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What drives the disclosure of corporate philanthropy? An Indonesian context

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ABSTRACT

Corporate philanthropy activities have become an important factor for corporate management. Drawing on this issue, this research intends to disclose the effect of profitability, firm size, and audit committee on corporate philanthropy (CSR donations) in manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2020. The population in this study were manufacturing companies listed on the Indonesian stock exchange. The sample included 352 data sets from 174 companies. Secondary data utilized in this study were derived from the www.idx.co.id. Multiple linear regression for data analysis employed SPSS. This study uncovers that profitability and firm size have a positive effect on corporate philanthropy, while the audit committee has no significant effect on corporate philanthropy. This study provides implications for corporate management that increasing profitability will increase corporate philanthropy.

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INTRODUCTION

Because business development is expanding by the day, companies must reconsider focusing solely on high profits. To reach a goal, a company must obtain power not just from internal forces, but also from the community and the surrounding environment (Xu et al., 2022). Companies are encouraged to take more proactive steps that benefit the community and the environment (Liu et al., 2019; Hao et al., 2020). A company's rapid development is indicated by the arrival of competitors with competitiveness. In today's competitive business world, companies must cultivate a good public image since the environment and the surrounding community takes a considerable part in business development (Cha & Abebe, 2016; Gardberg et al., 2019; Kim & Yoo, 2022). To maintain a positive corporate image, the company must preserve the external environment from undesirable consequences

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such as environmental damage and pollution (Ang et al., 2022; Yuan & Cao, 2022). This is because the company's responsibility extends beyond investors and creditors to consumers, the community, and employees (Wu et al., 2020). It is envisaged that the company would be able to balance its operational activities with a concern for community welfare and environmental sustainability. The implementation of Corporate Social Responsibility (CSR) is one of the strategies for companies to improve their image or company value. CSR is a company's commitment to supporting sustainable economic development by addressing social, economic, and environmental issues (Hickman et al., 2021). In CSR operations, the company is responsible for repairing environmental damage and disparities caused by business activities (Sholekah & Venusita, 2014). CSR is supposed to make a positive contribution to the company's values and image from the perspective of business owners, shareholders, and the surrounding community. CSR is believed to not only enhance the company's image but also boost profitability and promote public trust in the company.

CSR development is linked to increasing major environmental degradation around the world, notably in Indonesia, ranging from air and water pollution to climate change and deforestation (Sari, 2014). Article 66 (2) C of Law No. 40 of 2007 concerning Limited Liability Company has regulated the disclosure of CSR on the financial statements of a company which stipulates that in addition to financial reporting, companies must report on the implementation of environmental and social responsibility. Article 74 (1) reads that "companies doing business in the field of and/or in relation to natural resources must put into practice Environmental and Social Responsibility". Even though there is a legal basis requiring the execution of CSR, there are still many cases in Indonesia when companies violate their social responsibilities. One of them is the manufacturing company, which is Indonesia's largest sector company because it has multiple examples of incidents and major concerns related to CSR. One of them occurred in 2019, the great smog that hit several areas in Indonesia. This disrupts community activity, causing some people to endure Acute Respiratory Infections (ARI). This is believed to be caused by smoke from land and forest fires that occurred in various regions in Indonesia. It is believed that some companies have participated in the incident; some of which are PT. Palmindo Gemilang, PT. Kapuas Sawit Sejahtera, and PT. Gawi Bahandep Sawit Mekar that have been designated as trigger for forest and land fires (Wibowo, 2019)

There are cases with positive images as well as cases with negative images, one of which is PT. HM Sampoerna. PT. HM Sampoerna has collaborated with the Bhakti Asdiraa Foundation in organizing an MSME empowerment program in the Pulogebang Flats in Jakarta. The event drew 250 people, including residents of the flats as well as locals of Paseurjaya Village and Sukaluyu Village in Telukjambe, Karawang, West Java. The majority of those attending this event are housewives who are starting or have started a business. In this program, PT. HM Sampoerna provides product innovation and marketing skills and instills participants' confidence to start a business. They were taught how to obtain and generate business ideas based on human wants and needs, how to analyze market segmentation, how to produce products and services, how to package products, estimate budgets, sell products on social networks, and other skills. This program is a manifestation of Sampoerna's commitment to assisting people's economy following government goals. Not only Sampoerna, PT. Pupuk Indonesia (Persero) and its subsidiaries were active in helping the community during the Covid-19 pandemic with CSR programs. From March to June 2020, the company announced it distributed CSR worth Rp 52.78 billion for COVID-19 prevention. Pupuk Group's support has also been passed on to medical personnel such as PPE, medical equipment like medical masks and medical gloves, as well as face coverings and food. Pupuk Group has also provided support for the ATM Pertanian (Agriculture ATM) Sikomandan program initiated by the Ministry of Agriculture and distributed by the army. The existence of ATM Pertanian in ten TNI AD Kodim aims assist communities affected by COVID-19 to meet basic needs such as rice.

