These are based on the assumption that there was social contract between company and community. Demands on companies to provide transparent information, accountable organization, and good corporate governance (GCG) were increasingly forcing companies to provide information about the companies' social activities. So companies were expected to be accountable, not only to certain group such as shareholders and creditors (Sulistiyowati, 2004:1). Study of corporate social responsibility (CSR) has been largely done by previous researchers. However, has more focused on the disclosure of social responsibility in company's annual report.

The results of previous studies are also inconsistent (Sembiring, 2005, Kelly, 1981, Trontman and Bradley, 1981; Pang, 1982; Belkaoui and Karpik, 1989; Patten, 1991; 1992; Hackston and Milne, 1996) showing there is not significant correlation between disclosure of corporate social responsibility with profitability; Gray *et al.,* 2001; Richmond and mook, 2001; Andrew King, 2007; Aaron, Levine, and Toppel, 2007; Pollard and Sthepen 2008; Ballau and Hower, 2008). Another study by Bowman and Haire (1976) showed a significant correlation between disclosure of corporate social responsibility and corporate profitability. This study aims to examine the effect of profitability, share ownership, and audit committees on disclosure of corporate social responsibility.

LITERATURE REVIEW

Agency theory states if there were a separation between owner as a principal and manager as an agent, it would appear the agency problem because each party will always prefer to maximize the utility function (Jensen and Meckling, 1976). This theory states that disclosures able to explain the informing of reliable information to stakeholders.

Corporate social responsibility (CSR) is a mechanism for companies to integrate attention of social environment in the operation and interaction with stakeholder that exceed responsibility of the organization in law field (Darwin, 2004). The demand to provide transparent information, accountable, and good corporate governance (GCG) was increasingly forcing companies to report companies' social activities that are usually performed in groups and organized.

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Aldrige (2005:2) states in his article by the title *The Organization for Economic Cooperation and Development* (OECD) that:

"*Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution rights and responsibilities among different participants in the corporation, such as the board, the mangers, shareholders and other stakeholders, and spell out rules and procedure for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are sets, and the means of attaining those objectives and monitoring performance".*

Hopkin (1998) defines corporate social responsibility (CSR) as ethically treating between stakeholders and the earth; The Canadian Business for Social Responsibility-CBSR (2001) stated that corporate social responsibility (CSR) as a company's commitment to operate taking into consideration the economic and environmental sustainability, as well as the interests of multiple stakeholders. Meanwhile, The European Commission stated that corporate social responsibility (CSR) is a concept that integrates company's social and environmental concerns into business operations and interaction with the *stakeholders* voluntarily (Fenwick, T., 2004).

Corporate social responsibility (CSR) discusses how companies manage business processes to produce overall positive impact on society. As stated by Baker (2005:1) the following:

"Corporate social responsibility is about how companies manage the business process to produce an overall positive impact on society".

The world business council for sustainable development in a publication by the title *"making good business sense,"* written by Lord Holme and

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Richard Watts (Baker, 2005:2) defines corporate social responsibility as a continuing commitment by business to act ethically and contribute to development the economy of local community or wide society, along with an increase the living standards of workers and their whole family.

Gray, Owen and Adams consider social accounting as a combination of accounting for different things, different media, different users, and different purposes. Howard R. Bowen in his book by the title *"Social Responsibility of the Businessman"* provide initial definition of corporate social responsibility following as:

"... *obligation of businessman to pursue those policies, to make those decision or to follow those line of action which are desirable in term of the objectives and values of our society. "* (Bowen, 1953:6)

Although Bowen's book title and content was bias Bowen (just mention *a businessman* without including *businesswoman),* since the book's publication definition of corporate social responsibility that given by influence to literatures on CSR which published thereafter. McGuire (1963) was introducing term of *corporate citizenship* by stating:

"The idea of social responsibilities supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations" (McGuire, 1963:144).

Subsequently, McGuire explain further beyond word by stating that corporation should pay attention about political issues, public welfare, education, "happiness" employees and other social issues. Pearce and Robinson (2007) said that there was ten parties who have an interest in the company, each of which has different interests and view of the company *(stockholders, creditors, employees, customers, suppliers, governments, unions, competitors, local communities, general public*).

According to Baker (2005) there are two aspects of company that must be granted (quality management and process). Other perspective on corporate social responsibility (Sonhadji, 1989:6) include:

a. Classic Perspective

This perspective provides a description that the company functions to use economic resources in a sparing and efficient, and generate optimal profit. Basically, the company must be able to serve the needs of society and must be done in a efficient.

b. Modern Perspective

In this perspective, companies no longer think about how to create or generate maximum profit, but companies must also be active in social activities, or directly affect the socioeconomic conditions of community members.

