Determinant Factors of Corporate Social Responsibility Disclosure

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Abstract

A company has economic and social responsibility to maintain its business continuity. This study aims to determine the effect of profitability, risk minimization, political visibility, and slack resources on corporate social responsibility (CSR) disclosure. The population involved were companies in industrial sector listed on the Indonesia Stock Exchange for the 2018-2020 period. 114 samples from 38 companies were obtained based on sampling criteria. The study data were analyzed using descriptive statistics and panel data regression. The study results showed that slack resources had a positive effect on CSR disclosure, since slack resources are company resources that are utilized and can adapt to current economic conditions, especially to perform corporate social responsibility. Meanwhile, profitability, risk minimization and political visibility had no effect on CSR. The limitation of this study was regarding the simultaneous effect that was only 7.11 %. Therefore, it is recommended to further researchers to observe other variables considered to affect CSR disclosure. The novelty proposed in this study was the effect of slack resources on CSR disclosure among industrial sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period.

Keywords
CSR Disclosure, Political Visibility, Profitability, Risk Minimization, Slack Resources.

1. Introduction
A company has two main responsibilities. The first responsibility is financial responsibility. To fulfill this financial responsibility, the company is required to report its financial statements to investors and stakeholders. The benefit of the financial statements made by the company is to provide credible information to investors and stakeholders in order to make the right decisions. The second responsibility that must be met by the company is social and environment responsibility or so called Corporate Social Responsibility (CSR). Corporate social responsibility is disclosed in the sustainability report or in the company's annual report. The disclosure of corporate social responsibility aims to maintain the sustainability of such company to run its business and get the trust of investors and stakeholders. The implementation of the CSR program in the company can affect the sustainability of the company's business processes (Angela et al. 2021).

The world's commitment to jointly pay attention to global sustainability is confirmed by the 2030 agenda for sustainable development, a joint agenda of global development adopted by 193 UN member countries. This 2030 agenda document contains the goal of transformation for the future of the planet, with specific targets including poverty and hunger alleviation, health and education improvement, urban sustainability, climate change combat, and protection of oceans and forests (United Nations 2018).This commitment was delivered by 23 businesses from all over the world through a commitment letter to the United Nations in 2015.

Although CSR disclosure in Indonesia is still voluntary, it still requires an appropriate legal framework to regulate the implementation of CSR disclosure by the company (Fahad and Rahman 2020). Indonesia's commitment in regulating CSR, especially for companies, is regulated in Law Number 40 of 2007 concerning Limited Liability Companies, especially in Article 74 paragraph (1) which reads, "The company that runs its business activities in the fields and/or relating to natural resources is required to carry out social and environmental responsibilities."(President of Indonesia 2007). Furthermore, the Indonesian government also ratified the Government Regulation of the Republic of Indonesia Number 47 of 2012 concerning Social and Environmental Responsibility of Limited Liability Companies. Article 2 states that each limited liability company must run social and environmental responsibility (President of Indonesia 2012). The latest release, due to the issue of CSR disclosure which is a global trend, attracts the attention of stakeholders such as managers, investors, and the government (Jiang et al. 2022).

A study conducted by the Research Center for Governance, Institutions, and Organizations of National University of Singapore (NUS) found that the quality of corporate social responsibility in Indonesia was still low when compared to companies in Thailand and Singapore (Suastha 2016). This study involved 100 samples of companies in Indonesia, Singapore, Thailand, and Malaysia. The indicator used was Global Reporting Initiative (GRI). The quality of the implementation of the company's CSR in Indonesia obtained a value of 48.4 from 100, while Thailand obtained a value of 56.8 and Singapore obtained a value of 48.8. The quality of CSR implementation among companies in Indonesia was still low when compared to companies in Thailand and Singapore.

In fact, there is still go-public companies that ignore the importance of social responsibility, for example a case related to PT. Surya Toto Indonesia Tbk. in the area of Bojong Village, Cikupa District, Tangerang Regency (Iglobalnews 2018). The company indiscriminately disposed solid waste with a high risk for the environment (Iglobalnews 2018). This solid waste requires special handling before being disposed, so as to minimize the adverse impact on the environment.

