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# CSR Disclosures in the Mining Industry: Empirical Evidence from Listed Mining Firms in Indonesia

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**Abstract:** Companies that are involved in CSR strive to meet the expectations of stakeholders. Therefore, CSR and CSR reporting are tools of legitimacy to demonstrate its obedience (legitimacy theory). This study aims to look at empirical evidence on the effect of profitability and environmental performance on CSR disclosure. This study examined the target population of mining companies listed on the Indonesian Stock Exchange that included the CSR reporting in the 2010-2014 annual report, obtained a sample of 18 companies. By using multiple regression analysis test, there is no significant influence between profitability to CSR disclosure, whilst environmental performance has effect on CSR disclosure.

**Keywords:** corporate social responsibility disclosure, profitability, environmental performance, Indonesia.

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## Introduction

Corporate social responsibility (CSR) has drawn attention from governments, businesses, academics, stakeholders and the community as a whole. The numbers of research on CSR is growing rapidly, align with the number of cases that occur as an effect from the company does not have a positive impact on the surrounding environment. Recently, the problem caused by exploitation of natural resources and environmental pollution has experienced an increase in Indonesia (Gunardi et al., 2016; Rokhmawati & Gunardi, 2017).

Stakeholder theory explains the relationship between stakeholders and the information they receive (Sun et al., 2010). As stated by Gray et al. (1995), information disclosed to stakeholders may be considered as a legitimate social contribution made by the organization. Therefore, stakeholders typically see social responsibility information disclosed to them as one of the criteria for measuring the reliability and legitimacy of an organization.

Legitimacy theory is one of the theories that is used as a based for entity incentives that voluntarily disclose their social and environmental accountability reports (Luo et al., 2013). Referring to Gray et al. (1995), this theory explains that an entity is a unit of the social itself. Therefore, social and environmental responsibility disclosure by the company is one of the steps to gain legitimacy from the surrounding community. When legitimacy is obtained, the company can continue its operations because the entity has proven to observe the prevailing norms as well as the circumstances of society and the surrounding environment.

Generally, CSR is still being conducted voluntarily, therefore companies choose different items to disclose and different forms of disclosure. As a result, it becomes difficult to compare social activities between companies. To address this problem the Global Reporting Initiative (GRI) was established in 1997 with the aim of developing globally applicable guidelines for economic, environmental, and social performance reporting (Bhimani & Soonawalla, 2005).

Regulations on CSR reporting may play an important role in encouraging companies to produce CSR reports. However, up until now, there are still debates in developed countries whether companies need to be bounded to publish CSR reports or it is submitted to the awareness of the company to publish the report (Tschopp, 2005).

The Government of Indonesia's concern on CSR can be seen by the issuance of Law No. 40 of 2007 on Limited Liability Company. The purpose of the issuance of this Law is to regulate the existence and as a guidance for the company in running their business and prevent the occurrence of deviation in economic growth. In this article the government requires corporations related to natural resources to budget their funds in an effort to carry out CSR programs, which need to be implemented with attention to decency and fairness (Luthan et al., 2017).

With the existence of Law no. 40 of 2007, the company (Limited Liability Company) is required to carry out Social and Environmental Responsibility. When examined more deeply, is social responsibility a mere obligation of a business enterprise? Of course not. To implement sustainable development requires the involvement of all Indonesians (Rumambi & Lintong, 2017). The importance of corporate social responsibility disclosure is also supported by the Indonesian Institute of Chartered Accountants through Statement of Financial Accounting Standards (SFAS) No. 1 Paragraph 9. This SFAS becomes the starting point of the company disclosing its social responsibility activities (Dianawati, 2016).

For the company, the obligation to implement CSR is being regulated through Law no. 40 in 2007, yet there are no standards on how the program should be formed. CSR is implemented based on the understanding of each company on CSR. There are no standard programs or standards in the implementation of CSR, so that CSR is applied differently (Rumambi & Lintong, 2017).

The Government regulation for the implementation of CSR in mining industry activities contained in Article 95 of Law No. 4 of 2009 on Mineral and Coal Mining conducted in the form of community development. Previously, there was also Law no. 22 of 2001 on Oil and Natural Gas in Article 11 paragraph (3) letter p explaining that upstream business activities carried out by business entities or permanent business establishments under a cooperation contract with the implementing agency shall contain the main provisions, which one of them is the provisions on the development of the surrounding community as well as ensuring of the rights of indigenous peoples. In addition, in Article 40 paragraph (5) states that business entities or permanent establishments conducting oil and gas business activities are responsible to develop the environment and local communities.

Factors that influence CSR disclosure are varied. This study is aimed to look at the effect of profitability and environmental performance on corporate social responsibility disclosures (CSRD) of mining companies listed in Indonesia Stock Exchange within the year 2010-2014. For that purpose, the self-composed CSR checklist contains 79 items are being examined in the annual reports of 18 sample companies.

