The Influence of Corporate Social Responsibility Disclosure and Capital Structure on Earning Response Coefficient of Indonesian Mining Companies

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Abstract

This study aims to examine the influence of CSR disclosure and capital structure on ERC (Earning Response Coefficient) in mining companies listed on the Indonesia Stock Exchange (BEI) in the year 2018 – 2021. The result of the study will add findings regarding this topic for Indonesian mining companies which includes the period of pandemics. This research utilizes multiple linear regression using SPSS version 29 program. The findings of this study indicate that CSR disclosure has a significant negative influence on ERC. Meanwhile, capital structure does not have an impact on ERC.

Keywords: Capital structure, CSR disclosure, earning response coefficient.

Introduction

Mining sector become one of the most interesting sectors for investors and its contribution for government's revenues through mining royalties. As per 31 December 2022, the annual investment from moning sector was USD 5,69 billion, which wass higher than the investment target of USD 5,01 milyar. Mining royalti received for 2022 was Rp183,35 trillion, higher than the target of Rp 101,84 trillion. (www.minerba.esdm.go.id). Previously, pandemic conditions influenced the whole economy and its business sector, including mining sector. The demand of the mining products was weakened and then investors gave a negative response because of this economic uncertainty. The relatively high stock price of mining sectors in 2018 was decreasing through 2019 because of the decreasing of mining commodities and continued decreasing because of pandemic in 2020. The stock price then increased again at the end of 2021 since the economic recovery after pandemic. Below is the picture of the dynamics of Indonesian mining sector's stock price index.

It becomes interesting to explore further the response of mining sector's investors as they received financial and non-financial information from the stock issuer. Earning response coeeficient (ERC) can be used to determine the quality of earnings in financial and annual statements disclosed by companies (Awawdeh, Sakini & Nour, 2020). ERC can also be utilized to measure the signals conveyed by company information in the market, in line with signalling theory (Kristanti & Almilia, 2019). Market also be interested in the unexpected earnings announcement, where this reaction can be positive or negative. A low ERC means that there are less informative returns. While high ERC shows informative earnings (Sun et al., 2021).

The financial position report provides information about the capital structure of a company to investors. Capital structure refers to the ratio between debt and equity used by a company to conduct its business activities (Kristanti & Almilia, 2019). A company will be considered less favorable if a significant portion of its capital structure comes from debt (Wijayanti et al., 2020). This situation will lead to the company being considered as possessing a high risk. The capital structure will influence investor response. Companies with higher risk tend to receive smaller investments (Kristanti & Almilia, 2019).

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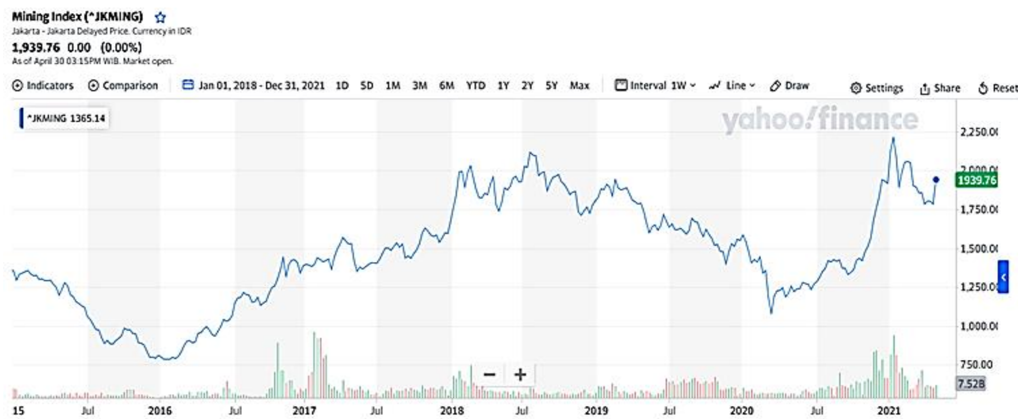

