

## ROLE OF COMPANY SIZE IN MEDIATION PROFITABILITY OF CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE

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### ABSTRACT

*The purpose of this study is to determine whether company size is able to mediate the effect of profitability on CSR (corporate social responsibility) disclosure. The population of this research is companies listed as companies in Indonesia which are listed on the IDX from 2017 to 2018. The sample selection uses a purposive sampling method, which amounts to 38 data. The analysis method in this study used path analysis with the help of the IBM SPSS Statistics version 22 program. The results of the study prove that profitability has no effect on company size. Profitability affects the disclosure of CSR. The size of the company does not affect the disclosure of corporate social responsibility. And company size does not mediate the relationship between profitability and CSR.*

**Keywords:** Profitability; Corporate Social Responsibility Disclosure; Company Size

### 1 INTRODUCTION

Companies as economic entities generally have goals, whether they are short or long term. the company has a short-term goal which is to maximize profits, while increasing the value of the company is its long-term goal (Andriyanto, Effriyanti & Hidayat, 2018). Increasing firm value is very important for the firm, because the firm's value is a reflection of the good or bad performance of the company which of course will affect investors' views on the company (Kusumayanti and Astika, 2016).

Factors that influence the value of the firm can be distinguished between financial factors and non-financial factors. Financial factors (financial) such as financial

performance, increase or decrease in earnings, earnings quality, company size and financial decision making by the company management. Generally, financial factors are the factors most often used to explain how they affect the firm's value.

While non-financial factors that can affect the value of the firm one of which is CSR and the size of the board of commissioners (Kusumayanti and Astika, 2016). Theoretically CSR is the essence of business ethics, where the firm has economic and legal obligations to shareholders and other interested parties (stakeholders) and cannot be separated from the fact that a company cannot operate, survive and make profit without the help of various parties. Thus, CSR shows the company's concern for the interests

of other parties more broadly (Stakeholders) than just the interests of the company itself (Putri and Christiawan, 2014).

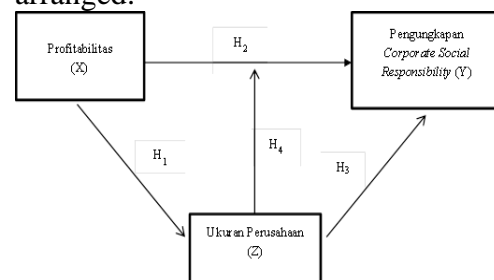
The issuance of regulations governing CSR disclosure as in the Limited Liability Company Law No. 40 article 74 of 2007 and Law No. 25 of 2007 on investment has made more and more companies in recent years begin to realize the importance of implementing CSR as a good form of investment for the growth and sustainability of the company's business, which will certainly have an effect on increasing the value of the firm. CSR is now also seen as a parameter in carrying out ideal business practices (Kusumayanti and Astika, 2016).

Financial performance such as profitability is one factor that is able to influence the level of CSR disclosure and can certainly impact the level of the value of a firm. According to Pustikaningsih (2011), CSR is related to financial performance with a probability of 1%, there is a relationship that have a positive impact between CSR characteristics and the performance characteristics of competition. The same thing is the result of Indraswari and Astika's (2015) research, that profitability proxy by ROA has an impact on the disclosure of CSR on the Indonesia Stock Exchange in the 2010-2012 period. While the research results of Yuliana et al. (2008) stated that profitability proxy by ROA and ROE was not proven to affect the extent of CSR disclosure.

The size of the firm is expected to affect the level of CSR. According to Sembiring in Wijaya (2012), the greater a company is, the agency

costs that arise will also increase. Large firm incline to revealed social information more broadly. The effect of firm size on disclosure of CSR is reflected in the agency theory which clarify that large firm have large agency costs, this causes large firm to expose more information than small firm. The results of Wijaya's (2012) study, that company size has an impact on disclosure of social responsibility. According to him, Positive implies that the greater the company will make broader social responsibility disclosures. The output of the same research by (Purwanto, 2011; Dewi and Priyadi, 2013; Sriayu and Mimba, 2013; Alkababji, 2014; Indraswari and Astika, 2015), found that company size had a significant impact on the level of CSR. But there are also results of research that find evidence that company size does not significantly affect the level of CSR disclosure (Yuliana et al., 2008; Oktariani and Mimba, 2014).

