The Effect of Family Ownership on Corporate Social Responsibility with Cost of Capital as Moderating

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Abstract. This study examines the effect of family ownership on the disclosure of corporate social responsibility (CSR). CSR in this study was proxied using GRI G4 disclosure items as many as 91 items. Meanwhile, family ownership is measured using the percentage of family ownership. In addition, this study also adds a moderating effect of the variable cost of capital which is proxied using the cost of debt. The population of this study are mining companies listed on the Indonesian stock exchange, as many as 56 companies with the year of observation from 2016 to 2020. The selected sample is 50 companies so that the observation data is 250 data. Hypothesis testing using panel regression analysis using the interaction model. The results show that family ownership has a positive effect on the extent of CSR disclosure, but it is not proven that the cost of debt can be a moderator in the effect of family ownership and CSR disclosure.

Keywords: CSR; Capital; Family Ownership

1 Introduction

The practice of implementing CSR (Corporate Social Responsibility) by companies in Indonesia is still an interesting topic to research. Although the Indonesian government has required companies to disclose CSR information in their annual reports. The results of research by Djajadikerta & Trireksani (2012) provide evidence that the level of CSR disclosure made by Indonesian companies is relatively low and the nature of the disclosure is mostly descriptive. The results of this study illustrate that in Indonesia, CSR practices are still in the early stages and companies still do not understand the importance of CSR. In East Asia, Indonesia ranks relatively high in terms of concentrated firms and firms under family control (Claessens, Djankov, Lang, & Kong, 2000). Several studies have proven that CSR information disclosure practices are also influenced by the form of company ownership, especially family ownership (Cabeza-garcía, Sacristán-navarro, & Gómez-ansón, 2017; El Ghoul, Guedhami, Wang, & Kwok, 2016; Elliott & Jacobson , 1994; Rees & Rodionova, 2014). Research by Rees & Rodionova (2014) and El Ghoul, Guedhami, Wang, & Kwok (2016) proves that in the Asian region, Indonesian companies under family control tend to have low CSR performance. The results of this study indicate a negative influence between companies with family ownership and CSR performance. Poor CSR performance in family-controlled companies has serious agency problems. This is in line with the research of Cabeza-garcía, Sacristán-navarro, & Gómez-ansón (2017) which provides evidence that both family ownership and/or power of

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family members in a company have a negative effect on the company's commitment to provide CSR information.

In contrast to the results of research by Dyer & Whetten (2006) and Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana (2010) that there is a positive influence between companies under family control and CSR performance. This is because family companies prioritize their reputation in front of shareholders. Family companies have the view that this reputation impact not only affects the company's performance but also the company's name. According to Kim et al. (2012) managers can use CSR information to improve the company's reputation and limit its opportunistic behavior. Family owners and managers also position the company as part of themselves so that when the company's reputation is not good, they will feel hurt.

The inconsistency of some of the results of these studies motivates researchers to re-examine the effect of family ownership on CSR in family companies in Indonesia. In addition, the development in this study is to add a moderating effect, namely the variable cost of capital which is proxied by the cost of debt. According to Bhuiyan (2018), the cost of debt can decrease when CSR disclosure is presented more broadly. This results in lower investment risk as well. Researchers chose the research year 2016 to 2020 and used the latest CSR practice guidelines, namely GRI G4 and disclosed in sustainability reporting. The GRI G4 guidelines are also used by researchers as a measure of the level of CSR disclosure by family companies. Meanwhile, family ownership in this study was measured using the percentage level of common stock ownership owned by family members (Wang, 2006). In addition, this study also adds a moderating effect, namely the cost of capital which is proxied using the cost of debt using the measurement of Francis et al. (2005).

As we know that by presenting CSR disclosures, corporate image can increase, a high corporate image will reduce company risk and information asymmetry. The company's low risk and small information asymmetry will attract investors to invest their capital in the company, so the company does not need to spend more to attract investors to invest so that it can reduce the company's cost of capital (Ariyani, 2013). When CSR disclosure is wider, it can further reduce the cost of debt (Bhuiyan & Nhung, 2019). Xu (2014) also explained that the wider the CSR disclosure made by the company is a signal given to investors, it will reduce transaction costs and risks assigned by investors to the company so as to reduce the company's cost of capital.

