THE RELATIONSHIP OF COMPANY DESCRIPTIVES AND CSR DISCLOSURE OF PUBLICLY-LISTED MANUFACTURING COMPANIES IN INDONESIA

Hendrik Yulius Pian
Business School
UPH Surabaya
Surabaya, Indonesia
hendrikpian@gmail.com

Maria Rochelle Divinagracia / Yanuar Dananjaya
Business School
UPH Surabaya
Surabaya, Indonesia
rgdivinagracia@gmail.com
ydananjaya@hotmail.com

ABSTRACT - ***The manufacturing industry is one of the major industries that have been attentive in issues on corporate social responsibility (CSR) and sustainable development. This research was designed to examine the relationship of company descriptives and CSR disclosure of publicly-listed manufacturing companies in Indonesia. Company descriptives was measured by company size, board of commissioner, company profitability, and financial leverage. CSR disclosure was measured using 50 CSR items from the ISO 26000:2010 Guidance on Social Responsibility. The population is 131 publicly-listed manufacturing companies listed at Indonesia Stock Exchange (IDX). However, only 34 publicly-listed manufacturing companies who consistently published annual reports and CSR disclosure for the years of 2008 to 2010 were used as the sample of this research. The technique for examining the hypotheses was multiple regression analysis. The results indicated that company descriptives have simultaneous significant effects on CSR disclosure. However, individually-tested, only company size has a significant effect on CSR disclosure. Moreover, there are only a few publicly-listed manufacturing companies in Indonesia that disclose CSR information through its annual reports.***

Keywords: CSR disclosure, company descriptives, company size, board of commissioner, company profitability, financial leverage

I. INTRODUCTION AND SIGNIFICANT CONTRIBUTION OF THE STUDY

In the era of globalization, companies are no longer able to conduct destructive and unethical practices without attracting negative feedback from the general public. With increased media attentions, pressures from non-governmental organizations, and rapid global information sharing, there is a surging demand from civil society, consumers, governments, and others for corporations to conduct sustainable business practices. Manufacturing industry is one of the most concerning business that have taken place in issues regard to pollution, natural resources diminishing, waste management, product quality and safety, employee right and status, and work safeties (Dewi, 2010). The concern on corporate social responsibility and sustainable development results in the creation of international standards to be used as guidelines in such framework, namely ISO 26000:2010 Guidance on Social Responsibility, IFC Performance Standards, Global Reporting Initiative, Triple Bottom, The Natural Step, and Isis-Compass of Sustainability (CSR Indonesia, 2011).

The sustainable development practices are then internationally issued to be a part of the company's responsibility for social sustainable development. In ISO 26000:2010 Guidance on Social Responsibility, corporate social responsibility is defined as the responsibility of an organization for the impact of its decisions and activities on society and the environment, through transparent and ethical behavior that contributes to sustainable development, health and the welfare of society takes into account the expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behavior; and is integrated throughout the organization and practiced in its relationships (CSR Indonesia, 2012). It comprises six-dimensions of corporate responsibility covering community development, human right, labor practices, fair operating practices, consumer issues, and environment. Beside as a guideline for companies in conducting its sustainable development, researcher as well used such framework to assess the CSR conducted by companies in Indonesia (Kartadjumena et al., 2011).

The information related to CSR is one of the most important information that needs to be disclosed within the companies' reports (Sembiring, 2005). The CSR can be viewed from the availability of financial and non-financial information related to the organizations interaction with the physical and social environment, which can be made into an annual company report or a separated social report (Guthrie and Mathews, 1985 in Sembiring, 2005). Although it is not mandatory to disclose the CSR activities, almost all companies listed on the Indonesia Capital Market has to reveal information about CSR in its annual report (Kartadjumena et al., 2011). The annual report then strengthen its goal to be a media to present the companies economic performance to investors, creditors, and government, as well as to present the societal performance of the company to related parties, namely the shareholders, employee, consumer, and other groups or individuals related and influenced by the company.

