

EFFECT OF FIRM SIZE AND PROFITABILITY TOWARD SOCIAL DISCLOSURE

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ABSTRACT

The purpose of this study is to determine whether firm size and profitability affect social disclosure. The population of this study is LQ45 companies listed on the Indonesia Stock Exchange. The research sample is LQ 45 companies that remain in the LQ 45 company category for the listing period, namely: the period August 2020 – January 2021, the period February 2021 – July 2021 and the period August 2021 – January 2022. The analysis tool used is SEM-PLS (Structural Equation Modeling based on Partial Least Square). The test results show that firm size has a positive and significant effect on social disclosure. However, profitability has a negative and significant effect on social disclosure.

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1. INTRODUCTION

Social responsibility or what is commonly referred to as Corporate Social Responsibility (CSR) comes from the real form of implementing corporate responsibility to society. Responsibility towards the company must be carried out jointly and in a balanced manner in the fields of economics, law and social responsibility. CSR is also an obligation to follow the policies that have been made to carry out the desired actions objectively. CSR is also a commitment to operate legally and contribute to improving the quality of life and partnership responsibility from the company to the community [1]. According Sembiring, CSR in a company is defined as the availability of information provided in financial and non-financial forms relating to organizational interactions, both environmental and social, as outlined in the company's annual report [2]. The meaning of CSR is not only about survival, nature but for the welfare of workers, society and other communities as well. According Reni & Anggraini conveyed that CSR is needed to pay attention to the surrounding environmental conditions where the company carries out its operations with the hope of making the surrounding community prosperous [3].

With increasing public awareness, it is supported by the company's operational activities which indirectly change the company's point of view, currently CSR is not seen as based on costs that can reduce profits, but as an investment in improving the company's good image in society so that it can increase long-term profits and maintain going company concerns. To be able to obtain this, shareholders must know the realization of corporate responsibility through CSR disclosure.

CSR is carried out as a form of corporate responsibility to society (social) and the environment. As a form of encouragement to companies in carrying out social responsibility, the government passed Law no. 40 of 2007 concerning limited liability companies (PT) which states that every company must carry out and disclose social and environmental responsibilities contained in Chapter V Article 74 and Article 66 paragraph (2) part C. The passing of this Law also shows that the government as one of the parties with an interest in the company to be involved in the interests of society.

The things mentioned above are done because of an increase in global warming and a changing climate, forcing the government and the private sector to make regulations related to these problems. Efforts to increase awareness of reducing global warming must be carried out by the wider community and related parties [4]. Several environmental damage incidents occurred such as river pollution, floods, landslides, pollution due to untreated waste, forest fires, and others. [5]. This will result in disruption of community activities and company operations.

Several previous studies related to the disclosure of social responsibility conveyed in social disclosure have been carried out. Putri's research results show that company size has a positive effect on disclosure of corporate social responsibility [6]. Then Tampubolon & Siregar stated that firm size is allegedly a variable that is widely used to explain variations in disclosures in the company's annual financial statements. [7]. In addition, research conducted by Purwanto states that firm size affects social

disclosure [8]. These results differ from research conducted by Oktariani & Mimba which states that company size has no effect on social disclosure [9]. Firm size can affect the extent of disclosure of information in financial statements, in general companies with large resources will disclose more information than companies with few resources. This is due to the large conflict of interest between the owners and management of the company in managing the resources they own [10].

The results of another study on CSR conducted by Putri stated that profitability, liquidity and leverage had no effect on CSR [11]. Meanwhile, the results of Purwanto's research show that the type of industry and company size have an effect on social disclosure, profitability has no effect on social disclosure [8]. Sari's research also states that company profitability has a positive influence on CSR [12]. While the results of research by Hitipeuw & Kuntari state that profitability has no influence on social responsibility [13].

