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# THE INFLUENCE OF PROFITABILITY AND LEVERAGE ON CORPORATE SOCIAL RESPONSIBILITY

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## ABSTRACT

This research aims to empirically test and analyze the influence of profitability and leverage on corporate social responsibility. This research includes quantitative research. The research sample was 97 mining companies listed on the Indonesia Stock Exchange in the period 2018 to 2022. The sampling technique used purposive sampling. Profitability is measured using Return on Assets (ROA), leverage is measured using the Debt to Equity Ratio (DER), and corporate social responsibility is measured using the corporate social responsibility disclosure index (CSRDI). The data used is company annual financial report data. The data analysis technique was carried out using multiple linear regression analysis and data processing via SPSS. The research results show that profitability has a significant positive effect on the company's corporate social responsibility. Leverage has also been proven to influence a company's corporate social responsibility. Companies that are able to generate profits (profits) and manage debt well will have an impact on the corporate social responsibility of mining companies listed on the Indonesia Stock Exchange.

**Keywords**: corporate social responsibility, profitability, leverage

## 1. INTRODUCTION

The concept of Corporate Social Responsibility (CSR) includes three pillars, namely social, economic and environmental. According to Rahmawati (2012) Corporate social responsibility (CSR) is an integrated concept that combines social aspects and business aspects in harmony so that companies can help achieve stakeholder welfare, and can achieve maximum profits so as to increase share prices. The activities carried out in it are in the form of Community Development which is then developed to achieve a good image in the eyes of the company's stakeholders. There are several parties who still view the implementation of Corporate Social Responsibility (CSR) in the context of company profitability as a challenge in itself, because companies must also pay attention to the people and environment around them.

Disclosure of Corporate Social Responsibility (CSR) can represent the company's ability to build relationships with stakeholders, so that the more comprehensive

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the disclosure of Corporate Social Responsibility (CSR), the better the support from stakeholders. Good stakeholder support for a company makes it more prosperous and sustainable. In Indonesia, an obligation has been established for companies to carry out a Corporate Social Responsibility (CSR) program. This obligation is stated in the Limited Liability Company (PT) Law No. 40 of 2007, stating that PTs that carry out business in the field of and/or related to natural resources are obliged to carry out their responsibilities. social and environmental responsibility (Article 74 paragraph 1).

There are several factors that influence CSR, including profitability and leverage. According to Untari (2010), profitability is a factor that provides freedom and flexibility for management to express corporate social responsibility (CSR) to shareholders. A company's profitability level shows its ability to gain profits from daily operations. Return on Assets is a financial analysis tool to measure profitability. This indicator measures a company's ability to generate profits from specified capital. This ratio is a measure of profitability from a shareholder perspective. A higher ROA reflects a company's ability to generate higher returns for its shareholders. Wibisono (2007) states that the higher the profit a company obtains, the more transparent it is expected to be in its reporting. Likewise, Untari (2010) stated that the more profitable a company is, the greater its corporate social responsibility (CSR), because of the interests of the local community.

Leverage is a ratio used to measure the use of funds from debt or loans to finance a business. Businesses financed with loans are automatically subject to installment payments (loan amount plus interest) and other costs such as administration fees, commission fees (Kasmir, 2017). A company is said to be in good reputation if it has good financial report management in the sense that the company has obligations that do not exceed its income. The risk is also greater if the company has more debt than it earns. The level of leverage is the company's ability to fulfill all its obligations to other parties. Companies with large debts have greater obligations to meet the information needs of their creditors, including corporate social responsibility (CSR) disclosure. The higher the leverage, the greater the possibility of the company violating the loan agreement. The higher the company's leverage, the lower its profits. When interest rates rise, corporate social responsibility (CSR) disclosure is lower because companies want to maximize profits. Meanwhile, Putri's research (2017) also shows that leverage influences the disclosure of Corporate Social Responsibility (CSR). In contrast, research by Yurika and Viriany

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(2019) shows that leverage does not affect corporate social responsibility disclosure.

