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The Effect of Share Ownership Structure, Board of Commissioner Size, and Audit Committee Size on Corporate Social Responsibility Disclosure

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This study aims to analyse the effect of Share Ownership Structure, Board of Commissioner Size, and Audit Committee Size on Corporate Social Responsibility (CSR) Disclosure. This study used 102 samples from firms included in the 'Kompas100 index' between 2014 to 2016 by an ordinary least square regression method. The study found a negative relationship between foreign ownership, government ownership, the commissioner board size, and audit committee size to CSR disclosure. This study has implications for firms and their decision-making in relation to voluntary disclosure, and their corporate social responsibility. The study results show that firms highly visible to the public that have good corporate governance will have better CSR disclosure.

Key words: *CSR disclosure, share ownership structure, commissioner board size, audit committee size.*

Introduction

Public awareness relating to environmental and social issues has put high pressure on firms to disclose their Corporate Social Responsibility (CSR) activities (Widiyanti et al., 2019). CSR concept has been spread widely in the last quarter decade. The World Business Council for Sustainable Development defines CSR as sustaining a commitment via a business party to operate ethically and contribute to economic development by improving employees, their family life quality, and society in general (Watts, 2000). That definition has radically reshaped the traditional view of a business entity operating unbounded to obtain profit toward. Now they have the responsibility to operate typically (economically), and at the same time, to give serious consideration to their social responsibility. Public critique about environment damages caused by a firm's operational have reshaped their perspective. CSR activities are now, not only a short term cost, they are also a long-term investment. This phenomenon follows the legitimacy theory, where CSR activity becomes one of the approaches that can be used for a firm to be welcomed by society and can keep its business operating. To maintain legitimacy in this area, a firm must ensure that stakeholders are well informed about the business's social and environmental aspect and how they are attending to issues in society (Freeman, 1984).

Corporate Social Resonsibility activities have received mounting attention from business community, government, academics, stakeholders, and society in general. The increased concern toward CSR issues has shifted attention to reporting. CSR reporting trends have risen globally with above 50% on average for N100 index firm (100 largest firms in 45 countries) in the period from 2011 to 2015. The highest rises have been lead by Asian-Pacific firms (KPMG, 2015).

CSR implementation in Indonesia is regulated by *Law No. 40 the Year 2007* and Government Regulation *Law No. 47 the Year 2012.* Corporate Social and Environment Responsibility is disclosed in an annual report and discussed at the General Meeting of Shareholders. CSR reporting in the listed firm's annual report is regulated by the *Head of Financial Service Authority Regulation No. Kep-431/BL/2012* and includes four aspects which include an environment aspect, labour aspect, society development aspect, and product responsibility aspect. CSR reporting is compulsory for firms, but individual firms have other motivations for disclosing its CSR in broader terms.

Reporting quality and firm performance accountability is not separated from corporate governance effectively. When a firm's corporate governance agent plays an active monitoring role, it will likely push management to voluntarily disclose more (Cormier, 2014; Bhat, 2006). One corporate governance mechanism is the shared ownership structure of a firm that can motivate a better quality of monitoring function (Oh et al., 2011; Hasan et al., 2013). Different share ownership proportions will place different pressures on the term of disclosure in the annual report (Huafang & Jianguo, 2007). When more parties need information about the firm additional pressure is put on the firm to disclose its information in a more detailed way (Ghizali & Chariri, 2007). Machmud & Diakman (2008) and also KPMG (2015) state that foreign owners of the firm are often the party most concerned with social issues and problems. On another side, Ghozali & Chariri (2007) found that political connection with the government made state-owned enterprises have high visibility in the public's eye, so it pushes management to disclose its social and environmental activities broader. Institutional ownership structure also can affect the CSR disclosure quality (Sales et al., 2010; Adnantara, 2013; Mahoeney & Robert, 2007).

