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THE EFFECTS OF COMMISSIONER BOARD SIZE, CORPORATE LEVERAGE, CORPORATE SIZE, AND PROFITABILITY ON INFORMATION DISCLOSURE OF CORPORATE SOCIAL RESPONSIBILITY: EVIDENCES FROM MINING FIRMS IN INDONESIA

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ABSTRACT

The objective study is how commissioner board size, corporate leverage, corporate size, and profitability influence information disclosure of social responsibility in annual report at mining firms. Disclosure of social responsibility must be implemented as synergy in financial, social and environmental aspects in continuous development. Not only is profit oriented but also have obligation in maintaining social environment and giving positive contribution for society welfare. Data is collected from annual report at 17 mining firms during two years namely 2008 until 2009 with 34 respondents. The result of research is that simultanely are commissioner board, size, leverage, corporate size and profitability have influenced information disclosure of social responsibility significantly, but partially is only leverage variable have influenced information disclosure of social responsibility.

Keywords: *commissioner board size, corporate leverage, corporate size, profitability, information disclosure, corporate social responsibility (CSR)*

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1. INTRODUCTION

Topic of corporate social responsibility comes into the fore in the year 1970's, through the writings of Milton Friedman on a single form of social responsibility of business activity. In Indonesia alone since the 1980's, has been discussed about corporate social responsibility and social accounting In particular, Bambang Sudibyo (1988) concluded that there are two things that the difficulty of the application of social accounting constraints in Indonesia, namely (1) Lack of social pressures that require corporate social responsibility and (2) The low awareness of the company in Indonesia about the importance of

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corporate social responsibility. This was confirmed by a survey conducted by Suprapto (2007) in 375 companies in Jakarta. The survey shows that as many as 166 companies do not do CSR. The urgency of the disclosure of an ongoing social responsibility has been listed in the law no 40 of 2007 on limited liability Article 74 of the social and environmental responsibility.

Hence the controversy between the pro and contra CSR, because the company is mainly engaged in the field that dominate the life of many people and based on natural resources (capitalism), will have a negative impact or harm the environment and the communities where the company is located. While the cons of it, because it is voluntary CSR and financial accounting standards in Indonesia have not oblige companies to disclose social information, especially information corporate responsibility towards the environment. But the purpose of CSR is listed in the PT Act is focused to the development of the community. As the Financial Accounting Standards issued by the Indonesian Institute of Accountants has also been accommodating about social responsibility accounting is GAAP (SFAS) No. 1 to paragraph nine: "The company can also provide additional statements such as statements about the environment and report value added (value added statement), especially for the industry in which social environmental factors play an important role for an industry that considers employees as a group of users report that plays an important role ". SFAS Statement on accounting concerns will be a manifestation of social problems which is a form of corporate social responsibility. Social accountability is not a new social phenomenon, but rather a result of increasing environmental issues at the end of 1980'an (Kumalahadi, 2000).

Generally, companies will decide to disclose social information after considering the costs and benefits to be gained. Where the benefits to be gained by disclosure are greater than the costs incurred to disclose, firms will voluntarily disclose information. Companies disclose social information it will carry the image of an entity and a positive image for the company's reputation, as it also, the community and surrounding communities have always had high expectations of the company that can empower communities and hold the concept of financial aspects, social aspects and environmental aspects the so-called Triple Bottom Line, not just the financial aspect solely or Single Bottom Line concept. Synergize indispensable element of the Triple Bottom Line for sustainable development.

The study and dissemination of strategic policy by BAPEPAM-LK, one of which is an analysis of disclosure of corporate social responsibility towards society and the environment (CSR) in the issuer's annual report and public companies. This report analyzes the activity and the activity of the company costs associated with corporate social responsibility towards society and the environment are listed in the annual report of listed companies and public companies in compliance with BAPEPAM-LK X. K.6. This analysis provides an overview of CSR activities of dominant companies reported, the total sample and industry by sector.

As was stated earlier, CSR is a company supposed to do with consciousness and voluntary. Because the company was originally established to meet the needs and interests of society, not just for profit. While CSR has become a social license to operating for the company that can actually be derived from the formulation of the mission of a company or entity. Based on research Cooke (1992) which mentions the influence of size, listing status, and type of industry to the extensive disclosure in annual reports on manufacturing companies. Hackston & Milne (1996) firm size and industry type have a significant relationship with the disclosure of social information, whereas no relationship was found between income with social disclosure. Fitriani (2001) found that social disclosure is influenced by firm size, corporate status, profitability.

