

Leverage as Determinant of Corporate Social Responsibility Disclosure in Public Companies in Indonesia

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Abstract--- This research is analyzed the aspect of financial performance as a determinant of Corporate Social Responsibility (CSR) disclosure, particularly leverage, profitability and firm size. These variables are considerable in this decade. Leverage as one of the risk measurements, tend to be a negative or insignificant relationship on CSR disclosure, since leverage is considered as an indicator to limit CSR activities. This study aimed to analyze the relationship of leverage and CSR disclosure in public companies in Indonesia due to different situations in the implementation of CSR compared to the researches in other developing countries. The results of the study provide empirical evidence that leverage has a positive effect on CSR disclosure in public companies in Indonesia, both those in the financial and non-financial industries.

Keywords--- Leverage, CSR Disclosure, Indonesian Public Companies and Company Industries.

I. Introduction

Researches on CSR have increasingly developed particularly in the context of Asian countries, such as in India [1], Korea [2], Malaysia [3], China [4], Indonesia [5], Taiwan [6] and in other developing countries [7] in general. Meanwhile, previous literatures on the results of CSR research took more research subjects in western countries, such as Europe and America [8], and [9]. In fact, there are some fundamental differences from the results of research on CSR implementation in western (developed) countries with those in developing countries, especially those related to regulatory issues or government support, industry appreciation and analysis research variables as indicators which encourage implementation and disclosure of CSR. In terms of CSR disclosures, [1] emphasized the determinant factors in the implementation of CSR since most of Asian developing countries still apply voluntary concepts in the implementation and disclosure of CSR.

Researches on financial performance or characteristic firm as a determinant factor in CSR disclosure are a widely discussed category, including profitability, firm size and financial leverage [10], [11], [12], [13], [14], and [15]. In profitability variables with proxy of ROA and ROE, most researchers tend to conclude that they have a positive and significant relationship to CSR disclosure [10]. Variable size, which is proxied by the value of assets or income, sometimes expressed as a dependent variable while some other times expressed as a control variable, in general also tends to be expressed a positive and significant effect on CSR disclosure. Yet, the leverage variable, based on some of the results of the research being discussed, which actually provides the opposite results, tends to be regarded as having no effect or being negatively related to CSR disclosure [1], [5] and [13].

The implementation of CSR was stated mandatory in 2012 through regulations stipulated by the government and OJK as the financial supervision authority, for public companies listed on the Indonesian Stock Exchange. This makes the legitimacy theory concept as a basis for explaining the behavior of public companies in responding to the obligation to carry out and deliver information on CSR activities in annual reporting. For sustainability and business continuity, companies must ensure that they meet all rules and provide proof that the company is able to contribute, especially to the community and the surrounding environment. This is a company effort to gain legitimacy, from the government and society in general. [4] explained more specifically that the disclosure of CSR for companies in a mandatory situation is the application of a pressure legitimacy theory.

For any company, implementation of CSR is considered a cost. In the development of further implementation, CSR activities are significantly marked by the concept of political cost theory that management tends to disclose CSR

in order to reduce the risks and more potential costs [16]. In some countries and in certain groups of companies, CSR has been regarded to be a part of the mandatory category and includes important information which the company discloses. The political cost theory concept states that managers do not always take actions which maximize profits for the company; rather, they will tend to take part in profits maximization provided that there are interests which are considered [17] and [18]. The relevance of this political cost theory to CSR disclosure is that the greater the political costs the company bears, the managers tend to choose accounting procedures and policies which reduce profit calculation, for instance by means of delaying recognition of profits or conducting activities outside the company's operations which incur costs. CSR is included into a political cost category which the company calculates.

Leverage in capital structure definition is interpreted as a comparison value between the composition of debt as a source of external funds and equity as a source of internal funds [19]. Leverage is frequently expressed as a risk measurement since companies with high leverage tend to have a high risk of debt repayment and risk of loss if they are unable to repay [20]. In another perspective, leverage is also expressed as a composition of the value of debt financing to company assets [21]. In relation to disclosure of CSR, leverage as a determinant tends to have a negative impact on the implementation and disclosure of CSR. Meanwhile, CSR which is voluntarily implemented is considered cost center for the companies. High leverage requires a relatively high cost of debt. CSR and cost of debt from leverage are part of company costs which reduce the potential profit for the management interest (agency cost theory); thus, leverage tends to produce low CSR disclosure [1], and [5].