Besides share ownership structure, good corporate governance is not separated from a firm's internal monitoring function. Board size can represent the commitment of the management to CSR disclosure (Nasih et al., 2019). Majida et al. (2019) show that a large board size can be effective by forming a team that has the authority to provide input that meets the principles of justice. Commissioner board, as the highest monitoring level of top management, can supervise and give suggestions toward a management act (Sembiring, 2006). Nevertheless, sometimes commissioner board size just an intervention toward financial performance, so it is not too visible on social performance (Krisna & Suhardianto, 2016; Prabowo et al., 2017). In monitoring and evaluation, the commissioner board gets help from the audit committee. Suryono & Prastiwi (2011) explain that the qualified audit committee can understand the meaning and strategic objective of the firm's disclosure. Thus, evaluation and monitoring from the audit committee can be used as a proxy to push management report firm's social performance broader through good corporate governance.

This study aims to analyse the effect of the firm's corporate governance mechanism, including share ownership structure, the commissioner board size, and audit committee size to CSR disclosure quality. This study used non-financial firms listed on the Indonesian Stock Exchange (IDX) and Kompas100 index for the period from 2014 to 2016. CSR disclosure was based on GRI (Global Initiative Report) Guideline version G4. This study result showed a positive correlation between foreign ownership, government ownership, the commissioner board size, and audit committee size toward CSR quality. Besides that, this study shows that firms with high visibility in the public eye and good corporate governance will have better quality in terms of their Corporate Social Responsiblility disclosure.

This study contributes to academic and business literature, clarifying the relationship between share ownership, commissioner board size, and audit committee size toward CSR disclosure. This study can be used by a firm to consider the strategic decision-making process to relate voluntary disclosure that will increase shareholder and potential investor's value. Also, the government may utilise thsis study to consider various regulations related to the environment and social problems caused by business activity and motivations for a firm's CSR decision.

The rest of this paper will be organised as follows: Section 2 contains the research hypothesis development; Section 3 describes the variable, sample, and research model; Section 4 provides the empirical result, discussion and sensitivity test; and Section 5 provides the conclusion, including suggestion for future research.

Literature Review

Foreign Ownership and CSR Disclosure

Geographical distance limitations and language barriers mean foreign investors deal with a risk of high asymmetry in the information they receive. This limitation leads foreign investors to need a higher quality of information disclosed related to the firm's activity. Muttakin and Subramaniam (2015) explain that foreign shareholders have a different value spectrum in terms of social issues and are able to construct a strategic framework that relates to social and environmental activity. Geographic distance between investors with firm operational locations leads foreign investors to demand a higher quality of information disclosure (Bradbury, 1991). Foreign investors are regarded has having a higher awareness related to social issues, and thus are able to provide suggestions in terms of a firm decision on social performance. In the context of CSR reporting, legitimacy and reputation pressure on maintaining capital inflow has become a consideration for a firm. As a result they aim to disclose their social activity to a higher standard (Huafang & Jianguo, 2007; Khan et al., 2013). Thus, we hypothesise that:

H1: Foreign ownership has a positive relationship with CSR disclosure

Government Ownership and CSR Disclosure Quality

Indonesia's government has become a substantial shareholder in vital sectors. Ghozali & Chariri (2007) explain that firms with government ownership are more sensitive in terms of politics and highly visible publically. Government ownership, especially in state-owned enterprises, indirectly represent the public task of government in the economic and social aspect. In other terms, CSR activity can become a vessel to legitimate government-owned businesses. The listing process of the Stock Exchange by state-owned enterprises made ownership distribution more extensive, which increased public attention (Ghozali & Chariri, 2007). In the context of CSR disclosure quality, a firm with government ownership tends to disclose its social activity to a higher standard to maintain the public trust as it carries the government name.

Prior studies have found that there is a positive statistical relationship between government ownership and CSR disclosure quality (Muttakin & Subramaniam, 2015; Hu et al., 2016; Ghozali & Chariri, 2007). These researchers found that firms with government ownership have more empathy toward social issues compared to other firms. Thus, we hypothesised that:

H2: Government ownership has a positive relationship with CSR disclosure

Institutional Ownership and CSR Disclosure

The institutional investor becomes a management consideration in decisions made as they have a majority ownership in shareholder-voting (Neubaum & Zahra, 2006; Saleh et al., 2010). Prior studies document a statistically significant relationship between institutional ownership and CSR disclosure quality. For example, Hu et al. (2016) found this specifically applied to fund institutions. Clarkson (1995) argue that management-based corporations tend to deal with stakeholder relations more thoroughly compared to public corporations. This view is in line with the Stakeholder theory, which states that stakeholders are also determining firm performance. Siegel & Vitaliano (2007) contend that institutional shareholders support CSR to distinguish the service offered to the client, maintaining the reliability of their investment in the capital market. Thus, we hypothesise:

H3: Institutional ownership has a positive relationship with CSR disclosure

Managerial Ownership and CSR Disclosure

Managerial ownership, defined as share ownership by the CEO and operating director that regarded influence firm performance (Eng & Mak, 2003). Managerial ownership and agency problems cannot be separated. When managerial ownership is low, the agency problem will be more likely present. The manager will tend to utilise the facility for personal benefit (opportunistic behaviour) and for reducing his/her performance. The consequence is that external shareholders will increase their monitoring function to minimise agency problems (Jensen & Meckling, 1976). Shleifer & Vishny (1988) state that managerial ownership has a positive relationship with CSR in order to increase firm value. A similar statement also comes from Rawi & Muchlish (2010), who found a positive relationship between managerial ownership toward CSR disclosure quality. Conversely, Ghazali & Chariri (2007) found that managerial ownership has a negative relationship with CSR disclosure quality. This result indicates that a firm with high managerial ownership is tending to disregard accountability. Whereas Said et al. (2009) did not find a significant relationship between managerial ownership with CSR disclosure. Based on these arguments, we hypothesised that:

H4: Managerial ownership has positive relationship with CSR disclosure

Commissioner Board Size and CSR Disclosure

Top management monitoring function and commissioner board role, and shareholder representation, cannot be separated. Optimal monitoring should positively impact firm performance both in financial performance and social performance. More relevant industry expertise, experience, knowledge, and skill of boards can make more precise decisions to solve the problem (Harymawan, 2019). Krisna and Suhardianto (2016) argue that in order to maximise the monitoring function, the sufficient commissioner size is compulsory. Prior studies show positive relationship between commissioner board size toward CSR disclosure (Sembiring, 2005; Beasly, 2000; Collier & Gregoury, 1999). Thus, as the commissioner board size increases, management performance monitoring function will be more efficient, and pressure toward management to disclose their social activity will also be higher. According to these arguments, we hypothesised that:

H5: Commissioner board size has positive relationship with CSR disclosure

Audit Committee Size and CSR Disclosure

Audit committee existence comes from good corporate governance implementation (Irawati et al., 2019; Syahri, 2019). High expectation comes from the various party for risk management in the firm creates demand for improving committee involvement of the committee in supervising firm's risk practices (Larasati et al., 2019). Bradbury (2006) explains that the audit committee role are intermediaries of formal communication between directors, internal auditor function, and external auditor. If the monitoring function of the internal auditor and reporting is operating efficiently, the quality of the financial report will be better. Suryono & Prastiwi (2011) also explain that the audit committee understands the strategic benefit of voluntary disclosure, resulting in putting more pressure on better accountability of reporting. Said et al. (2009) and Khan (2013) found a positive relationship between the audit committee and social and environmental activity reporting. This result indicates that the audit committee encourages good corporate governance implementation, which results in a firm's higher reporting accountability. Thus, we hypothesised that:

H6: Audit Committee Size has positive relationship with CSR disclosure

Research Methodology

Sample and Data Sources

We drew on data from non-financial, listed firms, that were included in Kompas100 Index from the period 2014 to 2016 as a research sample. Data sources from this research are taken from the annual and CSR reports found on the Indonesian Stock Exchange (IDX) and the official firm's website. The initial research sample was 328 firm-year observations. Next, we implemented selection criteria as follows: Firstly, we excluded financial firms with 39 observations. Secondly, we excluded observations that did not provide data needed, such as share ownership according to the category that this research used with amount 187 observations. After conducting sample selection, our final sample was 102 firm-year observations. Table 1 explains the sample criteria of this research:

Table 1: Research Sample Selection Criteria

Selection Criteria	Observation Amount		
	2016	2015	2014
Firms that included in Kompas100 index (two periods in one year)	111	109	108
Excluded: Financial firms Missing data	14 51	13 62	12 74
Final sample amount	46	34	22
Total sample amount	102		

