

Corporate Social Responsibility of Coal Comodity Industry in Indonesia

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ABSTRACT

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The concept of Corporate Social Responsibility (CSR) continues to develop following the rapid development of business models and various groups' awareness of CSR issues. Companies have been implementing CSR at multiple levels, from multinational national to local companies, especially in Indonesia. This research analyzes the CSR performance of coal companies in Indonesia by measuring leverage, profitability, and company size. The data collection method uses content analysis techniques in annual reports of coal companies listed on the IDX. The testing method uses panel data regression. Hypothesis test results show that company size and probability influence the Corporate Social Responsibility (CSR) concept. Meanwhile, leverage positively and significantly influences the concept of Corporate Social Responsibility (CSR).

INTRODUCTION

Corporate social responsibility (CSR) emphasizes that companies must develop business ethics and business practices that are economically, socially and environmentally sustainable. The ethical and socially responsible treatment of stakeholders, whether they are inside or outside the organization, is central to this idea. The most crucial aspect of putting social responsibility into practice is fortifying the firm's own sustainability through the creation of relationships among stakeholders, which is made possible by the company by organizing initiatives for community development around it. CSR also suggests that businesses, like people, have a moral duty to behave morally and legally. Maintain honesty and refrain from corruption. Based on the ideas of partnership and cooperation, corporate social responsibility has evolved into a shared requirement between the business community and the government society. The implementation of CSR has been carried out by companies at various levels, from multinational, national to local companies, especially in Indonesia. This research aims to analyze the CSR performance of coal companies in Indonesia by measuring leverage, profitability and company size.

The theory that can be used as a basis for implementing CSR is stakeholder theory. The developing elements of corporate social obligations refer to stakeholder theory which concerns social issues in management and accounting studies (Zhou, et al., 2020; Yuan, et al., 2020). Stakeholder theory explains that a company as an individual entity can influence and be influenced by various parties called stakeholders. Every corporate entity has social obligations in its business. This obligation is to use all resources to produce profits that are in line with stakeholder interests (Sanchez, et al., 2020).

Another theory that can be used to explain the concept of CSR disclosure is signaling theory which explains the company's tendency to provide information to external parties. This is due to the occurrence of information asymmetry between management and external parties. Companies must provide good reporting, both financial and non-financial reporting, to reduce the occurrence of information asymmetry. One of the information that companies are required to disclose is CSR performance which is usually included in annual reports (Kim, 2021).

According to the World Business Council, corporate social responsibility (CSR) is an organization's long-term promise to help the economy grow, which in turn benefits employees, their families, and communities (Mbilina, 2019). Meanwhile, Brigham and Houston define CSR as a concept which states that companies must actively participate in paying attention to the welfare needs of society at large (Wahyuningsih & Mahdar, 2018). The concept of CSR continues to develop following the rapid development of business models and awareness of various groups regarding CSR issues. The implementation of CSR has been carried out by companies at various levels from multinational, national to local companies. The form of CSR continues to develop following existing business patterns and regulations. An example of a CSR activity that is currently trending is community development (Verk, et al., 2021).

Profitability is also one of the factors that influence CSR disclosure. Profitability is the ratio used to measure the company's ability to generate profits at the level of sales, assets, and share capital (Wendy & Harnida, 2020). Profitability is calculated using own capital but can also use investment funds in a company. The amount of company profit can be known by looking at the acquisition in a certain period and to obtain this profit the company must have the amount of its own capital and investment value (Atmojo & Yuliandhari, 2020). Profitability is important in ensuring the long-term viability of a business since it indicates whether the entity has high future prospects. Because a company's survival is more certain at a higher level of profitability, every commercial entity will therefore continually strive to raise its profitability. The ratio of management

effectiveness measured by sales and investment returns is called profitability. Profit margin, basic earning power, return on equity, and return on assets make up the profitability ratio. In this study, return on assets (ROA) is used to calculate the profitability ratio (Deng, et al., 2020).

A measure of the income available to the company's asset holders is called return on assets, or ROA. A higher ratio suggests that management is doing a better job of efficiently managing operational financing sources to produce net profit, or increasing profitability (Torne, et al., 2020). It can be said that apart from paying attention to the effectiveness of management in managing the company's investments, investors also pay attention to the performance of management who is able to manage financing sources effectively to create net profit. Benefits that will be experienced by shareholders are displayed via ROE. ROE growth indicates that the company may be able to enhance earnings, it indicates that the company's prospects are improving (Yovana & Kadir, 2020). Investors interpret this as a good indication from the company, which will boost investor confidence and facilitate corporate management's ability to raise funds in the form of shares. An increase in the demand for a company's shares will result in a subsequent rise in the capital market price of those shares (Velasques, 2012).

