The effect of firm-characteristics and corporate governance on corporate social responsibility and future firm performance

Issabella Alodia[1], **Adwin Surja Atmadja**[2]
[1,2] Department of Financial Management, Petra Christian University, Indonesia

Abstract. This study aims to determine firm-specific characteristics (profitability, leverage, and size) and corporate governance (board size, board independence, women board of directors, and audit committees) affect the performance of Corporate Social Responsibility (CSR) and the effect of CSR performance on the future performance firms in the next 1-3 periods by mining sector companies listed on the Indonesia Stock Exchange in 2008-2017. The method used is Ordinary Least Square (OLS) regression with the type of panel data. The findings of this study that profitability, size, board size, board independence, and women of board are not related to CSR performance in mining companies. However, leverage and audit committees affect CSR performance in mining companies. CSR performance affects future firm performance during the 1st period after the CSR performance of mining companies. This study provides new knowledge and contributes to further research regarding factors that affect CSR performance and CSR performance can provide company performance in the next periods. These results can encourage companies to disclose CSR performance because there seems to be a positive influence on future performance.

1. Introduction

Every company must comply with the rule of law in a country where the company is established and operates. Through the Act No. 40 of 2007 Article 74 concerning Limited Liability Companies where companies whose business activities are related to natural resources need to be committed to carrying out a sustainable economy through social responsibility. According to the Mining Advocacy Network, environmental damage in Indonesia is 70% due to mining operations. Therefore, mining companies tend to disclose CSR in compliance with the government regulations in improving the environmental damage so that CSR performance is higher than other sectors (Gunawan, Djajadikerta, and Smith, 2009).There are several factors which may affect the CSR performance such as firm-specific characteristics and corporate governance. Companies report their CSR differently according to the firm-specific characteristics. The characteristics of the company are categorized as structure, market, and capital (Mgeni and Nayak, 2016). The company structure describe the performance of a company's organization which may be represented by company size, profitability, and leverage. An effective corporate governance will lead to a high CSR performance. The corporate governance has several principles, one of which is transparency of CSR reports. By providing a CSR report which is transparent, the company may fulfill the information interests for the stakeholders. The transparent CSR reports are influenced by the effective board of commissioners and directors (Torea, Feijoo, and Cuesta, 2016). The characteristics of the board of commissionaires and board of directors determine the effectiveness in influencing the CSR performance may be grouped into 3 categories; board size, composition (board independence and women of board), and internal functions (audit committee).

The increasing CSR will improve the good relationships between stakeholders. In addition to being an obligation in carrying out a CSR, company may gain a good reputation in the community. This reputation is beneficial for companies to improve the company performance (Siregar and Bachtiar, 2010). However, it takes time to shape the company's performance so that it has an impact on the future firm performance. The future firm performance in this study uses the ROE measurement (Siregar and Bachtiar, 2010). This study uses ROE in the first, second, and third year periods. This study uses the 2008 – 2017 period and object in this study was mining sector companies in Indonesia which were listed on the IDX during the observation period.

This study aims to: (1) find out significant of the firm-specific characteristics (company size, profitability, and leverage) and corporate governance (board size, board independence, women of board, and audit committees) on the corporate social responsibility on the mining sector companies listed on the IDX in 2008 – 2017. (2) Find out the significant between the performance of corporate social responsibility on the future firm responsibility in the mining sector companies listed on the IDX in 2008 – 2017.

2. Literature Review

2.1 Stakeholder Theory

Stakeholder theory is a view which emphasizes the existence of interrelated relationships between business and customers, suppliers, employees, investors, communities, and other people who own shares in the company (Freeman, 1985). The role of corporate stakeholders is very important so the companies must try to build a good relationships with the stakeholders. One of the strategies conducted by the company to maintain a relation with the stakeholders is through a performance of social and environmental information carried out by the company (Ratnasari, 2011). The stakeholders hope that the company conduct the CSR activities, such as pollution prevention, effective and efficient use of natural resources, workforce diversity, and other activities.

