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The Role of Profitability and Leverage on Corporate Social Responsibility Disclosure in Mining Company Indonesia

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Abstract: *Today, companies are required to compete, in order to maintain their business. Companies are required to have a professional management structure in order to continue to survive and develop in this digital era. In the business world, companies are considered to only aim to get the maximum profit, even though companies need to pay attention to the impacts arising from their business activities, because the development of the business world focuses on the company's environment. The company is expected not only to prioritize the interests of management and owners of capital but also employees, consumers, society and the environment. This study aims to analyze the influence of profitability and leverage on CSR disclosure at mining companies in Indonesia. Profitability in this study is proxied by ROA (Return On Assets), Leverage is proxied by DER (Debt to Equity Ratio) and CSR Disclosure is proxied by GRI 4.0 index measurement. The target population in this study were 63 mining companies listed on the IDX for the 2022 period. However, for the research sample, only 51 companies passed the criteria, namely issuing annual reports and sustainability reports in this period. The results of the study show that profitability and leverage affect CSR disclosure in mining companies in Indonesia.*

Keywords: *Profitability, Leverage, CSR Disclosure*

INTRODUCTION

Today, companies are required to compete, in order to maintain their business. Companies are required to have a professional management structure in order to continue to survive and develop in this digital era. In the business world, companies are considered to only aim to get the maximum profit, even though companies need to pay attention to the impacts that arise as a result of their business activities, because the development of the business world

focuses attention on the company's environment. The company is expected not only to prioritize the interests of management and owners of capital but also employees, consumers, society and the environment (Armahdi, 2019).

The company discloses corporate social responsibility referring to Law no. 40 of 2007 which came into force on August 16, 2007. This law requires companies that carry out business activities in fields related to natural resources to carry out social and environmental responsibility (Makhfudloh et al., 2018).

After the issuance of this law, many limited liability companies in Indonesia have started disclosing their social responsibility activities in annual reports (sustainability reports). Corporate social responsibility is an important aspect of the company to carry out its responsibilities towards the environment and society. Corporate social responsibility is an idea that makes companies no longer faced with responsibilities that focus on a single bottom line, namely corporate value, but corporate responsibility must also focus on triple bottom lines, namely prioritizing social and environmental issues. Not as an entity that is selfish but an entity that is obliged to adapt culturally to its social environment based on the principle of cooperation (Makhfudloh et al., 2018).

In Indonesia, more and more companies are implementing corporate social responsibility (CSR). However, the practice of corporate social responsibility has received considerable attention. This practice is mainly about the increasingly severe environmental damage that is happening in Indonesia, ranging from air pollution, deforestation, water to climate change. Several phenomena are still related because companies in carrying out their operations pay little attention to the conditions and the surrounding environment, especially companies whose activities are related to natural resources.

Recent research states that companies in Indonesia have a lower quality of social responsibility or corporate social responsibility (CSR) compared to companies from Thailand. Research by the Center for Governance, Institutions, and Organizations National University of Singapore (NUS) Business School explained that companies' low understanding of CSR practices has resulted in low quality of operation of the agenda. The research conducted a study of 100 companies in four countries, namely Indonesia, Malaysia, Singapore and Thailand. Director of the CGIO National University of Singapore Business School Lawrence Loh said the four sample countries had a high level of CSR reporting, but this did not automatically result in a high quality of practice. Various companies in Indonesia, Malaysia, Singapore and Thailand pay attention to the importance of CSR reporting. Then according to Harison, the distribution of CSR funds in West Kalimantan has actually been regulated according to Regional Regulation (Perda) Number 4 of 2016 concerning Management of Corporate Social Responsibility (CSR) in West Kalimantan Province. However, from the data available in 2021, for example, out of a total of 975 companies, only 222 companies reported the use of CSR and Corporate Community Development (TSBLP) funds. While the remaining 753 companies have not reported. Furthermore, the Governor of East Kalimantan (Kaltim), Isran Noor, said that many companies in East Kalimantan did not announce or report the allocation of corporate social responsibility (CSR) funds. In fact, according to him, the management of CSR funds should be carried out transparently and reported to the local government. The Governor of East Kalimantan (Kaltim), Isran Noor, said that many companies in East Kalimantan did not announce or report the allocation of corporate social responsibility (CSR) funds. In fact, according to him, the management of CSR funds should be carried out transparently and reported to the local government.

