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The Influence of Corporate Governance and Company Size on the Disclosure of Corporate Social Responsibility in Basic and Chemical Industrial Companies Listed on BEI

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ABSTRACT

In their operational activities, manufacturing companies process raw materials into finished goods. Residues of production or what is often called waste can cause water, soil and air pollution. This requires Corporate Social Responsibility (CSR) towards the community and the government. The definition of CSR according to the World Business Council for Sustainable Development (WBCD) is the company's ongoing commitment to act ethically and contribute to the economic development of internal parties or the wider community, at the same time as improving the living standards of its employees and the entire family. In many cases, social responsibility has not been adhered to properly and normally by the company. The results of evaluations of social impacts indicate that many conflicts and problems are left by the residuals of the company's production. The purpose of this study was to analyze the effect of corporate governance and company size on CSR disclosure. The present study was conducted at the Basic and Chemical Industrial Companies listed on the Indonesia Stock Exchange. Stages of the study began by collecting data on companies needed in this study. Furthermore, the data obtained will be analyzed using the Multiple Linear Regression Analysis method. The results of the study indicate that corporate governance and company size have no effect on CSR disclosure both simultaneously and partially. Furthermore, the research will be expanded by analyzing other factors that influence CSR or analyzing certain items of CSR that are the most disclosed by companies.

INTRODUCTION

Residues of production or what is often called waste can cause water, soil and air pollution. This requires corporate social responsibility towards the community and government. Evaluation results of social impacts indicate that demonstrations and protests often occur as evidence of stakeholder dissatisfaction with company management due to the negative impacts of waste disposal and pollution, and the company's operational activities (Mirfazli, 2008).

One of the cases of environmental pollution by industry in Indonesia is waste from Lapindo Brantas Inc. Since 2006 a leak occurred in the company's gas pipeline producing hot mud. Research conducted by Christianto (2008), Executive Director of Walhi East Java, found that the soil and water around hot mud contain Polycyclic Aromatic Hydrocarbons (PAHs) up to 2,000 times the normal threshold. PAH is a dangerous organic compound and is a carcinogenic or cancer-causing substance. The results of Christanto's research (2016) also indicate that high levels of heavy metals are found in the bodies of creatures in the Porong River which has been used as a dumping ground for the Sidoarjo mudflow.

The Government of Indonesia issued a policy governing CSR disclosures as manifested in Law No. 40 of 2007, paragraph 2 of article 66 of which states that every limited liability company in Indonesia is required to include a report on the implementation of social responsibility in the annual report. Paragraph 3 of article 7 confirms that companies which do not carry out the obligations referred to in paragraph 1 are subject to sanctions in accordance with statutory provisions.

The level of corporate CSR disclosure can be influenced by the company's internal conditions and external influences that require disclosure of information to be made. Deegan (2002) and Zimmerman and Zeit (2002) view CSR disclosure by companies in accordance with the theory of legitimacy. According to the theory of legitimacy, companies express CSR to be seen to be responsible for the social environment so as to enable companies to gain competitive advantage. The company hopes that, by building a good relationship with the stakeholders, it will generate profits. A good relationship with stakeholders is one of the intangible assets that can actually benefit the company. The impetus for CSR disclosure can also arise from the company's internal conditions such as corporate governance, profitability, leverage, company size, and company characteristics.

Corporate governance is a concept proposed for the sake of improving company performance through supervision and monitoring of management performance and ensuring management accountability to stakeholders based on a regulatory framework (Nasution and Setiawan, 2007). Related research has been conducted by Siregar and Priantinah (2017) which indicate that there is a significant positive effect of corporate governance on CSR disclosure.

Muttakkin and Khan (2014) state that large companies, especially those with the characteristics of public companies, disclose higher information. Alsaeed (2015) found that company size had a positive effect on CSR disclosure. The age of a company with a higher ranking also has a significant effect on CSR disclosure.

