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THE IMPACT OF TAX AGGRESSIVENESS, FIRM SIZE, AND FOREIGN OWNERSHIP TO SOCIAL RESPONSIBILITY

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ABSTRACT

Mining companies in Indonesia are companies that explore natural resources as a source of income for the company. The use of mining companies for this study is because the activities undertaken by these companies related to waste and environmental pollution so that the level of industrial risk and environmental damage becomes high. The purpose of this study is to analyze the impact of the tax aggressiveness (ETR), firm size (SIZE), and foreign ownership (FOCI) to corporate social responsibility (CSR) of the mining companies. The population in this study are the mining companies which were listed in Indonesia Stock Exchange from year 2010 to 2015. This study uses tax aggressiveness, firm size, and foreign ownership as independent variables; profitability, leverage, and market-to-book ratio as control variables; and also corporate social responsibility as dependent variable. There are 9 samples of mining companies which produced 54 data using purposive sampling technique. This study use logistic regression method. This study uses Eviews 9 and Microsoft Excel 2007 for data processing. The results showed that the firm size (SIZE) has a significant effect on the company's CSR, while tax aggressiveness and foreign ownership have no significant effect on company's CSR. This results indicate that the bigger the size of a company will cause greater activities and influences in the society, which make companies pay more attention to social programs and social responsibility disclosures.

Keywords : Tax aggressiveness, Corporate Social Responsibility, Mining companies.

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1 INTRODUCTION

Corporate Social Responsibility (CSR) is generally a comprehensive contribution of the business to sustainable development, taking into account the economic, social and environmental impacts of its activities. The concept of Corporate Social Responsibility (CSR) was approved by the House of Representatives on July 20, 2002 and regulated in Law no. 40 of 2007 on Limited Liability Company (UUPT), which has been enacted in the State Gazette of the

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Republic of Indonesia No. 106 of 2007 and Supplement to the State Gazette of the Republic of Indonesia No. 4756 of the year 2007. RI Law no. 40 of 2007 Article 74 paragraph 1 concerning companies that carry out their business activities related to natural resources shall be obligated to carry out social and environmental responsibility activities and paragraph 3 concerning companies that are not performing their social and environmental responsibility obligations shall be subject to sanctions adjusted to rules that have been set. In addition to the above law, there is no Investment Law. 25 year 2007 article 15 (b) states that every investor is obliged to carry out corporate social responsibility and in article 34 it is mentioned that companies that do not fulfill the obligations set forth in Article 15 shall be subject to sanctions.

Although CSR has been regulated in Law no. 40 in 2007, in fact there are still many companies that do not do CSR. When viewed from the perspective of Statement of Financial Accounting Standard (PSAK), CSR is still a voluntary form undertaken by the company, so the disclosure of CSR is still classified as ineffective when compared with other countries. The company also considers CSR as the company's expense. Whereas CSR is a contribution of company to the community as a form of responsibility. Lanis & Richardson (2013) describes the relationship between CSR disclosure and community attention arising from corporate behavior that is inconsistent with community expectations, as in the theory of legitimacy. According to Bowman (1953) which is the initial literature that became a milestone of CSR theory caused by poverty and backwardness issues, Corporate Social Responsibility (CSR) is a form of awareness in order to prosper the society on the impact of all corporate activities.

In accordance with government regulations RI Law no. 40 of 2007 Article 74 paragraph 1 concerning companies that carry out their business activities related to natural resources shall be obligated to carry out social and environmental responsibility activities. Then one of the sectors of the company that runs its business activities related to the environment namely the mining sector. Currently the mining industry in Indonesia has experienced significant growth in recent years, can be seen from the development of coal mining companies, gold, and ferronickel. In the PwC report on the opinions and attitudes of the mining world that include the development policy, law enforcement, legal certainty, and fiscal policy. Indonesia's position in the mineral potential index was very high, parallel to Mongolia, Chile, Mexico, Peru, Brazil, Russia, China and Argentina.

With activities in the mining sector companies continuously exploring nature will damage the environment around the company also damage the environment around the settlement, thus harming the community as well as nature. With the many negative impacts of mining activities on the environment and surrounding communities, companies made a study of CSR. Companies report CSR activities on annual reports to communicate corporate social responsibility.