Related to the companies efforts to dislcose its CSR publicly, many previous researches have attempted to study the relation between the companies CSR disclosure with variables representing a company. The social impact of CSR disclosure differs across companies, even for companies in same industry. The factors that makes the difference are called as the company descriptives (Veronica, 2008). Company descriptives can be recognized from the company size, liquidity, company profitability, financial leverage, social constraints, company's age, companies profile, board of commissioner structure, company's origin, company's owner origin are some to mention. The stronger the characteristic of a company in contributing an impact to the society, the stonger the fulfilment of its CSR to public.

Previous researches have found the relation of CSR disclosure and company's descriptives using company size, board of commissioner, profibability, and financial leverage as the independent variable. Veronica (2008) found that company size does not have a significant effect to the company's CSR disclosure. This is in contrast with the findings of Sembiring (2005) that company size have a significant effect on the company's CSR disclosure. The size of Board of commissioner was proved to be highly related with the company's CSR disclosure from the study of Sari & Kholisoh (2009). The founding affirmed with the duties of commissioner as regulated in the National Committee of Governance Policy (2006).

Company profitability as another indicator of company descriptives used in Kartadjumena et al., (2011) proved to have a significant effect toward company's CSR disclosure. Meanwhile, Sembiring (2005) confirms that financial leverage does not have significant effect toward company's CSR disclosure. The founding of Sembiring (2005) coincide the legitimacy theory by Donovan and Gibson in Sembiring (2005) that the relationhship between profitability and level of CSR disclosures is when company has a high rate of profit, company assumes will not report something that can disturb information about financial companies success. Conversely, when company profitability is low, CSR disclosure will arise; company hopes that the users will read reporting performance of the company as a good news and thus investors will still invest in the company.

According to Belkaoui and Karpik (1989) in Sembiring (2005), the decision to disclose social information will be followed by an expense that will decrease the income. Based on the agency theory, thus the company's management with high financial leverage will decrease its CSR disclosure in order to not to be highlighted or spotted by the debtholders. This theory was confirmed by the finding of Veronica (2008) and Sembiring (2005) confirming that financial leverage does not have significant effect with the companies CSR disclosure.

Based on the background presented, the researcher is determined to conduct a study entitled **"The Relationship of Company Descriptives and CSR Disclosure of Publicly-Listed Manufacturing Companies in Indonesia"**.

II. RESEARCH METHOD

Research design used a quantitative method. The purpose of using this design is to test the hypotheses that are constructed based on the theories and previous researches. The research investigated the causal relationship of company descriptives with indicators of company size, board of commissioner, company profitability, and financial leverage toward companies' CSR disclosure. The unit of analysis is a group of publicly-listed manufacturing companies in Indonesia. The research used a time-series data.

This research used secondary data. Data was gathered from the annual reports of publicly-listed manufacturing companies' in the Indonesia Stock Exchange. Annual reports for the periods of

2008, 2009, and 2010were retrieved from the Indonesia Stock Exchange website (www.idx.co.id), financial computers at the University of Pelita Harapan Surabaya library, and the companies' official website.

All publicly-listed manufacturing companies in the Indonesia Stock exchange from the year 2008 to 2010 were used as the population of this research. From the total population of 131 publicly-listed manufacturing companies, not all of the companies were taken as the sample. The selected companies met the following criteria:

1. The manufacturing company is listed on the Indonesia Stock Exchange from the year 2008 to 2010.
2. The company reports and discloses CSR activities annually.
3. The company's annual report includes the total number of employees, total number of commissioners in the board, earnings per share, and the company's debt to equity ratio for three consecutive years (2008-2010).

From a total number of 131 publicly-listed manufacturing companies in Indonesia, only 34 companies were taken as the sample of this research. The 34 companies consistently published annual reports or other separated reports that include the company's total number of employees, total commissioner in the board, its earnings per share in Rupiah, and the company's debt to equity ratio (company's descriptives) and CSR disclosure. Therefore, a total number of 102 reports (34 companies report in 2008, 2009, and 2010) were gathered and processed.

Content analysis is used to measure CSR disclosure. Content analysis is a text codification method with the same characteristic to be printed or included with a variety of groups or category depending on the criteria defined. Based on such code, a quantitative scale then is made to be analyzed further. Krippendorff (1980) in Milne & Adler (1999) stated that content analysis is a research technique that can be used to make a valid and reliable conclusion from the data based on the context.