The specific purpose of this study is to analyze the effect of corporate governance and company size on CSR disclosure. This research will be conducted on chemical and basic industrial companies listed on the Indonesia Stock Exchange. Corporate governance is a mechanism that largely determines company decisions, but research does not always show consistent results. In addition, the chemical and basic industrial companies face challenges related to waste which have a negative impact on the environment. Thus it is important to continue to develop research related to this theme.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Legitimacy Theory

Some theories are generally used to explain the disclosure of information by companies, among others, namely agency theory by Jensen and Meckling (1976), signal theory by Spence (1973) in Esa (2010); Morris (1987); Campbell *et al.*, (2001), the political cost hypothesis by Watts and Zimmerman (1986), the theory of media agenda setting by Brown and Deegan (1998), and the political economy accounting by Cooper and Sherer (1984) in Esa (2010). What best describes the condition of corporate social disclosure from among these several theories is the theory of legitimacy (Suchman, 1995 in Campbell *et al.*, 2006).

The legitimacy theory states that voluntary disclosure can be expected to manage various legitimacy threats faced by companies. A number of studies have found that disclosures are made to deal with reputational threats that are being faced by companies that are caused by malpractice actions, legal issues, and the like (Deegan, 2002). According to Brown and Deedan (2998) and Campbell *et al.* (2001) another reason why companies make voluntary information disclosure is in response to the criticisms submitted by the community against companies related to environmental pollution. The effect that can be felt if ignoring the criticism can be a boycott, a decrease in sales due to a decrease in the level of consumer confidence and a decline in the company's reputation. Legitimacy theory can explain the influence of people's views on companies by the degree of disclosure of social information.

2.2. Corporate Social Responsibility

World Bank defines corporate social responsibility as follows:

“CSR is commitment of business to contribute to sustainable economic development working with employees and their representatives, the local community and society at large to improve quality of live, in ways that both good for business and good for development.”

From this definition, it can be understood that CSR is a company's commitment in contributing to guarantee the sustainability of economic development in collaboration with employees and other internal parties, communities and society to improve quality of life, thereby providing positive benefits for business and company development.

Disclosure of CSR in Indonesia is regulated by Law No. 40 of 2007 which is mandatory. But in its disclosure, companies can disclose CSR information beyond the lowest established limit, which is referred to as voluntary disclosure. Some companies even consider communicating CSR activities or programs as important as CSR activities themselves. By communicating CSR, more and more people will know about corporate social investment so that the risk level of companies facing social turmoil will decrease.

The reporting standard that is commonly known for implementing CSR is the Global Reporting Initiative (GRI) standard. GRI is an organization that spearheaded the development of CSR disclosures and uses a framework of sustainability reports and is committed to continuous improvement and implementation throughout the world (www.globalreporting.org).CSR disclosures are grouped into six categories according to the social information category according to GRI (2000) which, inter alia, are aspects of the environment, energy, occupational health and safety, labor, products, and community and public involvement.

2.3. Corporate Governance

The Forum for Corporate Governance in Indonesia (FCGI) in 2000 defines Corporate Governance as: "A set of regulations governing the relationship between shareholders, managers (executives) of the company, creditors, government, employees, and other internal and external stakeholders relating to their rights and obligations or in other words a system that controls a company. The purpose of corporate governance is to create added value for all interested parties (stakeholders).

According to Sutedi (2011), the elements in corporate governance from internal companies are: 1) shareholders; 2) directors; 3) the board of commissioners; 4) managers; 5) employees; 6) remuneration system based on performance; and 7) audit committee. The main principles of corporate governance include: 1) transparency; 2) accountability; 3) responsibility; 4) independence; and 5) fairness.

Independent commissioners as one of the elements in corporate governance are commissioners who are not affiliated or do not have business and family relations with the controlling shareholders, members of the board of directors, and other board of commissioners, as well as with the company itself (Putri, 2013). The existence of an independent commissioner is expected to be neutral towards all policies made by the directors. Because independent commissioners are not affected by management, they tend to encourage companies to disclose broader information to stakeholders (Ratnasari, 2011). Thus, the greater the composition of independent commissioners, the board of commissioners can act more objectively and be able to protect all stakeholders and this encourages wider CSR disclosure. Based on these thoughts, the proportion of independent commissioners has a positive effect on CSR disclosure. This is supported by Badjuri's research (2011) which states that the independent board of commissioners has a positive effect on CSR disclosure.

2.4. Company Size

Grouping companies according to their size can be categorized into several groups; including large, medium and small companies. Company scale is a measure used to reflect how big or how small a company is based on the total assets of the company (Suwito and Herawaty, 2005).