A company should not only make as much profit as possible, but also have ethics in acting on human and environmental resources to achieve sustainable development. Companies must take into pay attention the interests of groups within the community that influence or affect them, including workers, shareholders, investors, consumers and customers, suppliers, neighborhoods, competitors, unions, press /mass media, and government.

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eISSN*No:* 2462-2117

Harahap (1988: 53) incorporates the form of corporate social involvement formulated by several institutions and experts with pay attention its relevance to the state of Indonesia. The forms of activities are related to components that include: a) the environment; b) energy; c) human resources and education; d) honest business practices; e) the environmental community; f) art and cultural activities; g) relationships with shareholders; and h) relations with government.

Environmental components related to monitoring of pollution impacts, improving natural destruction, nature conservation, environmental beauty, noise reduction, waste and waste-water management, environmental research and development, collaboration with government and universities, recreational development, etcetera. Energy components related to the conservation that must be done by the company, energy savings, etcetera.

The next component is human and educational resources where companies should pay attention to employee safety and health, employee education, employee family and employees leisure, add and expand employee rights, encourage participation, pension improvements, scholarships, assistance to schools, advancement of employees career, and others. Furthermore, in relation to honest business practices, companies must be able to pay attention employees' rights, honest in advertising, credit, service, product, always control product quality, and others. In addition, in assisting the environmental community, the company should be able to utilize experts in addressing social problems in its environment, not interfering in community structures, building health clinics, schools, houses of worship, village or city improvements, donations for

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eISSN*No:* 2462-2117

community social activities, housing improvement, financial aid, and repair of transportation facilities.

Some arts and cultural activities also become one of the strategies that can be utilized by the company as a sponsor of cultural activities as well as promoting to other parties. Relationships with shareholders will be more convincing to parties in terms of disclosure of financial statements, disclosure of corporate involvement in social activities and others. The last component must be noticed is the relationship with the government that can assist in everything related to the project and government policy.

Quarter Mook, and Richmond (2003: 309) stated social accounting as follows:

"A *Systematic analysis of the effects of an organization on its communities of interest or stakeholders, with stakeholder input as part of the data that are analyzed for the accounting statement*'.

Freedman (1989) defines social accounting as the identification/preparation, measurement, and analysis of social and economic impacts due to behavior of government and employers. According to Hendriksen (1994) in Maksum (2003:940), theoretically, social accounting requires companies to look at their social environment such as society, consumers, workers, government, and others that can support the operation because of shifting of corporate responsibility. The same is also expressed by Gramee (2000) in Maksum (2003:940) as follows: *"Financial reports prepared by reporting entities are a major aspect of corporate governance and accountability."*

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Wollin (1999) Maksum (2003:940) states further that:

"Firms must take a responsible approach in their business activities, cause of there is public dissatisfaction implementation of their responsibilities should be exposed at financial information to external user ".

Based on the information generated, information users will be able to determine the subsequent policy for social activities and policies for the ethnic social environment that is run (Maksum, 2003: 940). Social information that should be disclosed in corporate social reporting (Sulistiyowati, 2004: 2) includes: 1) the environment, which includes pollution control, prevention and repair of environmental degradation related to natural resource processing, as well as conservation of natural resources; 2) energy, including energy conservation in business operations and energy-efficient products; 3) reasonable business practices, including employing and paying attention to the progress of minorities and women; 4) human resources, including health, safety and personal development of employees; and 5) community involvement, including community activities related to health, education and art.

According to Jones (2001) a person or institution may be judged to make decisions or act ethically if: 1) decisions or actions are made on the basis of the values or standards accepted and applied to the environment of the organization concerned; 2) willing to communicate the decision to all related parties; and 3) believe that another person agree with the decision or the decision may be accepted for ethical reasons. Corporate social responsibility is rooted in ethics prevailing in the company and society.

Ethically, the company not only has the economic and legal responsibility to the shareholders and *stakeholders,* but also has a social responsibility including the community and the surrounding environment. Therefore corporate social responsibility is a moral value that should be implemented on the conscience call the owner or head of the company for improving the welfare of *stakeholders* of company.