One form of corporate social responsibility is a donation (Muttakin et al., 2022). Donation is a social responsibility of a company (Tat et al., 2021). Donations made as part of CSR are referred to as corporate philanthropy, which is a crucial factor in how companies fulfill their social responsibilities (Cha & Abebe, 2016). Corporate Philanthropy includes various types of actions taken by companies for their charitable and social activities including health care, education, culture and the arts, the environment, humanitarian, and disaster relief, as well as improving people's lifestyles (Modak et al., 2019). Corporate philanthropy also has an economic impact, which is reflected in the company's financial performance (Pan et al., 2018). There is a dearth of studies on corporate philanthropy, with most of them focusing solely on CSR reporting. This research should be investigated further in order to determine how much the nominal donation has been reported by the company as social responsibility. Donations made by a company become a strategic issue since the company promotes itself as a socially responsible enterprise (Gardberg et al., 2019). Donations also attempt to relieve difficulties caused by company activity or natural disasters, which the company must consider as part of its social responsibility. High attention to environmental and community aspects reflects good things to potential customers, thus increasing the loyalty of a consumer.

This study identifies several determinants that affect CSR donations, which are profitability, firm size, and audit committee. However, past studies yielded mixed results and inconsistent research results. Astuti (2019) stated that profitability has a positive effect on corporate social responsibility. High profitability provides more opportunities for the disclosure and management of corporate social responsibility. When a company earns high profits, it will be easy to allocate its social responsibility disclosures. However, Anisah (2018) proffers that profitability has no effect on corporate social responsibility.

A study conducted by Astuti (2019) shows that firm size has a significant effect on the disclosure of social responsibility. A large company is usually a public concern, thus to maintain a good image, they do their social responsibilities better (Pratiwi & Ismawati, 2019). This effort aims to foster positive relationships with stakeholders so that the organization can obtain greater trust in its performance and quality (Journeault et al., 2021). On the contrary, a study conducted by Ayu Indriyani and Sudaryati (2020) gives the opposite result, in which the firm size has no significant effect on the disclosure of social responsibility.

In addition, a study carried out by Putra and Rivandi (2019) explained that the audit committee had a positive and significant impact on CSR disclosure. The audit committee's establishment is hoped to support the performance of the board of commissioners in disclosing corporate social responsibility reports (Liu & Lee, 2019). This demonstrates that there is an audit committee with a sufficient number of members following regulations, which will boost a company’s CSR disclosure. However, the research conducted by Anisah (2018) describes the opposite result that the audit committee has a significant negative effect on CSR disclosure.

Previous research on corporate social responsibility yielded inconclusive findings. Researchers are compelled to repeat the past study in order to determine whether the condition is consistent or not. The study involves three independent variables of profitability, firm size, and the audit committee. The three independent variables were chosen because earlier studies on these three variables affected corporate social responsibility yielded mixed results. Manufacturing companies that have been listed on the Indonesia Stock Exchange were chosen because their operational activities are related to the exploitation of natural resources and have an impact on environmental damage in the area surrounding the company's environment. Several cases related to CSR have involved manufacturing companies. This shows that manufacturing companies have a significant role in ongoing environmental and social issues. Manufacturing companies have high profiles as well, as they are very sensitive to politics, the environment, and competition among manufacturing companies. This can cause environmental and social damage to the company. The company is expected to disclose liability statements other than financial statements. This study is expected to contribute to the field by examining the effects of profitability, firm size, and audit committee on corporate philanthropy.