Company size is the scale of the company as seen from the total assets of the company at the end of the year. Total sales can also be used to measure how large a company is (Veronica and Siddharta, 2005). The size of the company describes how big or small a company is. The size of the business is in terms of the field of business being run. Determination of the size of the company can be done based on total sales, total assets, average sales level (Seftianne, 2011).

Large companies have various advantages compared to small sized companies. The advantage, first, is that the size of the company can determine the level of ease of obtaining funds from the capital market. Second, the size of the company determines bargaining power in financial contracts. And third, it is possible that the influence of scale in costs and returns makes a larger company can obtain a greater profit (Sawir, 2004).

2.5. Hypothesis Development

2.5.1 The Effect of Corporate Governance on CSR Disclosure

As a corporate governance mechanism, independent commissioners are expected to carry out their duties as supervisors to ensure that the interests of shareholders are taken into account in corporate decision making. Researches by Cheng and Courtenay (2006), Huafang and Juanguo (007), and Donnelly and Mulcany (2008) found that there was a significant positive effect of independent commissioners on CSR disclosure.

In Indonesia, the number of independent commissioners of public companies is regulated in paragraphs 1 to 3 of Article 10 of Financial Services Authority Regulation No. 33 of 2014. The regulation stipulates that in the case of a board of commissioners consisting of 2 (two) members of the board of commissioners, 1 (one) of whom is an independent commissioner. In the case of the board of commissioners consisting of more than 2 (two) members, then the number of independent commissioners must be at least 30% (thirty percent) of the total members of the board of commissioners. This provision implies that it is hoped that the more independent commissioners, the more effective the board of commissioners will carry out their supervisory duties. Under the supervision of the independent board of commissioners, managers are expected to be able to carry out their duties, including making decisions on CSR disclosure. Thus the first hypothesis can be formulated as follows.

H1: Independent commissioners have a significant positive effect on CSR disclosure.

2.5.2. Effect of Company Size on CSR Disclosure

The size of the company is predicted to affect the company's CSR disclosure. This disclosure of information is done to show or describe the existence of the company, thereby being able to show the existence of the company (Ghazali, 2007). In addition, large companies carry out more activities and, therefore, have a stronger influence on the social environment. According to Cowen *et al.* (1987) in Esa and Ghazali (2010), larger companies have a greater number of shareholders and care about the social programs implemented by the company. Information on the social program is disclosed in the annual report and is considered as an efficient means of conveying information.

Many studies have found that there is an effect of company size on CSR disclosure. Large companies are given more attention by the public and are in the public spotlight compared to smaller companies. Large companies have a greater influence on the public and thus automatically have a larger stakeholder group. This stakeholder group will also influence the company (Hackston and Milne, 1996 in Muttakin and Khan, 2014). In addition, large companies are also more exposed to political conditions that have an impact on the high level of legitimacy (Dowling and Pfeffer, 1975 in Muttakin and Khan, 2014). The results of researches by Haniffa and Cooke (2005), Ghazali (2007), and Reverte (2009) showed that company size has a positive effect on CSR disclosure.

H2: Company size has a significant positive effect on CSR disclosure.

RESEARCH METHOD

3.1 Research Stages

The stages of this research began with the collection of data on companies in the basic and chemical industrial sector. Then the data is selected by using purposive sampling method. Data on companies that have passed the selection will be analyzed using multiple linear regression analysis.

The following are the calculation steps for calculating each research variable:

1. Corporate Social Responsibility

CSR disclosure is measured using the GRI standard, which is adjusted to the conditions of Indonesia contained in the Report of the Capital Market and Financial Institution Supervisory Agency No. VII G.2.

2. Corporate Governance

Corporate Governance is measured using an independent commissioner composition.

3. Company Size

Company size is measured using Natural Logarithm (Ln) Assets.

3.2. Place of Research

The place of research where this research was conducted is the manufacturing companies of basic and chemical industrial sector which were listed on the Indonesia Stock Exchange (BEI) in 2016-2017.