The Nickel Company in Pagimana District, which exploited the bowels of the earth in Siuna Village, was neglectful of its responsibility to the community. As with social responsibility (Corporate Social Responsibility), as many as 3 Nickel companies, their CSR programs have never been known. The Ministry of Energy and Mineral Resources (ESDM) also issued a similar sentiment, imposing sanctions on seven coal mining companies in Jambi Province for not wanting to pay Corporate Social Responsibility (CSR) funds. The Regional Secretary (Sekda) of Jambi Province, Sudirman, said Friday that out of 41 coal mining companies in Jambi, they were penalized for not providing CSR funds to repair national roads damaged by coal transportation in Jambi. The seven coal mining companies are PT Kirana Graha Buana, PT Terminalindo Idaman Permal, PT Tamarona Mas Internasional, PT Marga Perkasa, PT Anugerah Alam Andalas Andalan, PT Bumi Borneo Inti, and PT Kasongan Mining Mills. The coal transportation of the seven companies, he said, may not operate until a certain time.

The next phenomenon, the corporate social responsibility fund of PT Kaltim Prima Coal (KPC) was criticized. In an online dialogue discussing the distribution of East Kalimantan's CSR to IKN, Monday, May 23 2022, the Governor of East Kalimantan Isran Noor said that the CSR from a coal company in East Kutai was relatively small. So far, KPC has only disbursed CSR funds of USD 5 million or Rp 73 billion. Even that was carried out by themselves, the report is not clear either. This is straightforward, said Governor Isran quoted from mediakaltim.com, kaltimkece.id group. According to Isran Noor, KPC's social responsibility funds for East Kalimantan should have reached USD 20 million or Rp 292 billion per year. This figure is obtained from looking at the annual tax paid by KPC.

In practice, there are several factors that influence corporate social responsibility. Profitability is the company's ability to earn profits from the company itself. The relationship between profitability and disclosure of social responsibility is when a company has high profitability, the higher the company's efficiency in utilizing company facilities (Ardian and Rahardja, 2013). The company's liquidity shows the company's ability to maintain operational activities. Liquidity can be said to reflect the welfare of the company where the company can quickly fulfill obligations from current assets or short-term business capabilities. Companies that have a high level of liquidity will make social disclosures faster than companies that have low liquidity. This is based on the financial expectation that strong companies will disclose more information than weak companies. Leverage is one of the company's efforts in measuring the company's performance in measuring its long-term liabilities. Companies that have a high level of leverage indicate that the company relies heavily on external loans to finance its assets, while companies that have a low level of leverage are more likely to finance their assets with their own capital.

This research looks at the extent to which mining companies disclose corporate social responsibility, which refers to Law Number 40 of 2007 concerning Limited Liability Companies, article 74 paragraph (1) reads: "companies that carry out their business activities in the field and/or related to natural resources are obliged to carry out Social and Environmental Responsibility".

Following are the Profitability conditions of mining companies listed on the IDX in 2022:

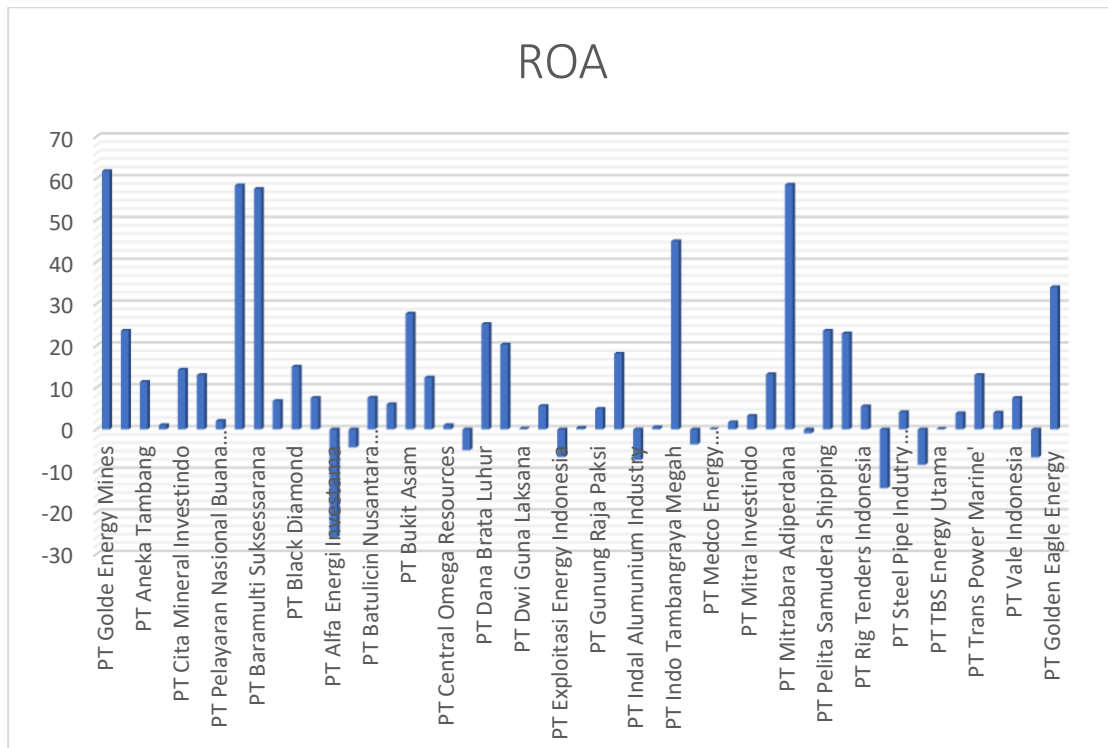


Figure 1. Mining Company Profitability Period 2022

Based on the picture above, it can be seen that the average mining company's profit-to-asset return rate in 2022 fluctuated very sharply, moreover there were several companies whose profitability ratios were negative.

Then, the following is the leverage condition of mining companies listed on the IDX in 2022:

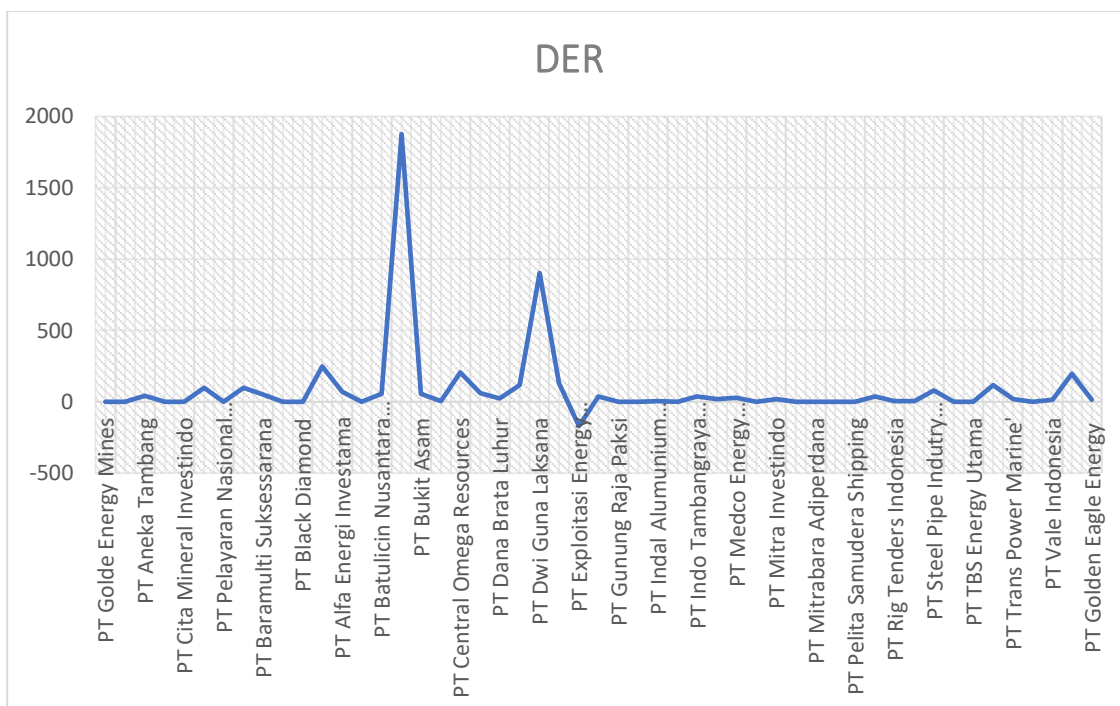


Figure 2. Mining Company Leverage Period 2022

Based on the picture above, it can be seen that the average mining company's ratio of total liabilities to equity in 2022 fluctuates very sharply, moreover there are several companies with a negative leverage ratio.

Then, the following is the CSR Disclosure condition of mining companies listed on the IDX in 2022:

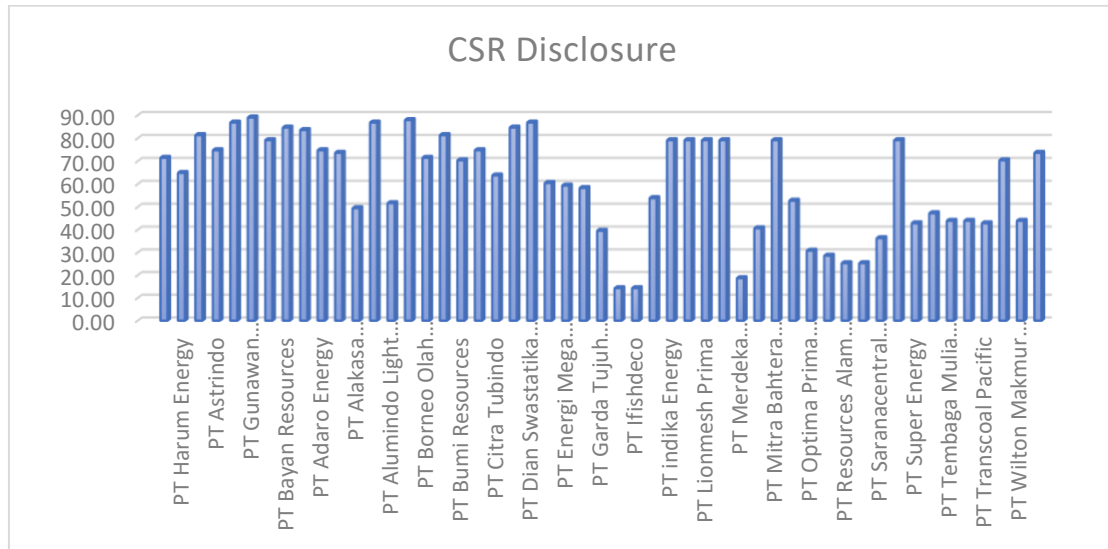


Figure 3. Mining Company CSR Disclosure Period 2022

Based on the picture above, it can be seen that the CSR disclosure of mining companies for the 2022 period is still fluctuating. This shows the level of sustainability of mining companies as seen from their contribution to the environment is still relatively low.