HYPOTHESES DEVELOPMENT

Profitability and Disclosure of Corporate Social Responsibility

Research on the relationship between the disclosure of social responsibility to profit and financial performance also showed inconsistent result. For example, the results of the study described in Sembiring (2005) such as Freedman and Ulman (1986) found that there is no relationship between disclosure of corporate social responsibility and profitability. In contrast, research conducted by Hackstone and Milne (1996), Bowman and Haire (1976) and Preston (1978) indicate a significant influence between the disclosure of corporate social responsibility and corporate profitability; Ahmed and Courtis (1999) found a significant relationship between profitability and voluntary disclosure. Based on these description, the first hypotheses proposed is: H1: There is a positive relationship between profitability and disclosure of corporate social responsibility

Share Ownership and Disclosure of Corporate Social Responsibility

Jensen and Meckling (1976) in Anggraini (2006:8) argue that conflicts of interest managers with owners become larger when the ownership of managers of companies is getting smaller. In this case the manager will try to maximize his self-interest compared to interests of the company. Conversely, the greater the ownership of managers within the company, more productive the actions of managers in maximizing the value of company. Based on these description, the second hypotheses proposed is:

H2: There is a positive relationship between share ownership and disclosure of corporate social responsibility

Audit Committee and Disclosure of Corporate Social Responsibility

Bradbury *et al* (2004) in Suaryana (2005), stating the audit committee tasked to assist commissioners and monitor the financial reporting process by management to enhance credibility. Companies that have an audit committee would be more revealing social information, because the financial reporting process is monitored by the committee in the implementation of *corporate governance* disclosure. However, this study did not succeed in proving the correlation between the composition of independent commissioners and audit committee with mandatory disclosure index. Based on these description, the third hypotheses proposed is:

H3: There is a positive relationship between audit committee and disclosure of corporate social responsibility

Research Method

Sample Selection

Data in this study were collected from the company's annual report manufacturing of mining sector listed on the Indonesian Stock Exchange. The sampling method used was *purposive sampling* with criteria:

ISSN No: 2462-1978
eISSN*No:* 2462-2117

a. The selected sample were all mining companies listed in Indonesia Stock Exchange during the years 2004-2008 as many as 13 companies;

b. The sample companies are companies that publish financial report December 31); and

c. Have complete data is needed in terms of research.

Based on the criteria that have been determined, the number of samples in this study were as many as 39 observations.

MEASUREMENT OF VARIABLES

Dependent Variable

The dependent variable in this study is the disclosure of corporate social responsibility. The model is used based on the disclosure of the model developed by previous researchers. Disclosure of corporate social responsibility classified in seven categories include environment, energy, health, safety, product, education, *sustainable* employment, and social welfare. This engagement was adopted from a study conducted by Sembiring (2005). Measurement using the *scoring* with a score of 1 for items that disclosed and 0 if not disclosed. The equation of social responsibility disclosure index is as follows:

$$CSR = \frac{n}{k}$$

Where *CSR* is an index of corporate social responsibility disclosure, *n* is the number of filled grain disclosure, and *k* is the number of all grains disclosures may be fulfilled.

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Independent Variables

The independent variables in this study used three variables including profitability, share ownership, and audit committee. Profit is the most desired by the company because it is considered to support all the supporting factors in improving social awareness of company. Furthermore, independent variables such as share ownership and audit committee size are expected to support corporate social responsibility in a company. Measurement of the independent variables in this study use the measurement as in the following table:

Table.1. Variables and Measurements

Variables	**Acronyms**	**Measurements**
Profitability	PROF	*Earnings Per Share*
Share Ownership	SHM	Number of Shares Owners in the
Audit Committee	KA	Number of Audit Committee in the Company

Source: The result of data.

RESEARCH METHOD AND DATA ANALYSIS

Data analysis method used in this study is analysis of Multiple linear regression statistics. Regression testing should be free of classical assumptions[I]. Regression model in this study as follows:

[I] Hair, Black, Babin, and Anderson (2010) and Gujarati dan Porter, (2009).

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$$CSR = p_0 + p_1 PROF + p_2 SHM + 0_3 KA + £$$

Where:

CSR: Index of corporate social responsibility disclosure;
PROF : Profitability of the company;
SHM : Share ownership in the company; and
KA : Size of audit committee.

RESULT ANALYSIS AND DISCUSSIONS

Descriptive Analysis

The total population in this study consists of 13 mining companies listed on the Indonesian Stock Exchange. The sample of research is 39 observations. The sampling process as following table:

Table 2 Sample Selection Process

No	Description	Quantity of Observation
1	Mining companies listed on the Stock Exchange (2004-2008)	65
2	Companies that does not publish annual reports	-
3	Companies with incomplete data	(26)
	The final sample complying the criteria	39

Source: The result of data.