2.2 Corporate Social Responsibility

Corporate social responsibility (CSR) according to the stakeholder theory becomes the company's strategy to fulfill the stakeholder interests through a corporate non-financial information. The implementation and performance of CSR is used to maintain a relationship with the corporate stakeholders which is expected to meet the stakeholder need to achieve a company sustainability. The role of CSR may affect all aspects of the company's operations, one of which is public trust. CSR activities are reported through the company's annual report. From the annual reports, companies are able to measure the CSR performance.

2.3 Corporate Governance

A sustainable development is an indication of managerial attention to the stakeholders (Astuti, 2015). The corporate governance is the control of a company and is a party responsible to the stakeholders to manage the company properly (Haniffa and Cooke, 2005). The bigger Board size of enterprise causes bigger involvement party. Thus, it can increase the performance (Cormier and Gordon). with the high number of board, it has different knowledge and experience. H_1: Board size affects significantly toward CSR performance. Board independence will give better supervision toward the management and improve board effectiveness (Rosesnstein and Wyatt, 1990). H_2: Board independence affects significantly toward CSR performance. The existence of man and woman has difference in moral principle and social because women have stronger standard than men (Hyn, Yang, Jung and Hong, 2016). H_3: Women of board affects significantly toward CSR performance. The existence of audit committee helps to ensure performance and control system to run well (Collier and Gregory, 2999). The bigger audit committee tends to have power to ensure supervision occurs in responsible performance (Bedard, Chtourou and Corteau, 2004). H_4: Audit committee affects significantly toward CSR performance.

2.4 Firm-Specific Characteristics

Each enterprise has different characteristics. It depends on enterprise's resource and organization's goal. The bigger company tends to have better pollution control record than smaller company. They obey the bigger supervision by several groups of people because they are in the bigger under pressure to reveal social activities of company (Cowen, Ferreri and Parker, 1987). H_5: Company size affects significantly toward CSR performance. The increase of leverage shows the high needs of company toward fresh funds, high leverage can also reveal dependence of a company over debt that can create risks for the running company (Saputra, 2016). H_6: Leverage affects significantly toward CSR performance. The higher company's profitability, social performance will be higher to sow company contribution toward society welfare to obtain public attention. H_7: Profitability affects significantly toward CSR performance. In conducting CSR activities, company has main goal. It is to document so company can be known by society at large. Better CSR performance report can form reputation with time of several years that can cause company profitability to increase because of increased revenue. H_8: CSR performance affects significantly toward future firm performance.

3. Research Method

3.1 Research Design

Research type conducted in this research was associative and quantitative types. Data type used in the research was secondary data. Panel data type used OLS.

3.2 Population and Sample

Research population includes companies in mining sector which were registered in BEI in 2008 - 2017. Criteria of samples as follow: (1) there was no delisting in supervision period; (2) companies who report CSR activities in annual report; (3) publishing complete annual report in period. Based on sample criteria, there were 16 mining companies as samples.

4. Analysis and Results

4.1 Statistic Descriptive

Table 1 Statistic Descriptive

Var.	BIN	BOS	CSR	DER	KA	ROE	SIZE	WOM
MEAN	0.38	10.15	0.21	0.88	0.74	0.12	29.48	0.07
SD	0.09	2.94	0.18	3.48	0.29	0.58	1.82	0.10
MAX	0.66	20.00	0.79	17.75	1.50	6.16	32.15	0.40
MIN	0.00	4.00	0.01	-24.12	0.30	-1.78	21.84	0.00

Based on Table 1, the minimum value on Board Independence (BIN) showing BIN values in 2015 is BUMI Company. This is due to board independence resignation in 2015 so board independence commissioners have not determined the new one. The leverage variable (DER) has a minimum value of -24,118 from the BUMI company. In 2013 because the BUMI company has obligations that will mature in 2013 of US $ 3,595.7 million. So that the equity of the BUMI company in 2013 decreased to minus which resulted in a very low DER. In 2012, BUMI's company suffered a loss of Rp. 6,753,769,218,150. The loss in 2012 was caused by the weakening of the exchange rate of the Rupiah against the US Dollar related to the Company's VAT which must be revalued every period. There is examination result of effects of audit committee, probability, company size, women of board, board independence, board size and leverage toward CSR performance (examination of H1, H2, H3, H4, H5, H6,H7). Regression that can be formed from table 1 as follow:

Table 2 Factors affecting performance CSR

Variable	CSR		
	β	Prob.	Hypothesis

C	0,072	0,845	
BIN	0,048	0,553	H1-
BOS	0,006	0,229	H2-
DER	-0,004	0,029**	H3+
KA	-0,094	0,018**	H4+
ROE	-0,025	0,088*	H5+
SIZE	0,006	0,646	H6-
WOM	0,021	0,275	H7-

*p<0,1; **p<0,005; ***p<0,01

Regression result is presented in Table 2 shows that audit committee, leverage, and profitability are significant. This result was consistent with Khan, Muttakin and Siddiqui (2013). They revealed that audit committee affected significantly toward performance of CSR because existence of audit committees decline, will increase efficiency company funds. So the funds can be allocated to CSR performance (Simanungkalit, 2017). The result about leverage was inline with Swandari dan Sadikin (2016); Saputra (2016) who revealed that companies have a high degree of leverage will reduce CSR so that it does not become the spotlight of debt holders. Board size, board independence, women of board, size does not affects significantly toward CSR performance. The result about board size was inline with researches conducted by Kilic, Kuzey and Uyar (2014); Sufian and Zahan (2013) who revealed that board size did not affect significantly toward performance of CSR because the board applies its oversight function to financial performance compared to CSR (Krisna and Suhardianto, 2016). Board independence does not affect significantly toward CSR performance. It was inline with researches done by Trireksani and Djajadikerta (2016). In fact, there was a company who did not have board independence. It could show that the role of board independence only became complementary. Women of board does not affect significantly toward CSR performance. The result was consistent with research conducted by Trireksani anda Djajadikerta (2016). From the research data, there were 9 of 16 mining companies that did not have women of board in one period. Size does not affect significantly toward CSR performance. This result was inline with researches by Utami (2018) who found CSR performance does not depend on the size or size of the company. Small companies and large companies are required to carry out CSR because the company's operating activities have an impact on the environment around the company. The result of profitability was inline with researches done by Sembiring (2005). Companies with increase profitability do not need to do things that can disrupt the company's finances, but when profitability decrease the company needs to do CSR to show good performance or "good news" in the social sphere, so that it will remain attractive to the community (Sembiring, 2005).

Table 2 Impact performance CSR on future firm performance

Variable	p-value
FFPt+1	0,0184
FFPt+2	0,9554
FFPt+3	0,7254

Table 2 shows that CSR performance affects significantly toward future firm performance t+1. this result was inline with the research done by Siregar and Bachtiar (2010) because of positive impact of CSR performance in company reputation. CSR performance does not affect significantly toward future firm performance t+2 and t+3. This result was inline with research conducted by Singh, Sethuraman, dan Lam (2017) from the result of the research, CSR performance reputation of companies only stood in 1 year. It meant that investors Indonesia tent to read and search for information about CSR performance in recent year and CSR have temporal effect on company performance. With this effect, the reputation can fade over time.

5. Conclusion

Since 2007, CSR had become mandatory which was expected to make companies were responsible toward environment especially mining companies. It is because they contact directly to the nature in their operational activity. Thus, this research observes factors that determine level of CSR performance in companies. The result of the research shows that audit committee, leverage, and profitability affect significantly toward CSR performance of mining companies. Whereas board size, board independence, women of board, and company size do not affect significantly toward CSR performance of mining industries/companies. Beside finding factors that affect CSR performance, this research finds effect of CSR performance toward companies performance in one period on the future. This result can encourage companies to improve CSR performance to obtain better future in performance.

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