3.3. Data Collection Technique

The population in this study is manufacturing companies of basic and chemical industrial sector which were listed on the Indonesia Stock Exchange (BEI) in 2016-2017. These companies were selected according to the research topic because manufacturing companies of the basic and chemical industrial sector carry out their business activities related to natural resources so they are required to carry out social and environmental responsibilities. The sample is determined using a purposive sampling technique.

3.4. Variables Observed

3.4.1. Independent Variables

The independent variables in this study are Corporate Governance (Independent Commissioner) and Company Size (Ln Asset).

3.4.2. Dependent Variable

The dependent variable in this study is CSR Disclosure based on items contained in the Global Reporting Initiative (GRI) Standard.

3.5. Data Analysis Method and Hypothesis Testing

Data analysis method that will be used in this study is the Multiple Linear Regression Model. The regression analysis formula according to this research is:

$$Y = a + b_1X_1 + b_2X_2 + \varepsilon$$

where:

Y : CSR Disclosure

X_1 : Corporate Governance

X_2 : Company Size

a : Constant

b_1, b_2 : Regression Coefficients

ε : Error

RESULTS OF RESEARCH AND DISCUSSION

4.1. Overview of Research Sample

The population in this study is basic and chemical industrial companies listed on the Indonesia Stock Exchange (IDX) in 2016-2017. These basic and chemical industrial companies were chosen as the research population because they are a group of manufacturing companies. The companies of the manufacturing sector process raw materials in the production process until the goods are ready to be sold to the market. Residues of production will become waste where chemical waste is very dangerous to the environment. It is expected that companies in the basic and chemical industrial sector will reveal their social activities.

There were 96 companies in the basic and chemical industry sector that were listed on the Indonesia Stock Exchange until 2017. Of this population, only 54 companies met the criteria to be sampled in this study. The sample in this study was determined using purposive sampling technique. The samples in this study are companies that meet the determined criteria so that the stated research objectives can be achieved.

4.2. Descriptive Statistic

Descriptive statistics provide an overview of the data set that is seen from the average value (mean), standard deviation, maximum, minimum, sum, range, kurtosis, and skewness (Gozhali, 2013: 19). If the mean is greater than the standard deviation, the quality of the data is better. In this research, descriptive statistics will describe the description of each variable.

Table No. 1: Descriptive Statistics Test Results

	N	Min	Max	Mean	Std. Deviation
CSR (Y)	108	.03	1.58	.2130	.16393
CG (X1)	108	.20	.80	.4009	.12247
Company Size (X2)	108	23.43	32.11	28.1516	1.59267
Valid N (listwise)	108				

a. Dependent Variable

Corporate Social Responsibility – CSR (Y)

b. Independent Variable

1) Corporate Governance-CG (X1)

The results of descriptive statistical analysis for the variable Corporate Governance-CG (X1) show that the minimum value is 0.20 and the maximum value is 0.80, the mean is 0.4009, and the standard deviation is 0.12247.

2) Company Size (X2)

The results of descriptive statistical analysis for the variable Company Size (X2) show that the minimum value is 23.43 and the maximum value is 32.11, the mean 28.15.16, and the standard deviation is 1.59267.

Table 1 shows the results of the descriptive statistical analysis of research data. From this table, it is known that the mean is greater than the standard deviation for all variables.

According to Gozhali (2013), if the mean is greater than the standard deviation, the data shows good quality. thus it can be stated that the data description has good quality.

4.3. Results of the Research Hypothesis Test

Hypothesis testing in this study was carried out using multiple linear regression analysis models. In this research, the coefficient of determination test, F (simultaneous) statistical test and t (partial) statistical test will be conducted.

4.3.1. Coefficient of Determination (R^2)

Table No. 2: The Results of the Coefficient of Determination Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,066	,004	-,014	,16676	1,400

Table 2 above shows the coefficient of determination (R Square). The value of R Square states the contribution given by the independent variables to the dependent variable. In this study, the independent variables are corporate governance and company size, while the dependent variable is CSR disclosure. The coefficient of determination is used to predict and see how much the contribution of influence that is given by independent variables simultaneously to the dependent variable. However, the value of the coefficient of determination can be used if the F test in multiple linear regression analysis is significant, which means that there is an effect of the independent variables simultaneously on the dependent variable. However, the value of the coefficient of determination can be used if the F test in multiple linear regression analysis is significant, which means that there is an effect of the independent variables simultaneously on the dependent variable. Conversely, if the results of multiple linear regression analysis with the F test are not significant, then the coefficient of determination cannot be used to predict the contribution of the influence of the independent variable on the dependent variable (Raharjo, 2019).