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Sembiring (2005) found that company size, profile and size of the board have positive effect on corporate social disclosure, but found no significant relationship between profitability and leverage the social disclosure. Pee Wee (2006) found a significant relationship between the percentage of management ownership with social disclosure, but was unable to prove the influence of board size, firm size, leverage, and profitability of social disclosure policy by the company. Then Andre and Hasan (2007) found that size, leverage, profitability and size of the board significantly affects the amount of social information disclosed in manufacturing companies.

On the basis of these studies, it is necessary to study in the mining sector, to determine the extent of the influence of board size, firm leverage, firm size and profitability of social disclosure in annual reports on mining companies listed on the Indonesia Stock Exchange. The choice of a mining industry group that is intended to avoid bias caused by the securities industry (industrial effect), in addition to the mining sector is also closer to the environment in which it operates.

2. COMMISSIONER BOARD SIZE

Board size is the number of commissioners. Related to the size of the board of commissioners, Coller and Gregory (1999) in Sembiring (2005) states that the greater the number of commissioners, it will be easier to control and monitoring conducted by the CEO will be more effective. Associated with the disclosure of social responsibility, then the pressure on management will also be more likely to express them.

3. LEVERAGE

Leverage ratio is the proportion of total debt to equity shareholders. The ratio is used to provide an overview of the company's capital structure, so it can be seen the level of risk is not a debt-collection. Additional information is needed to dispel doubts bondholders against the fulfillment of their rights as creditors [Schipper (1981) in Marwata (2001) and Meek, et al (1995) in Fitriany (2001)] therefore companies with high leverage ratios have obligation to conduct a more extensive phrase than firms with low leverage ratios. In addition, the higher the level of leverage (debt / equity) the more likely it will break the credit agreement so that the company will attempt to report the income is now higher [Belkaoui and Karpik (1989)], so that reported earnings higher than the manager must reduce cost (including costs to disclose social responsibility).

4. CORPORATE SIZE

There are several explanations regarding the influence of firm size (Size) on quality of expression, but in fact the theoretical foundation of this size effect is less clear. However, various empirical studies have been done show that the effect of total assets is almost always consistent and statistically significant. Several possible explanations may explain this phenomenon is that large firms have lower information costs; large companies also have a complexity and a broader ownership base than small firms (Cooke,

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1989). Size is a firm of independent variables that are widely used to explain variations in the disclosure of company financial statements.

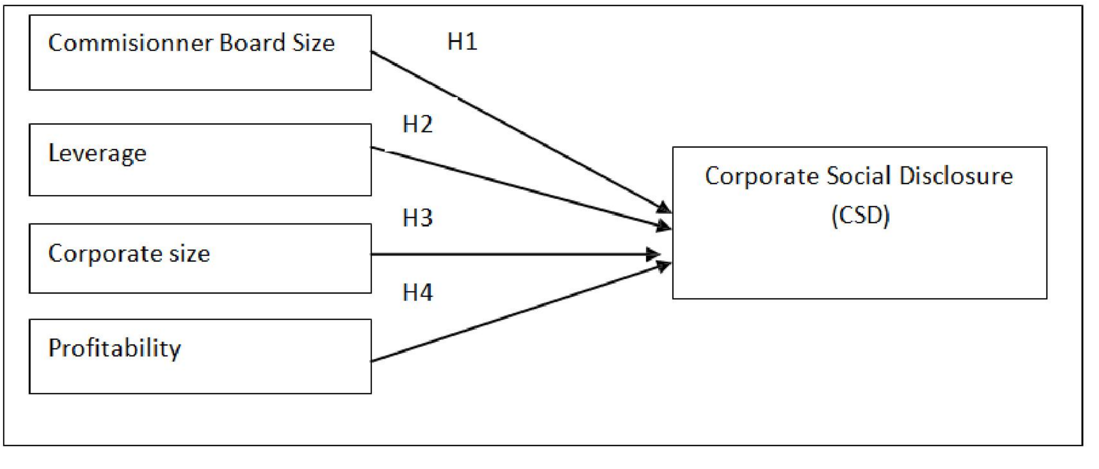
5. PROFITABILITY

Profitability is a factor that makes a free and flexible management to disclose social responsibility to the stockholders [Heinze (1976) in Hackston & Milne (1996)]. So the higher the level of corporate profitability, the greater disclosure of social information. relationship between profitability and social responsibility disclosure level is that when a company has a high rate of profit, the company (management) do not need to report considers the things that can interfere with information about financial success. Conversely when a low level of profitability of the company would hope that users will read the report "good news" the company's performance.