Meanwhile, profitability can be an indicator for assessing the company's ability to generate profits in a certain period(Mudjiyanti and Maulani 2017). A study conducted by Ruslim et al. (2017) found that profitability had an effect on CSR disclosure. In contrast, a study conducted by Majidah and Muslih (2019) found that profitability had no effect on CSR disclosure, because the companies was only oriented towards financial performance, rather than environmental and social performance.

Risk Minimization is an activity needed by the company to minimize the risk of the company's operational activities that might cause damage (Ruroh and Latifah 2018). Risk minimization is usually expressed in the annual report. A study conducted by Ruroh and Latifah (2018) found that risk minimization had a positive effect on CSR disclosure, because such implementation will encourage CSR disclosure. Conversely, a study conducted by Kurniawan and Yuniarta (2020) found that risk minimization had no effect on CSR disclosure.

Political visibility is required by the company to finance political activities as well as their interest (Wahyuni et al. 2019). Such interest means to become a company that is considered to have good prospects and large-looking company as reflected in the amount of total assets (Affandi and Diana 2017). Political visibility was found to have an effect on CSR disclosure (Wahyuni et al. 2019) since the company was able to utilize total assets to encourage CSR disclosure. In contrast, a study conducted by Ruroh and Latifah (2018) found that political visibility had no effect on CSR disclosure.

Another factor that is also thought to be a determinant of CSR disclosure is slack resources. Slack resources is an excess of resources utilized by the company to adapt to the current economic conditions (L.J. Bourgeois 1981). A study conducted byAnggraeni and Djakman (2017) found that Slack Resources had an effect on CSR disclosure. It was due to the excess resources owned by the company could be allocated to perform CSR disclosure. However, a study conducted by Sugiarti (2020) found that Slack Resources had no effect on CSR disclosure.

Determinant factor of CSR disclosure has been widely studied, but inconsistencies related to the results of previous studies were still found. Therefore, a study on the effect of profitability, risk minimization, political visibility, and slack resources on CSR disclosure among industrial sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period is still relevant to conduct.

2. Literature Review

2.1 Legitimacy and Stakeholder Theories

In light of the legitimacy theory, an entity's social activity is reflected by the harmony between the behavior of the entity and the belief of a society wherein the entity is located (Deephouse *et al*. 2016). The implementation of this theory is reflected in CSR disclosure (Widyastari and Ratna Sari 2018). CSR disclosure can be a good liaison means between the entity and the external parties. Another theory that underlies CSR disclosure is the theory of stakeholders. This theory defines stakeholders as an individual or collection of individuals who state ownership or interests of the company (Valentinov and Hajdu 2021; Dmytriyev et al, 2021). Furthermore,Robin W. Roberts (1992)states that stakeholders of the company consist of investors or shareholders, credit providers, employees, customers, suppliers, community organizations, and government.

2.2 CSR Disclosure

Corporate Social Responsibility (CSR) is a responsibility to be borne by the company to meet the needs of internal as well as external stakeholders. CSR helps the company to be socially accountable to the company itself, investors, and the public (Tibiletti et al. 2021). CSR is presented in the annual report and sustainability report (Bacha and Ajina 2020). At present the nature of CSR reporting is still voluntary because there are still no binding regulations that govern it. Considering the costs required for the CSR disclosure are not small, in this case the company still needs careful management considerations. However, since the issuance of ISO 26000 on CSR in 2010, most companies have added CSR disclosure in their annual report (Pham and Tran 2020). The CSR concept is reflected in the triple bottom line concept (Elkington 1998), wherein in addition to finding profit in running its business, a company must also implement the concept of planet, which is to pay attention to aspects of preservation towards the surrounding environment. In addition, a company also needs to apply the people concept, which is to prioritize social and community concern. CSR disclosure is assessed through GRI G4 method consisting of 91 items, including economic, environmental and social indicators (GRI 2013).