Hypotheses Development

Profitability and Corporate Philanthropy

Profitability refers to the company's ability to earn profits related to sales, total assets, or equity capital (Purbawangsa et al., 2019). Corporate profitability, by allowing management to be free and flexible, passes social responsibility to shareholders. To continue to grow, a company needs to increase profitability. Increasing profits enhance the motivation to disclose financial information about the company. The greater a company's success, the more likely it is to make socially responsible contributions and disclose more social information. As a result, the higher the profitability value, the greater the company's level of philanthropy. A previous study conducted by Astuti (2019) concluded that profitability has a positive effect on corporate social responsibility. Companies with great profitability will satisfy their social responsibilities to the people that interact with the company directly. The researcher formulates the following hypothesis:

H_1: Profitability affects corporate philanthropy

Firm Size and Corporate Philanthropy

Firm size is shown by total sales, total assets, tax expense, total profit, and others (Chodorow-Reich et al., 2022; Gonçalves et al., 2022; Gregory, 2022). Larger corporations will draw public attention to their performance to project a positive image and better fulfill their corporate social responsibility (Pratiwi & Ismawati, 2019). Huge companies cannot escape the pressure of fulfilling their social responsibilities. They have more resources to hold people accountable by making donations in their activities to promote the company's image. Several previous studies have consistently reported this problem, such as Astuti (2019) who states that the firm company has a positive effect on its corporate social responsibility. The bigger the size of the company, the more pressure, and spotlight the company gets from the public and the government. Therefore, the company will increasingly show its concern for the surrounding community. Based on the explanation, a hypothesis is formulated:

H_2: Firm size affects corporate philanthropy.

Audit Committee and Corporate Philanthropy

The audit committee oversees the company's performance, including social performance, on behalf of the board of commissioners (Pozzoli et al., 2022). The supervision of social activities is intended to accommodate the interests of all stakeholders. If the number of audit committee members is sufficient to analyze areas of corporate performance, supervision performance can improve. If a firm has an audit committee, the quality of social responsibility information disclosure can be enhanced, and company profits can also be increased if the quality of social responsibility information disclosure is improved. This shows that the bigger the number of audit committees, the better the quality of corporate social responsibility, and the higher the corporate social responsibility, the more profits. The company expanded the supervision of social activities by adding an audit committee (Thasya et al., 2020). An audit committee can be valuable to the board of commissioners, which oversees the company's performance both internally and externally. The more audit committees a company has, the more the corporate social contribution will be. This finding is in line with previous research (Anisah, 2018) that the proportion of audit committees affects social and environmental disclosure. Thus, a hypothesis was formulated:

H_3: The audit committee affects corporate philanthropy

METHOD

The population of this quantitative study is manufacturing companies listed on the Indonesia Stock Exchange based on the IDX-IC (IDX Industrial Classification) sector of raw goods, industry, primary consumer goods, and non-primary consumer goods. The variables of this study were explained in Table 1. The sample was selected by purposive sampling by considering several criteria of (1) manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2020 based on the IDX-IC classification, (2) the annual report or sustainability report is available for download at its official website as well as the website of the Indonesia Stock Exchange (IDX) from 2018 to 2020, and (3) the company has disclosed the total donation in the annual report or sustainability report from 2018 to 2020. There were 174 manufacturing companies and 352 data obtained. The data were analyzed employing the SPSS 26 software.

Table 1. Operational Definition of Variables

Variable	Label	Definition	Indicator	Scale
Profitability (X1)	PROFIT	Profitability is the company's ability to earn profits from its sales, total assets, or equity capital. (Fahmi, 2015).	$ROA = \frac{\text{Net Profit}}{\text{Total Asset}}$ (Kasmir, 2018)	Ratio
Firm Size (X2)	SIZE	Firm size is shown from total sales, total assets, tax expense, total profit and others. (Brigham and Houston, 2010).	$\text{Firm Size} = Ln\ Total\ Assets$ (Oviliana et al., 2021)	Ratio
Audit Committee (X3)	KA	The audit committee is formed to provide assistance to carry out functions and responsibilities of the board of commissioners based on the Decree of the Chairman of BAPEPAM and LK No. KEP-643/BL/2012 and is formed by the board of commissioners.	$\text{Audit Committee} = \Sigma\ \text{The Number of Audit Committee}$ (Saraswati & Hadiprajitno, 2012)	Ratio
Corporate Philanthropy (Y)	CP	Corporate philanthropy or commonly called CSR donation is a special form for companies to fulfill their corporate social responsibility (Cha & Abebe, 2016)	$\text{Donation} = \text{Log Total Doanation}$ (Gao et al., 2017)	Ratio
Firm Age (Z1)	UP	Firm size is the start of the company carrying out operational activities to maintain the company's going concerns or existence in the business world Companies that have been in the industry for a long time are more likely to be prepared to meet stakeholder expectations. (Anugerah et al, 2018)	$\text{Firm Size} = \text{From company establishment until it becomes a sample study}$ (Latifah et al., 2011)	Ratio