One of the information that needs to be disclosed for the sustainability of the company is information about corporate social responsibility which can be referred to as social disclosure. This study selects companies listed on LQ 45. The Indonesia Stock Exchange is an emerging market, which has the characteristics of a thin market, where most of the shares are not actively traded (sleeping shares). However

LQ45 shares are because the Indonesia Stock Exchange is an emerging market. One of its characteristics is a thin market, where most of the stocks are not actively traded (sleeping stocks). LQ45 is one of the active stocks so that it can continuously experience price changes. LQ45 shares are stocks that are safe to invest in because the performance of these stocks is good, so that from a risk perspective the LQ45 stock group has the lowest risk compared to other stocks listed on the IDX. LQ45 shares will also be monitored every six months and of course the surviving shares are stocks that meet the criteria.

Based on the background above, this study aims to analyze the factors that are thought to influence social disclosure, namely firm size and profitability. And it is hoped that it can be used as an additional reference for further research. In addition, it is hoped that the results of this study can provide an overview of LQ 45 corporate social disclosure.

2. METHOD

This research uses explanatory research. Explanatory research is a research method that aims to explain the position of variables and the influence between one variable and [14]. The purpose of this study is to determine the effect of firm size, profitability, on social disclosure. The population of this study is LQ 45 companies listed on the Indonesia Stock Exchange. The sample for this research is LQ 45 companies which remain in the LQ 45 company category for the listing period, namely: August 2020 – January 2021 period, February 2021 – July 2021 period and August 2021 – January 2022 period. The sampling method is a purposive sampling method, which is based on specified criteria. These criteria are:

1. A company listed on the Indonesia Stock Exchange that has published its complete annual report.
2. The company informs the implementation of social activities and environmental awareness.
3. LQ 45 companies that remain at LQ 45 during the observation period and have complete data related to research variables that can be analyzed further.

The research data is secondary data sourced from www.ojk.go.id and esgi.dataset. In this study, the data analysis technique used was SEM-PLS (Structural Equation Modeling based on Partial Least Square) with the SmartPLS 3.3 application; SEM-PLS is used to achieve research objectives [15].

3. RESULT AND DISCUSSION

Descriptive Statistical Test Results

Table 1. Descriptive Statistical Test

Variable	N	Min	Max	Mean	Standard Deviation
<i>Firm Size</i>		30,179	34,952	32,020	1,310
<i>Profitability</i>	54	0,002	1,451	0,149	0,275
<i>Social Disclosure</i>		0,214	1,000	0,600	0,212

The firm size variable has a minimum value of 30.179 and a maximum value of 34.952. Meanwhile, the mean value is greater than the standard deviation, which indicates that firm size does not contain data deviations. The profitability variable has a minimum value of 0.002 and a maximum value of 1.451. Meanwhile, the standard deviation value for profitability is 0.275. In addition, the social disclosure variable has a minimum value of 0.214 and a maximum value of 1.000. Meanwhile, the mean value is

greater than the standard deviation, which indicates that social disclosure does not contain data deviations.

Measurement Model Results (Outer Model)

Testing the measurement model (outer model) determines how to measure latent variables. Outer model testing, by testing internal convergent validity (outer loadings and average variance extracted), consistency reliability (Cronbach alpha and composite reliability), and discriminant validity (Fornell-Larcker, Cross Loading, and HTMT).

Convergent Validity

Table 2. Convergent Validity

	Firm Size	Profitability	Social Disclosure
<i>Firm Size</i>	1,000		
<i>Profitability</i>		1,000	
<i>Social Disclosure</i>			1,000
<i>Average Variance Extracted</i>	1,000	1,000	1,000

Based on table 2 above, the value of the outer loadings for each variable is more than 0.70. Meanwhile, the value of the average variance extracted for each variable has a value greater than 0.50. Therefore, each variable has a good convergent validity value, thus the convergent validity requirements have been met.

Discriminant Validity and Consistency Reliability

Table 3. Discriminant Validity dan Consistency Reliability

	Firm Size	Profitability	Social Disclosure
<i>Firm Size</i>	1,000	-0,461	0,960
<i>Profitability</i>	-0,461	1,000	-0,577
<i>Social Disclosure</i>	0,960	-0,577	1,000
<i>Cronbach's Alpha</i>	1,000	1,000	1,000
<i>Composite Reliability</i>	1,000	1,000	1,000

Based on table 3 above, each variable with its indicator has a higher cross loading value than the other variables. This means that the latent construct can be predicted better by each of its indicators compared to indicators from other constructs. Based on the composite reliability and Cronbachs alpha values above, it shows a value greater than 0.70, which is 1.000. It can be concluded that each latent construct has good reliability, so that it meets the requirements of the consistency reliability test.