This research was conducted at a mining company because mining is still closely tied to the use of natural resources and is the subject of conflict with the community over the social and environmental impacts of mining operations. Therefore, corporate social responsibility (CSR) is a strategic step to bridge the interests of the company and the surrounding community. Mining companies have also adopted corporate social responsibility (CSR) to face external pressures and adopted corporate learning processes towards sustainable development (Dashwood, 2012). This learning process provides added value to Corporate Social Responsibility (CSR) practices and increases competitive advantage (Vintro, et al., 2012). Apart from that, good corporate social responsibility (CSR) practices also improve company performance and shareholder welfare. One of the appropriate mechanisms for implementing Corporate Social Responsibility (CSR) is to strengthen corporate governance practices within the company.

Based on the description above, the researcher wants to conduct further research on the influence of profitability and leverage on corporate social responsibility (CSR) disclosure in mining companies listed on the Indonesia Stock Exchange (BEI) from 2018 - 2022.

## 2. LITERATURE REVIEW

### a. Corporate social responsibility

Social responsibility is a company's commitment not only to increasing company profits financially, but also to local socio-economic development holistically, institutionally and sustainably. Social responsibility is essentially how a company cares about the environment and the impacts arising from its operations. Companies must not only make profits, but also contribute to solving related social problems. According to Purwaningsih and Suyanto (2015), corporate social responsibility is a company concept, especially companies that have various forms of responsibility towards all their stakeholders. Doing business can benefit all stakeholders. For example, companies can implement in society an attitude of concern for the environment and society. Corporate social responsibility is a form of corporate social responsibility which aims to increase the commercial value of a company, and increase ethical values for the quality of the environment and society based on economics, ecology and society (Putri and Christiawan, 2014).

Disclosure of corporate social responsibility is carried out in the Annual

Report in the Corporate Social Responsibility Section and is measured using the Global Reporting Initiative (GRI) standard guidelines. This research uses the 4th version of the GRI Guidelines. Several categories (GRI-G4) are as follows: (1) Economic category, including economic performance, market existence, indirect economic impacts and procurement practices. (2) Environmental categories, including materials, energy, water, biodiversity and emissions, waste and waste, products and services, compliance, transportation, etc., suppliers, environmental assessments, and complaint mechanisms for environmental issues. (3) Social Category, includes employment, industrial relations, education and training, diversity and equal opportunities, equal pay for women and men, supplier evaluation of labor practices and complaint mechanisms for labor issues.

**b. Profitability**

Profitability is the ability of a company to generate profits to improve the welfare of its shareholders. Profitability also describes a company's ability to generate profits from all its capital. According to Eryawan (2009), profitability is the amount of profit a company obtains from carrying out its operations during a certain period of time. Meanwhile, according to Atarwaman (2011), profitability is not only used to measure a company's ability to generate profits, but is also used to determine the effectiveness of company management in managing increasing company assets.

**c. Leverage**

Leverage is a ratio that measures how much a company meets its funding needs with debt. Companies with high debt indicate that the company is increasingly relying on external loans to meet funding needs. Debt-funded companies must pay interest and principal on debt loans. Although using debt can benefit a business, using debt also poses the risk that the company will be unable to pay its debts, resulting in major losses for the business. Therefore, when using debt you must pay attention to the company's ability to generate profits (Prasetyorini, 2013).

**d. Conceptual Framework**

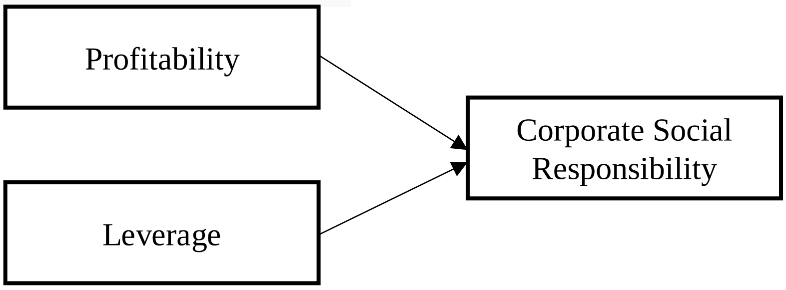


**Figure 1. Conceptual Framework**

Source : by researchers

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**e. Hypotesis Development**

**The Influence of Profitabilitas on *Corporate social responsibility***

Profitability is a company's ability to generate profits at a certain level of sales, assets and share capital. According to agency theory, the higher the profit, the more social information the company discloses (Sari, 2012). According to stakeholder theory, companies cannot be separated from stakeholders. The aim of a company should not only be to pursue maximum profits, but also to pay attention to the welfare of the surrounding community and the environment around the company by expressing corporate social responsibility.