Figure 1. Indonesia Mining Share Price Index 2016 - 2021
Source: Yahoo Finance

Previous studies on the influence of capital structure on ERC have also produced varying results. The study by Wijayanti et al. (2020) indicates that capital structure has a negative impact on ERC. However, research conducted by Suhandi & Sutrisno (2022), Thoharo, Priyadi & Wahidahwati (2021), Sari & Rokhmania (2020), Sasongko, Puspawati & Wijayanto (2020), Kristanti & Almilia (2019), Widiatmoko & Indarti (2018), Marliyana & Khafid (2017), Pradandari et al. (2014), and Sandi (2013) suggests that capital structure does not significantly influence ERC.

Aside from financial information, investors also utilize non-financial information from companies as additional information as their decision-making basis (Groening; Kanuri, 2018). The use of non-financial information can protect investors from the actions of company management that tend to manipulate their financial reports to elicit a positive market response (Mayangsari & Aminah, 2013). One non-financial information that is commonly used by investors is Corporate Social Responsibility (CSR). CSR represents an obligation for businesses to show goodwill towards society, so that it can fulfil their economic responsibilities (Sarkar & Searcy, 2016). CSR activities are disclosed by companies through annual reports or sustainability reports.

Previous studies on the impact of CSR on ERC have shown different results. Research findings from Immanuel & Prabowo (2021), Anugrah & Dianawati (2020), Anggraini & Tanjung (2019), Kusuma & Subowo (2018), Gao & Zhang (2015), and Mayangsari & Aminah (2013) indicate that CSR disclosure has a positive influence on ERC. However, research findings from Wijayanti et al. (2020) and Kim, Seol, & Kang (2018) indicate that CSR disclosure has a negative impact on ERC. Moreover, studies by Kristanti & Almilia (2019), Awuy, Sayekti, & Purnamawati (2016), and Pradandari et al. (2014) show that CSR disclosure does not have an influence on ERC.

The researchers aim to re-examine the influence of these variables. The sample used in this study consists of companies in the mining sector listed on the Indonesia Stock Exchange (BEI), as the activities conducted by mining companies can result in significant environmental damage and social impacts. Furthermore, several regulations in Indonesia require mining companies to engage in and disclose CSR activities, as stipulated in Article 74 paragraph 1 of Law Number 40 of 2007 concerning Limited Liability Companies, article 108 paragraph 1 of Law Number 4 of 2009 concerning Mineral and Coal Mining (Amalia, 2o19) and Government Regulation Number 96 of 2021 concerning the Implementation of Mining Business Activities.

Literature Review

Stakeholders Theory

The Stakeholders Theory suggests that companies operate not only for their own interests but also strive to provide benefits to stakeholders (Anggraini & Tanjung, 2019). Companies are encouraged to build good relationships with stakeholders, one of which is through CSR disclosure to provide insights into the level of accountability, responsibility, and transparency of the company. Furthermore, CSR disclosure can serve as additional non-financial information for investors to assess the company's performance. CSR disclosure can influence the growth of the company, which can be measured through its impact on the company's stock price in the capital market (Freeman & Dmytriyev, 2017).

Signaling Theory

The Signaling Theory states that any information disclosed by a company can send signals to the market, thus influencing investor decision-making (Bae, Masud, & Kim, 2018; Connelly et al., 2011). In conducting an evaluation, investors rely on corporate information that is available in the market, which motivates companies to provide more information to reduce information asymmetry (Immanuel & Prabowo, 2021).

Typically, corporate information in the market consists of financial information and non-financial information (Anugrah & Dianawati, 2020). Financial information can take the form of financial statements, while non-financial information can take the form of CSR disclosure. Both types of information will provide either positive or negative signals to investors, which influence the assessment of a company as being either good or not (Anugrah & Dianawati, 2020). When the information sends a positive signal, the company is perceived positively by investors, leading to a positive response in the market. Vice versa, when the is a negative signal, the company is perceived negatively by investor then there will be market's negative respons.