2.3 Profitability and CSR Disclosure

Profitability is a ratio used to assess the ability of a company to generate profits in a certain period (Mudjiyanti and Maulani 2017). Profitable companies will reveal CSR in more detail and complete, in order to support management compensation (Majidah and Muslih 2019). The profitability ratio shows the overall efficiency and performance of the company (Purbawangsa et al. 2020). The value of the company's profitability reflects whether the company management is considered good. It can be said that the more profitable the company, the more focus on CSR disclosure (Orazalin and Mahmood 2020). This study applied the net profit margin (NPM) formula as an indicator of company profitability (Sekhon and Kathuria 2020). NPM is considered to represent the company's ability to generate net profit after tax. In addition, NPM also represents the development of sales from time to time. The higher the company's net profit margin, the more efficient the company in spending costs related to its operations (Willim et al., 2020). Profitable companies will surely encourage CSR disclosure (Ruroh and Latifah 2018). This is in accordance with the finding of a study conducted by Ruslim et al. (2017) and Ali et al. (2018) that profitability had a positive effect on CSR disclosure.

H_1: Profitability has a positive effect on CSR disclosure.

2.4 Risk Minimization dan CSR Disclosure

Ruroh and Latifah (2018) define risk minimization as an activity that needs to be carried out to minimize the risk of damage that occurs due to the company's operational activities. Risk minimization performed by a company can be seen in an annual report with a focus on disclosure of risk management. The number of studies on risk management towards CSR disclosure is still very limited (Musallam 2018). The risk minimization variable is considered to have an effect on CSR disclosure performed by the company, since implementation of risk management is considered to encourage CSR disclosure. Thus, risk management can help in understanding the practice of CSR disclosure (Bebbington et al. 2008). Risk Minimization is considered to have a positive effect on CSR disclosure (Ruroh and Latifah 2018; Musallam 2018).

H_2: Minimization has a positive effect on CSR disclosure.

2.5 Political Visibility and CSR Disclosure

Political visibility refers to the cost budgeted by the company for its political activities or for the benefit or interest of the company (Kartika and Yuyetta 2020; Wahyuni et al. 2019). Such interest means to become a company that is considered to have good prospects and brilliant visions as reflected in the amount of total assets. Through political visibility, the company may set aside costs through the use of total assets to disclose its social information, so that a proxy for political visibility is the size of the company (Mapparessa et al. 2017; Gray and Bebbington 2000).Therefore, political visibility is considered to have a positive effect on CSR disclosure (Ali et al. 2018;Wahyuni et al. 2019).

H_3: Political visibility has a positive effect on CSR Disclosure.

2.6 Slack Resources and CSR Disclosure

Slack resources are excess resources utilized by the company to adapt to the external and internal conditions of the company (Bourgeois 1981; Andayani et al. 2022). Resources that can be utilized by the company consist of finance, research and development, marketing, human resource management, operating systems, and many more. If managed properly, these resources will produce slack resources. However, financial resources are the most liquid form of slack resources (Islam et al. 2021). Such liquid slack resources are expected to expand CSR disclosure. If the company has slack resources, it is considered to reveal CSR. Based on slack resources theory, the company will use the benefits gained for sustainable activities (Nguyen and Nguyen 2021). Slack resource is one of the factors that is considered to affect CSR disclosure (Anggraeni and Djakman 2017).

H_4: Slack resources has a positive effect on CSR Disclosure.

3. Research Methods

This was a quantitative study along with hypothesis tests. The objects of study were industrial sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period. The study data involved were sample data selected based on the criteria: (1) Industrial sector companies that were consistently registered on the Indonesia Stock Exchange for the 2018-2020 period, (2) Industrial sector companies that consistently reported financial statements and annual reports, and (3) Industrial sector companies which had data related to study variables. There were 114 samples from 38 companies. Data were analyzed using descriptive statistics and data panel regression. The panel data regression analysis model was as follows:

$$Y = \alpha + \beta_1 \text{ NPM} + \beta_2 \text{ RMX} + \beta_3 \text{ PVX} + \beta_4 \text{ SRX} + \varepsilon$$

Information:

Y = CSR disclosure
α = Constant
$\beta_1 \ldots \beta_4$ = Regression coefficient
X_1 = Profitability
X_2 = Risk minimization
X_3 = Political visibility
X_4 = Slack resources
ε = Error factor

4. Results and Discussion

The results of descriptive statistical analysis and panel data regression are explained in the following section.