A company with a high ROA score indicates that the company is performing well and is competitive. Disclosure of a company's corporate social responsibility allows stakeholders to assess and learn how the company fulfills its role in meeting their needs and concerns regarding environmental and social issues. One way for companies to do their part to serve their stakeholders is by implementing corporate social responsibility (Putri and Baridwan, 2013).

Previous research by Ruroh and Latifah (2018) and Nurbayanti (2020) shows that profitability has a positive impact on corporate social responsibility disclosure. This is because companies with higher levels of profit are able to express broader corporate social responsibility and give a better impression to the company. Based on this description, the first hypothesis that will be tested in this research is:

H1: Profitability has a positive effect on *Corporate social responsibility*.

**The Influence of Leverage on *Corporate social responsibility***

Leverage is a ratio that measures how much a company relies on creditors to fund company assets. Agency theory predicts that companies with higher leverage ratios will disclose more information. This is because agencies with such a capital structure have higher agency costs. Companies with higher leverage ratios are required to make broader disclosures than companies with lower leverage ratios.

Leverage according to signal theory, where the level of leverage can indicate signals of good news and bad news. The more information that is disclosed with high corporate social responsibility, including good information, the more information the company can gain from the trust of stakeholders and investors. Good information is based on low leverage. This means that the company does not have debt and the company can express corporate social responsibility more broadly. A good company image will increase trust and make it easier to obtain credit/debt from outside parties. This is in accordance with research by Jensen and Meckling (1976) which shows that leverage has a positive effect on disclosure of corporate social responsibility. Based on this description, the second hypothesis that will be tested in this research is:

H2: Leverage has a positive effect on *Corporate social responsibility*.

## 3. METHODS

### a. Type of Research

This research uses quantitative research which has independent variables (variables that influence) and dependent variables (influenced). The type of research used by researchers in this research is quantitative research, namely hypothesis testing based on secondary data that is processed to obtain information that can be used as a response framework to the hypothesis that the researcher determines.

### b. Sampling Technique

The researcher determines the sample with the aim that the research carried out provides accurate data and meets expectations. The sample used in this research was a mining company. The data collection technique used in this research is a purposive sampling technique, namely the researcher determines sampling by comparing the results of previous research with criteria that are in accordance with the research objectives, and is expected to be able to answer questions regarding the research problem. The criteria used to determine the sample used in this research are as follows:

1) Mining companies listed on the Indonesia Stock Exchange (BEI) in 2018-2022.
2) Mining companies implementing CSR programs in 2018-2022.

The sample used was 97 companies.

### c. Data collection technique

Data collection and documentation techniques were used in this research. Documentation data is a study of archival data that records when an event or transaction was carried out, what was done, and who was involved. The choice of data collection method will depend on the facilities available, the level of rigor required, the researcher's expertise, research time, costs, and other resources available in connection with data collection. Documentation techniques are carried out by collecting, researching and recording secondary data in the form of annual reports from companies in the mining sector listed on the Indonesia Stock Exchange (BEI).