6. INFORMATION DISCLOSURE OF SOCIAL CORPORATE RESPONSIBILITY (CSR)

Disclosure of social responsibility, or commonly referred to as Corporate Social reporting is a process of communicating the social effects on the environment and economic measures in the company of certain groups in society and on society as a whole (Gray et. Al., 1987). In a broader interpretation, the disclosure of information relating to both contained in financial reports and additional communications (supplementary communication) which consists of footnotes, information about events after the reporting date, management analyzes the company's future operations, financial forecasting operations, and other information (Wolk and Tearney in Widiastuti, 2000). Negative contribution to the environment surrounding the company has led to the loss of public confidence is to reveal information about the company's operations with respect to the environment as a corporate responsibility.

7. THEORITICAL FRAMEWORK



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8. METHODOLOGY

8.1 Sample and data collection method

Populations are a number of elements in which a conclusion will be prepared (Emory and Cooper, 1998). The population in this study is the entire mining sector companies that have been registered (listing) in the BEI as many as 21 companies. The choice of an industry group, namely the mining industry as the population intended to avoid bias caused by the securities industry (industrial effect). In addition, the mining sector is also closer to the environment in which it operates. This study takes the analysis period from 2008 to 2009.

8.2 Instrumentation

Measurement of variables

a. The dependent variable

The dependent variable in this study is the amount of social disclosure, which is expressed in an index of social disclosure by the company disclosed in its annual report. Calculation of the index of social disclosure will be made in accordance with the categories of social information according to Darwin (2004). Measurement of these variables to measure social disclosure which conducted its annual report with observations regarding the presence or absence of an item of information specified in the annual report, its social disclosure in accordance with the amount persentasekan expressed by the whole number of disclosure items in the responsibility of mining companies.

Percentage done by looking at corporate social responsibility disclosure in seven categories: Environment, Energy, Health and Safety Employment, etc. of the labor, product, Community Involvement, and General. This category in the adoption of the research conducted by Hackston and Milne (1996). The seven categories are divided into 90 items of disclosure. No. Under the Securities and Exchange Commission. VIII.G.2 of annual reports and the appropriateness of the item to be applied in Indonesia, the adjustment was then performed. Twelve deleted due to lack of appropriate items to be applied to conditions in Indonesia so that the remaining 78 items in total disclosure. Seventy-eight items were then adjusted back to their respective industry sectors so that the disclosure item is expected of each sector is different.

$$CSD = \frac{\text{Number of social information disclosed}}{\text{Total disclosure}}$$

b. Independent variables

Independent variables examined in this study are the characteristics of the enterprises. Firm characteristics explain the wide variations in social disclosures in annual reports. In this study, the characteristics of companies are proxied by the board size, leverage, firm size (Size), company profile and profitability.

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1. The size of the board of commissioners, board size used in this study is the number of commissioners.
2. Leverage enterprise level; Leverage the company's operations, measured by the ratio of debt to equity.
3. Firm size (size), Company size can be seen from the total assets owned by the company in logaritmakan
4. Profitability, Profitability is measured by net profit margin.
   Net profit margin = $\frac{\text{Net income}}{\text{revenue}}$

9. FINDING & DISCUSSION

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	-1.536	.638		-2.409	.023
	KOMi	.000	.018	.003	.017	.987
	LEVi	-.041	.026	-.285	-1.575	.126
	SIZEi	.151	.052	.513	2.883	.007
	PMi	-.032	.132	-.043	-.242	.811

[a.] Deendent variable: CSD

Table 1 above shows the results of the regression analyst for corporate social disclosure as a dependent variable. Can be stated that the size of enterprises have a strong effect on corporate social disclosure compared with other independent variables. Variables, leverage and profitability have negative effect on corporate social disclosure.

10. CONCLUSION AND FUTURE RECOMMENDATION

The results of this study indicate the size of the board of directors; corporate leverage, firm size and profitability simultaneously influence corporate social disclosure on the annual reports of mining companies listed on the Indonesia Stock Exchange. The results showed that firm size (Size) showed that statistically influence corporate social responsibility disclosure in the annual reports of mining firms. The results of this study indicate that the size of the board of directors, corporate leverage and profitability are not statistically significant effect on the disclosure of the amount of social responsibility information disclosed in annual reports of mining companies listed on the Indonesia Stock Exchange.

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Based on the above limitations the authors put forward some suggestions as follows:

A. Future studies are expected to use a longer observation period so that it will provide a greater chance to obtain the actual conditions.

B. For further research, the items of social disclosure should always be updated as conditions of society and the regulations; this may be done involving social activists and the authorities relating to social issues.

C. Other Researchers should use a larger sample size and use, or add other variables to find an estimate of the standard model of corporate social responsibility disclosure in Indonesia.

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