As an assessment which expresses the debt composition in financing company activities, leverage can be adjusted to the company's strategy in the allocation of use and return of the debt. Voluntary CSR activities can be financed according to the fund availability depending on the companies' ability. It means that leverage will not affect CSR disclosure. Such results are widely conveyed in researches which investigated the relationship between leverage and CSR in developing countries [7] and [22].

Indonesia is a country which greatly appreciates the implementation of CSR. In 2012, government declared that CSR was mandatory in the implementation and disclosure of the annual reports of public companies listed on the stock exchange. Furthermore, since 2014 the government has begun to disseminate the road maps to the company's obligations for sustainability reporting in 2019. The obligation to prepare these sustainability financial reports applies to financial service institutions, issuers and public companies.

During the socialization of financial implementation of sustainability for public companies in Indonesia, one of the commitments the association of banking institutions agreed that they would not support and provide lending to debtors who did not comply with the applicable rules and regulations regarding corporate social responsibility. This agreement certainly has a significant impact on the public companies which require external funding sources from financial or banking institutions. In addition, it also means that an increase in planned leverage of the company will have an impact on the obligation to implementation and disclosure of CSR.

This study aims to determine the effect of leverage as a determinant factor in the disclosure of CSR in Indonesian's public companies where they are mandated to do so to gain legitimacy due to the applicable regulation. This study will provide the latest empirical evidence different from the results of previous ones, by which it can contribute the analysis of the implementation of CSR in Indonesia in particular and in developing countries in general. This study also analyzes the influence of leverage on all industry categories, including banking because the valuation of capital structure in measuring leverage for the financial and banking sectors is often considered different from non-financial industries.

II. Research Methodology

In this study, an annual report obtained from companies listed on the Indonesia Stock Exchange (IDX) was used as data for analysis. The data were taken from the annual report period of 2014 – 2016. There were 304 samples of companies during three years of research period. Therefore, there were totally 912 firm years. All companies were classified into nine industry categories; agriculture, mining, basic industry, miscellaenous industry, consumer goods industry, property, infrastructure, finance and trade.

Disclosure of social responsibility (CSR) in this study used content analysis methods to analyze and provide value to social responsibility disclosures. Analysis of CSR disclosures used the content analysis method as proposed by [4] based on regulations set forth by the government on the companies in China. For the companies in Indonesia, official institutions that authorize capital market management are called the Financial Services Authority (OJK). The substance of CSR disclosure which is required according to OJK regulations consists of 4 aspects: 1) living environment; 2) employment, health and safety practices; 3) social and community development; and 4) product

responsibility coupled with the 5th aspect, namely CSR financing. There are 22 disclosure items categorized as mandatory in the delivery of information on CSR implementation for public companies in Indonesia.

Measurements were carried out by attributing a value based on disclosure weighting, ranging from number 0 to 1. While value 1 was given for each disclosure delivered, value 0 was given when no information was provided. Each company would be analyzed and get an assessment for CSR disclosure with a percentage value of the total number of each disclosure component divided by 22 mandatory disclosure items according to regulations, using the formula as follows:

$$CSR S_{it} = \frac{\sum_{j=1}^n CSR\ disclosure_{it}}{Total\ Max\ Disclosure} \quad (1)$$

Financial performance is also measured by the proxy of leverage, which is the ability of companies to carry out corporate activities in terms of funding which is measured by the value of debt to equity ratio (DER), the ratio of debt and capital (equity) of a certain company (Bloomberg, 2016). The data for calculating this variable was obtained from the company's annual report using the formula of debt value divided by the total equity of the company.

$$DER\ (Leverage) = \frac{Financial\ Debt}{Total\ Equity} \times 100 \quad (2)$$

Which financial debt is sum of long-term debt and debt in current liabilities, exclude non-financial liabilities.

Other than leverage as an independent variable, other variables which are used as control variables are liquidity, profitability and firm size. [10] stated that companies which have sufficient cash (liquidity) for operations tend to do better CSR disclosures. In general, CSR, particularly for companies in developing countries, tends to be understood as corporate activities in the form of social activities (philanthropy) aimed at certain communities. Relevant financial performance of liquidity as an indicator is the cash flow of the company. The relevant cash flow component is used as a proxy of control variables to analyze the effect of company performance on CSR disclosure, namely operational cash flow or cash flow from operation (CFO).

