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Determinant of Corporate Social Responsibility Disclosure and its Impact on Company's Market Performance

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ABSTRACT

This study examined the effect of firm performance, risk, and foreign ownership on Indonesian public manufacturing companies' CSR disclosure and market performance. A quantitative method, the multiple linear regression two stage, was used to analyze four hypotheses. The sample was 221 firm years in the 2015-2019 period. The results showed that the financial performance and financial risk variables affected the scope of corporate social responsibility disclosure. Foreign ownership structure has no significant effect on disclosure of corporate social responsibility. The size of corporate social responsibility disclosure influenced the market performance. The research implication is that management can use CSR as a market value leverage. To be able to expand disclosure, the company must have a good performance. An increase in corporate debt increases the risk faced by the company. Management can use CSR for reduce the impact of the increasing financial risk.

***KEYWORDS**: corporate social responsibility, firm performance, financial risk, market performance, foreign ownership*

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INTRODUCTION

All companies in various business sectors in Indonesia mostly claim that their companies have carried out their social obligations to the company's environment. Corporate social responsibilities (CSR) disclosure by most companies in Indonesia is motivated to increase public confidence in improving its environment [1]. In addition to efforts to improve the environment, the company also participates in community service, such as providing jobs to the community around the company, enhancing community education, health services, etc.

CSR is one of several corporate responsibilities to stakeholders. Stakeholders are people or groups who can influence and be influenced by various decisions, policies, and company operations. These stakeholders are external and internal parties of the company, such as the community, government, environment, employees, debtors, creditors, and others [2].

Market performance is an essential thing for a public company. It determines the selling value of a company as an operating business. The higher the market performance, the higher the selling value the company has. Public companies strive to increase the value of their companies through sound financial management. The purpose of financial management carried out by a company is to improve the market performance, as seen from its stock market price [3], [4]. The company's performance causes the market performance that the company owns during a specific period. The companies with satisfactory performance will have a high corporate value level because of good judgment from the community. Companies with high corporate values will be more attractive to investors because they are considered more capable of providing maximum prosperity.

Market performance reflects the performance of a company so that it can influence investors' perceptions. Therefore, a company that can maintain and increase the market performance for several periods it owns will get a fair assessment from investors. The market performance causes a condition for the emergence of public trust in the company. Thus, the market performance that is owned will always continue to increase from year to year. Various studies related to CSR disclosure show several different results [5]–[7].

Based on the inconsistency previous empirical findings, the research problem is whether the financial risk, firm performance ratio, and the foreign ownership structure affect CSR disclosure. The second problem is CSR's effect on manufacturing companies' market performance listed on the Indonesia Stock Exchange.

LITERATUR REVIEW

CSR disclosure is carried out to get positive value and legitimacy from the community. The CSR disclosure is a report on social responsibility activities carried out by the company regarding social and environmental impact issues.

The information is an integral part of the annual report accountable to the directors' board before the shareholders' general meeting.

CSR disclosures are generally voluntary, unaudited, and unregulated [8], [9]. Therefore, business entities have the freedom to disclose information that is not required by the capital market administering bodies. Diversity in disclosure is caused by business entities managed by managers who have different managerial philosophical views and the breadth concerning disclosing information to the public. The company has now begun to realize that its survival depends on its relationship with its community and environment. The company's activities must reflect or be following the values contained in society.

Research Hypothesis

Stakeholder theory states that companies need to provide information about their stakeholders' firm performance to know its activities. The higher the level of firm performance, the greater the CSR level to describe its performance so that the community can accept the company [10], [11].

Companies that generate profits have an incentive to differentiate themselves from other companies that are less profitable. One way to differentiate yourself is by providing CSR information. Companies that have bad news tend not to disclose information related to bad news to the market, aiming that its value does not decrease. Companies with good news will convey information to the market, where one way is in the form of a complete CSR disclosure in the annual report [12], [13]. Full information on annual reports is expected to have a positive impact on the company. If the disclosure of good news is not carried out, the market will interpret it as bad news to impact its low valuation.

Companies with high firm performance will tend to provide more detailed information because they want to convince investors of their firm performance. Also, companies that have high firm performance have more opportunities to carry out CSR activities. Companies will provide more detailed disclosures regarding their social responsibility so that the public, investors, creditors, and other interested parties know with certainty the company's social responsibility [14], [15]. The low firm performance encourages managers to disclose company information more broadly to convince all existing stakeholders. The first hypothesis proposed is:

H1: The firm performance affects the disclosure of CSR public manufacturing companies.

Financial risk is a tool to measure how much a company depends on creditors in financing its assets. The high level of loans encourages creditors to take an active role in overseeing the company. Debt provides a signal about the company's financial condition to find out its obligations. Therefore, companies need to provide other information to divert their supervision, such as disclosing social responsibility activities [16].

