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The impact of financial factors on the disclosure of corporate social responsibility

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Abstract
The study empirically investigates the impact of financial factors, including profitability, leverage, and market capitalization, on the disclosure of corporate social responsibility (CSR). The research focuses on state-owned enterprises (SOEs) that are publicly traded on the Indonesia Stock Exchange (IDX) from 2018 to 2022. The population consists of 77 SOEs, and a sample of 30 companies will be drawn using the purposive sampling technique based on specified criteria. Multiple linear regression analysis is employed for data analysis. The findings indicate that profitability, leverage, and market capitalization have a favorable and substantial influence on CSR disclosure. Consequently, this study provides theoretical validation for the application of stakeholder theory and legitimacy theory.

Keywords: Corporate social responsibility, leverage, market capitalization

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1. Introduction

The concept of Corporate Social Responsibility (CSR) is a long-term business strategy that firms can implement to address not only economic aspects but also social and environmental concerns. As noted by Indriyani and Yuliandhari (2020), CSR reflects a company's commitment to society and the environment resulting from its operations. Initially, CSR initiatives were voluntary (Firdausi and Mayangsari, 2022), but they are now regulated under Indonesian Law Number 40, Article 74 of 2007, which mandates limited liability companies to engage in social and environmental responsibility. Similarly, Law Number 25 of 2007 on Capital Investment requires all investors to conduct CSR activities (ojk.go.id).

CSR disclosure serves as a communication tool to convey the environmental and social impacts of a company's operations. As stated by Yovana and Kadir (2020), CSR integrates social, environmental, and economic considerations into a company’s values, culture, strategy, decision-making, and operations in a transparent and accountable manner. However, according to Yurika (2019), the publication of CSR activities in annual reports remains voluntary, leading to variations in CSR policies among companies, even within the same industry.

CSR plays a crucial role for companies by providing both accountability and strategic benefits. Darmayanty (2021) emphasizes that CSR not only upholds corporate accountability but also enhances reputation, serving as an effective promotional and advertising tool. Additionally, CSR can facilitate operational permits and access to broader resources and markets. Indriyani and Yuliandhari (2020) highlight that participation in CSR can earn accolades from international institutions. However, successful CSR implementation requires adaptation to social, cultural, and environmental contexts, along with explicit goals and strategies. Yani and Suputra (2020) stress that CSR disclosure is important not only from a financial perspective but also for communicating environmental consequences. Overall, CSR contributes to societal and environmental well-being while enhancing a company’s reputation and long-term sustainability.

In Indonesia, CSR is particularly significant among State-Owned Enterprises (SOEs), which play a strategic role in the national economy. SOEs often lead in adopting CSR policies, driven by societal pressures, regulatory requirements, and the desire to improve public perception (Nida and Rosdiana, 2022). Key CSR initiatives by SOEs include infrastructure development, education, healthcare, and community welfare programs, as well as investments in green technologies and environmental sustainability efforts.

Despite these contributions, challenges remain in CSR practices among SOEs. A lack of transparency and accountability in CSR reporting undermines stakeholder trust, as many SOEs fail to provide detailed information about their CSR programs (Firdausi and Mayangsari, 2022). Furthermore, CSR activities are often treated as separate from core business strategies, resulting in fragmented approaches to social and environmental responsibility. Some SOEs also face criticism for engaging in CSR primarily for reputational purposes, a practice known as "greenwashing," which diminishes the credibility of their initiatives.

Nevertheless, there are examples of best practices. For instance, PT Pertamina, Indonesia's state-owned oil and gas company, has implemented sustainable development projects focusing on education, health, and community empowerment while maintaining transparency in its CSR reporting. To improve CSR practices, SOEs should prioritize stakeholder engagement, integrate CSR into core business strategies, enhance transparency, and align initiatives with national development goals, such as sustainable development and poverty alleviation (Ali et al., 2021).

Based on previous studies and phenomena, this research seeks to address the following question: How do profitability, leverage, and market capitalization influence CSR disclosure among SOEs listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022?

The objectives of this study are:

a) To analyze the effect of profitability on CSR disclosure among SOEs listed on the IDX (2018–2022).

b) To analyze the effect of leverage on CSR disclosure among SOEs listed on the IDX (2018–2022).

c) To analyze the effect of market capitalization on CSR disclosure among SOEs listed on the IDX (2018–2022).

2. Method

The researchers employed a quantitative research method for this study, collecting data from secondary sources such as financial reports, annual reports, and sustainability reports published by BUMN (State-Owned Enterprises) listed on the Indonesia Stock Exchange between 2018 and 2022. Data was obtained from the official website of the Indonesia Stock Exchange (www.idx.co.id) and the respective companies' official websites. This research aims to analyze the corporate social responsibility (CSR) information disclosed in the annual and sustainability reports of these enterprises during the specified period. The selected time frame, 2018–2022, enables an evaluation of the impact of financial factors on CSR disclosure across varying economic conditions, including the recovery phase following the global crisis triggered by the COVID-19 pandemic in 2020.

During this period, 77 enterprises were listed on the Indonesia Stock Exchange, as indicated in Table 1. However, due to incomplete data for 47 companies, the final research sample consisted of 30 companies, resulting in 150 observations. The sampling process employed a purposive sampling method, ensuring the selected companies met specific criteria relevant to the study.