4.1 Descriptive Statistical Analysis

Descriptive statistical analysis results for ratio scale variables are explained in Table 1 below.

Table 1. Descriptive Statistical Analysis Results

Information	CSR Disclosure	Profitability	Political Visibility	Slack Resources
Mean	0.3258	1.3849	5.3458	5.0560
Maximum	0.5742	1.8581	5.7874	5.6119
Minimum	0.1049	1.0000	5.1318	4.4942
Standard Deviation	0.1198	0.0802	0.1492	0.2109
Observation	114	114	114	114

The mean value of CSR disclosure was 0.3258, which was higher than the standard deviation of 0.1198. This finding indicated no variation in the CSR disclosure data. The mean value of CSR disclosure was 32.58%. This value was relatively low for companies that had gone public.

The mean profitability value was 1.3849, which was higher than the standard deviation of 0.0802. Such finding indicated no variation in the profitability data. The mean profitability of 138.49% indicated a high ability of the industrial sector companies in generating net profit after tax through the use of assets.

The mean value of political visibility was 5.3458, which was higher than the standard deviation value of 0.1492. This finding indicated no variation in the political visibility. The mean value of political visibility indicated that the operational cost incurred by the companies through the utilization of total assets was 5.3458.

The mean value of slack resources was 5.0560, which was greater than the standard deviation of 0.2109. This finding indicated no variation in the slack resources data. The mean value revealed that excessive resource to be used by companies to fund their business activities was 5.0560.

Risk minimization was assessed using a dummy scale, by providing a value of 1 for companies that performed risk management, and 0 for companies that did not perform risk management.

Table 2. Risk Minimization

	Risk Minimization		**Total**
	Performed Risk Management (RMX = 1)	**Did Not Perform Risk Management (RMX = 0)**	
Number of Data	108	6	114
Percentage	95%	5%	100%

Table 2 revealed that the majority of industrial sector companies (108 or 95%) disclosed their risk management. Such finding indicated that most of the industrial sector companies had anticipated potential risks in the future.

4.2 Classical Assumption Test

The classical assumption test was conducted to test whether the observation data were normally distributed and experienced symptoms of multicol linearity and heteroscedasticity. The following figure describes the results of the classical assumption test.

The current study tested the normality of the data using the Jarque-Bera method by observing the probability value that must be higher than α=0.05. The results of the data normality test are presented in the following Figure 1:

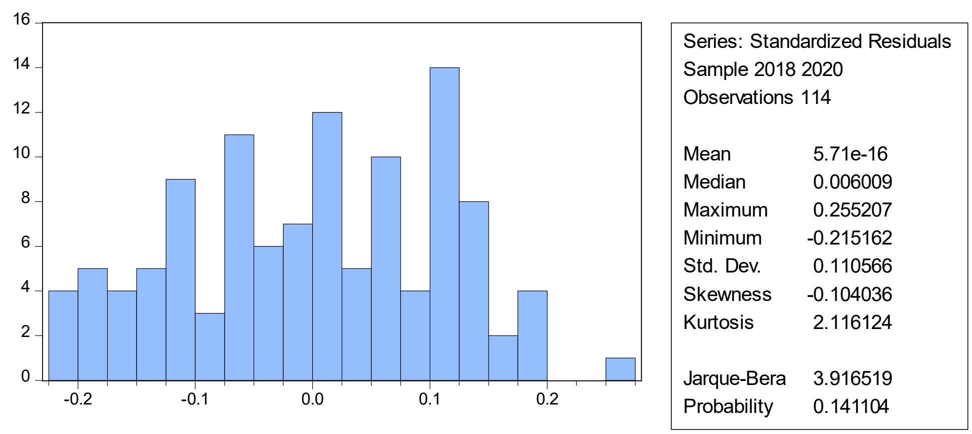

Figure 1. Normality Test Results

Figure 1 revealed that the normality test results obtained a probability value of 0.141104, that was higher than α=0.05. Thus, it can be concluded that the observation data were normally distributed.

The multicollinearity test was conducted to determine whether there is a linear relationship between the independent variables. If the correlation coefficient is less than 0.90, then there is no multicollinearity symptom. Table 3 describes the results of the multicollinearity test.