2 Methodology

The population in this study are mining companies listed on IDX from 2016 to 2020, which are 56 companies. The sample selection in this study was carried out using the slovin formula with quota sampling technique. The selected sample is 50 companies with 5 years of observation so that the number of observations is 250 data. Secondary data is used in this study by downloading the Sustainability reporting and Annual Report through the website of each company.

2.1. Variable Operations

2.1.1 Corporate Social Responsibility

The measurement of CSR as the dependent variable in this study uses a content analysis technique with reference to the GRI G4 indicators covering economic, social and environmental aspects. The researcher assigns a score of "1" to companies that provide information related to these CSR indicators and "0" if they do not provide such information. Furthermore, after giving the score, the researcher added and averaged the scores. The average CSR value of each company is used to find out how much the company discloses its CSR activities to the public.

2.1.2. Family Ownership

Referring to Wang (2006), the measurement of family ownership in this study uses the percentage of common stock ownership by members of the founding family. The large percentage of ownership is able to describe the voting power possessed by family members in decision making.

2.1.3. Cost of Capital

Cost of capital in this study is proxied using Cost of debt capital (COD) is the interest rate that must be paid by the company on its loans. The following formula for calculating COD refers to Francis et al. (2004).

$$COD_t = \frac{rd_t\,(1 - T_t)}{SD_t - LD_t}$$

Note: CODt is Cost of debt capital for year t; rdt is interest expense for year t; T1 is the rate of tax paid for year t; SDt is short-term debt for year t; and LDt is long-term debt for year t.

2.2. Research Model Test

This study presents the formulation of the hypothesis as follows:

H1: The percentage of family ownership has a positive effect on CSR disclosure

H2 : The effect of family ownership on CSR disclosure is moderated by the cost of debt

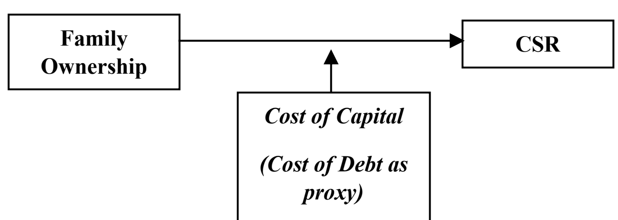

Figure 1. Model Penelitian

The first stage of testing in this study is to test the classical assumptions in this study, namely normality test, multicollinearity test, heteroscedasticity test and autocorrelation test. Furthermore, the data analysis to test the hypothesis in this study is panel regression analysis using the Eviews 12 analysis tool. The first regression test was conducted to examine the effect of the percentage of family ownership on CSR disclosure. Meanwhile, the second test examines the moderating effect, namely the cost of debt on the effect of the percentage of family ownership on CSR disclosure.

Model A (without interaction)
$CSR_{it} = \alpha + \beta 1FO_{it} + \beta_2 COD_{it} + e$

Model B (with interaction)
$CSR_{it} = \alpha + \beta 1FO_{it} + \beta_2 COD_{it} + \beta_3 FO_{it} * COD_{it} + e$

Information:
α = Constant
CSR_{it} = CSR disclosure item score divided by the number of GRI G4 standards
FO_{it} = percentage of family ownership
COD_{it} = cost of debt
$FO_{it} * COD_{it}$ = interaction of family ownership and cost of debt
$\beta_1, \beta_2, \beta_3$ = regression coefficient
e = error

3 Result and Discussion

Table 1 shows the statistical descriptive analysis for each variable used in this study. The number of observations processed in this study was 250 data using data from mining companies in Indonesia.