Several studies related to factors affecting corporate social responsibility have been conducted in several sectors and countries with mixed results, such as Lanis & Richardson (2013). Here Lanis & Richardson (2013) examines whether

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firms that engage in tax aggressiveness will disclose greater CSR information than firms that do not engage in tax aggressiveness. In this study using 20 companies in Australia which considered by the Australian Taxation Office to aggressive tax during 2001-2006 using CSR as a dependent variable, tax aggressiveness as an independent variable, and using firm size, leverage, capital intensity, market-to-book ratio, and return on assets as control variables. The results show a positive and significant relationship between tax aggressiveness and CSR disclosure. Plorensia & Hardiningsih (2015) shows that tax aggressiveness, media exposure, firm's size have positive and significant effect to CSR, while profitability and market-to-book ratio have no effect on CSR. Different results are shown by Octaviana & Rohman (2014) which indicates that tax aggressiveness has no effect on CSR. Sriayu & Mimba (2013) have conducted a research on property and real estate companies. This study aims to determine the effect of leverage, company size, foreign ownership, public ownership, size of board of commissioners and profitability against CSR Disclosure. The results of this study indicate that firm size, foreign ownership, public ownership have positive and significant influence, while leverage, size of board of commissioners, and profitability have no significant effect on CSR Disclosure. With the size of companies with increasingly large scales get pressure to provide a variety of information that tends to be more transparent. It also shows that in general foreign ownership in Indonesia is concerned with social issues occurring in Indonesia, such as education, health and the environment.

The problem in this study is to see if there are influences of tax aggressiveness, firm size, and foreign share ownership to corporate social responsibility.

2 HYPOTHESES DEVELOPMENT

Tax aggressiveness is a tax planning undertaken by the company in order to minimize tax payments. Lanis & Richardson (2013) states that the larger the company are will be the lower ETR it holds, this is because large companies are thought to have the resources to manipulate the political processes that occur, or use existing resources to make good tax planning, running its activities in such a way that it can optimize tax savings. The influence of tax aggressiveness on corporate social responsibility became the first hypothesis in this study.

H1: Tax aggressiveness affects corporate social responsibility

Based on stakeholder theory that explains that it is very important to satisfy the stakeholder's wishes by volunteering companies to invest in the environment to prove to stakeholders that the public is concerned in protecting the environment and providing added value and benefits to the company's stakeholders. Purwanto (2011) indicates that firm size has significant influence also proves social responsibility is influenced by firm size where big companies tend to disclose wider responsibilities. Large companies are also the most publicly-listed issuers so that greater disclosure is a political culture as a form of corporate social

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responsibility. The influence of firm size on corporate social responsibility becomes the second hypothesis in this research.

H2: Company size affects corporate social responsibility

In the theory of legitimacy, the legitimacy of society is a strategic factor for the company in the framework of the future development of the company, so that foreign shareholders are aware of it and demand the company to conduct a wider reporting. According to Putra (2009) with a higher level of foreign share ownership, the broader the level of corporate social responsibility disclosure. The effect of foreign ownership on corporate social responsibility became the third hypothesis in this study.

H3: Foreign share ownership affects corporate social responsibility

3 RESEARCH METHODS

3.1 Sample Selection

This study used purposive sampling. The criteria used are companies reporting annual reports and financial statements from 2010 to 2015 on IDX, the company has no tax benefits during the year of research, and the company is listed on the Fact Book of BEI in 2015.

Data analysis method

The method of analysis used in this study is logistic regression analysis for panel data to be processed using Eviews 9.0 program with significance level of 0.05 or 5%. Here is a logistic regression model used:

$$\mathrm{CSR} = \propto + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \beta 6X6 +$$

Information:

CSR: Corporate Social Responsibility of mining companies

X1: Tax aggressiveness as measured by ETR;

X2: Company size measured using total assets Ln;

X3: Foreign share ownership is measured using foreign share ownership percentage;

X4: Profitability measured using ROA;

X5: measured by leverage ratio;

X6: measured by market-to-book ratio;

α: constants;

β: Regression Coefficient; and

e: Standard error.

