ABSTRACT

THE EFFECT OF PROFITABILITY, SIZE OF BOARD OF COMMISSIONER, AND FIRM SIZE ON CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE

(An Empirical Study on Coal Sector Industry listed in the Indonesian Stock Exchange in 2012-2013)

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This study tries to reveal the influence of profitability, board of commissioner, and size of the company on corporate social responsibility disclosure. The population of the research is 18 coal mining industry sub-sector listed on Indonesia Stocks Exchange on 2011 to 2013. The sampling method used in this study is saturated sampling method in which all of the population is the sample. The data analysis method of the study uses multiple regression.

The results of the study found that the bigger profitability and the size of the company lead to larger corporate social responsibility disclosure. However, the larger the number board of commissioner leads to smaller corporate social responsibility disclosure. Furthermore, the government needs to regulate the implementation of CSRD which prioritize the public interest. There are several suggestion generated from the findings such as the company should implement corporate social responsibility based on their own awareness and report it to the public. The company should also balance the number of commissioner board and management. Thus, the board can function and communicate effectively in making decision related to the CSR. For the future research, it is expected to develop different measurement on corporate social responsibility to obtain a more valid and reliable results. As the current measurement may borne with many weaknesses and require improvement to reveal the best indicator of corporate social responsibility.

Keywords: ***profitability, size board of commissioner, firm size, and corporate social responsibility disclosure***

BACKGROUND OF RESEARCH

Responsibility is an obligation of the company that is not only to provide goods and services for people but also is to maintain the quality of the physical social, and environment as well as to provide a positive contribution to the welfare of society. The company is socially responsible for the management vision on the performance of its operations which should not be just for earnings / profit, but should also put careful attention to the environment around it in carrying out its activities. The company must not only see profit as the only goal of the company, but there are other objectives such as the company's concern on environment because the company has broader responsibilities than just looking for a profit to shareholders.

However, the development in the mining industry has also brought side negative effect to the surface. The coal mining has often bring havoc to its surrounding environment by bringing erosion, air, sound, and water pollution. The immediate environment has to suffer this for the sake of profit from the coal digging. Therefore, it is necessary for the company to have responsibility on this environmental and social effect, and not only care about mounting their revenue.

The realization of this social responsibility will reflect the company's approach in adapting with the multidimensional and dynamic environment at hand. According to Bowman and Haire (Sembiring, 2003) believed that the implementation of corporate social responsibility and the company profitability may actually reflect its managerial approach in generating profit.

Company with a high profitability does not always do many social activities, especially for profit oriented companies. It is in line with Donovan (2000) argument that some companies achieving high revenue might thing not necessary to organize social activities, as the company has achieved the financial objective. However, when the company losing revenue or having low income, the company prefer to do many social and environmental activities. They believed that instead of presenting bad news on the declining profit, they should focus on presenting good news about this social responsibility activities. By doing this, the company might be able to please the report users.

The relationship between the disclosures of social responsibility company with profitability has been studied by Nurkhin (2010), Novrianto (2012) and Sari (2012). They proved that profitability has a positive effect on the implementation of corporate social responsibility. However, research by Sembiring (2003), Anggraini, R. Retno (2006), Ponnu, H. Cyril and Maurice O. A. Okoth (2009) concluded that profitability has no positive influence on corporate social responsibility.

The board of commissioners is a highest mechanism to control internal organization, and responsible for monitoring the top management act. The composition of individuals who function as a member of the board of commissioners are important to able to monitor the activity of management effectively (Fama and Jesen, 1983). The board of commissioners who come from external party is considered to be better because they will be more objective in setting the company's policies compared to the board of commissioners which only come from the internal company.

Coller and Gregory (1999) believed that the larger number of members of the board of commissioners, the easier to control chief executive officer and to monitor his policies effectively. In respect of disclosure social responsibility obligation to do it is also greater. In similar tone, Sitepu and Hasan (2008) maintained that the number of members of the board of commissioners will make the control on chief executive officer easier and the monitoring procedure more effective, therefore, it is hoped can increase the corporate social responsibility realization. This argument is supported by Sembiring (2003) study which revealed that the size of the board of commissioners has significant influence to the social responsibility disclosure of the company. However, a different finding is proposed by Yuliana (2008) research that indicated that the size of the board of commissioners do not have positive impact on the disclosure of social responsibility of the company.

Size of the company is of the indicator commonly used to describe the variation on the company annual disclosure. According the agency theory that company having a large number of agency will provide a more through information in their disclosure than those companies with a smaller number of agency to reduce the agency cost. It is also aimed at reducing the political risk that usually faced by these big companies including the corporate social responsibility. It is in line with Hasibuan (2001) that a comprehensive social disclosure may reduce the political cost of the company.

Based on the studies on the impact of size of the company to corporate social responsibility by Hackston and Milne (1996), Sembiring (2005), Anggraini (2006) and Sari (2012), it is found that size of the company has a significant effect to corporate social responsibility. However, according to Mahoney, L. S. and Linda Thorne (2005), Yuliana (2008) and Novrianto (2012) the size has no significant effect to corporate social responsibility. The inconsistent result of the previous research has inspired this study to review the influence of profitability, the number of the board of commissioners and size of the company against the disclosure of corporate social responsibility by conducting empirical studies in the mining industry specifically on the coal mining sector registered in Indonesia Stock Exchange 2011-2013.