Referring to the description above, that there are mixed research results. In this study, researchers are interested in reexamining CSR and corporate value. Therefore, this study will examine the effect of profitability on corporate social responsibility disclosure with company size as a mediating variable. If depicted in a picture, then the following framework can be arranged:



## 2. LITERATURE REVIEW

### 2.1. Profitability and Company Size

The size of company can also be seen from several things, such as organizational structure, number of employees, company assets, and the number of shares outstanding. According to the critical theory, the greater the profitability of the firm, the size or scale of the firm will also increase, because with the large resources, the company can invest both current assets and fixed assets and also meet product demand.

H<sub>1</sub>: Profitability affects the size of the company

### 2.2. Profitability and Corporate Social Responsibility Disclosure

Kusuma (2001) shows that profitability positively influences investors' decisions in investing in a company. Another factor that influences a company's CSR disclosure is profitability. The research of Untari (2010), Rosmasita (2007), Fahrizqi (2010), and Veronica (2010) shows the positive affect of profitability on CSR disclosure. According to Belkaouni and Krapik (1989) the cause of the positive relationship of social disclosure policy and profitability is based on management knowledge. Sudaryanto's research (2011) shows that there is a positive and significant influence of CSR disclosure on a company's financial performance that makes investors interested in investing.

H<sub>2</sub>: Profitability affects the Corporate Social Responsibility Disclosure.

### 2.3. Company Size and Corporate Social Responsibility Disclosure

Firm size as one of the elements that influence CSR disclosure. Sembiring (2005) shows a significant positive affect of firm size on disclosure of CSR. The results of Sudaryanto's (2011) research show that there is a positive effect of CSR disclosure on the company's financial performance which makes investors interested in investing. This is consistent with Falichin's research (2011) which shows that investors are interested in social information reported in financial reports.

H<sub>3</sub>: The size of the company affects the Corporate Social Responsibility Disclosure.

### 2.4. Company Size, Profitability and Corporate Social Responsibility Disclosure

The greater the size of the firm it will have an impact on the higher profitability, because with the large resources, the company can make investments both for current assets and fixed assets and also meet product demand. The size of the company is expected to influence the level of CSR disclosure. According to Sembiring in Wijaya (2012), the greater a company is, the agency costs that arise are also greater. Large companies incline to disclose social information more broadly. The impact of firm size on CSR disclosure is reflected in the agency theory which explains that large firm have large agency costs, this causes large firms to disclose more information than small firms.

H<sub>4</sub>: Company Size Mediates Profitability for Corporate Social

Responsibility Disclosures

data is secondary because the data is received from the IDX.

### 3. DATA AND RESEARCH TECHNIQUE ANALISYS

### Variable Definition and Operationalization

#### Population and Research Samples

This research was organized on companies listed on the IDX with observation periods from 2017 to 2018 totaling 625 companies. The sampling method uses purposive sampling because the selection of firms listed on the IDX at the end of the 2018 observation period.

#### Agency Theory

Agency theory is a principle that is used to explain and resolve issues in the relationship between business principals and their agents. Most commonly, that relationship is the one between shareholders, as principals, and company executives, as agents in Eisenhardt's agency relationship (in Nuswandari, 2009).

No	Criteria	Amount
1	Companies listed on the IDX during the 2017-2018 period.	625
2	Companies that disclose CSR in Sustainability Report during 2017-2018.	38
3	Companies that disclose CSR in Sustainability Report use the 2016 GRI index for the 2017-2018 period.	24
4	Companies that use the rupiah in their financial statements.	21
5	Companies that are not outliers	19
<b>Number of observations</b>		19x2=38

source: processed by researchers, 2019

#### Profitability

Profitability is a ratio that measures a firm's capability to make a gain in relation to total assets, sales and equity. Profitability can be measured using Return On Equity (ROE). ROE is a measure of the ratio between total net income and equity expressed as a percentage.

#### Corporate Social Responsibility Disclosure

Sustainability report means that report loading not only performance information financial, but also non information finance consisting from activity information social and environmental which allow the company can grow in a manner continuous Source: Fauzan (2012). The number of indicators that are registered in GRI which is 84 items Source: Cooke (1989) in Dian (2014)

#### Data Sources and Data Collection Techniques

In this study the secondary data obtained in the form of documentation, namely data published by competent parties (BEI), through the annual report of companies listed on the IDX which are routinely published annually in printed form or data that researchers get from the website [www.idx.co.id](http://www.idx.co.id). According to the author the type of data obtained is quantitative because it is in the form of a company's annual report while the source of the

#### Company Size

Benchmark that shows the size of the firm is the size of the assets of the firm by measuring the total assets

that are transformed in the logarithm to equate with other variables (Hidayat & Yuliah, 2018).