Companies with a high financial risk ratio will disclose more increased social disclosures because the financial risk ratio is used to view the risk of debt uncollectibility [17]. Additional information is needed to remove doubts from bondholders regarding the fulfillment of their rights as creditors. Larger financial risks companies are due to higher debt. It can lead to a decrease in other parties' confidence in the company's ability to return its funds.

Companies with high financial risk need to provide more disclosure because they have to explain to investors, creditors, or other interested parties about their ability to pay debts and the impact of these loans on CSR, employees, and the company's community and environment [18]. Companies with high financial risk ratios try to convey more information as an instrument to reduce monitoring costs for investors so that companies with high financial risk will disclose more social responsibility information than companies with lower financial risk [19], [20]. The second hypothesis proposed is:

H2: The firm financial risk affects the disclosure of CSR public manufacturing companies.

Foreign ownership is the proportion of ownership by foreign individuals and institutions. Many studies use foreign ownership as an independent variable that affects CSR disclosure in company annual reports. The more significant the proportion of company share ownership owned by the public, the more parties will need information about the company to disclose more items in the annual report. In this case, the definition of a public is outside management and does not have a special relationship with the company [21].

The difference in the proportion of shares owned by outsiders will increasingly affect its completeness of disclosure. Lower concentration of ownership results in a conflict of interest between the principal and the agent [22]. Management should disclose more voluntary information to meet the demands of shareholders spread to the public to reduce the potential for higher agency costs and prevent information asymmetry between the principal and the agent [1], [21]. The third hypothesis proposed is:

H3: The structure of the company's foreign ownership affects the extent of the disclosure of CSR manufacturing companies

CSR is a business way of aligning market performances and their society and external stakeholders. The CSR program can contribute to the development of the social environment in which the company operates. CSR can contribute to sustainable economic growth, thereby improving the quality of life. CSR activities can also help companies gain legitimacy for their business operation activities.

CSR disclosure will be submitted to the market as a signal [4]. It is because the company's CSR disclosure is a positive signal for the company. Individual investors are now more interested in social information reported by companies in annual reports. The company's CSR disclosure cost is also one of managers' efforts to show its prospects. Managers try to provide a clue to investors regarding the prospect market performance [23]. Thus, investors will be able to determine whether or not they want to invest in the company.

Information signals related to CSR implementation from company managers that are well responded to by the market will affect market performance. If investors trust the signal regarding positive information, such as the possibility of future profits, it can increase the stock price and trading volume. Thus, the better the company's report, the better the company's stock performance will be.

The previous paragraph explains an alleged influence between the implementation of a company's CSR disclosure on market performance. CSR has an indirect effect on market performance. CSR disclosure affects market performance. Thus, the implementation of CSR disclosure is directly proportional to market performance [5], [24], [25]. Therefore, the fourth hypothesis proposed is:

H4: CSR disclosure has a positive effect on the market performance of public manufacturing companies.

Based on the literature review, the framework of this study is as following in figure 1.

Figure 1: Research framework

RESEARCH METHODS

Types of research This research is a quantitative study. The answers to the problems use hypothesis testing, which aims to test the researcher's hypothesis. This study examines CSR disclosure's firm characteristics and the impact on market performance in manufacturing companies listed on the Indonesia Stock Exchange (IDX).

Population and Sample

The target population was 143 manufacturing companies listed on the Indonesia Stock Exchange. Determination of the sample using purposive sampling method with specific criteria. The selected sample has the following criteria:

A. Companies are listed on the IDX from 2015 to 2019.
B. Complete data on the research variables studied are available in the annual reports published from 2015 to 2019.
C. Companies present the structure of foreign ownership data.

Operational Definition and Variable Measurement,

The operational definition is the way of measuring these variables. An operational definition can also be used as a defining definition used as a guide for carrying out an activity or research work, the variable to be explored is CSR. The performance of this CSR variable will then be measured using content analysis. Researchers used the content analysis method. Content analysis is a scientific method for studying and drawing conclusions on a phenomenon by utilizing. A score of 0 is given if the performance indicator is not disclosed and one if it is announced. Next, the scores of each of these items are added up to get the total score.

The measurement of the independent variables is carried out as follows:

1. Return on assets (ROA) measures firm performance. ROA is one of the firm performance ratios that can measure its ability to generate profits from its assets.
2. Financial risk ratios. This study uses the debttoequity ratio (DER) as a proxy for the firm financial risk.
3. Foreign ownership structure. The ownership structure will be measured by the percentage of shares owned by foreigners.
4. Market performance can is measured using the Price Book Value Ratio (PBV). PBV can provide an overview of the potential movement of a stock. The PBV ratio is a ratio that compares the comparison between the market value and the book value.