In Table 2 it can be seen that the coefficient of determination in the R Square column is 0.004. The value of R Square is obtained from the value of R squared. To find out whether or not there is an influence of the independent variables on the dependent variable, the F test results in the multiple linear regression analysis shown in Table 3 are considered first. The Value of Sig. for the F test is 0.791 which is greater than 0.05, this means that the independent variables have no significant effect on the dependent variable. Thus the coefficient of determination cannot be used to predict the effect of independent variables on the dependent variable. The coefficient of determination is very small or much smaller than 1 show that the influence of corporate governance and company size on CSR is very weak.

4.3.2. Simultaneous Significance Test (F Test)

Table No. 3: Results of F Test[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,013	2	,007	,235	,791[b]
	Residual	2,948	106	,028		
	Total	2,961	108			

a. Dependent Variable: CSR (Y)

b. Predictors: (Constant), Company Size (X2), CG (X1)

Based on Table 3 Anova output is known that the value of Sig. is equal to 0.791 and this is greater than 0.05. As the decision making provisions in the F test, due to the significance of 0.791> 0.05, it can be concluded that all independent variables, namely corporate governance and firm size simultaneously have no significant effect on the independent variable, corporate social responsibility.

In general, the independent variables do not affect CSR disclosure. This is possible because the level of CSR disclosure in Indonesia is still low. This is consistent with research by Firtia and Hartanti (2010) of 3 conventional banks and 3 Islamic banks. Their results show that CSR disclosures by conventional banks are better than Islamic banks. But based on the GRI index, the highest value is only 46% and based on the Islamic Social Reporting (ISR) index is 58%. Similarly, Trisnawati (2013) analyzes CSR disclosures in conventional and Islamic banks in Indonesia using the 78-item GRI index. The results of her study are consistent with the findings of Fitria and Hartanti (2010) that CSR disclosures by conventional banks are better than Islamic banks, which are 52% and 37%, respectively. Some of the research results above show that measurements using the GRI index (72, 78, 79, and 121 items) do not show the maximum disclosure score, which on average reveals CSR below 50%.

4.3.3. Significance Test of Individual Parameters (t-Test)

This test aims to test the effect of each independent variable on the dependent variable. The following are the results obtained from the t-test of regression analysis.

Table No. 4: Results of Test of Individual Parameters (t-Test)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,152	,288		,528	,599
	CG (X1)	-,081	,132	-,060	-,6717	,539
	Company Size (X2)	,003	,010	,031	,323	,747

a. Dependent Variable: CSR (Y)

Based on the output of individual parameter values, it is known that the value of t-counted is -0.617 and the value of Sig. for Corporate Governance is 0.53 which is greater than the significance level of 0.05 (0.53> 0.05). This means that the variable Corporate Governance (X1) does not have a significant effect on Corporate Social Responsibility. Based on the results of multiple linear regression tests it can be concluded that the hypothesis H0 is accepted and H1 "Corporate Governance has a positive effect on disclosure of Corporate Social Responsibility" is rejected.

The value of t-counted for company size is 0.323 and the value of Sig. is 0.747 which is greater than the significance level of 0.05 (0.747> 0.05). This means that company size (X2) has no significant effect on Corporate Social Responsibility. Based on these results, it can be concluded that the hypothesis H0 is accepted and H2 "Company size has a positive effect on disclosure of Corporate Social Responsibility" is rejected.

Based on Table 5.10 where the coefficients of multiple linear regression equations are shown, a linear regression equation can be arranged as follows:

$$CSR = 0{,}152 – 0{,}081D1 + 0{,}03X2 + 0{,}288$$

The interpretation of the linear regression equation above is as follows:

1) Coefficient of constant / intercept is 0.152, which indicates that if Corporate Governance and Company Size is assumed zero, the disclosure of Corporate Social Responsibility is 0.152.

2) The regression coefficient of the variable Corporate Governance is -0.081 which indicates that every increase in the number of Independent Commissioners assuming the other variables are fixed, then Corporate Social Responsibility will decrease by 0.081.