#### 4. RESULT AND DISCUSSION

##### Descriptive Statistics Test Results

*Table 2 : Descriptive Statistics Test Results*

Variabel	Minimum	Maksimum	Mean	Standar Deviasi
Profitability (X)	.00	1.35	.1519	.27539
Company Size (M)	29.21	34.80	32.2668	1.62946
CSR (Y)	.04	.36	.1817	.07343

*Source : Self Proceed*

Table 2 above shows that the amount of data used in this research was 38 taken from the annual Sustainability Reporting of all firms listed on the IDX in the 2017-2018 period.

The ratio of profitability (ROE) data which is calculated based on the number of percentages shows an average value of 1,519, the lowest value of this variable is 0.00%. The companies that have the lowest ROE percentage are PT Salim Ivomas Pratama Tbk (SIMP) companies in the period 2018. Whereas for the highest value (maximum) with a ROE percentage of 1.35% are Unilever Indonesia Tbk (UNVR) companies in the 2017 period. the deviation (standard deviation) on this variable is 0.27539.

Intervening variable here is the size of the company addressing an average yield of 32.2668 and the magnitude of the deviation (standard deviation) of 1.62946. For the lowest (minimum) value of this variable is 29.21. The company with the lowest value is the company (BJBR) Bank

BJB (Development Bank) in the period of 2017. While the highest value on this variable (maximum) is 34.80 which is found in the company (SMGR) Semen Indonesia (Persero) Tbk in the period 2018.

For corporate social responsibility, the average yield is 0.1817 and the amount of deviation is 0.07343. For the lowest value of this variable is 0.04. The company with the lowest value is the company (BBTN) Bank Tabungan Negara (Persero) Tbk in the period of 2017. While the highest value on this variable (maximum) is 0.36 which is found in the company (UNVR) Unilever Indonesia Tbk in the 2017 period.

##### Classical Assumption Test Results

The classic assumption test purposes to test the assumptions that are implied in multiple regression analysis to meet the criteria or not the research conducted.

**Table 3 : Normality Test Results**

	Unstandardized Residual
N	38
Asymp. Sig. (2-tailed)	.200 <sup>c,d</sup>

From the Normality table above, it can be seen that the data analysis is normally distributed, because the

significant value produced is greater than 5% or 0.05.

**Regression Analysis with Intervening Variables**

**Table 4 : Model I Regression Analysis Results**

Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	32.124	.303		105.977	.000
	PROFIT	.941	.974	.159	.966	.340

Dependent Variable: SIZE

The table above is the result of a simple linear regression from model I, Profitability (X) Has a Regression Coefficient of 0.159. This illustrates that if there is an increase in the

amount of profitability, the value of the size of the company will increase by 15.9% with the assumption that other variables are considered constant.

**Table 5 : Model II Regression Analysis Results**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.485	.228		2.130	.040
	PROFIT	.098	.042	.367	2.338	.025
	SIZE	-.010	.007	-.219	-1.393	.172

Dependent Variabel : CSR

The table above is the result of a simple linear regression from Model II, the results shown from this regression analysis mean that profitability (X) has a regression coefficient of 0.367. This said that if there is an increase in the amount of profitability, the value of CSR will increase by 36.7% with the

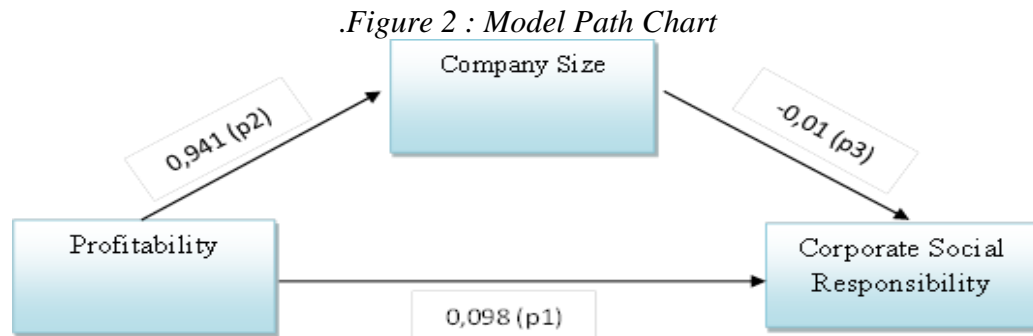
assumption that other variables are considered constant. And for company size variables the regression coefficient is -0.219. This shows that if an increase in company size measures, CSR will decrease by 21.9% assuming other variables are considered constant.