### d. Variable and Variable Operasional Definition

**Dependent Variable**

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Corporate social responsibility (CSR) is a company's action to care for all stakeholders, including employees, society and the environment, as a form of responsibility to those affected by the company's operations. The aim of this implementation is to create a close relationship between the company and its stakeholders. Disclosure of Corporate Social Responsibility (CSR) is often referred to as disclosure of corporate social responsibility. Corporate social responsibility (CSR) disclosure indicators are measured using CSRDI (Corporate social responsibility Disclosure Index) based on GRI (Global Reporting Initiatives)-G4. In Kholis's (2014) research there are 6 categories with a total of 91 corporate social responsibility disclosure items. Furthermore, to complete the CSRDI checklist, it is known that the more CSR points that are disclosed, the more we can expect the company to develop in the future. The CSRDI (Corporate Social Reporting Disclosure Index) calculation is based on each dichotomy or communication. Disclosure of Corporate Social Responsibility (CSR) elements disclosed in the company's annual report will be given 1 point, if the element is not available or not disclosed in the company's annual report, it will be given 0 points. So the formula can be taken to measure Corporate Social Responsibility (CSR) disclosure are as follows:

$$CSRDI = \sum Xij / Nj$$

Notes :

CSRDI : *Corporate social responsibility* Disclosure Index

Xij : Number of variable expressed ; 1 = if the item is diclosed ; 0 = if the item is not disclosed

Nj : Number of items for company j

**Independent Variable**

Profitability

Profitability is a ratio used to measure a company's ability to generate profits from its normal operations. In this research, profitability is approached by Return On Assets (ROA). The ROA ratio is one of the most important tools used by companies to assess the profits generated. The formula that can be used to measure profitability is as follows:

$$ROA = Net\ Income / Total\ Asset$$

Leverage

Leverage is a ratio that measures how much a company's finances are with long-term debt. The leverage ratio can reflect a company's level of financial risk. Leverage can be measured using the following formula (Darmawan, 2014):

$$DER = Total\ Liability / Total\ Equity$$

**Data analysis technique**

Data analysis was carried out using multiple linear regression to test the relationship between the dependent variable and the independent variable. In linear regression analysis, multiple independent variables are used to predict the value of the dependent variable (Gujarati, 2001). The multiple linear regression model for this research is:

$$CSR = \alpha + \beta 1ROA + \beta 2DER + \varepsilon$$

Notes :

CSR = *Corporate social responsibility*

$\alpha$ = Konstanta

ROA = Profitability

DER = Leverage

$\beta 1 ... \beta 4$ = Regression Coefficient

$\varepsilon$ = Error

## 4. RESULTS AND DISCUSSIONS

### a. Descriptive Statistical Analysis

Descriptive statistical analysis is carried out to describe research variables in general and test the influence of each independent variable on the dependent variable before being used in multiple regression analysis. Descriptive statistical analysis provides an overview or description of data related to average (mean), standard deviation, maximum, minimum. The statistical test results are shown in table 1 below:

**Table 1. The Result of Descriptive Statistical Analysis**

| Descriptive Statistics | | | | | |
|---|---|---|---|---|---|
| | **N** | **Minimum** | **Maximum** | **Mean** | **Std. Deviation** |
| ROA | 97 | ,00 | ,47 | ,0822 | ,09486 |
| DER | 97 | ,05 | 8,45 | 1,4332 | 1,63264 |
| CSR | 97 | ,00 | 1,36 | ,1837 | ,30138 |
| Valid N (listwise) | 97 | | | | |

Source: Research Result (2023)

### b. Classic assumption test

Before the research model is tested further, the classical assumption test is first carried out. This test is carried out to determine whether the assumptions of the multiple linear regression model are met and to interpret the data in a more meaningful way for analysis. The classical assumption test has several steps, namely:

1) Normality test

The data normality test aims to test whether the regression model has a normal distribution between the independent variables and the dependent variable or not. The data normality test can be seen from the diagonal distribution of the data as in Figure 2 below:

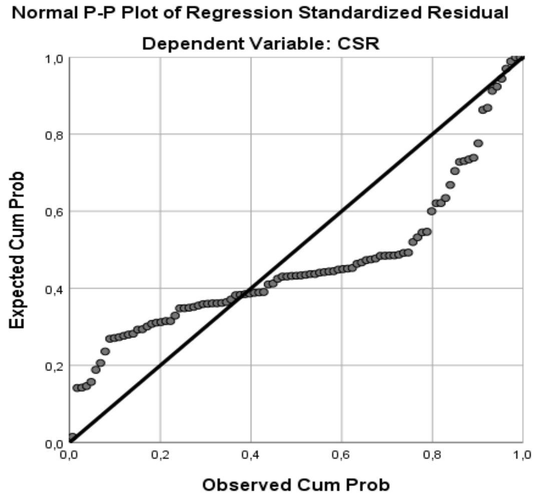


**Figure 2. Normality Test Results**

Source: Research Result (2023)

Based on Figure 2, the normal P-P plot diagram shows that the data is normally distributed because the diagram shows that the points are distributed close to a diagonal line, so it can be concluded that the normality assumption can be met.