III. RESULTS

Table of Simultaneous Significance Test of Company Descriptives

Model	F-test	Sig	Result
Company Descriptives	4.270	0.003	Accepted

The significance probability value is 0.003 which is less than 0.05. Therefore, company descriptives simultaneously affect CSR Disclosure. In other words, the regression model is appropriate to predict CSR disclosure variable. In conclusion, with a significance level of 5%, H_5 is accepted. All company descriptives (Company Size, Board of Commissioner, Company Profitability, and Financial Leverage) jointly affect the companies' CSR disclosure.

Table of Individual Significance Test of Company Descriptives

Model	Standardized Coefficient Beta	Sig	Result
Company Size (CS)	0.290	0.008	Accepted
Board of Commissioner (BC)	0.157	0.134	Rejected
Earnings per Share	0.031	0.750	Rejected
Debt to Equity Ratio	-0.019	0.846	Rejected

Only Company Size (CS) variable has a significant positive effect toward CSR disclosure. Therefore, H_1 is accepted. Other company descriptives such as the number of commissioner in the board, Earning per Share, and Debt to Equity Ratio have significance higher than 0.05. Therefore, proposed H_2, H_3, and H_4 are rejected. These findings suggest that the number of commissioners on the Board, Company profitability in terms of earnings per share, and Financial leverage in terms of debt to equity ratio have no significant effect on CSR disclosure, respectively. Positive and negative relations were found from the statistical tests, but not statistically significant to affect CSR disclosure.

IV. CONCLUSION

From a total of 131 publicly-listed manufacturing companies in Indonesia, only 34 companies consistently published annual reports. Results showed that there are some industrial sectors that do not disclose CSR information like plastics and packaging industry, wood processing industry, footwear industry, electronics industry, and house appliances industry sectors. Meanwhile, companies that disclose CSR information in the annual reports came from the chemicals industry, automotive and components industry, cement production industry, feedings industry, and cigarettes industry sectors.

All company descriptives were found to have a simultaneous effect toward CSR disclosure. This implies that company size, board of commissioner, company profitability, and financial leverage simultaneously affect company's CSR disclosure. Previous researches that studied about relationship of company descriptives (also called company characteristics) and CSR disclosure found that there is a relationship on both variables. This proves that company descriptives is eligible to be taken into account in the provision of the extent and presence of variation in the voluntary disclosure of CSR information (Healy & Palepu, 2001; Sembiring, 2005; Rosmasita, 2007; Shirley, 2007; Veronica, 2008; Rawi, 2008; Sari & Kholisoh, 2009; Waryanto, 2010; and Kartadjumena et al., 2011). Company descriptives therefore, become a disclosure quality predictor.

This research confirms the agency theory and also confirms other previous researches related to the relation of Company Size and the CSR Disclosure like in Sembiring (2005), Veronica (2008), Gamerschlag (2010), and Premana (2011). The previous researchers found that the bigger the company size then the higher it would be of the CSR disclosure reported by a company.

The research finding also confirms the assumption of Matoussi & Chakroun (2008) who assumed that the total number of people or commissioners in the board of commissioner do not have a significant effect on the company's CSR disclosure. However, this research found that a good quality of corporate governance can incite companies to disclose voluntarily.

In this research, company profitability is indicated by the earnings per share value. Company profitability did not have a significant effect on CSR disclosure. Neither high nor low value of company profitability would not affect the CSR Disclosure reporting of a company. A company that has high profitability might not choose to disclose more information related to social activity since it is concerned more on producing profit, likewise, a company with low profitability might find it difficult to disclose mo information related to social activity since it might be considered costly or useless to incite a higher profit for the company (Devina, 2004). This finding thus confirms the assumption of Donovan and Gibson in Sembiring (2005) and Naser et al., (2006) that assumes company profitability does not significantly affect CSR disclosure of a company.

In this research, financial leverage is measured by Debt to Equity ratio, which shows a negative and not significant relation of financial leverage toward CSR disclosure. Neither high nor low degree of leverage would significantly affect the level of CSR disclosed by a company. This research therefore confirms the study of Sembiring (2005) and Veronica (2008) whom found that financial leverage does not have a positive effect with the companies CSR disclosure. According to Belkaoui and Karpik (1989) in Sembiring (2005) and Rawi (2008), the decision to disclose social information will be followed by an expense that will decrease the income, however, neither decrease nor increase in income would have any effect on the associated leverage degree as well as to the company's voluntary decision to disclose CSR.