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<http://openjournal.unpam.ac.id/index.php/EAJ>

#### 4.2. Path Analysis

Path analysis is used to test the impact of intervening variables (mediation). Path analysis is an extension of regression analysis to estimate the indirect relationship between one variable through

mediating variables. From the values generated in the two regression models, the following path diagram is obtained:



The path analysis results show that profitability can directly influence corporate social responsibility and can also indirectly influence profitability to company size (as an intervening variable) then to corporate social responsibility. The magnitude of the indirect effect must be calculated by multiplying the indirect coefficient (0.941) x (-0.01) = -0.00941. Or the total effect of professional commitment to auditor job satisfaction = 0.098 + (0.941 x -0.01) = 0,08859.

The effect of mediation is shown by the coefficient (p2 x p3) of -0.00941 significant or not, tested by the sobel test as follows:

$$Sp2P3 = \sqrt{P3^2 SP2^2 + P2^2 SP3^2 + SP2^2 SP3^2}$$

$$Sp2P3 = \sqrt{(-0,01)^2(0,974)^2 + (0,941)^2(0,007)^2 + (0,974)^2(0,007)^2}$$

$$Sp2P3 = \sqrt{(0,0000948676) + (0,000043388569) + (0,000046485124)}$$

$$= 0,0135919569231219$$

Based on the results of Sp2 p3, we can calculate the statistical value of the effect of mediation using the following formula:

$$X = \frac{p2 p3}{Sp2 p3} = \frac{-0,00941}{0,0135919569231219} =$$

$$-0,6923212053440383$$

Therefore the value of t count = -0.6923 smaller than t table = 2.030 with a significance level of 0.05. Then it can be concluded that the mediation coefficient is -0.00941 significant which means there is no mediating effect.

#### Hypothesis testing

##### T Test (Partial)

From table 4 the results of the regression model I can be seen the value of t generated from the profitability variable is 0.966 with a significant value of 0.340 and compared with the t-table of 2030 the t-value of this variable is smaller, so it can be concluded that **profitability has no significant effect on firm size.**

From table 5 the results of multiple linear regression model II can be seen that the t value generated by the profitability variable is 2.333 with a significant value of 0.025.

And when compared to the value of t-count with t-table, the value of t- Calculate profitability is greater than the value of t-table so that it is concluded that **profitability has a significant positive effect on corporate social responsibility disclosure**. Where for the t-table value used here is 2.030.

For the company size variable the t-test value produced is -1,393 with a significant value of 0.172. And compared to the t-table the value of t is smaller so it can be concluded that **the size of the company is negative and not significant to corporate social responsibility**.

#### **Sobel Test**

From the sobel test, the calculated value of 0.6923 is smaller than the t-table of the 0.05 significance level of 2.030, the mediation coefficient is not significant, which means there is no effect of mediation. Thus it was concluded that company size did not mediate the relationship between profitability and CSR disclosure.

### **5. CONCLUSION**

Based on the results of research and discussion, it can be concluded that:

1. Hypothesis test results obtained evidence that profitability has no effect on company size. Companies that obtain maximum profits do not necessarily use their profits to increase their assets.
2. Profitability which is proxied by ROE has a significant effect and has a positive relationship. If the firm has a high level of

profitability, then the firm will have sufficient funds to be allocated to social and environmental activities so that the level of social responsibility disclosure by the company will be high (Fauzi, et al. 2007 in Purwanto, 2011).

3. Hypothesis test results obtained evidence that company size does not impact the level of CSR disclosure. That is because the compliance of companies classified as high profile in carrying out the mandate of law No. 40 of 2007 concerning limited liability companies, where one of the articles requires companies to disclose social responsibility activities in annual reports even though the CSR items disclosed by the company constitute information that is still voluntary. With the issuance of these rules, both small and large companies must make CSR disclosures in their annual reports.

The implementation of CSR programs apparently does not depend on the size of the company. But it depends more on how the company's perspective on CSR, whether this is considered as important or not. This perspective will further influence the CSR practices carried out by the company and will also have an impact on the CSR disclosures that it compiles. (Pambudi 2006 in Yuliana et al., 2008).

4. From the Sobel test conducted, the effect of mediation produced is insignificant which means there is no mediating effect. This



shows the size of the company does not mediate the relationship of profitability with CSR

Disclosure. Thus the fourth hypothesis is rejected.

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