Variable Operationalization

Dependent Variable

The dependent variable in this study is Corporate Social Responsibility (CSR) disclosure. CSR disclosure in this study is proxied by indicator based on the Global Reporting Initiative (GRI) guideline G4 version. We use 91 items to measure the CSR disclosure quality on both the annual report and CSR report. CSR disclosure measurements for each of the annual report and CSR report was completed with these steps as follows: Firstly, 1 for each item that was disclosed according to items that need to be disclosed based on GRI G4 guideline and 0 for each item that was not disclosed; second, sum all the score for item that disclosed for each annual report, then deflated with total items in GRI G4 guideline to obtain CSR disclosure percentage. In short, to calculate CSR disclosure, we applied this formula:

$$CSRD = \frac{\text{CSR item that disclosed by firm}}{\text{91 items of CSR dislousure based on GRI G4 guideline}}$$

Independent Variable

The independent variables that were used in this study are foreign ownership (ForOwn), government ownership (GovOwn), institutional ownership (InstOwn), managerial ownership (ManOwn), commissioner board size (ComSize), and audit committee size (AudSize). Foreign ownership (ForOwn) is measured by the percentage of total shares owned by foreigners deflated by total outstanding shares. Government ownership (GovOwn) is measured by the percentage of total shares owned by the government deflated by total outstanding shares. Institutional ownership (InstOwn) is measured by the percentage of total shares owned by institutions deflated by total outstanding shares. Managerial ownership

(ManOwn) is measured by the percentage of total shares owned by management deflated by total outstanding shares. Commissioner board size (ComSize) and audit committee size (AudSize) is measured by the total amount of commissioner and audit committee of the firm.

Methodology

This study uses an ordinary least square model to test the effect of share ownership, commissioner board size and audit committee size toward CSR disclosure. We use an SPSS 22 program as our statistic application. This is the regression equation used in this study:

$$CSRD = \beta_0 + \beta_1 ForOwn + \beta_2 GovOwn + \beta_3 InstOwn + \beta_4 ManOwn + \beta_5 ComSize + \beta_6 AudSize + e \quad (1)$$

Result and Discussion

Descriptive Statistic

Table 2: Descriptive Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
CSRD	102	5.49	71.43	35.67	15.865
ForOwn	102	0.00	90.03	26.85	33.074
GovOwn	102	1.07	94.52	31.08	29.447
InstOwn	102	1.34	90.48	28.54	16.644
ManOwn	102	0.00	4.17	0.16	0.557
ComSize	102	2	12	5.98	1.807
AudSize	102	2	7	3.47	0.864

Table 2 shows analysis result of descriptive statistic for variables in this study. Mean value of CSR disclosure is 35.67 and show on average, the total CSR item that was disclosed in both of annual report and CSR report is approximately 40 items. Independent variables in this study have an average value 26.85 for government ownership, 31.08 for foreign ownership, 28.54 for institutional ownership, 0.16 for managerial ownership, 5.98 for commissioner board size and 3.47 for audit committee size.

Classic Assumption Test

In general, the result of the classic assumption test showed no severe problem. The research model has no multicollinearity symptom, which shown from Variance Influence Factor (VIF) value is less than 10. The normality test result with the Kolmogorov Smirnov test model also shows a significance value below the minimum requirement. This result confirms that the research data has normally distributed. Autocorrelation test results using the run test also showed that the research model did not have an autocorrelation problem.

Normality Test

The Kolmogorov-Smirnov test result in Table 3 shows value 0.083 with significance value 0.081. This result reveals that the regression model of this study has normally distributed data. This is evidenced by an asymp. sig (2 tailed) value below than 0.05.

Table 3: Kolmogorov-Smirnov Test Result

		Unstandardized Residual
N		102
Normal Parameters[a,b]	Mean	0
	Std. Deviation	12.80022419
Most Extreme	Absolute	0.083
Differences	Positive	0.083
	Negative	-0.045
Test Statistic		0.083
Asymp. Sig. (2-tailed)		.081[c]

Multicollinearity Test

According to the test results in Table 4, the study concludes that the research data is free from multicollinearity symptom as evidenced by the tolerance value is less than 1 and VIF value is less than 10 for each variable in this study.