Profitability plays an important role in giving companies confidence to disclose social responsibility in order to legitimate and create positive value from the community (stakeholders). Several previous research results showed that profitability has a positive and significant effect on CSR (Dobler et al., 2015; Gamerschlag et al., 2011; Kolsi, 2017; Muttakin & Khan, 2014; Sadou et al., 2017; Xu & Zeng, 2016). Meanwhile, there are inconsistencies in the results of profitability research on CSR disclosure. Several previous research findings found that the results of profitability is not proven significantly affected the level of CSR disclosure (Krisna & Suhardianto, 2016; Marfuah & Cahyono, 2011; Riantani & Nurzamzam, 2015; Sunarsih & Nurhikmah, 2017; Sutantoputra et al., 2012).

Variations on social responsibility disclosure in previous studies suggest that can be explained by profitability. It is noted that some theorists mention profitability as a factor that allows, or may encourage, management to undertake and disclose to shareholders a broader program of social responsibility (Dobler et al., 2015; Gamerschlag et al., 2011; Kolsi, 2017; Muttakin & Khan, 2014; Sadou et al., 2017; Xu & Zeng, 2016) argue that profitable companies are more interested in explaining on how they "generate" their profits through CSR disclosure, as compared to less profitable companies. In other words, profitable companies must justify that they operate within the norms of society. Instead, (Krisna & Suhardianto, 2016; Marfuah & Cahyono, 2011; Riantani & Nurzamzam, 2015; Sunarsih & Nurhikmah, 2017; Sutantoputra et al., 2012) found no relationship between corporate profitability and the level of CSR disclosure. Consistent with previous research, current research will use return on assets as a measure of profitability.

There are inconsistencies in the results of environmental performance studies on CSR disclosure. Environmental performance will have an effect on how far a company disclose its CSR. Companies will gain advantages by improving the environmental performance. Good environmental performance, which is then also being disclosed in the annual report, will attract more investors (Al-Tuwaijri, Christensen, & Hughes, 2004; Cho & Roberts, 2010; Clarkson, Li, Richardson, & Vasvari, 2008; Yendrawati & Tarusnawati, 2013). However, some studies have found that there is no significant relationship between environmental performance and CSR disclosure (Dobler et al., 2015; Freedman & Jaggi, 1982; Sutantoputra et al., 2012; Wiseman, 1982).

Previous research on the social responsibility disclosure has used environmental performance to explain variations in corporate social responsibility disclosure. Environmental performance has been hypothesized and found by several studies to have a positive relationship with the level of social disclosure (Al-Tuwaijri et al., 2004; Cho & Roberts, 2010; Clarkson et al., 2008; Yendrawati & Tarusnawati, 2013). In Indonesia, the government through the Ministry of Environment, since 2002, has established a program called the Corporate Performance Rating Assessment Program in Environmental Management (PROPER) as a form of environmental compliance of companies in Indonesia. Meanwhile, some experts (Dobler et al., 2015; Freedman & Jaggi, 1982; Sutantoputra et al., 2012; Wiseman, 1982) failed to find an correlation between environmental performance and CSR disclosure levels. In line with previous studies the current study will use the company's achievements following the PROPER program as a measurement for environmental performance.

This study aims to look at empirical evidence on the effect of profitability and environmental performance on CSR disclosure. The selection of companies engaged in the mining sector as the object of research is not without basis or reason. In several case studies, the activities of mining companies are always followed by the potential for enormous environmental damage that can affect the surrounding community. So, it is very important for the company to understand and implement the concept of CSR accordingly. It is necessary to avoid potential conflicts between communities and local communities who live or have businesses around the company surroundings (Dong & Xu, 2016; Jenkins, 2004; Jenkins & Yakovleva, 2006; Szczepankiewicz & Mucko, 2016).

## Methods

The population in this study are all listed companies engaged in the mining sector that has been listed on the Indonesia Stock Exchange. Considering the Law no. 40 of 2007 concerning Limited Liability Companies which require companies whose business activities in the field of and/or related to natural resources to perform social responsibility and disclose social responsibility report in the form of annual report within the period 2010-2014 that amounted to 31 mining companies.

The sample in this research is determined by using purposive sampling method, which means samples are being selected according to certain criteria. The criteria used in this study are as follows:

- Mining companies listed on the Indonesia Stock Exchange within the period of 2010-2014.
- The Company discloses CSR in its annual report for the period of 2010-2014.
- Companies that get the PROPER Rating from the Ministry of Environment.
- The company provides the information needed in this research.

Based on the sampling criteria above, 18 companies are chosen to be the sample out of 31 selected population during 5 years of research i.e. 2010 to 2014. So, the total sample of observation researchers is 90 observations.