Researchers formulate problems in research as follows:

1. What influence profitability on CSR Disclosure.
2. What influence leverage on CSR Disclosure.

METHOD

In this study, using primary data. For the context of this study, primary data was obtained and collected by researchers through a list of questions compiled through questionnaires addressed to respondents, with the aim of obtaining facts and factual information from respondents. The population in this study were all mining company who listed in Indonesia Stock Exchange are 63 companies.

The sample used in this study uses a non-probability sampling technique with an explanation of the following criteria:

1. Mining companies listed on the Indonesia Stock Exchange in 2022
2. Mining companies that publish annual reports and sustainability reports in 2022

Based on the above criteria, it can be concluded that the sample in this study were 51 mining companies. This study was analyzed using a multiple linear regression approach.

RESULTS AND DISCUSSION

This study looks at the effect of profitability (ROA) and leverage (DER) on CSR Disclosure (GRI) of Mining Companies Listed on the IDX in 2022. The following is a statistical description:

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
ROA	51	-26	62	11.19	18.671	348.604
Leverage	51	-170	1875	94.30	290.838	84587.003
CSR	51	14	89	61.07	21.808	475.609
Valid N (listwise)	51					

Based on the table above, there is a description as follows:

1. For the variable Profitability (ROA), the minimum value is -26, the maximum value is 62, the average value is 11.29, the standard deviation value is 18,671 and the variance value is 348,604
2. For the Leverage variable (DER), the minimum value is -170, the maximum value is 1875, the average value is 94.30, the standard deviation value is 290,838 and the variance value is 84587.003
3. For the CSR Disclosure variable, the minimum value is 14, the maximum value is 89, the average value is 61.07, the standard deviation value is 21,808 and the variance value is 475,609

Then, before being analyzed using a multiple linear regression approach, the research must go through the classic assumption test as follows:

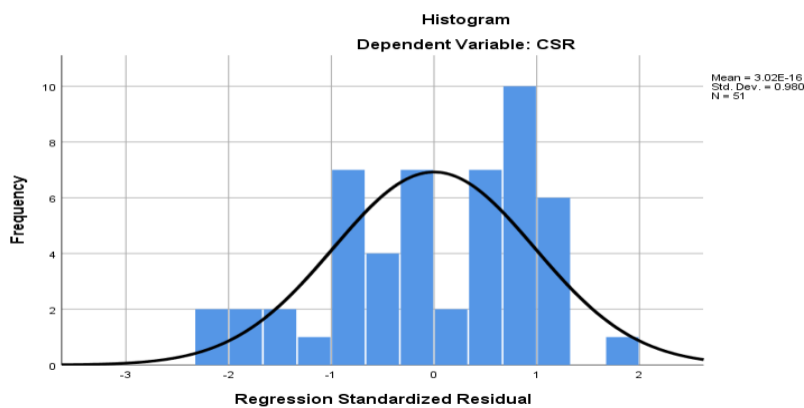


Figure 4. Normality test

Based on the picture above, it can be seen that this study has a normal distribution, so it is feasible to proceed with another assumption test, namely heteroscedasticity.