Table 3 Mean and standard deviation - CSR

Variable	N	Mean	Std. Deviation
CSR	39	0,66	0.18

Source: The result of data.

Notes: **CSR** is an index of corporate social responsibility disclosure.

Table 3 Descriptive Statistics of Corporate Social Responsibility

Based on table 3 above, descriptive statistics indicate that mining company consisting of 13 companies with a total of 39 observations on average performs disclosure of social responsibility of 0.66 or 66%. This indicates that Indonesian mining companies have sufficient awareness in disclosing corporate social responsibility. This is probably due to the voluntary disclosure (not required).

Table 4 Descriptive Statistics of Independent Variables

Variables	N	Mean	Std. Deviation
PROF	39	135.24	201.72
SHM	39	0.06	0.03
KA	39	0.64	0.09

Source: The result of data.

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Notes: **PROF** is the company's profitability as measured *return on assets;* **SHM** is the ownership of shares in the company; and **KA** is a measure of the audit committee as measured by indicators of the large number of audit committee within the company. Based on the table above, the average profitability of the company is 135.24; average share ownership of the company is 0.06; and the average corporate audit committee is 0.64.

HYPOTHESES TESTING

Hypotheses testing of research conducted to test the research hypotheses that has been stated previously. Testing is done by multiple regression analysis. The results of hypotheses testing in this study are summarized in the following table:

Table 5 Results of Hypotheses Testing

Variables	**Prediction**	**Model (CSR)**		**Conclusion**
		Coefficient	**Significance**	
Constanta		1,650	0,000	
PROF	+	1,103	0,003**	Supported
SHM	+	5,064	0,000**	Supported
KA	+	1,133	W >K	Supported
N = 39 F Value = 8.041 *F Significant* = 0,000				

** Significant at the 0.01 level and * Significant at the 0.05 level

Notes: **CSR** is index of corporate social responsibility disclosure; **PROF** is profitability of companies measured *return on assets;* **SHM** is share ownership in the company; and **KA** is audit committee as measured by indicators of the large number of audit committee within the company.

DISCUSSION OF RESULTS

Profitability and Disclosure of Corporate Social Responsibility

Profitability of company (PROF) is positively and significantly associated with corporate social responsibility disclosure (H1 supported). The results of this study consistent with previous studies (Hackstone and Milne, 1996; Bowman and Haire, 1976; and Preston, 1978: Mulyawan, 2014) indicating that with the increase in profits of mining company primarily investigated it will contribute positively to management to pay more attention great the surrounding environment. The results of this study indicate that financially the increase in profit will support facilities that can be used as a mediation for the application implementation of social responsibility for sake of the good will of company and public confidence in it.

Share Ownership and Disclosure of Corporate Social Responsibility

Share ownership (SHM) is positively and significantly associated with corporate social responsibility disclosure (H2 supported). The result of this study is consistent with previous findings (Anggraini, 2006). These results indicate that the number of shareholders in the company will affect the company in disclosing corporate social responsibility. This is because the disclosure is an important part for shareholders in assessing the performance and corporate governance. So that larger or more share owners in the company, the disclosure of corporate social responsibility will also increase.

Audit Committee and Disclosure of Corporate Social Responsibility

The size of audit committee (KA) is positively and significantly associated with disclosure of corporate social responsibility (H3 supported). The results of Manaf (2014) this study is consistent with the theory Bradbury *et al* (2004) in Suaryana (2005) which stated that there are positive relationship between audit committee with the disclosure of corporate social responsibility. These findings indicate that size of the firm's audit committees creates opportunities for committee members to share or exchange information. Management actions is including disclosure of social responsibility.

CONCLUSION, LIMITATION, AND FUTURE RESEARCH

This study aims to examine the effect of profitability, share ownership, and audit committees on disclosure of corporate social responsibility. Test results show that profitability, share ownership, and audit committee are positively and significantly associated with disclosure of corporate social responsibility.

This study has some limitations that cannot be avoided by researchers and can affect the results of research. The observation period in this study is still in the short range so it is not possible to generalize with existing research. Future studies should use longer observation periods such as 5 (five) years of observation in order to know the relationship or influence of specific events on the disclosure of corporate social responsibility.

Variables that used in this study are limited to profitability, share ownership, and audit committee. Further research may add other variables or factors that may influence to disclosure of corporate social responsibility such as gender diversity of boards or directors; government ownership; and corporate social responsibility committees to further strengthen the research model in predict the disclosure of corporate social responsibility.

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