Table 3. Multicollinearity Test Results

	X1_NPM	X2_RMX	X3_PVX	X4_SRX
X1_NPM	1.000000	0.096646	0.018234	-0.117568
X2_RMX	0.096646	1.000000	0.270873	0.291771
X3_PVX	0.018234	0.270873	1.000000	0.835504
X4_SRX	-0.117568	0.291771	0.835504	1.000000

Table 3 revealed that the results of the multicollinearity test on the variables of profitability (X1_NPM), risk minimization (X2_RMX), political visibility (X3_PVX), and slack resources (X4_SRX) did not have multicollinearity problem, since the correlation coefficient was less than 0.90.

Heteroscedasticity test was conducted to determine whether there were differences in variance in each independent variable. Table 4 describes the results of the heteroscedasticity test.

Table 4. Heteroscedasticity Test Results

Dependent Variable: RESABS
Method: Panel EGLS (Cross-section random effects)
Date: 03/28/22 Time: 19:52
Sample: 2018 2020
Periods included: 3
Cross-sections included: 38
Total panel (balanced) observations: 114
Swamy and Arora estimator of component variances

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*
C	-0.269742	0.309110	-0.872640	0.3848
X1_NPM	0.013707	0.054194	0.252918	0.8008
X2_RMX	0.019714	0.042217	0.466960	0.6415
X3_PVX	0.135975	0.075802	1.793814	0.0756
X4_SRX	-0.079564	0.050313	-1.581383	0.1167

The results presented in table 4 revealed that the probability value for each independent variable was higher than α=0.05. So it can be concluded that the data of this study did not find heteroscedasticity problem.

4.3 Selection of Panel Data Regression Model

In determining the right model to analyze panel data regression, there are three steps of model testing, namely the Chow test, Hausman test, and the Lagrange multiplier test. The following describes the selection of panel data regression model.

A. Chow Test

The Chow test was conducted to determine whether the common effect model (H0) was better than the fixed effect model (H1), or vice versa. If the probability value was less than α=0.05, then it was better to use the fixed effect model or reject H0 and vice versa.

Table 5. Chow Test Results

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	*Statistic*	*d.f.*	*Prob.*
Cross-section F	14.915177	(37,73)	0.0000
Cross-section Chi-square	244.766057	37	0.0000

Table 5 revealed the probability value in the Chi-square cross-section of 0.0000. Such finding indicated a probability value that was less than α=0.05, then the decision taken was to reject H_0 and applied the fixed effect model. The next step was conducting the Hausman test.

B. Hausman Test

Hausman test was conducted to select the best model between the random effect model (H0) and the fixed effect model (H1). H0 was accepted if the probability value was more than α=0.05, and vice versa. The following table presents the results of the hausman test.

Table 6. Hausman Test Results

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	*Chi-Sq. Statistic*	*Chi-Sq. d.f.*	*Prob.*
Cross-section random	1.101353	3	0.7767

Table 6 revealed that the hausman test resulted in a probability value of 0.7767, or higher than α=0.05, meaning that H_0 was accepted or the random effect model was applied.

C. Lagrange Multiplier Test

Since the results of the chow test selected the fixed effect model and the hausman test selected the random effect model, a lagrange multiplier test was required. The lagrange multiplier test was applied to test between the two models between the common effect model as H_0 and the random effect model as H_1. If the probability value was higher than α=0.05, then H_0 was accepted and vice versa. The following table presents the results of the lagrange multiplier test.

Table 7. Lagrange Multiplier Test Results

Lagrange multiplier (LM) test for panel data
Date: 03/28/22 Time: 11:03
Sample: 2018 2020
Total panel observations: 114
Probability in ()

Null (no rand. effect) Alternative	*Cross-section One-sided*	*Period One-sided*	*Both*
Breusch-Pagan	74.95518	0.178814	75.13399

	(0.0000)	(0.6724)	(0.0000)
Honda	8.657666	0.422864	6.420904
	(0.0000)	(0.3362)	(0.0000)
King-Wu	8.657666	0.422864	2.372453
	(0.0000)	(0.3362)	(0.0088)
GHM	--	--	75.13399
	--	--	(0.0000)

The results of the lagrange multiplier test presented in Table 7 showed a probability value of 0.0000, which was less than α=0.05, then the random effect model was selected. Such model was applied to make decision in panel data regression analysis.