Statistic test

The statistical test used in this research are:

1. Descriptive Statistics
2. Logistic Regression Analysis
3. Partial T Test
4. Coefficient of Determination Test or R2

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3.2 Operationalization of Variables

1. *Corporate Social Responsibility*
   In this study, if the company reports CSR activities in its annual report from 2010 to 2015 each year with more details explained by what activities the company undertakes in its social responsibility, it will be rated 1 and otherwise it will be given 0.
2. Tax Aggressiveness
   This study uses the proxy of Effective Tax Rates (ETR).
   $$\text{ETR} = \frac{\text{income tax expense}}{\text{earnings before interest and tax (EBIT)}}$$
   When the ETR approaches zero, it indicates the occurrence of tax aggressiveness. The lower the ETR the company has, the higher the tax aggressiveness. A low ETR indicates income tax expense is less than pre-tax income.
3. Company size
   $\text{Size} = \text{Ln total aset}$
4. Foreign Ownership
   Foreign share ownership is the proportion of share ownership owned by individuals or foreign institutions against a company. Foreign share ownership will be assigned a value of 1 if the percentage of ownership is above> 5%, but if the percentage of ownership is below <5% it is given a value of 0.
5. Profitability
   $$\text{ROA} = \frac{\text{Net Income}}{\text{Average Assets}}$$
6. Leverage
   $$\text{Lev} = \frac{\text{Total debt}}{\text{Total assets}}$$
7. *Market-to-book Ratio*
   $$\text{MTB} = \frac{\text{Market Value}}{\text{Book value}}$$

4 RESULTS AND DISCUSSION

4.1 Analysis of Data Collection Results

From the purposive sampling conducted before, obtained 9 mining companies that meet the criteria in the selection of samples in this study.

4.2 Descriptive statistics

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std.
ETR	54	-3.42134	0.5753	0.189987	0.51456

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SIZE	54	15.3129	30.458	26.92435	4.32057
FOCI	54	0	1	0.444444	0.50157
ROA	54	-0.63837	0.59817	0.102643	0.15255
LEV	54	0.22103	0.79949	0.479518	0.17168
MTB	54	0.05435	12.0521	2.787032	2.51982
CSR	54	0	1	0.759259	0.43155
Valid N	54				

Source: Results of Secondary Data Processing

4.3 Partial Test or T

This research uses partial test to know whether there is influence of each independent variable partially to dependent variable which tested at level of significant 0,05. This test is done by comparing p-value of each independent variable with significance level. Here are the results of the test t:

Table 2. Partial T Test

Variables	Coefficients	Prob.
ETR	-0.225255	0.7824
SIZE	0.26051	0.0105
FOCI	0.11874	0.9031
ROA	-0.160791	0.9575
LEV	-1.474903	0.6061
MTB	0.487576	0.2475
C	-5.901801	0.1026
N	54	

Source: Results of Secondary Data Processing

4.4. The influence of tax aggressiveness on Corporate Social Responsibility

Table 2 above shows a p value of 0.7824 which means greater than $\alpha = 0.05$ with coefficient value -0.225255. With a p value greater than α, then this proves that tax aggressiveness has no significant effect on Corporate Social Responsibility (CSR).

This indicates that companies with low tax aggressiveness tend to be larger in expressing CSR in order to gain legitimacy from the community in meeting the expectations of the community, as well as implementing regulations from government to avoid sanctions or laws for violating government regulations.

This research is in line with Octaviana & Rohman (2014) which shows that tax aggressiveness has no effect on Corporate Social Responsibility.

4.5. The influence of company size on Corporate Social Responsibility

The independent variable of firm size (SIZE) shows a positive coefficient of 0.26051 with p value 0.0105 or 1.05% which means smaller than $\alpha = 5\%$. This level of significance proves that the hypothesis test results show that firm size has a significant positive effect on Corporate Social Responsibility (CSR). These

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results are consistent with those done by Lanis & Richardson (2013) and Nur & Priantinah (2012).

With the size of a large company of course visibility of the company is high, so large companies tend to reveal greater information than small companies. It also shows that the bigger the size of the company means the greater influence the operating activity has on society. Therefore, the company increasingly pay attention to social activities run by the company.