Leverage is the ratio used to measure a company's assets are financed with debt. Leverage is a company's ability to cover short-term and long-term financial obligations, the higher the leverage ratio, the more dependent it is on external parties (Korniasari & Adi, 2021). One of the ways the business evaluates its success in assessing its long-term liabilities is through the use of leverage. Businesses with high levels of leverage tend to finance their assets primarily through external loans, whereas businesses with low levels of leverage often finance their assets using their own capital (Devie, et al., 2019).

METHOD

The population of this research are Mining Companies in the Coal Commodities. In this study, there were 19 companies with data for 2019-2022. Based on the company's statement, the authors conclude that there are 76 data that will be examined over a 4-year period. This study uses quantitative data. Quantitative data in this study analyzes the effect of company size, profitability, and leverage on disclosure of corporate social responsibility (CSR). The data collection method in this study uses observation in content analysis techniques. Content analysis is an in-depth study of the content of information in video, audio or written media. The purpose of content analysis

is to describe the characteristics of the contents of a message and financial reports on coal mining companies.

The dependent variable in this study is corporate social responsibility (CSR). in a company's annual report (annual report). Indonesia is creating Corporate Social Responsibility guidelines based on the GRI (Global Reporting Initiative) standards. The GRI standard was selected with the intention of improving the caliber and application of sustainability reporting by emphasizing disclosure standards as a company's economic, social, and environmental performance.

Several Indonesian businesses have recently adopted G4, the most recent version of the GRI certification standard. In order to provide a standardized reporting methodology that fosters the degree of transparency and consistency required to make equivalent information trustworthy and helpful to markets and society, GRI-G4 offers a globally relevant framework. The features in GRI-G4 complement existing GRI resources and services, making this guide easier to use for both novices and experts in sustainability reporting in any sector (Sanchez, et al., 2021).

GRI-G4 offers guidelines for presenting sustainability disclosures in various formats, including online reporting, integrated reports, annual reports, reports that address specific international standards, and independent sustainability reports (Tibiletti, et al., 2021). The GRI-G4 indicators are divided into 6 indicators, namely the economy, environment, employment, human rights, society and products. However, researchers will only take community indicators because community indicators discuss the impact that organizations or companies have on the community in their surroundings. This theme includes community activities that are participated in by the company, for example activities related to health, education, and the arts as well as disclosure of other community activities. Community members have several rights, namely individual matters, community collective rights as well as the rights of indigenous and tribal peoples. Whereas in terms of identity, community rights are based on the collective and individual. One of the sustainability activities that is usually carried out by a company is Corporate Social Responsibility (CSR). CSR can improve the company's good reputation in the eyes of the public which will certainly have an impact on improving the company's economy.

Based on the number of items that exist, namely 11, if the company discloses its accountability report, it is given a value of 1, and vice versa if the company does not disclose its accountability report, it is given a value of 0. Furthermore, the score of each

item is added up to obtain the overall score for each company, according to Atmojo & Yuliandhari (2020), the formula for calculating CSRI is as follows:

$$CSRI_j = \frac{\sum X_{ij}}{n_j}$$

CSRI_j : Corporate Social Responsibility Disclosure Index.

$\sum X_{ij}$: The number of items disclosed, if disclosed, is given a value of 1. If not disclosed, it is given a value of 0.

n_j : Number of indicators expected to be disclosed by the company, $n_j \leq 11$ items.

Company size is a scale that determines the size of the company which is assessed by total assets. Company size is measured by the company. Profitability is the ratio used in analyzing the performance of the company. Profitability ratios are used to assess the company's goals and targets. Profitability is measured through ROA by comparing net income and total assets. The higher the net profit and assets in the company, the more complete the presentation, reporting and disclosure of information that occurs in the company (Setiawan et al., 2021). Leverage is the ratio used to measure how much a company's assets are financed with debt. Companies that have a high level of leverage in financing their assets will have a large dependence on external loans. The indicator used to measure the level of leverage is the Debt To Equity Ratio (DER).