4.4 Coefficient of Determination
The results of the coefficient of determination test are presented in the following table:

Table 8. Results of Coefficient of Determination and Simultaneous Tests

R-squared	0.104008	Mean dependent var	0.081042
Adjusted R-squared	0.071127	S.D. dependent var	0.048430
S.E. of regression	0.046676	Sum squared resid	0.237475
F-statistic	3.163208	Durbin-Watson stat	1.512228
Prob(F-statistic)	0.016773		

Table 8 showed the adjusted r-square value of 0.071127, with a probability value (f-statistic) of 0.016773, or less than α=0.05. Therefore, profitability, risk minimization, political visibility, and slack resources were able to explain CSR disclosure by 7.11% and the rest was explained by other factors. It can be concluded that profitability, risk minimization, political visibility, and slack resources had a simultaneous effect on CSR disclosure.

4.5 Partial Test
The results of partial test are presented in the following Table 9:

Table 9. Partial Test Results

Dependent Variable: Y_CSR
Method: Panel EGLS (Cross-section random effects)
Date: 03/28/22 Time: 11:27
Sample: 2018 2020
Periods included: 3
Cross-sections included: 38
Total panel (balanced) observations: 114
Swamy and Arora estimator of component variances

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*
C	-0.947578	0.553736	-1.711246	0.0899
X1_NPM	0.087155	0.078418	1.111426	0.2688
X2_RMX	0.055005	0.082203	0.669135	0.5048
X3_PVX	0.016534	0.122837	0.134598	0.8932
X4_SRX	0.200196	0.077406	2.586317	0.0110

Regression model for partial test result:

$$Y = -0,947578 + 0,087155NPM + 0,055005RMX + 0,016534PVX + 0,200196SRX$$

The regression coefficient value for Profitability (β_1) was 0.087155 with a probability level of 0.2688, which was higher than α=0.05. Thus, profitability had no effect on CSR disclosure. Such findings are not in accordance with the study hypothesis, and do not support the finding of study conducted by Ruslim et al. (2017) and Ali et al. (2018). Such findings were confirmed descriptively by study data that both profitability data were dominated by CSR disclosure value of above the mean value. That is why profitability had no effect on CSR disclosure.

The regression coefficient value for risk minimization (β_2) was 0.055005, with a probability level of 0.5048, which was higher than α=0.05. Thus, risk minimization had no effect on CSR disclosure. Such findings are not in accordance with the study hypothesis, and do not support the finding of study conducted by Ruroh & Latifah (2018) and Musallam (2018). Such findings were confirmed descriptively by study data that both companies that performed and did not performed risk management were dominated by CSR disclosure value of above the mean value.

The regression coefficient value for political visibility (β_3) was 0.016534, with a probability rate of 0.8932, which was higher than α=0.05. Thus, political visibility had no effect on CSR disclosure. Such findings are not in accordance with the study hypothesis, and do not support the finding of study conducted by Ali et al., 2018 andWahyuni et al., 2019. Such findings were confirmed descriptively by study data that both political visibility data were dominated by CSR disclosure value of above the mean value.

The regression coefficient value for slack resources (β_4) was 0.200196, with a probability level of 0.0110, which was lower than α=0.05. Thus, slack resources had an effect on CSR disclosure. Such findings are in accordance with the study hypothesis, and support the finding of study conducted by Anggraeni and Djakman (2017).Such findings were confirmed descriptively by study data that the majority of slack resources data above the mean value was dominated by CSR disclosure value of above the mean value, and vice versa.

5. Conclusion

The results of the study indicated that slack resources had a positive effect on CSR disclosure. If the company had slack resources and was able to manage them well, it will be encouraged to disclose the CSR. Meanwhile, profitability, risk minimization, and political visibility had no effect on CSR disclosure.

The limitation of this study was regarding the simultaneous effect that was only 7.11%. Therefore, it is recommended for further research to add other variables expected to affect CSR disclosure, such as leverage and women directors. The novelty proposed in this study was regarding the effect of slack resources on CSR disclosure among industrial sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period.

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