The study used variables as control variables for liquidity which are cash flow operations (CFO). This measurement is aiming to determining the funding of CSR activities since in fact, it is well known that CSR activities in most companies are regarded as voluntary activities and incur additional costs which must be spent to meet government requirements. The availability of adequate operational funds (liquidity) is a consideration to be able to carry out these CSR activities. The value of the CFO is obtained from the company's cash flow statement and then the data is scaled to the company's total assets. This is intended to get a fairer rating for all companies because of the difference in firm size.

$$CFO = \frac{cash\ inflow\ from\ company's\ operational}{Total\ asset} \times 100 \quad (3)$$

Profitability is another proxy as a control variable. The measure used as the value of profitability is ROA (return on asset). The measurement of the ROA value is obtained from the company's annual financial statements with the formula of net income divided by the total assets of the company, namely the number of company assets calculated at the end of the year.

$$ROA = \frac{Net\ income}{Total\ asset} \times 100 \quad (4)$$

Furthermore, control variable is firm size which was measured from the value of natural logarithm of total assets.

$$Size = natural\ logarithm\ (NL)\ of\ total\ asset_{it} \quad (5)$$

Research model:

$$CSRS_{it} = \alpha_0 + \alpha_1 DER_{it} + \alpha_2 CFO_{it} + \alpha_3 ROA_{it} + \alpha_4 Size_{it} + \varepsilon_{it} \quad (6)$$

Notes:

CSRS is the percentage value of CSR disclosure, DER is assigned to debt to equity ratio as the value of leverage measurement, CFO is a cash flow from operation scaled with the value of total assets as a measure of liquidity, while Size is the size of the company that is judged by the natural logarithm of total assets.

III. Results and Discussion

Table 1 displays the descriptive statistics of the variables of the 304 companies in the sample.

Table 1: Descriptive Statistics of Variables

Variable	Mean	Max	Min	Std.Dev	Skewness
CSR Disclosure	44.81	100.00	0.00	27.98	0.18
DER	56.12	390.37	0.05	66.75	
CFO	4.82	99.60	-95.70	14.01	
ROA	3.54	95.14	-94.96	11.75	
Size	15.075	910.063	20.04	71.312	8.48

CSR Disclosure, DER, CFO and ROA are in percentage (%), Size is total asset in billion Rupiahs (Indonesian currency)

Table 1 presents descriptive data of the variables studied for 912 annual reports from 304 companies as the samples of this study. The average value of CSR disclosure in all companies scatter in 9 industry categories is 44.81%. It indicates that public companies in Indonesia still have poor level of CSR disclosure. As a consequence, it is a challenge for regulators to put more pressure to increase companies' compliance with regulations.

On the other hand, the average value of leverage in Indonesian companies is 56.12% which shows a balanced composition between debt and equity in the financing structure. The ability and risk of the company in returning obligations is under control.

The average liquidity of public companies in Indonesia is around 4.82%. This explains that the availability of cash from operational results compared to the total asset value as a whole is still sufficient to meet the operational needs of the company, especially in terms of providing funds for the implementation of CSR.

The average profitability of public companies in Indonesia is at 3.54%. The value is low compared to the average growth rate of Indonesia's GDP of 5% based on Indonesian Statistic Survey, 2016 data. It is an indication of macroeconomic decline which demands the attention of industries and the Indonesian government. Meanwhile, the average asset value of public companies in Indonesia is around Rp. 15,075 billion. The value is considered quite large for a public company. It indicates the availability of considerable asset capacity for industries in Indonesia to be optimized to achieve better growth.

Average data of industries for each component of the variables presented above are explained in Table 2 below.

Table 2: Descriptive of Variable Average Statistics (mean) of Industries

Industry	CSR Disc.	DER	CFO	ROA	Size
Mining	55.23	53.74	9.07	3.88	
1.754					
Agriculture	54.56	93.27	7.18	3.94	
8.463					
Basic Industry	49.06	71.66	5.20	2.77	
2.564					
Misc. Industry	46.75	58.37	4.35	3.15	
9.808					
Consumer Goods	46.27	27.51	13.98	12.00	9.144
Property	43.91	28.37	2.29	5.06	5.472
Infrastructure	44.82	108.15	8.59	1.22	
7.511					
Finance	42.96	53.84	-0.94	3.47	48
Trade	38.83	46.31	4.69	2.18	
3.869					

CSR Disclosure, DER, CFO and ROA are in percentage (%), Size is total asset in billion Rupiahs (Indonesian currency)

Table 2 explains that the greatest value of CSR disclosure belongs to the mining and agricultural industries. It is sensible because these two industries are greatly engaged in utilizing natural resources which are directly related to the impact of environmental management; thus, a high priority to implement and disclose CSR. Meanwhile, the highest value of leverage is attributed to the industries of infrastructure sector. It explains that the composition of financing from debt is more performed by companies in the industry. It is well understood since infrastructure sectors are a capital-intensive industry which requires the availability of large funds generally obtained from external through debt.