Corporate Social Responsibility

According to Gatti et al. (2018), CSR is a social obligation for companies to take actions that reflect their business responsibility for the benefit of society as a form of social consequence of business success. According to Sánchez, Alemán, and Martin (2016), companies engaging in CSR activities demonstrate that they are committed to business ethics in conducting their operations. CSR disclosure is one way for companies to communicate their responsibility towards the environment and society to investors (Laskin, 2018).

Extractive sectors represent the group of companies with significant impacts on the environment, then there are success and failure in pursuing sustainable development goals. Mining sectors will implement at the core of strategic mining planning, not only to receive social or environment license to operate, includes considering sustainable energy usage and transportation (Jasińska & Jasiński, 2022).

Capital Structure

According to Wijayanti et al. (2020), capital structure represents the permanent financing that reflects the balance between debt and equity of the owners. The fluctuation in the value of capital structure can affect the financial position of the company (Sari & Rokhmania, 2020). Companies with a high capital structure are considered to have unfavorable financial conditions since a significant portion of their operating funds comes from debt rather than equity (Sari & Rokhmania, 2020).

The mining sector has substantial funding needs and in the long-term, relates with the facilities and infrastructures of extracting process. Since the capital structure could be seen from the side of the tangible assets, mining sector shows a capital-intensive structure, then there are needs to borrow from a wide range of different sources (Roosmawarni & Mauliddah, 2019).

Earnings Response Coefficient

The ERC is a coefficient that measures the abnormal return of a company's stock in the market in response to the unexpected earnings component of its earnings information (Kim, Seol, & Kang, 2017; Scott, 2015). The value of ERC can be illustrated through the company's stock price at the time of information release (Anugrah & Dianawati, 2020). The level of ERC indicates the positive or negative perception of investors towards the company's information. If the company's information is considered to provide a positive signal to investors, the ERC value will be higher (Hosseini et al., 2016).

The Influence of CSR Disclosure on ERC

CSR disclosures could affect price setting decision of any shares traded in the stock market (Kim, Seol, & Kang, 2017). Thos diclosures relate to stakeholder theory when company has not set profit as its ultimate goal but it also considers any other goals such as financial, environment and social aspects (Ibrahim et al, 2022). Any CSR disclosure will provide signals for investors and stakeholders and reduce any information asymmetry happened, then it will affect the investor's response (Anggraini & Tanjung, 2019, Kristanti & Almilia, 2019, Anugrah & Dianawati, 2020).

According to Immanuel & Prabowo (2021), CSR disclosure can send signals to investors, thereby influencing investor response in the market because CSR disclosure can provide information that reduces future uncertainty for the company and demonstrates the company's concern for stakeholders. If the company disclosed better information then the loyalty of shareholders is maintained and company's good popularity will affect the investor response (Sasongko, Puspawati & Wijayanto, 2020). For this reason, CSR disclosure has an impact on ERC. Previous studies by Immanuel & Prabowo (2021), Anugrah & Dianawati (2020), Anggraini & Tanjung (2019), Kusuma & Subowo (2018), Gao & Zhang (2015), and Mayangsari & Aminah (2013) also indicate that CSR disclosure positively influences ERC.
H$_1$: CSR disclosure positively influences ERC.

The Influence of Capital Structure on ER

Capital structure shows the proportion of how the company financed its assets, whether though owner's capital or from external debts. Related to signalling theory, this ratio will reduce any information asymmetry and hence will affect the investor's and creditor's decision making. A higher value of the company's capital structure indicates that the company has a higher level of debt compared to its equity (Suhandi & Sutrisno, 2022). Moreover, an increasing debt can reduce the company's profit due to the higher interest expense on the debt paid by the company to creditors (Sandi, 2013). When the company's profit decreases, the dividends distributed to investors also decrease. Therefore, capital structure can influence the value of ERC (Marliyana & Khafid, 2017).
H$_2$: Capital Structure negatively influences ERC.