Three distinct processing methods can be used for the panel data regression estimate method: the Fixed Effect Model (FEM) method, the Random Effect Model (REM) method, and the Common Effect Model, also known as Pool Least Square (CEM) method. This study uses panel data analysis, which aims to answer research problems of the relationship between two or more independent variables and the dependent variable

$$Y = \alpha + \beta_1 \text{Size}(t-1) + \beta_2 \text{Profitability}(t-1) + \beta_3 \text{Leverage}(t-1) + \epsilon$$

RESULT AND DISCUSSION

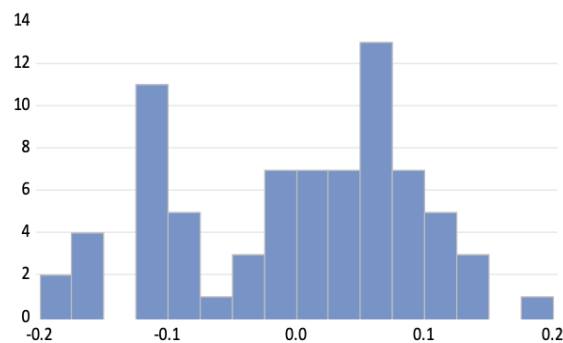
RESULT

Based on GRI analysis in Indonesia, one phenomenon of concern related to CSR disclosure is that of the top 100 companies listed on the Indonesia Stock Exchange (BEI), only 30% of companies prepare sustainability reports. From 2000 to 2017, only 97 companies reported through the Global Reporting Initiative (GRI). This has given rise to pressure from investors, especially from outside, for listed companies to make sustainability reports which include Corporate Social Responsibility disclosures

(Wahyuningsih & Mahdar, 2018). Indonesia has a high Corporate Social Responsibility disclosure ranking compared to South East Asia, Latin America and Africa, because Indonesia's population is quite large and its corporate level is more advanced, however compared to Europe and America, Indonesia is still lagging behind in Corporate Social Responsibility disclosure.

In this study, panel data regression analysis (Random Effect Model) is used to test the hypothesis. The purpose of this investigation was to ascertain how corporate social responsibility (CSR) was impacted by independent factors, specifically firm size, profitability, and leverage.

The normality test aims to determine whether data is normally distributed, and it can be done using the Jarque-Bera (J-B) test. The normality test results were obtained as follows:



Source: Internal Analysis, 2023

Figure1. Normality Test Results- Jarque-Bera (J-B)

The normality test results using Jarque-Bera (J-B) show a value of 4.449977 with a probability of $0.108069 > 0.05$. This indicates that overall, the data is usually distributed.

Table 1. Hypothesis Test Result

Var	Coefficient	Std. Error	t-Statistic	Prob.
C	0.741894	0.016451	45.09678	0.0000
X1	0.145511	0.156406	0.930345	0.3553
X2	0.084295	0.054490	1.546973	0.1263
X3	0.025341	0.010078	2.514561	0.0142*

Source: Internal Analysis, 2023

Based on the results of the analysis it is known that company size has no effect on corporate social responsibility (CSR). So it can be concluded that the first hypothesis is rejected. This is not in accordance with the author's hypothesis. So the first hypothesis states that company size has no effect on corporate social responsibility (CSR). This

happens because of regulations that require all companies, both large and small, to disclose corporate social responsibility (CSR). Company size can be expressed in total assets, sales and market capitalization. Based on legitimacy theory, large companies have more activities, resulting in greater social and environmental impacts compared to small companies. Based on the results of the analysis it is known that profitability has no effect on corporate social responsibility (CSR). Therefore, it can be said that the second hypothesis is rejected. This is not in accordance with the author's hypothesis. Then the second hypothesis states that there is no influence between profitability on corporate social responsibility (CSR).

The test results show that the size of the profitability does not affect the level of corporate social responsibility (CSR). This is supported by Yusefian (2023), Organizations with high profitability do not always engage in more social activities since they are more focused on making profits, as profitability is a measure of the job management does in managing the company's assets as demonstrated by the profit earned. A company's management may feel that it is not necessary to disclose anything that could taint the company's financial success when profits are high. On the other hand, they anticipate that report readers will find "good news" about the company's achievements when profitability is low.

It is established from the analysis's findings that leverage significantly and favorably influences corporate social responsibility (CSR). Thus, it can be said that the third theory is disproved. This is in accordance with the author's hypothesis. Then the third hypothesis which states leverage has a significant positive effect on corporate social responsibility (CSR). It can be concluded that leverage affects corporate social responsibility (CSR). Leverage is a measurement that measures how much a corporation depends on creditors to finance its assets. (Zaman, et al., 2022).