Variable	Label	Definition	Indicator	Scale
Leverage (Z2)	LV	Leverage is the company's ability to meet the short and long-term financial liability or a measure of the extent to which the company is financed with debt (Wiagustini, 2014).	$\text{Leverage Level} = \frac{\text{Total Liability}}{\text{Total Asset}}$ (Kasmir, 2018)	Ratio

RESULTS

Descriptive Statistical

The first step of data analysis process was finding the descriptive statistics of the research data. The result was presented in Table 2.

Table 2. Descriptive Statistics

Research Variable	N	Minimum	Maksimum	Mean	Standard Deviation
Profitability (X1)	428	-788.74	60.72	-0.09	40.57
Firm Size (X2)	428	20.31	33.87	28.08	2.06
Audit Committee (X3)	428	2.00	5.00	3.04	0.26
CSR Donation (Y)	428	15.42	29.02	20.87	2.22
Leverage (Z1)	428	0.15	1374.25	55.80	71.47
Firm Age (Z2)	428	7.00	111.00	41.01	17.19

Source: Data proceeded (2022)

The F-test

The F test seeks to find out how the effect of all independent variables in a study simultaneously on the dependent variable. If the results are significant, the model can be used for predictions in research. The F test can be done by comparing the level of significance, if it is less than 0.05, the independent variables in this study are significant. The results of the F test in this study are presented in Table 3.

Table 3. Result of F-test

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	385.779	5	77.156	22.873	.000b
Residual	1167.119	346	3.373		
Total	1552.897	351			

Source: Data proceeded (2022)

With a significant level of 5% and an F table of 2.240, the F-count is greater than F-table (22.873 > 2.240). Thus, H_0 is rejected. From the significant value of 0.000 (<0.05), the decision also rejects H_0. This means that there is the simultaneous effect of Profitability (X_1), Firm Size (X_2), and Audit Committee (X_3) on CSR donations (Y).

Coefficient of Determination Test ($\boldsymbol{R^2}$)

Moreover, this study administered coefficient of determination (R^2) test. The coefficient of determination (R_2) test is conducted with the aim to measure how much the independent variable explains the dependent variable. The result of this analysis is demonstrated in the Table 4. The Adjusted R^2 value is 0.238. This indicates that the independent variables affect 23.8% of the dependent variable while the rest is affected by other variables outside the model.

Table 4. Coefficient of Determination Test (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.498a	0.248	0.238	1.83662	1.209

Source: Data proceeded (2022)

Hypotheses testing

This hypotheses testing aims to determine the effect of the independent variable on the dependent variable to find the direction of the relationship between these variables. This study examines the effect of the independent variables consisting of profitability, firm size, and the audit committee with the dependent variable of CSR donations. Table 5 provides the results of the multiple linear regression analysis. The regression equation obtained from the test is in the Formula 1.

CP = 11.755+ 0.047PROFIT+0.313SIZE-0.535KA+e ………………………………. (1)

The t-test was conducted to determine the effect of the independent variable individually or partially in explaining the dependent variable. This analysis is used to determine the magnitude of the effect of the independent variables consisting of profitability, firm size, and audit committee on the dependent variable of CSR donations. The results of the t-test can be seen in Table 5.

Table 5. T-test

Model.	B	Std Error	Beta	T	Sig
PROFITABILITY	0.047	0.021	0.117	2.265	0.024
FIRM SIZE	0.313	0.053	0.310	5.943	0.000
AUDIT COMITEE	-0.535	0.700	-0.036	0.765	0.445
LEVERAGE	0.009	0.005	0.094	1.863	0.063
FIRM AGE	0.032	0.007	0.230	4.610	0.000

The Sig. of the profitability on CSR donations is 0.024 (< 0.05). Hence, it can be concluded that H_1 is accepted, which means that there is a significant positive effect of profitability on CSR donations. The Sig. of firm size on CSR donations is 0.000 (> 0.05). Thus, H_2 is accepted, which means that there is a significant positive effect of firm size on CSR donations. The Sig. of the audit committee on CSR donations is 0.445 (> 0.05). Hence, H_3 is rejected, which means that there is no significant effect of the audit committee on CSR donations.