2) Multicollinearity Test

The multicollinearity test aims to test whether the regression model has found a strong relationship between the independent variables (independent variables). Multicollinearity can be identified using the tolerance value (TOL) and Variance Inflation Factor (VIF). The following are the results of the multicollinearity test:

**Table 2. Multicollinearity Test Results**

| Model | | Collinearity Statistics | |
|---|---|---|---|
| | | Tolerance | VIF |
| 1 | (Constant) | | |
| | ROA | ,919 | 1,088 |
| | DER | ,919 | 1,088 |

Source: Research Result (2023)

Based on table 4, it can be seen that the tolerance value (TOL) is greater than 0.1 (TOL > 0.10) and the results of the Variance Inflation Factor (VIF) calculation are less than 10 (VIF < 10). So it can be concluded that the regression model does not show correlation between independent variables or there are no symptoms of multicollinearity between independent variables.

3) Autocorrelation Test

Test whether the linear regression model has a noise error correlation between periods t-

1 (previous). When there is correlation, it is called an autocorrelation problem. A good regression model is a regression model that does not experience autocorrelation problems. Whether there is autocorrelation is recognized using criteria, namely a D-W number below -2 means positive autocorrelation, a D-W number between -2 and +2 means there is no autocorrelation, a D-W number above +2 means there is negative autocorrelation. The results of the autocorrelation test calculation can be presented in table 5 below:

**Table 3. Autocorrelation Test Results**

| Model | Durbin-Watson |
|---|---|
| 1 | 0,861 |

Source: Research Result (2023)

Based on table 3, it can be seen that the autocorrelation test value shows an equal Durbin-Watson value of 0.861 between -2 and +2. So it can be concluded that in the regression model there is no correlation between confounding errors in period 1-1 (previous), so there is no correlation (relationship) between one data and another.

4) Heteroscedasticity Test

The heteroscedasticity test aims to find out whether there are differences in residual variance from one observation to another. Whether there is heteroscedasticity or not can be determined by looking at whether there is a certain pattern in the dispersion between SRESID and ZPRED, where the y-axis is the predicted axis and the x-axis is the predicted residual. The results of the heteroscedasticity test can be seen in Figure 3 below:

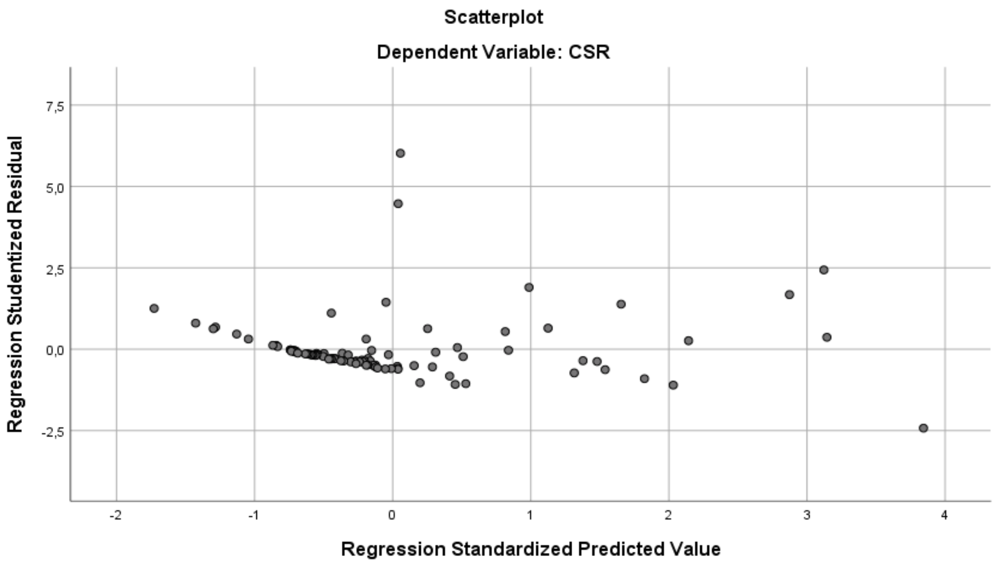


**Figure 3. Heteroskedasticity Test Results**

Source: Research Result (2023)

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From Figure 3, the results can be seen, namely that almost all the randomly distributed points do not form a clear pattern and some are distributed below the number 0 on the Y axis. The regression model can be used to determine company value based on independent variable input.

**c. Multiple Linear Regression Analysis Test**

Multiple linear regression analysis is used to find out how the factors used in the research model are related to profitability (ROA), leverage (DER) on corporate social responsibility (CSR) disclosure. The information obtained from the data table results is processed with SPSS using the calculation results shown in table 4 below:

**Table 4. Multiple Linear Regression Analysis Test Results**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | | Tolerance | VIF |
| 1 | (Constant) | 0,045 | 0,035 | | 1,299 | 0,197 | | |
| | ROA | 2,234 | 0,218 | 0,703 | 10,246 | 0,000 | 0,919 | 1,088 |
| | DER | 0,032 | 0,013 | 0,172 | 2,505 | 0,014 | 0,919 | 1,088 |
| a. Dependent Variable: CSR | | | | | | | | |

Source: Research Result (2023)

Based on table 4, an explanation of Corporate Social Responsibility (CSR) disclosure can be included in the multiple regression equation as follows:

CSR = 0,045 + 2,234ROA + 0,032DER + e

The explanation of the regression equation above is as follows:

1) The constant value shows that there is a positive influence of the independent variables, both ROA and DER, on the Corporate Social Responsibility (CSR) variable. This means that if the ROA and DER values increase, the CSR value will also increase. If the constant value is negative, the value of the independent variable will decrease and the dependent variable will also decrease. In addition, if the value of the independent variable is equal to zero, then the value of the dependent variable is equal to the constant value of -0.045.
2) The profitability coefficient (ROA) value is 2.234, which indicates that there is a one-way relationship between the profitability variable (ROA) and the corporate social responsibility (CSR) variable. Therefore, it can be interpreted that corporate social responsibility

(CSR) increases with increasing profitability.

3) The leverage ratio (DER) value is 0.032, so there is an inverse relationship between the leverage ratio (DER) variable and corporate social responsibility (CSR). Therefore, it can be interpreted that corporate social responsibility (CSR) decreases with increasing leverage ratio.

**d. F test**

The purpose of the F Test is to test the feasibility of the regression model. Testing was carried out with a significance level of 0.05 (α -5%). If the regression model value is less than 0.05 then the regression value is appropriate or good, conversely the regression model value is greater than 0.05 then the regression value indicates that it is not suitable or good (Ghozali, 2016). The F test results are presented in table 5 as follows:

**Table 5. F Test Results**

| ANOVA[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 5,170 | 2 | 2,585 | 68,462 | ,000[b] |
| | Residual | 3,549 | 94 | ,038 | | |
| | Total | 8,719 | 96 | | | |
| a. Dependent Variable: CSR | | | | | | |
| b. Predictors: (Constant), DER, ROA | | | | | | |

Source: Research Result (2023)

Based on table 5, it can be concluded that the calculated F value is 10.131 with a significance level of 0.000. Because the probability of significance is much smaller than 0.05, the results of the regression model show that this regression model can predict the independent (free) variable, namely ROA as a proxy for profitability. Leverage is represented by DER. Therefore, it is concluded that the research model used can be represented as a regression model.