Manufacturing companies as well as other companies in Indonesia can benchmark to disclose the practice and information of CSR activity that have been done by other companies. Government should clearly and firmly regulate specific and detailed regulations to manage and control the practice and disclosure of Corporate Social Responsibility activities in Indonesia.

Further research or study should consider including more period of observation to better examine CSR disclosures in Indonesia. Variables such as Good Corporate Governance characteristics, Return on Asset ratio, company value, and company age maybe taken into account as company descriptives that will determine the company's CSR disclosure.

REFERENCES

CSR Indonesia. (2012). *ISO 26000:2010 Guidance on Social Repsonsibility.* Surabaya: Lingkar Studi CSR.

CSR Indonesia. (2011). *Konsep dan Standar Pembangunan Berkelanjutan.* Jakarta: CSR Indonesia.

Dewi, S. N. (2010). *Pengaruh karakteristik perusahaan terhadap pengungkapan tanggung jawab sosial perusahaan pada perusahaan manufaktur yang terdaftar di bursa efek indonesia.* Surakarta: Universitas Muhammadiyah Surakarta.

Gamerschlag, R., Moller, K., & Verbeeten, F. (2010). Determinants of voluntary csr disclosure: empirical evidence from germany. *Springerlink Online* .

Healy, P. M., & Palepu, K. G. (2001). Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature. *Journal of Accounting and Economics 31* , 405-440.

Kartadjumena, E., Hadi, D. A., & Budiana, N. (2011). The relationship of profit and corporate social responsibility disclosure (Survey on manufacture industry in indonesia). *International Conference on Business and Economic Research* (pp. 2198-2212). Langkawi Kedah, Malaysia: ICBER 2011.

Matoussi, H., & Chakroun, R. (2008). Board composition, ownership structure, and voluntary disclosure in annual reports: Evidence from Tunisia. *Laboratoire Interdisciplinaire De Gestion Universite_Entreprise (LIGUE).*

Milne, M. J., & Adler, R. W. (1999). Exploring the reliability of social and environmental disclosures content analysis. *Accounting, Auditing & Accountability Journal Vol 12* , 237-256.

Naser, K., Al-Hussaini, A., Al-Kwari, D., & Nuseibeh, R. (2006). Determinants of corporate social disclosure in developing countries: The case of qatar. *Advances in International Accounting Vol. 19* , 1-23.

National Committee of Governance Policy. (2006). *Pedoman umum good corporate governance indonesia.* Jakarta: Komite Nasional Kebijakan Governance.

Rawi. (2008). Pengaruh kepemilikan manajemen, institusi, dan leverage terhadap corporate social reponsibility pada perusahaan manufaktur yang listing di bursa efek indonesia. *Universitas Diponegoro* .

Rosmasita, H. (2007). Faktor-faktor yang mempengaruhi pengungkapan sosial (sosial disclosure) dalam laporan keuangan tahunan perusahaan manufaktur di bursa efek jakarta. *Universitas Islam Indonesia* .

Sari, P. N., & Kholisoh, L. (2009). Pengaruh karakteristik perusahaan terhadap corporate social responsibility disclosure pada perusahaan manufaktur. *Universitas Gunadarma* .

Sembiring, E. R. (2005). Karakteristik perusahaan dan pengungkapan tanggung jawab sosoial: Studi empirical pada perusahaan yang tercatat di bursa efek jakarta. *SNA VIII* , 379-395.

Shirley, C. (2007). Corporate social responsibility reporting in malaysia: An analysis of website reporting of second board companies listed in bursa malaysia. *SEGi University College* , 85-110.

Veronica, T. M. (2008). Pengaruh karakteristk perusahaan terhadap pengungkapan tanggungjawab sosial pada perusahaan sektor pertambangan yang terdaftar di bursa efek indonesia. *Universitas Gunadarma* .

Waryanto. (2010). Pengaruh karakteristik good corporate governance terhadap luas pengungkapan corporate social responsibility di indonesia. *Universitas Diponegoro* .