4.6. The influence of foreign ownership on Corporate Social Responsibility

The test result shows that foreign ownership of p value is 0.9031 or 90.31% and coefficient 0.11874. Level of significance is greater than 5%, then foreign ownership of shares have a significant negative effect. This is similar to that of Octariani & Mimba (2014).

This is because the ownership of foreign shares consolidated with the company in Indonesia is small so that the disclosure of corporate social responsibility is underestimated as well as foreign ownership in Indonesia has not been concerned about environmental issues as a serious problem to be disclosed in the annual report.

4.7. The effect of profitability, leverage, and market-to-book ratio on Corporate Social Responsibility

The profitability control variable in Table 2 shows the coefficient of -0.160791 with the p value of 0.9575 or 95.75% which means greater than $\alpha = 5\%$. With a p value greater than $\alpha = 5\%$, then the profitability variable has no significant effect on CSR. This result supports the research of Nur & Priantinah (2012) and Dewi & Priyadi (2013) which indicate that ROA's profitability shows a non-significant effect on CSR and prove that firms assume when higher earnings are not required additional funds to perform CSR.

The leverage control variable in Table 2 shows the coefficient value of -1.474903 with p value of 0.6061 or 60.61%. The p value is greater than the significance level of $\alpha = 5\%$ which means that this variable has no significant effect on CSR. This result supports Dewi & Priyadi (2013) and Indriastuti & Suhendi (2012) that leverage is not proven to have a significant effect on CSR. Meaning that the high level of corporate debt does not affect CSR disclosure. The direction of the leverage relationship to the negative indicating that the existence of the inverse relationship where the existence of leverage can actually lower the level of CSR corporate disclosure, so companies that have low level of debt tend to have high CSR disclosures and conversely. This means that with lower debt levels, the company's tendency to prioritize CSR is because companies want to improve the company's image in the eyes of debtholders to continue to provide loan capital that will be used for the company's operational activities.

The market-to-book ratio control variable in Table 2 shows the coefficient value of 0.487576 with the p value of 0.2475 or 24.75%. The p value is greater than the significance level of $\alpha = 5\%$ which means that market-to-book ratio has no effect on CSR. The tests undertaken in this study support the research undertaken by Octaviana & Rohman (2014) and Plorensia & Hardiningsih (2015)

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which show the market value with book value has a significant negative effect on CSR. This may be because growth opportunities in the future cannot be predicted to determine how much CSR will be budgeted by the company or can be caused by the growth of both small and large companies still have to do CSR because in accordance with regulations that have been applicable also because the mining sector is always related with the environment.

4.8. Determination Coefficient Test

McFadden R-squared	0.289904

The result of determination coefficient test shows the value of McFadden R-squared of 0.289904 means that 28.99% of variation that occurs in Y can be explained by independent variable, while the rest is explained by other variables outside the model. The results of this score indicate that the variable of Corporate Social Responsibility (CSR) can be explained by 28.99% by independent variable that is tax aggressiveness (ETR), firm size (SIZE), foreign share ownership (FOCI), also control variable that is profitability (ROA), leverage (LEV), and market-to-book ratio (MTB). The remaining 71.01% (100% -28.99%) is explained by the variables outside this study.

5. CONCLUSIONS AND SUGGESTIONS

Based on the research that has been done, it can be concluded:

1. Variable aggressiveness of tax does not affect corporate social responsibility
2. Corporate size variables significantly influence corporate social responsibility. If there is an increase in the total assets of the company then the more information CSR disclosed company.
3. Foreign ownership ownership variables have no effect on corporate social responsibility.

As for some suggestions that can be advocated by researchers relating to further research, namely as follows:

1. For further research can use other sector companies listed in Indonesia Stock Exchange in order to analyze factors influencing CSR reporting, using data above 6 years so that research result give more accurate picture, and can add variable outside this research such as institutional share ownership, managerial share ownership, and others.
2. For companies, especially mining companies are expected to use the results of this study as an illustration of any factors that can affect the reporting of CSR and is expected to increase awareness of the company's environmental and social awareness.

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