DISCUSSION

The results of statistical analysis show that profitability has an effect on CSR donations, which is indicated by a significance value of 0.024 (<0.05). This suggests that the bigger the company's profitability, the higher the corporate philanthropy. Companies that can enhance the value of their earnings or profitability will be able to increase and expand the disclosure of corporate social responsibility information, resulting in a greater and higher value of CSR donations that may be given (Muttakin et al., 2022). Thus, the higher a company's degree of profitability, the more likely it is to make socially responsible contributions and disclose more social information (Purbawangsa et al., 2019). As a result, the bigger the profitability, the more the company's philanthropy. According to stakeholder theory, the more the company's profit, the greater the amount earned by its shareholders. Companies with big profitability have many stakeholders and are responsible for declaring their corporate social responsibility and providing a large quantity of CSR donations in proportion to the company's profitability. These results are in line with a previous study (Astuti, 2019) that profitability has a positive effect on corporate social responsibility.

The firm size affects corporate philanthropy as indicated by a significance value of 0.000 (<0.05). This means that the firm size has a positive effect on corporate philanthropy. Based on stakeholder theory, large companies have a large number of stakeholders so companies will disclose wider information to get support from stakeholders. The large firm size indicates that a company will increasingly have a high concern for problems related to the environment. Because large companies are also the most notable issuers, they are obligated to publicly declare their social responsibilities, thus, enabling companies to make donations to carry out their social responsibilities. The larger the size of a company, the greater the CSR donation issued by the company to build good relationships with stakeholders (Hou et al., 2019). As a result, these large companies are trusted for their quality and good performance. In theory, larger companies with more operating activities and social influences can result in shareholders paying more attention to the company's social programs, requiring more social information to be disclosed. This confirms (Pratiwi & Ismawati, 2019) who state that firm size has a positive effect on corporate social responsibility.

The audit committee has no effect on corporate philanthropy as indicated by a significance value of 0.445 (> 0.05). The number of the audit committee has nothing to do with the CSR donations. Referring to the stakeholder theory, the audit committee is tasked with assisting the board of commissioners in carrying out a supervisory mechanism for the management. The number of audit committees is critical for firm supervision and control, therefore the presence of an audit committee in a company will increase the efficacy of monitoring, including practice, and thus the number of disclosures and donations made to Corporate Social Responsibility (Yuan & Cao, 2022). The results of this study indicate that there is no effect of the audit committee on the CSR donation. This contradicts the grand theory use, because the audit committee is not seen as a stakeholder for the company. As a result, most Indonesian company does not perceive the importance of audit committees in carrying out CSR. Because, as seen by data on audit committee size, the number of audit committees held by most companies is still limited to the duties that must be met to comply with Bapepam rules number IX.I.5 regarding audit committee formation and implementation guidelines. However, in this study, the number of audit committees is not a factor affecting the quantity of CSR donations. Hence, in this study, the size of the audit committee cannot determine the frequency or size of donations and disclosures. This corroborates previous research conducted by (Anisah, 2018) that the audit committee as measured by the number of audit committees does not have a positive effect on social responsibility.

CONCLUSION

This study seeks to analyze the effect of Profitability, Firm Size, and Audit Committee on Corporate Philanthropy in manufacturing companies listed on the Indonesia Stock Exchange. First, it is revealed that the profitability as proxied by the ratio has a positive effect on corporate philanthropy. The bigger the profitability, the more the CSR donation. Second, the firm size as proxied by total sales has a positive effect on corporate philanthropy. The larger the size of the company, the more the CSR donation. Third, the audit committee proxied by the number of audit committees has no effect on corporate philanthropy. The number of members of the audit committee would have no effect on the increase and growth of CSR donations. Theoretically, this research contributes to enriching research results that explain the determinants of corporate philanthropy. Practically this research contributes to understanding that increasing profitability will increase company awareness in increasing philanthropic activities.

This study, like other studies, has several limitations that can affect the study’s results. For example, during the data collection process, not all companies include the nominal amount of CSR donations in the annual report, and some companies only inform that the company has carried out activities to fulfill its social responsibility. Because not all companies are willing to be transparent about their social responsibilities, researchers can only acquire information on CSR donations from companies that publish it. As a result, future studies are suggested to search for CSR donation information beyond the annual report but also visit companies that have not included CSR donation information in the annual report to obtain a complete portrait of manufacturing companies in Indonesia.

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