Methodology

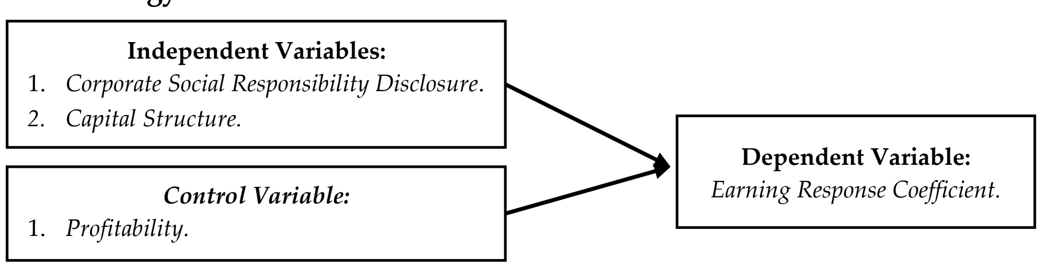

Figure 2. Analytical Model

Figure 2 is the analytical model for CSR disclosure and capital structure's influence on earning response coefficient (ERC).

Data Type and Source

This study is a quantitative research that utilizes secondary data from mining sector companies listed on the Indonesia Stock Exchange (IDX) during the years 2018 – 2021. Data on stock closing prices and the composite index (IHSG), which are used to calculate CAR, were obtained from the IDX website which was accessed at www.idx.co.id. The debt to equity ratio (DER) data was obtained from the companies' financial reports available on the IDX website or the companies' websites. The data on ROA and earnings after tax for calculating unexpected earnings were obtained through Bloomberg. The data on CSR disclosure is sourced from annual reports or sustainability reports obtained through the companies' websites.

Operational Variable Definition

Table 1 is the operational variable measurement for this research.

Table 1. Operational variable definition

Variable	Operational Variable Definition	Scale
Corporate Social Responsibility (CSR) disclosure	CSR disclosure is measured using the CSR Index (CSRI). CSRI is employed by comparing the indicators of CSR disclosure in companies (Xi) with the indicators of CSR disclosure according to the GRI standards of 2017 (n). $$CSRI = \Sigma \frac{Xi}{n}$$ The value of (Xi) is obtained by assigning a score of 1 if the CSR disclosure by the company aligns with the GRI Standards (Initiative, 2014). Conversely, if a company does not disclose CSR in accordance with the GRI Standards, it is assigned a score of 0. The amount of indicators in the GRI Standards is 86.	Ratio
Capital Structure	Capital structure is measured using the debt to equity ratio (DER). $$DER = \frac{Total\ Liabilities}{Total\ Shareholder's\ Equity}$$	Ratio
Earnings Response Coefficient (ERC)	ERC is measured by comparing the value of CAR and UE. ERC calculation formula: $$CAR_{it(-3,+3)} = \beta_0 + \beta_1 UE_{it} + \varepsilon\text{it}$$ $$\beta 1 = \frac{CAR_{it} - \beta 0}{UE_{it}}$$ Unexpected earnings calculation formula: $$UE_{it} = \frac{E_{it} - E_{it-1}}{E_{it-1}}$$ Cumulative abnormal return calculation formula: $$CAR_{it}(-3.+3) = \sum_{t=-3}^{+3} AR_{it}$$ Abnormal return calculation formula: $$AR_{it} = R_{it} - R_{mt}$$ Actual return calculation formula: $$R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}}$$ Expected return calculation formula: $$R_{mt} = \frac{IHSG_t - IHSG_{t-1}}{IHSG_{t-1}}$$	Ratio
Profitability	Profitability is measured by the company by using $$ROA = \frac{Earnings\ After\ Tax}{Total\ Asset}$$	Ratio

Data Analysis Technique

The data analysis technique in this study is multiple regression analysis using SPSS version 29. This analysis aims to determine the effect of independent variables and control variable on the dependent variable. The following are the steps to test the hypotheses and perform data analysis with descriptive statistical tests, classical assumption tests, and hypothesis testing.