**e. Coefficient of Determination**

The coefficient of determination shows the portion of the variance explained by the regression equation in the total variance. The coefficient of determination value is between zero and one. A small value or Rsquare means that the ability of the independent variable to explain the dependent variable is very limited. An independent variable with a value close to one means it provides almost all the information needed to predict variations in the dependent variable. The R value resulting from

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the determination test can be seen in table 6 as follows:

**Table 6. Coefficient Determination Test Results**

| Model Summary[b] | | | | | |
|---|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
| 1 | ,770[a] | ,593 | ,584 | ,19432 | ,861 |
| a. Predictors: (Constant), DER, ROA | | | | | |
| b. Dependent Variable: CSR | | | | | |

Source: Research Result (2023)

Based on table 6, the R-Square (R2) is 0.584 or 58.4%, meaning that the independent variable can explain 58.4% of the dependent variable, while the remaining 41.6% is explained by other independent variables that are not included in the model.

**f. Hypothesis Test (t Test)**

Hypothesis testing (t test) aims to partially test the influence of profitability (ROA) and leverage (DER) on corporate social responsibility (CSR) disclosure. The following are the results of the hypothesis test (t-test) in table 7 as follows:

**Table 7. Hypotesis Test Result (t-test)**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | ,045 | ,035 | | 1,299 | ,197 |
| | ROA | 2,234 | ,218 | ,,703 | 10,246 | ,000 |
| | DER | ,032 | ,013 | 0,172 | 2,505 | ,014 |

a. Dependent Variable: CSR

Source: Research Result (2023)

Based on table 7 above, the profitability variable as measured by the Ratio On Asset (ROA) has a significant value of 0.000 <0.05 and an unstandardized beta value of 2.234. Shows that the ROA ratio (Ratio On Assets) has a significant effect on Corporate Social Responsibility (CSR) disclosure. The leverage variable mediated by the Debt to Equity Ratio (DER) has a significant value of 0.014 <0.05 and an unstandardized beta value of -0.032. This shows that the leverage ratio (DER) influences corporate social responsibility (CSR) disclosure.

**g. The Influence of Profitability on Corporate social responsibility (CSR)**

Based on the first hypothesis, the research results show that the profitability of Corporate Social Responsibility (CSR) disclosure can be expressed by the profitability variable presented in the Return on Assets (ROA) proxy which has effect on Corporate Social Responsibility (CSR). This has been proven by test results which show a calculated t value of 10,246 with a significance value of 0.000 < 0.05 and an unstandardized beta value of 2,234 which shows a positive direction and has effect on Corporate Social Responsibility (CSR) disclosure. So it can be concluded that the first hypothesis that profitability influences disclosure of Corporate Social Responsibility (CSR) so that the hypothesis is accepted.

Thus, profitability illustrates that the higher the company's ability to generate greater profits, the more the company can increase its social responsibility and implement broader corporate social responsibility (CSR) disclosures in financial reports (Wibisono, 2007).

**h. The Influence of Leverage on Corporate social responsibility (CSR)**

Based on the second hypothesis, the research results show that leverage on Corporate Social Responsibility (CSR) disclosure can be expressed by the leverage variable presented in the Debt to Equity Ratio (DER) proxy which has effect on Corporate Social Responsibility (CSR). This has been proven by test results which show a t value of 2,505 with a significance value of 0.014 < 0.05 and an unstandardized beta value of 0,032 which shows a positive direction and has effect on the disclosure of Corporate Social Responsibility (CSR). So it can be concluded that the second hypothesis leverage has an effect on Corporate Social Responsibility (CSR) so the hypothesis is accepted.

The results of this study contradict agency theory, where companies with a higher level of leverage reveal more information because the agency costs of companies with such a capital structure are higher (Jensen and Meckling. 1976).

## 5. CONCLUSIONS

This research was conducted to empirically test the influence of profitability (ROA) and leverage (DER) on corporate social responsibility disclosure in mining companies listed on the Indonesia Stock Exchange from 2018 to 2022 based on the GRI-G4 (Global Reporting Initiatives) indicators. Based on the results of data analysis, it can be concluded that profitability and leverage have a significant positive effect on corporate social responsibility disclosure. This research uses profitability and leverage variables. In further research, other variables can be added that have an influence on corporate social responsibility.

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