Leverage reflects the company's level of financial risk. Leverage ratios are used to give a broad picture of a company's financial structure and indicate the degree of risk associated with debt collection. To allay bondholders' concerns about the satisfaction of their rights as creditors, more information is required (Handoyo, 2020). Businesses with significant leverage are required to publicly publish their CSR. This is because companies with high levels of leverage try to reduce the spotlight on debtors so that companies are required to actively disclose their social responsibility. As a result, businesses with higher leverage ratios are required to disclose more information than those with lower leverage ratios (Zhou, et al., 2020).

Financial corporate performance and corporate social responsibility (CSR) are interconnected and can have an impact on each other in various ways. A company's financial performance directly affects its ability to allocate resources for CSR initiatives. Higher profits and positive cash flow can provide companies with the financial means to invest in social and environmental projects, philanthropy, and sustainability efforts. On the other hand, financial challenges or poor performance may constrain a company's ability to dedicate resources to CSR activities (Yousefian, et al., 2023).

DISCUSSION

Companies with better financial performance may have more resources and willingness to comply with environmental and social regulations, improving their overall CSR practices. Conversely, financially distressed companies may face challenges in meeting regulatory requirements and implementing responsible practices. Strong financial performance can allow companies to take a long-term view and invest in CSR initiatives that may not provide immediate financial returns but contribute to sustainable development and positive social impact in the long run. Conversely, short-term financial pressures may lead companies to prioritize immediate profits over long-term CSR investments. Positive financial performance can enhance a company's reputation and stakeholder relationships, creating a positive image that can be further bolstered through meaningful CSR activities. Conversely, financial struggles or unethical practices can damage a company's reputation and undermine its CSR efforts, leading to skepticism about the sincerity of their social and environmental commitments (Maroun, 2020).

High financial performance combined with strong CSR practices can attract socially conscious investors and top talent. Many investors and employees consider a company's commitment to CSR as a factor in their investment decisions and career choices. Positive financial performance can, therefore, complement CSR efforts by attracting stakeholders who value sustainability and social responsibility. Successful companies may be more willing and able to expand the scope of their CSR activities beyond traditional philanthropy. They can invest in sustainable supply chain management, reduce environmental footprints, and implement responsible business practices that have a broader positive impact on society and the environment (Chen, et al., 2021).

Financially stable companies may have more flexibility to innovate and develop sustainable technologies and products, contributing to societal well-being and meeting

changing consumer preferences for ethical and environmentally friendly products and services. Financial corporate performance can significantly influence a company's CSR efforts. While strong financial performance can enable greater investments in CSR initiatives, it's essential for businesses to recognize that CSR can also play a role in enhancing their financial performance over the long term by building trust, reputation, and stakeholder loyalty. An integrated approach that aligns financial success with responsible practices can lead to mutual benefits for the company and society (Zhou, et al., 2020).

Corporate social responsibility (CSR) in the coal industry involves the integration of social and environmental concerns into the business operations and decision-making processes of coal companies. Given the environmental and social impact of coal mining and use, CSR in this industry is crucial for addressing and mitigating negative effects. The corporate social responsibility (CSR) performance of the coal industry has been a subject of significant scrutiny and debate due to the environmental and social impacts associated with coal mining and usage. CSR performance in this industry is often evaluated based on various criteria, including environmental stewardship, community engagement, labor practices, and contributions to local development. It's important to note that the coal industry is facing increasing pressure to transition towards cleaner energy sources due to global concerns about climate change. As a result, many coal companies are exploring ways to diversify their energy portfolios and adopt more sustainable practices. CSR in the coal industry plays a crucial role in this transition and in addressing the broader environmental and social challenges associated with coal extraction and use (Jumadiyah, et al., 2018)

CONCLUSSION

Based on the results of the analysis that has been done, it can be seen that company size has no effect on CSR, profitability has no effect on CSR, and leverage has a significant positive effect on CSR. The limitation of this research is that the sample used only applies to coal sub-sector mining companies that are listed on the IDX, so the results obtained are less relevant for mining companies that are not listed on the IDX. Future research is expected to expand the object of research using other sector companies. It can add independent variables that are thought to affect corporate social responsibility (CSR). Future research should use a more complete standard of disclosure in GRI-G4.

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