Structural Model Test Results (Inner Model)

Inner model testing consists of the coefficient of determination (R2) and hypothesis testing to determine the path coefficient (relationship direction) and the P value.

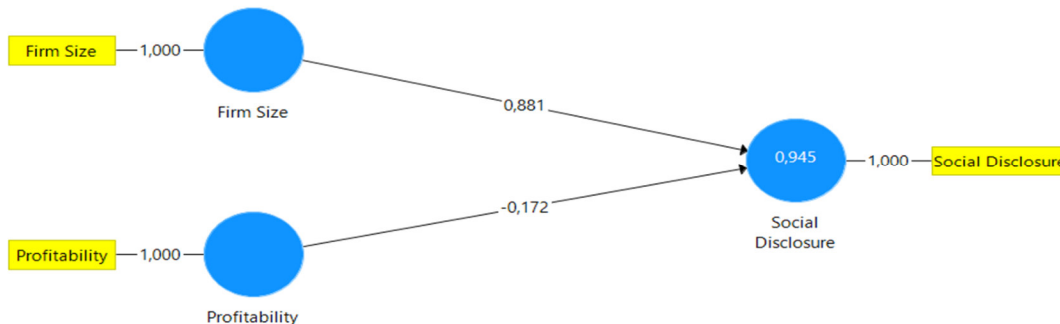


Figure 1. Structural Model Test (Inner Model)

Koefisien Determinasi (R²)

Table 4. Koefisien Determinasi (R²)

	R-Square	R Square Adjusted
<i>Social Disclosure</i>	0,945	0.943

Based on table 4 above, the social disclosure variable has an R-Square value of 0.945 and an Adjusted R-Square value of 0.943. These results explain that the social disclosure variable can be explained by firm size and profitability variables of 0.945 or 94.5% while 5.5% is explained by other variables.

Hypothesis Test Results

Table 5. Hypothesis Test Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values	Information
<i>Firm Size → Social Disclosure</i>	0,881	0,853	0,088	10,003	0,000	Positive and Significant
<i>Profitability → Social Disclosure</i>	-0,172	-0,195	0,084	2,044	0,041	Negative and Significant

The firm size variable has an original sample value of 0.881, which shows a positive direction. Meanwhile, the p value of 0.000 complies with the requirements, namely $p < 0.050$ and the t-statistics value of 10.003 can be said to meet the requirements, namely the t-statistic value > 1.96 . It can be concluded that firm size has a positive and significant influence on social disclosure.

The profitability variable has an original sample value of -0.172, which shows a negative direction. Meanwhile, the p value of 0.041 complies with the requirements, namely $p < 0.050$ and the t-statistics value of 2.044 can be said to meet the requirements, namely the t-statistic value > 1.96 . It can be concluded that profitability has a negative and significant effect on social disclosure.

4. CONCLUSION

Based on the results of the analysis of the 54 financial report data and annual reports mentioned above, it can be seen that the firm size variable has a positive and significant effect on social disclosure. This proves that large companies in disclosing CSR tend to be wider. Big companies are always in the public spotlight, so this can reduce political costs as a form of social responsibility. Large companies tend to have greater initiatives to carry out CSR disclosures than small companies. However, profitability has a negative and significant effect on social disclosure. This can be interpreted that the size of the company implies that the larger the company will make broader social disclosures. It can also be concluded that companies that generate large or small profits can still allocate CSR costs properly because CSR reporting itself is mandatory. When a company has a high profit rate, the company (management) considers it necessary to do things that can inform the company's financial success. Conversely, when the level of profitability is low, they hope that report users will read the company's performance when carrying out environmental social activities carried out by the company.

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