In term of liquidity and profitability, the consumer goods industry has the highest achievement. It indicates that the sector which still provides optimum benefits to the current economic situation in Indonesia is those which are related to people's necessities on a daily basis. This sector will survive because it provides the basic needs of people's lives in general.

The greatest asset average value belongs to miscellaneous industry and consumer goods. It makes sense because these various industries are labor intensive, such as manufacturing sectors which require the availability of large operational infrastructure.

The regression results which explain the purpose of the study to determine the effect of leverage on CSR disclosure in public companies in Indonesia are presented in Table 3 as follows.

Table 3: Regression result for CSR Disclosure on Leverage and other Financial Performance Determinans

Panel A. For all Industries

Independen Variable (expt. sign)	Coeffisient	Std. Error	t-Statistic	Probability
C	27.21145	3.543054	7.680226	0.0000
DER (+ ve)	0.066340	0.013761	4.820715	0.0000**
CFO (+ ve)	0.208810	0.070342	2.968486	0.0031**
ROA (+ ve)	0.173889	0.084612	2.055131	0.0402*
Size (+ ve)	0.927671	0.249651	3.715868	0.0002**

*, ** Correlation is significant at the 0.05 dan 0.01 level
Adjusted R-square for this model 0.0495 and Prob (F-statistic) 0.0000

Panel B. Probability Significance (Prob) By Industry Category

Industry	DER	CFO	ROA	Size
Finance Sector	0.0096**	0.8629	0.8228	0.0000**
Non Finance Sector	0.0000**	0.0011**	0.0063**	0.0167*
<i>Detailed:</i>				
Mining	0.7556	0.5227	0.1310	0.0774
Agriculture	0.1133	0.4953	0.5413	0.0025**
Basic Industry	0.0170*	0.0775	0.0887	0.0029
Misc. Industry	0.8367	0.4674	0.2577	0.0010*
Consumer Goods	0.8394	0.7836	0.5457	0.0000**
Property	0.7614	0.6275	0.8142	0.0000**
Infrastructure	0.5264	0.0272*	0.0179*	0.0021**
Trade	0.0001**	0.0161*	0.8373	0.0001**

*, ** Correlation is significant at the 0.05 dan 0.01 level

Based on Table 3 regarding overall analysis on all industrial sectors, it is found that leverage has a significantly positive effect on CSR disclosure. It provides new empirical evidence on CSR research in Indonesia that the impact of the regulation which the government set forth regarding the obligation of CSR disclosure and commitment of banking companies to help public companies which are concerned with social and environmental responsibility issues effectively motivate the management in CSR disclosure. Therefore, it can be concluded that the higher the company's leverage, the higher CSR disclosure delivered; thus, the hypothesis stating that leverage is a determinant which influences CSR disclosure is accepted. This study revised the results of previous case studies in Indonesia which found that leverage had no effect on CSR disclosure of public companies in Indonesia [5]. For other control variables, such as liquidity, profitability and firm size, each of which is proxied with CFO, ROA and Logaritma Natural (LN) of total assets, it can be affirmed that all of these variables have a significantly positive effect on CSR disclosure. This is mainly due to the impact of mandatory factors and a better level of perception among industries and public companies in Indonesia that CSR disclosure is important information to gain legitimacy and part of the process to implement sustainability financial statements which immediately become an obligation for public companies in Indonesia.

The results of this study is in agreement with the statement conveyed by Meng et al (2014) regarding the pressure of legitimacy theory, [10] concerning an explanation of the CFO and other studies on the positive effect of corporate's profitability and firm size on CSR disclosure, among other [1], [7], [16], [23], [24], [25], and [26].

IV. Conclusion

This study proves that leverage has a positive and significant effect on CSR disclosure, both for companies engaged in financial and non-financial sectors. The measure of leverage that further explains the impact is the DER in the capital structure. It is the value of the comparison between the value of debt, which is the company's financial obligation to external parties and equity value as the source of corporate funds from internal. This research also proves that leverage is not a constraint to carry out and disclose CSR, but as an indicator to signal the company's commitment and compliance with regulations to obtain legitimacy. This will strengthen research which addresses the CSR improvement in developing countries.

For further researches, it is expected to analyze CSR as part of standard and integrated financing planning to achieve the vision and mission of company. Accordingly, it can be an additional study to improve and implement the solutions of CSR, particularly in developing countries.

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