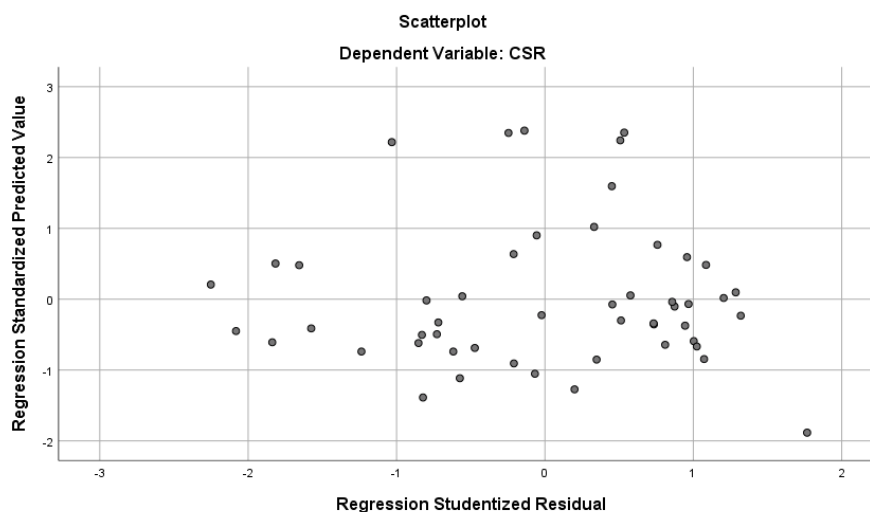


Figure 5. Heteroscedasticity Test

Based on the picture above, it can be seen that the data spread in various directions, so that this study passed the heteroscedasticity test and was feasible to continue in multiple linear regression analysis.

Multiple Linear Regression Analysis

In this study, there were 2 independent variables (profitability and leverage) and 1 dependent variable (CSR Disclosure), following the results of multiple linear regression calculations using the SPSS version 26.0 application:

Table 2. Coefficients^a

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	57.246	3.690		15.512	.000
	ROA	.274	.335	.834	3.674	.001
	Leverage	.338	.410	.407	3.767	.007

Based on the table above, the regression equation in this study is as follows:

$$Y = 57.246 + 0.834ROA + 0.407DER + e$$

The results of the study show that profitability proxied by ROA has a partial effect on CSR disclosure in mining companies listed on the IDX in 2022, and leverage proxied by DER has an effect on CSR disclosure in mining companies listed on the IDX in 2022, with the following explanation:

1. If Profitability (X1) increases by 1 unit assuming other variables do not change, then CSR disclosure (Y) will increase by 0.834 units
2. If Leverage (X2) increases by 1 unit assuming other variables do not change, CSR disclosure (Y) will increase by 0.407 units

Table 4. ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	511.719	2	55.859	11.629	.007 ^b
	Residual	268.713	48	63.932		
	Total	780.431	50			

a. Dependent Variable: CSR

b. Predictors: (Constant), Leverage, ROA

Based on the table above, it can be seen that the f-count is 11.629, the value is greater than the f-table 3.29. This shows that profitability and leverage have a joint effect on CSR disclosure in mining companies listed on the IDX in 2022.

Table 5. Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.852 ^a	.726	.625	21.539	.726	11.629	2

Based on the table above, it can be seen that the coefficient of determination in this study is 0.726, which means that profitability and leverage affect CSR disclosure by 72.6%, of which 27.4% is the influence of other variables not examined in this study.

Discussion

Referring to the results of the research above, the following is the discussion in this study:

1. Profitability has a positive and significant effect on CSR disclosure, which this research supports (Afifah, 2018; Irawan, 2021; Maiyarni et al., 2014; Meze, 2020; Nur & Priantinah, 2012; Romadhona & Wibowo, 2020; Yuanita & Muslih, 2019) that profitability can increase a company's desire to disclose CSR carried out in a sustainability report.
2. Leverage has a positive and significant effect on CSR disclosure, which this research supports (Badjuri, 2011; Cahyono & Yuniasih, 2021; Gledis Yovana & Kadir, 2020; Indira Shinta Dewi & Dita Nur Khafi, 2018; Makhfudloh et al., 2018; Marulitua, AK., MBA., CPA., CA., 2021; Purnasiwi & Sudarno, 2011; Viriany, 2019; Yassmien & Muslih, 2020) that good leverage can increase a company's desire to disclose CSR carried out in a sustainability report.

CONCLUSION

Based on the results of the above research, it can be concluded:

1. Profitability (ROA) has a positive and significant effect on CSR disclosure in mining companies listed on the IDX in 2022
2. Leverage (DER) has a positive and significant effect on CSR disclosure in mining companies listed on the IDX in 2022
3. Profitability (ROA) and Leverage (DER) have a jointly positive and significant effect on CSR disclosure in mining companies listed on the IDX in 2022

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