RESEARCH METHODOLOGY

In accordance to the subject matter and purpose of the research, this study uses the pattern of the level of explanation is that the study intends to describe the pattern of relations or influence between two or more variables, this kind of relationship can be symmetrical, causal and reciprocal (Sugiyono, 2002: 45). Pattern effect will be revealed in this study is the effect of profitability, the number of commissioners and the size of the company on the disclosure of corporate social responsibility.

The population in this study was the coal mining industry sub-sectors listed in Indonesia Stock Exchange in the period 2012-2013, amounting to 23 companies. Reason is done on the coal mining industry sub-sector, as it is relatively more companies have an impact on the environment compared to the service company or trade. The samples used in the sampling saturated.

The data analysis method used in this research is multiple regression. Multiple Regression used to measure the impact of between more than one variable (independent variable) on dependent variables. The influence to test profitability, size board of commissioners and firm size against the Corporate Social Responsibility Disclosure. Data analysis methods used in this study using multiple regression. The mathematical form of the multiple regression analysis as follows:

$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$

Y = *Corporate Social Responsibility Disclosure*

X1 = *profitability*
X2 = The board of commissioners
X3 = size
a = Constant
$b_{1..3}$ = Coefficient Regression
e = Error (Another variable that is not described in the model)

RESULT ANALYSIS

the analysis result on the multiple regression using the Statistical Package for Social Science (SPSS) 18 for windows to investigate the influence of the profitability, commissioner board, and the size of the company on the corporate social responsibility disclosure.

Table 4.6
Linier Multiple Regression Analysis Result

Variable	**B**	***t-value***	**Sig t**	**Result**
Constant	0.422			
Profitability (X_1)	0.299	2.504	0.018*	Significant
The board of comissioner (X_2)	-0.034	-2.188	0.036*	Significant
Size of the company (X_3)	0.019	3.817	0.001*	Significant
α	: 5 %			
R	: 0.639			
R^2 (R *Square*)	: 0.409			
F_{count}	: 7.369			
Sig. F	: 0.001			

Note: * significant level is 5%
Source: Analyzed Secondary Data

The result of the regression analysis is presented as follow:

$$\mathbf{Y = 0.422 + 0.299\ X_1 - 0.034\ X_2 + 0.019}$$

The alpha coefficient in this regression model indicates corporate social responsibility disclosure is influenced by several factors including profitability, numbers of commissioner board, and size of the company. The alpha coefficient is noted at 0.422 with positive direction. This result indicates that there are other factors, which also have influenced on the corporate social responsibility disclosure and noted at 2,986.

The profitability coefficient is 0.299 and is found to have positive coefficient. This indicates that the higher a profitability own by a company, the higher corporate social responsibility disclosure conducted by 22.9% increase.

While commissioner board coefficient is -0.034 and is found to have negative coefficient. This result shows that the higher the number of commissioner board in a company, the smaller corporate social responsibility conducted with 3.4% decrease.

Furthermore, the size of the company coefficient is 0.019 and is found to have positive coefficient. This indicates that the higher the size of the company, the higher corporate social responsibility disclosure conducted by 1.9% increase.

Based on the table 4.6 it is stated that F test in this study is to test the validity and significance. Therefore, it is found that F value is 7.369 with probability value at 0.001 that is smaller than alpha (α) by 5% (0,05). This result indicates that profitability, commissioner board, and the size of the company contribute toward the corporate social responsibility disclosure.

The R-values obtained from this testing is 0.639. This Indicates that profitability, commissioner board, and the size of the company contribute toward the corporate social responsibility disclosure by 63.9%, while R square resulted from this test is 0.409. This shows that profitability, commissioner board, and the size of the company contribute toward the corporate social responsibility disclosure by 40.9%, while the 59,1% is influenced by other variable outside the model, which is not analyzed in this research.

HYPOTHESIS TESTING

The hypothesis testing in this research is aimed at proving the influence of profitability, commissioner board, and the size of the company toward the corporate social responsibility disclosure

The significance value of probability variable (X1) is 0,018. This score is smaller than the statistical significance at $\alpha = 5\%$, therefore, H0 is rejected. This shows that profitability positively and significantly influences corporate social responsibility disclosure.

The significance value of commissioner board variable (X2) is 0.036. This score is smaller than the statistical significance at $\alpha = 5\%$, therefore, H0 is rejected. This shows that commissioner board positively and significantly influences corporate social responsibility disclosure (Y).

The significance value of size of the company variable (X3) is 0.024. This score is smaller than the statistical significance at $\alpha = 5\%$, therefore, H0 is rejected. This shows that size of the company positively and significantly influences corporate social responsibility disclosure.