Table 4: Multicollinearity Test Result

Variable	**Collinearity Statistics**	
	Tolerance	**VIF**
(Constant)		
ForOwn	0.498	2.009
GovOwn	0.539	1.854
InstOwn	0.844	1.185
ManOwn	0.887	1.128
ComSize	0.758	1.32
AudSize	0.764	1.309

Autocorrelation Test

According to the Durbin-Watson test result on Table 5, the DW value shows result between minimum limit (dL) and maximum limit (dU). This result shows that the research data is cannot decided yet for its autocorrelation symptom. Thus, it need further research by run-test toward unstandardized residual value. If asymp. sig. (2-tailed) value is below 0.05, then it can be concluded that regression model in this study is free from autocorrelation symptom.

Table 5: Durbin Watson Test Result

Model	dL	DW	dU	Conclusion
1	1,555	1,667	1,803	Cannot be decided yet

The run-test result in Table 6 shows that the asymp. sig. (2-tailed) value is below the minimum requirement (0.05) which is 0.111. This result concludes that the regression model in this study is free from an autocorrelation symptom.

Table 6: Run-Test Result

	Unstandardized Residual
Test Value[a]	-1.94839
Cases < Test Value	51
Cases >= Test Value	51
Total Cases	102
Number of Runs	44
Z	-1.592
Asymp. Sig. (2-tailed)	0.111

Main Analysis

To test the independent variables, which are government ownership, foreign ownership, institutional ownership, managerial ownership, the commissioner board size, and audit committee size effect on CSR disclosure quality, we used the ordinary least square analysis. Table 7 shows the result of the ordinary least square analysis.

Table 7: Ordinary Least Square Analysis Result

Variable	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
(Constant)	1.413	7.01	0.202	0.841
ForOwn	0.149	0.063	2.355	0.021
GovOwn	0.188	0.054	3.479	0.001
InstOwn	-0.112	0.086	-1.301	0.196
ManOwn	1.925	2.502	0.769	0.444
KomSize	1.692	0.835	2.027	0.045
AudSIze	4.997	1.739	2.873	0.005

Foreign Ownership and CSR Disclosure

The regression coefficient for foreign ownership (ForOwn) in Table 7 is 0.149. This value shows that if foreign ownership (ForOwn) increases one percent, then CSRD will be increased with the amount of 0.149%. This result shows that foreign ownership has a relationship with CSR disclosure (CSRD), which is in line with Muttakin & Subramanuam (2015) and Huafang & Juanguo (2007)'s findings. They found that foreign ownership has a positive relationship with CSR disclosure quality. Muttakin and Subramanuam (2015) also explained that foreign investors have a particular value, and knowledge relating to a global issue, which includes social and environmental problems. Besides that, foreign investors can provide information and suggestions relating to the strategic plan of social and environmental responsibility activity depicted in a firm's CSR report. The geographical distance limitation and language made foreign investors want a higher quality of information related to the firm's activities. Based on the Stakeholder Theory perspective, management tends to disclose its social activity to maintain the capital inflow for the firm.

Government Ownership and CSR Disclosure

Based on Table 7, the coefficient regression of government ownership (GovOwn) is 0.188, which shows that if government ownership increases one percent, the CSRD will increase by 0.188%. This result shows that government ownership has a relationship with CSR disclosure quality. This result is in line with Ghozali and Chariri (2007) and Muttakin & Subramaniam (2015)'s research. This result is also coherent with Institutional Theory, where a firm with government ownership will use CSR reporting as a legitimacy effort for their operations, as they have high visibility in the public (Muttakin & Subramaniam, 2015). On the other side, CSR activity regulation in Indonesia is more profound in state-owned enterprises.

Institutional Ownership and CSR Disclosure

The analysis result in Table 7 has shown that the institutional ownership (InstOwn) regression coefficient is -0.112. This result indicates that if institutional ownership increases one percent, the CSR disclosure (CSRD) will decrease by 0.112%. This result concludes that institutional ownership has no relationship to CSRD. It is regarded as able to manage the investment and conduct monitoring on firm performance. Institutional ownership does not have significant influence on a firm's social performance. Further, institutional investors that consist of a bank, pension fund, assurance, and asset management does not yet concern CSR as of one of the investment criteria (Machmud & Djackman, 2008). Nevertheless, the CSRD is insignificant as institutional investors prefer short-term investment. As investors only focus on short-term investment, they will regard the expenditure related to a firm's social activity, to be the same as diminishing short-term profitability.