Analysis and Discussion

Sample Overview

The number of companies in the mining sector listed on the IDX is 76 issuers. The sample size used in this study consists of 28 issuers as they have disclosed CSR from 2018 to 2021 in their annual reports or sustainability reports and included the publication dates of the annueal reports.

Table 2. Sample data

Sample Criteria	Number of Observations
Companies in the mining sector listed on the IDX.	76
Companies newly listed on the IDX in 2018 – 2021.	(13)
Companies that did not disclose CSR.	(25)
Companies with unknown publication dates of annual reports.	(10)
Initial number of processed companies.	28
Outliers.	(14)
Number of companies used after outliers.	16
Data year.	4
Number of data used in this study.	64

Descriptive Statistics Results

The results of descriptive statistics for earnings response coefficient, CSR disclosure, and capital structure are as Table 3.

Table 3. Descriptive statistics results

Descriptive Statistics					
	N	**Min**	**Max**	**Mean**	**Std.Dev**
ERC	64	-.2621	.183	.0034	.07954
CSR	64	.302	.825	.5018	.14335
DER	64	.0965	34.06	2.9676	5.45252
ROA	64	-0.141	0.520	0.0669	0.13005

The mean value of ERC indicates that investor response to earnings information from 2018 to 2021 is only 0.34%. This may be due to the presence of the COVID-19 pandemic during the years 2019-2021, which led to a decline in stock market conditions. The mean value of CSR disclosure is 0.5018, indicating that many companies have implemented CSR disclosure in accordance with the GRI Standards of 2017. Mining companies have recognized the importance of fulfilling their CSR disclosure obligations. The mean value of capital structure is 2.9676, indicating that mining sector companies have a debt proportion of 2.96 times higher than equity.

Normality Test

Table 4. Kolmogorov-Smirnov test results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		64
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.07658637
Most Extreme Differences	Absolute	.100
	Positive	.064
	Negative	-.100
Test Statistic		.100
Asymp. Sig. (2-tailed)		.185[d]

The results of the Kolmogorov-Smirnov test indicate that the data or regression model is normally distributed. This can be seen from the significance value in Table 4, which is greater than 0.05, specifically 0.185 or 18.5%.

Multicollinearity Test

Table 5. Multicollinearity test results

Multicollinearity Test Results		
Variable	**Tolerance**	**VIF**
CSR	0.899	1.112
DER	0.880	1.137
ROA	0.797	1.255

The variables of CSR disclosure, capital structure, and profitability have tolerance values above 0.1 and VIF values below 10, indicating no multicollinearity issues.

Autocorrelation Test

Table 6. Durbin-Watson test results

Dependent Variable	Durbin-Watson
ERC	2.165

The Durbin-Watson value is 2.165. This value falls between dU (1.6946) and 4-dU (2.3054), indicating no autocorrelation in the residual data of this regression model.

Heteroscedasticity Test

Table 7. Heteroscedasticity test results

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	.058	.027		2.142	.036
	X1 (CSR)	.016	.048	.044	.330	.742
	X2 (DER)	-.002	.001	-.217	-1.614	.112
	X3 (ROA)	-.053	.056	-.134	-.951	.346
a. Dependent Variable: Abs_Res1						

The sig values of CSR disclosure, capital structure, and profitability variables are greater than 0.05, indicating that there are no heteroscedasticity issues in this regression model.