DISCUSSIONS

The Impact Level of Profitability on Corporate Social Responsibility Disclosure

Based on the result analysis indicates that the higher profit pose a great contribution to corporate social responsibility disclosure. It can be inferred that the profitability may display the company capability to generate the profit and to measure efficiency and affectivity management level in using company asset. Profitability is an important aspect in deciding the investment. Besides, profitability also an important aspect for creditor in providing loan to the company. The high profitability company can force their managers to provide a more detail information to convince the investor and creditor regarding their company financial performance.

According to Heinze in Hackston and Milne (1996), profitability of the company is a factor that allows the management to be free and be flexible in conducting their social responsibility. Therefore, it indicates that the higher their profitability, the higher their social disclosure. The result of this study is in line with Nurkhin (2010), Novrianto (2012) and Sari (2012) studies which found that profitability is significantly and positively influence the corporate social responsibility disclosure.

The Impact Size of Board of Commissioner on Corporate Social Responsibility Disclosure

Based on the data analysis shows that the higher number of commissioner board, the smaller the corporate social responsibility responsibilities. From the result, it can be inferred that size board of commissioner holds a very important role in the company, especially in conducting good corporate governance. Furthermore, the size board of commissioner is a mechanism to control, lead, and guide the company management. As it responsible for increasing the company efficiency and competitiveness and the commissioner board is responsible for supervising the management as well as being the central control in manipulating the success of the company.

As the guardian of the company strategy conduct, supervisor of the management in running the company, and endorser of the company accountability, the commissioner board has the right to give guidance to the company management. The company decision about the *corporate social responsibility* is decided by management based on the commissioner boards.

If the commissioner board of the company is too large, this may decrease the commissioner boar effectivity and may tend to be over consideration in providing guidance related to the managerial decision making on corporate social responsibility disclosure. Therefore, this condition may pose negative effect on corporate social responsibility disclosure.

The finding of this study is in line with Allen and Gale (2000) in *et al*. (2003) who maintained that commissioner board is important governance mechanism. The large commissioner board is less effective than the smaller size. Furthermore, Jensen (1993) stated that the board should not be over 7 or 8 persons to be able to work efficiently. Similarly, Beaslley (1996) stated that small size commissioner board would be more effective than the large size which may cause in efficiency in running their function, communicating, coordinating, in making decision.

However, the result of this is in contrast with Coller dan Gregory (1999) and Sitepu dan Hasan (2008) who believed that the larger commissioner board, the easier to control CEO and effectively monitor their conducts and policies. In relation to the corporate social responsibility disclosure, the larger the number of commissioner board will make the board easier to oblige management to disclose their corporate social responsibility. Similarly, Sembiring (2005) maintained that the large size of commissioner board has positive influence toward corporate social responsibility disclosure.

The Impact of Size of the Company on Corporate Social Responsibility Disclosure

Based on the analysis result, it reveals that the larger the size of the company, the larger their corporate social responsibility disclosure. This finding can also be used as indicator variable to explain the variation occurring in the corporate annual report. In relation to agency theory, the large company will disclose more information on their social activities to reduce their agency cost. Besides, large company is share issuer which is under a lot of observation. The thorough information disclosure, company can reduce their political cost and be a form of their social responsibility.

According to Cowen et. al., (1987), theoretically, it is inevitable for large company from the pressures as they have larger operational activities that affect the community vastly. The pressure also may come from the shareholder observing their social responsibility.

The large company will disclose more information than the smaller companies as the big companies face larger greater political risk. These large companies also have stakeholder who observe their social responsibility activities included in the company annual report which is their media to disclose corporate social and environmental responsibility (Untari, 2010).

The finding of this study also in line with Hackston and Milne (1996), Sembiring (2005), Anggraini, R. Retno (2006), and Sari (2012) that revealed that size significantly affect the corporate social responsibility.

CONCLUSSION

This study tests the influence of the profitability, numbers board of commissioner and the size of the company on corporate social responsibility disclosure on coal industry as a sub sector of mining industry sector registered in Indonesia Stock Exchange 2011-2013. The results of the study are as follow:

1. The large profitability will contribute on the larger corporate social responsibility disclosure. Based on the economic perspective, a company will disclose information that will increase their company value. Therefore, by conducting CSR, the company expects to obtain social legitimacy and maximizing their financial strength in a long term.
2. The larger number board of commissioner, the smaller corporate social responsibility disclosure. It indicates that the large number of commissioner board is considered to be ineffective in running their function due to the difficulty in communicating and coordinating with the decision makers.
3. The bigger the size of the company, the larger the corporate social responsibility disclosure. It is in line with agency theory which states that

big company which has more available agency cost will disclose more comprehensive information to reduce its agency cost.

RESEARCH LIMITATION

Based on the conclusion previously described, there are some limitations of the study such as subjectivity element in determining CSR disclosure index. This condition is influenced by the absence of evaluation standard of corporate social responsibility disclosure which makes the index determinacy vary between researchers.

SUGESSTION

Based on the research conclusion and limitation, the viable suggestion can be formulated as follow:

1. The company needs to balance the number commissioner board and management. It is important to have proper number of commissioner board which can effectively run their function in terms of communication, coordination, and decision making related to the corporate social responsibility given by the company.
2. The future research is expected to be able to develop different measurement in analyzing corporate social responsibility to produce a more valid result.

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