Managerial Ownership and CSR Disclosure

In Table 7, the coefficient regression value of managerial ownership (ManOwn) is 1.925. This shows that if managerial ownership increases one percent, then the CSR Disclosure will increase by 1.925%. This result indicates that managerial ownership does not have a relationship with CSR disclosure. Salehi et al. (2017) and Adnantara (2013) explain that share ownership by management does not make the firm more concerned with CSR activity comprehensively. The low ownership average, which is less than one percent (0.16%), shows that there is a conflict of interest between owners and managers, resulting in owners' interest harmonising with manager interest. Low managerial ownership implies that managers only have a small portion of influence and do not yet act as owners. They only have a very marginal vote in relation to the CSR program implementation (Swandari & Sadikin, 2016). Fadlillah & Harymawan (2018) also found that ownership structure has no relationship with a firm's disclosure.

Commissioner Board Size and CSR Disclosure

Based on Table 7, the regression coefficient value for commissioner board size is 1.692, which shows that if the commissioner board size increased by one person, the CSRD would increase by 1.692%. This result indicates that the commissioner board size has a relationship with CSR disclosure. Based on the Agency Theory, the commissioner board is the highest mechanism related to the monitoring function for top management decisions. This research result also supports agency theory, which in line with Collier and Gregory (1999) state that if the size of the commissioner board increased, then it would make it easier to control CEO and monitoring would become efficient. In relation to CSR disclosure, the pressure on management would drive a higher quality of CSR disclosure (Sembiring, 2005).

Audit Committee Size and CSR Disclosure

Regression coefficient for audit committee size (AudSize) value in Table 7 is 4.997, which shows that if audit committee size has increase by one person, then CSRD will increase by 4.997%. This result shows that audit committee size has a relationship to CSR disclosure. As part of monitoring function, an audit committee's role is to drive a good corporate governance implementation which results in better accountability via firm reporting. The audit committee also has a role to play in supervising and ensuring that a firm's social activity disclosure is effective and efficient (Collier & Gregory & Gregory, 1999). Thus, as the size of an audit committee increases, then the monitoring function of a firm's social activity is better, and the firm's legitimacy is maintained (Said *et al.*, 2017; Krisna & Suhardianto, 201; Suryono & Prastiwi, 2011).

Coefficient Determinant

Table 8: Coefficient Determinant Test Result

Model	R	R Square	Adjusted R Square
1	.591[a]	.349	.308

Table 8 shows the result of the determination coefficient test of the regression model. The result shows that the adjusted R square value is 0.308. This result implies that based on the research model, the influence of all independent variable in this research to CSR disclosure is 30.8%. As for the rest, the remaining percentage (69.2%) comes from other variables that were not focussed on in this study.

Conclusion

This study aimed to analyse the effect of share ownership structure, board commissioner size, and audit committee on Corporate Social Responsibility (CSR) disclosure for listed firms included in the Kompas100 index for three periods from 2014 and 2016. This study found that government ownership, foreign ownership, the commissioner board size, and audit committee size empirically effect CSR disclosure. In contrast, institutional ownership and managerial ownership are not correlated to CSR disclosure. This result is due to managerial ownership on average being low (less than one percent), where it implies a conflict of interest is at work, and manager do not yet 'act like owners'.

The result of CSR disclosure implementation in Indonesia is still marginal if measured by a global indicator such as GRI G4. This result indicates that Indonesian firms and their concern for social responsibility activity is truncated. This study suggests policymakers focus on regulations that relate to Corporate Social Responsibility activity and its reporting, not only for state-owned enterprises but also for all types of firms in general. This research notes that annual reporting and CSR reporting is not the only method for communicating the firm's social activity. A firm may consider utilising other methods of communication such as a website, bulletin, newspaper, and social media. This study suggests future research to consider other communication modes for firm CSR disclosure.

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