Table 1. Descriptive Statistics

	CSR	FO	COD	COD x FO
Mean	0.431793	0.056156	-1.83E+10	-1.75E+09
Median	0.428571	0.000000	-4714.995	0.000000
Maximum	0.747253	0.542000	8.00E+11	7.93E+10
Minimum	0.098901	0.000000	-3.82E+12	-7.52E+11
Std. Dev.	0.174673	0.117545	3.68E+11	4.86E+10
Observations	250	250	250	250

CSR = corporate social responsibility; FO = Family Ownership; COD= Cost of Debt; COD x FO = Interaksi cost of debt dan family ownership

After going through several stages of classical assumptions, namely normality test, multicollinearity test, heteroscedasticity test and autocorrelation test and passed for all of the classical assumptions, the researcher then entered the analysis stage of model selection using the help of EViews 12 software. right between Common Effect, Fixed Effect and Random Effect models. Based on the Chow test, the Common Effect model was chosen for this study. The results of panel data regression using common effects are shown in table 2.

Table 2. Regresi Data Panel

Dependent Variable: CSR
Method: Panel Least Squares
Total panel (balanced) observations: 250

	Variable	Coefficient	Std. Error	t-Statistic	Prob.
Model A (without interaction)	C	0.394553	0.011007	35.84690	0.0000*
	FO	0.668725	0.084581	7.906330	0.0000*

	COD	1.71E-14	2.70E-14	0.633033	0.5273
	R-squared	0.203264			
	Adjusted R-squared	0.196786			
	F-statistic	31.37978			
	Prob(F-statistic)	0.000000			
	Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
Model B (with interaction)	C	0.393887	0.011044	35.66651	0.0000*
	FO	0.684201	0.086705	7.891123	0.0000*
	COD	1.11E-14	2.80E-14	0.396241	0.6923
	COD * FO	1.79E-13	2.17E-13	0.822085	0.4118
	R-squared	0.205455			
	Adjusted R-squared	0.195726			
	F-statistic	21.11756			
	Prob(F-statistic)	0.000000			

CSR = corporate social responsibility; FO = Family Ownership; COD= Cost of Debt; COD x FO = Interaksi cost of debt dan family ownership

Model A examines the effect of the percentage of family ownership on CSR disclosure. Based on table 2, the family ownership variable shows p value <0.05 with a t-stat of 7.906330 which has a positive direction which means that there is a positive influence between CSR disclosure and the percentage of family ownership. These results support the first hypothesis in this study.

The results of this study support the research of Dyer & Whetten (2006), Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana (2010), Kim et al. (2012) and Hariadi et al. (2020) that family companies that tend to prioritize the company's reputation will use information on CSR as a company's strength to show its reputation in front of shareholders and the public. And this CSR is also able to cover up opportunistic behavior carried out by family members

Model B in this study examines the effect of the percentage of family ownership on CSR moderated by COD. Table 2 shows that the R square value of Model A to Model B has an increase of 0.002191. This means that the COD variable is able to moderate the effect of the percentage of family ownership on CSR disclosure but is not supported by the acquisition of the COD * FO p value of 0.4118 meaning p value > 0.05. Therefore, it can be interpreted that the interaction of the cost of debt as a moderator is not able to moderate the relationship between the percentage of family ownership and CSR disclosure so that the second hypothesis in this study is not supported.

The results of this study are in line with Yeh et al (2019) that high CSR performance is not accompanied by an increase in COD. Most of the low COD is shown in companies that have a high level of CSR performance. Creditors will provide a low cost of capital when the company is able to provide good CSR performance. In this study, it is similar that the extent of CSR disclosure made by family companies is not supported by the low cost of debt received by the company.

4 Conclusion

The conclusions that can be drawn in this study are first, the percentage of family ownership is able to encourage companies to disclose their CSR information more broadly. Family companies will try to improve the company's image by presenting CSR information that is seen as being able to benefit the company by increasing its reputation. In addition, family members and management within the company consider the company as part of themselves so that they will do their best to maintain the company's reputation even though the costs are high.

Second, the cost of debt in this study does not affect CSR disclosure and the cost of debt is not able to moderate the effect of the percentage of family ownership on CSR disclosure. The high CSR disclosure shown by family companies in fact does not become a driving factor for creditors to reduce the cost of capital they provide. So that the extent of CSR information on family companies is only a small part influenced by the cost of debt and has no significant impact.

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