This study utilized descriptive statistical analysis to summarize and present key data for each variable (Sugiyono, 2018). Additionally, the researchers conducted multiple linear regression analysis to examine the relationships between the variables. The multiple linear regression equation referenced in this study, as outlined by Arikunto (2019), is as follows:

$Y=\alpha+\beta X1+\beta X2+\beta X3+\varepsilon$

Information:

Y = CSR

α = Constant

X1 = Profitability

X2 = Leverage

X3 = Market Capitalization

Ɛ = Error Term

Furthermore, this study employs many data analysis procedures, such as the normality test, multicollinearity test, heteroscedasticity test, autocorrelation test, and hypothesis test, which encompasses the determination coefficient test (R^2), model feasibility test (F test), and hypothesis test (t test).

3. Empirical Result

This study utilizes secondary data sourced from financial reports, annual reports, and sustainability reports of state-owned enterprises (BUMN) listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022. These reports were obtained by downloading them from the official websites of the respective companies. Using a purposive sampling method, 30 BUMN enterprises were selected as the sample, fulfilling the criteria required for the study.

Table 1. Descriptive Statistical Analysis Results

Model	N	Minimum	Maximum	Mean	Std. Deviation
ROA	150	0,787	1,227	0,124	0,121
DER	150	0,492	15,185	5,226	3,289
MC	150	31,228	37,227	33,276	1,532
CSR	150	0,127	0,921	0,896	0,211
Valid N (listwise)	150				

Table 2. Results of Linear Regression

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.223	0.159		2.179	0.012
	ROA	0.235	0.281	0.437	3.945	0.000
	DER	0.322	0.112	0.121	3.202	0.000
	MC	0.345	0.121	0.129	3.290	0.000
	R square	0.418				

The descriptive analysis in Table 1 reveals several key insights. Corporate social responsibility (CSR) disclosure among the sampled firms varies significantly, with values ranging from 0.127 to 0.921. The average CSR disclosure is 0.896, with a standard deviation of 0.211, reflecting noticeable variation across the sample. Profitability, represented by return on assets (ROA), shows a minimum value of 0.787 and a maximum value of 1.227. The mean ROA is 0.124, and the standard deviation of 0.121

indicates relatively low variability in profitability levels.

Leverage, as measured by the debt-to-equity ratio (DER), exhibits a wide range, with a minimum of 0.492 and a maximum of 15.185. The average leverage is calculated at 5.226, with a standard deviation of 3.289, highlighting considerable variability among the firms. Meanwhile, market capitalization (KP) values range from 31.228 to 37.227, with an average of 33.276 and a standard deviation of 1.532, indicating moderate variation in market capitalization levels across the sample.

The regression analysis in Tabe 2 highlights the influence of profitability (ROA), leverage (DER), and market capitalization (MC) on corporate social responsibility (CSR) disclosure among state-owned enterprises (BUMN).

The results demonstrate a significant positive relationship between ROA and CSR disclosure. The regression coefficient of 0.235 indicates that for every one-unit increase in ROA, CSR disclosure is expected to increase by 0.235 units, holding other variables constant. This finding underscores the notion that more profitable firms are better positioned to allocate resources toward CSR initiatives, reflecting their financial stability and capacity to engage in sustainable practices.

Similarly, the leverage variable (DER) shows a significant positive relationship with CSR disclosure, as indicated by the regression coefficient of 0.322. This suggests that firms with higher leverage tend to disclose more CSR information. One plausible explanation is that highly leveraged companies may face greater scrutiny from stakeholders, including creditors and investors, prompting them to engage in and report more CSR activities as a means of enhancing their corporate image and mitigating perceived risks.

Market capitalization (MC) also exhibits a significant positive relationship with CSR disclosure, with a coefficient of 0.345. This indicates that larger firms, in terms of market value, are likely to disclose more CSR information. Larger firms often have greater public visibility and are subject to higher expectations from stakeholders regarding social and environmental responsibility. As such, they may prioritize CSR activities and transparency to maintain their reputation and meet stakeholder demands.

In summary, the results reveal that profitability, leverage, and market capitalization significantly contribute to the extent of CSR disclosure among BUMN enterprises. These findings suggest that financially robust and well-capitalized firms, as well as those with higher leverage, are more inclined to engage in and disclose CSR activities, aligning with stakeholder expectations and regulatory requirements.

4. Conclusions

After analyzing the data and conducting a thorough discussion, it can be concluded that profitability, leverage, and market capitalization significantly influence corporate social responsibility (CSR) disclosure in state-owned companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022. The results indicate that profitability has a positive and significant impact on CSR disclosure, suggesting that companies with higher profitability are more likely to disclose information about their social responsibility initiatives. This finding aligns with previous research, which suggests that profitable companies often prioritize CSR activities as part of their corporate strategy.

Similarly, leverage was found to have a positive and significant effect on CSR disclosure in state-owned companies. This indicates that companies with higher debt levels are more inclined to disclose information about their CSR practices. This relationship has been supported by previous research, which posits that leveraged firms may use CSR reporting to demonstrate their commitment to stakeholders and reinforce trust.

Lastly, market capitalization was identified as another key factor influencing CSR disclosure in state-owned enterprises. The study revealed that firms with larger market capitalization are more likely to disclose information about their CSR initiatives. This finding is consistent with existing literature, which suggests that larger firms are more engaged in CSR activities and tend to be more transparent in reporting their CSR efforts.

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