Regression Analysis Results

The regression equation model in this study is as follows:

$Y = 0.083 – 0.153\ X1 - 0.000498\ X2 – 0.022\ X3 + \varepsilon$

Table 8. Multiple regression analysis

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	.083	.041		2.042	.046
	X1 (CSR)	-.153	.073	-.276	- 2.105	.040
	X2 (DER)	-.0.000498	.002	-.034	-.258	.798
	X3 (ROA)	-.022	.085	-.036	-.261	.795
a. Dependent Variable: ERC						

Hypothesis Test

Determination Coefficient (R^2) Test

Table 9. Determination coefficient test results

R Value	R Square	Adjusted R Square
0.270	0.073	0.027

The adjusted R-square value is 0.027 or 2.7%, indicating that the ability of CSR, DER, and ROA to explain ERC is only 2.7%. Thus, the remaining 97.3% is explained by other variables that are not discussed in this study.

Simultaneous Test (F Test)

Table 10. Simultaneous test (f test) results

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.029	3	.010	1.573	.205[b]
	Residual	.370	60	.006		
	Total	.399	63			

a. Dependent Variable: Y (ERC)
b. Predictors: (Constant), X3 (ROA), X2 (DER), X1 (CSR)

The sig value is 0.205 or > 0.05, which indicates that CSR, DER, and ROA variables simultaneously do not influence ERC.

Based on the partial test in Table 8 above, the results show that, partially, CSR disclosure has a significant influence on ERC, the variable DER does not have a significant influence on ERC, and ROA does not have a significant partial influence on ERC.

Discussion

CSR Disclosure Influence on ERC

CSR disclosure has an influence on ERC, thus the hypothesis is accepted. In this study, CSR disclosure has a negative influence on ERC, as the t-test value above is -2.105.

The findings of this study align with the research results of Wijayanti et al. (2020) and Kim, Seol, & Kang (2018), which state that CSR disclosure has a negative influence on ERC. The higher the level of CSR disclosure conducted by companies is, the lower the value of ERC becomes. It indicates that the ability of earnings to capture CSR implication is lower, whether the companies were still on early CSR stage or on defensive stance which could make overestimation of the potential benefits of CSR expenditure (Kim, et.al, 2017)

Capital Structure Influence on ERC

In this study, capital structure does not have a significant influence, as the significance value is greater than 0.05. Because of that, it can be concluded that capital structure does not have any effect on ERC, thus the hypothesis is rejected.

The findings of this study are in line with the research results of Suhandi & Sutrisno (2022), Thoharo, Priyadi & Wahidahwati (2021), Sari & Rokhmania (2020), Sasongko, Puspawati & Wijayanto (2020), Kristanti & Almilia (2019), Widiatmoko & Indarti (2018), Marliyana & Khafid (2017), Pradandari et al. (2014), and Sandi (2013), which state that capital structure does not significantly influence ERC. Investors do not use capital structure as the basis for their decision-making because capital structure is more predominantly utilized by debtholders (Suhandi & Sutrisno, 2022). Investors in the mining sector do not consider capital structure as important information for their decision-making process.

Conclusions and Recommendations

The study reveals that CSR disclosure has a negative influence on ERC. It indicates that a higher level of CSR disclosure by companies leads to a decrease in ERC. Capital structure does not have an influence on ERC, suggesting that the fluctuation of a company's capital structure does not affect the ERC value. The negative influence of CSR disclosure on ERC shows that investors still consider non-financial information in their investment decision-making, whether the companies were still on early CSR stage or the aggressive reporting of CSR make overestimation of the potential benefits of CSR expenditure The lack of influence that capital structure and profitability have on ERC implies that investors do not rely on financial information for their investment decision-making.

Limitation

Although there is a significant number of mining companies listed on the Indonesia Stock Exchange (IDX), the data available for this study was limited, comprising only 16 companies. Therefore, it is recommended for future research to utilize samples from other sectors.

Considering that the variables of CSR, DER, and ROA do not collectively influence ERC, it is suggested that future studies incorporate additional independent variables such as firm size, company growth, earning persistence, audit quality, and systematic risk.

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