3) Regression coefficient of variable company size is 0.003 which indicates that every increase in company size assuming the other variables are fixed, then Corporate Social Responsibility will increase by 0.003.

4.4. DISCUSSION

1) The Effect of Corporate Governance on Corporate Social Responsibility

The results of this study indicate that corporate governance does not affect the disclosure of Corporate Social Responsibility (CSR). This is evident from the value of Sig. of variable corporate governance that is greater than the 5% significance level, i.e. 0.539> 0.05. Therefore, it can be stated that corporate governance has no significant effect on corporate social responsibility. The board of independent commissioners is a proxy of corporate governance.

This can be explained by the large or small number of members of the board of independent commissioners not being the main determining factor for the effectiveness of supervision of company management. The board of commissioners is responsible and has the authority to oversee management actions and advise management if they deem it necessary. Thus the independent board of commissioners is considered to have no effect in increasing CSR disclosure. This might be because the function of the board of commissioners in a company is only as a controller and not directly involved with the company's operations so it is considered not to have much influence on the manager's decision to disclose CSR.

The results of this study are in line with previous research conducted by Ramdhaningsih and Utama (2013) who found that the proportion of independent boards of commissioners had no effect on CSR disclosure. The results of this study are also supported by studies conducted by Suaryana and Febriana (2012) and Siregar and Priantinah (2017). The results of Haniffa and

Cooke's study (2002) also support by stating that the composition of the board of independent commissioners has no effect on the level of CSR disclosure, as well as Habbash's (2015) research results, indicate that the composition of the board of independent commissioners has no effect on the level of CSR disclosure.

The composition of the board of independent commissioners has no effect on the disclosure of corporate CSR, possibly because the board of independent commissioners in companies in Indonesia cannot carry out their roles and functions. The existence of the board of independent commissioners cannot control and monitor management in the company's operations, including in the implementation and disclosure of social responsibility activities (Susanti and Riharjo, 2013). It seems that the composition of the independent board of commissioners has no effect on CSR disclosure because the minimum limit of the independent board of commissioners is only 30%, so the influence it exerts is not high enough to influence the decision of the board of commissioners.

2) Effect of company size on corporate social responsibility

The results of this study indicate that company size has no significant effect on CSR. The value of significance obtained is 0.747 which is greater than the significance level of 5%. This means that company size has not been empirically proven to influence CSR disclosure. This means that company size measured by the natural logarithm of total assets has no effect on CSR disclosure.

The same results were found by Utami and Rahmawati (2008), Santioso and Chandra (2012) who conducted research in manufacturing companies listed on the Indonesia Stock Exchange in 2008-2010, where they found that company size had no effect on CSR disclosure. This shows that company size may not necessarily increase CSR disclosure by managers. This is possible because CSR disclosure in Indonesia is still lacking in attention. This statement is supported by the results of research by Fitria and Hartanti (2010) and Trisnawati (2013) which show that the average level of CSR disclosure in Indonesia is still below 50%. Thus the large size of the company is not always accompanied by a high level of CSR disclosure.

CONCLUSIONS AND SUGGESTIONS

5.1. CONCLUSIONS

This study examines the effect of corporate governance and company size as independent variables on CSR disclosure as the dependent variable. The analysis used in this study is descriptive statistical analysis and multiple linear regression analysis, and the classic assumption test is used to test the feasibility of the regression model used. The sample data used is the basic and chemical industry companies listed on the Indonesia Stock Exchange during the 2016-2017 period.

Based on the results of the analysis and discussion in the previous chapter, several conclusions can be drawn, namely:

1. The variable corporate governance has no significant effect on CSR disclosure.

2. The variable company size has no significant effect on CSR disclosure.

5.2. SUGGESTIONS

This study only examines CSR in basic and chemical industry companies as a sample using a purposive sampling method so that the results of this study cannot be generalized broadly to every public company in Indonesia. It is recommended for further research to use all companies listed on the Indonesia Stock Exchange, both manufacturing industries, and other industries and increase the year of observation because a longer observation period might give more convincing results. Further research should also examine other factors that influence CSR and analyze the items in the CSR components that are most disclosed by the company.

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