The following operational definitions of the research variables are presented in Table 1.

**Table 1 Defining the Variables**

| Variables | Code | Measure |
|---|---|---|
| Profitability | PROFIT | After tax profit divided by total assets |
| Environmental performance | ENV | Company achievements on PROPER program |
| CSR disclosure | CSRD | GRI G3.1 social responsibility disclosure index consisting of 79 items and 6 aspects, namely environmental, human rights, labor practices and decent work, society, product responsibility, and economic by using content analysis method |

The model used to test the hypothesis of this research is:

*CSRD = a + b1PROFIT + b2ENV + e*

Classic assumption test, normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test are performed to ensure that the regression model and each variable is feasible for hypothesis testing. Coefficient of determination test is also performed to determine the magnitude of the influence of independent variables to the dependent variable.

## Results and Discussion

In general, the results of the classical assumption test show no serious problems. Regression model in this study did not experience symptoms of multicollinearity, heteroscedasticity, autocorrelation, and normality. The coefficient of determination (Table 2) shows that the model used in this study is only able to explain the variability of social responsibility disclosure of 38.6%. The remaining percentage is explained by other variables outside of the study. The value of $R^2$ is indeed lower, but still significant in every modeling. The research variables that can explain the variation of social responsibility disclosure, that is, the environmental performance has a positive influence on the disclosure of social responsibility, while the effect of profitability is not found against the disclosure of social responsibility.

Based on the results of statistical analysis in this study found no effect of profitability proxied with ROA on CSR disclosure. These results are supported by research (Krisna & Suhardianto, 2016; Marfuah & Cahyono, 2011; Riantani & Nurzamzam, 2015; Sunarsih & Nurhikmah, 2017; Sutantoputra et al., 2012) failed to find a significant effect between profitability and CSR disclosure. This is because companies that have high profitability are not necessarily to disclose more social activities in its annual report, because the company is more profit oriented. This is not in line with opinion of (Dobler et al., 2015; Gamerschlag et al., 2011; Kolsi, 2017; Muttakin & Khan, 2014; Sadou et al., 2017; Xu & Zeng, 2016) which stated that a company with a larger profit more actively disclose their CSR. High profitability will provide more opportunities to management in disclosing and conducting CSR programs. Therefore, the higher the level of profitability of the company, the greater the disclosure of social information.

**Table 2 Multiple Regression Analysis and Hypotheses Testing**

| Variable | Hypotheses | Coefficient | t | p-value |
|---|---|---|---|---|
| (Constant) | | .033 | 3.206 | .006 |
| PROFIT | + | -.001 | -.886 | .390 |
| ENV | + | .009 | 2.992 | .009* |
| F | | 4.714 | | |
| Sign. F | | .026* | | |
| $R^2$ | | .386 | | |

Dependent Variable: CSR Disclosure (CSRD)
Significant at level 5%

Meanwhile, the environmental performance proxied by PROPER in the statistical analysis of this study found significant influence on CSR disclosure. The results of this study indicate that higher environmental performance will be followed by increased CSR disclosure. This is supported by previous research conducted by (Al-Tuwaijri et al., 2004; Cho & Roberts, 2010; Clarkson et al., 2008; Yendrawati & Tarusnawati, 2013) which found that environmental performance has a significant influence on CSR disclosure. The social responsibility disclosed by sample companies that have followed PROPER from the Ministry of the Environment is very well expressed in the company's annual report. This means that the greater the environmental performance (PROPER) tend to disclose a larger social response, than companies that only get lower PROPER.

## Conclusion

The findings from this study provide empirical evidence which showed that environmental performance is a determinant of CSR disclosure levels in developing countries such as Indonesia. Companies with good environmental performance need to disclose more environmental quality and quality information than bad ones. Based on the theory of legitimacy, which explains the relationship of society with the company, the society gives an appreciation to company's actions that show that they are socially concern. The existence of corporate social disclosure which is a form of corporate responsibility to the community will create public confidence in the company. This is because the company has been able to maintain environmental sustainability and to operate well without causing any harm. If the company performs its operations well, then the community will also respond positively to the survival of the company.

This study contributes to the literature by extending previous research findings that primarily focus on the levels, content, and motivational factors of CSR disclosure. The findings from this research can help regulators to apply the right balance of laws, regulatory reform and enforcement to improve CSR practices and enhance organizational legitimacy. However, the results also have limitations. This study focuses only on disclosure in the company's annual report although it is known that management can use other mass communication mechanisms. Therefore, future research may consider disclosures in other media such as newspapers and the internet. In addition, involvement in socially responsible activities may not necessarily translate into disclosure of such activities. The CSR disclosure index developed in this study may not fully capture CSR practices correctly. Therefore, it should not be concluded that companies that do not disclose CSR information are not involved in any social activity.

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