Data analysis

Multiple linear regression two stage is used to calculate the quantitative effect of a change in the events (independent) on another event (dependent). The research used to test the equation is mathematically summarized as follows:

First stage is

$$Z = \alpha + \beta1\ ROA + \beta2\ DER + \beta3\ FSH + e \qquad (1)$$

Second stage is

$$Y = \alpha + \beta4\ Z + e \qquad (2)$$

With:

ROA is the return on asset, the proxy of firm performance;

DER is debt to equity ratio, the proxy of financial risk;

FSH is foreign ownership;

Z is CSR disclosure scope;

Y is PBV, the proxy of market performance.

RESULTS AND DISCUSSION

The population used are all manufacturing companies listed on the Indonesia Stock Exchange (BEI) in 2015-2018. Researchers use manufacturing companies as samples because manufacturing companies continue to progress over time. The data used are the annual report in 2015-2018, with criteria following the research objectives. Based on predetermined criteria, there is a 221 firm-year sample.

Hypothesis Testing

Based on the results of the adjusted R square in the table, it demonstrates that the adjusted R^2 value is 0.171. It shows that X1, X2, X3 can explain other variables outside the equation explain 17.1% of the Y variable and the remaining 82.9%. The second adjusted R^2 is the coefficient of determination for the relationship between CSR and market performance. The result is 4.6%. It means that the CSR disclosure variable can explain the 4.6% changes that occur in market performance.

The T-test is carried out in a study to know the partial effect or influence of each independent variable on the dependent variable. The following are the results of the T-test calculations that have been carried out:

Table 1: Result of hypothesis testing

	Beta	T	Sig.
ROA	0.433	3.405	0.000**
DER	0.198	2.487	0.013*
FSH	-0.089	-1.566	0.141
Adj. R square	0.171		
FV	0.496	2.712	0.000**
Adj. R square	0.046		

Source: processed data: 2021

Data on table 1 show several explanations related to the influence of the independent variable on the dependent variable. The following is an explanation of the test results.

Firm performance: The firm performance variable proxied by ROA in Table 1 has a statistical t value of 3,985 and a sig value of 0,000. The sig value (0.000) < (0.05) means that the firm performance variable is significant at the 5% level, and the hypothesis (H1) is accepted. The conclusion is that the firm performance variable has a statistically significant positive effect on CSR disclosure.

Financial risk: In Table 1, the financial risk variable or DER has a t-value of 2.456 and a significance of 0.016. The sig value is 0.016 < 0.05, this means that the financial risk variable (DER) is significant at the 5% level, and the hypothesis (H2) is accepted. It can be concluded that the financial risk variable has a statistically significant positive effect on CSR disclosure.

From Table 1, it can be seen that the variable of foreign ownership structure has a t-value of -1.602 and sig 0.113. The significance value is 0.113> 0.05, which means that the foreign ownership structure variable is not significant at the 5% level, so the hypothesis (H3) is rejected. Based on these data, it can be concluded that the foreign ownership structure variable does not statistically have a significant effect on CSR disclosure.

The research results indicate that the CSR variable, as measured by the CSR information disclosure index, positively affects market performance. This study demonstrates that the reporting of CSR activities carried out by companies has a direct impact on market performance. Thus, this study's results are hypothesis H2 which states that CSR has a positive effect on market performance is accepted.

Discussion

The effect of firm performance on CSR disclosure significantly impacts the extent of CSR disclosure. Firm performance is proxied by ROA, so if the level of firm performance is high, the greater or greater the scope of CSR disclosure, it is intended that the company can further increase firm performance in the future.

This research is also in line with stakeholder theory, where companies need to provide information about firm performance to their stakeholders to know what the company is doing. The higher the level of firm performance, the greater the level of disclosure of social responsibility, or in other words, if the company has a high level of firm performance, it will be able to carry out social responsibility activities so that the community can accept the company. Meanwhile, the greater the company's profit, the more extensive the company discloses the social information. It is done to reduce the agency costs that arise. The findings align with previous research [14], [15]. They concluded positive performance influence CSR disclosure.

Financial risk is a tool to measure how much a company depends on creditors in financing its assets. Companies need to provide information to all parties interested in the company in a transparent manner. It means that companies do not only do according to their interests. Companies need to think about and provide benefits to those interested in the company. Companies with a high financial risk ratio will disclose higher social disclosures because the financial risk ratio is used to view the company's capital structure to see the risk of debt uncollectibility. The result supports the previous research [19], [20]. They demonstrated debt drive management to present more comprehensive voluntary disclosure as CSR activities report.

Companies with significant financial risks have due to high debt. It can lead to a decrease in other parties' confidence in the company's ability to return its funds. When it is related to the theory of legitimacy, companies with high debt need to disclose their CSR so that the company continues to gain trust and positive reactions from other parties. The foreign ownership structure variable does not statistically have a significant effect on CSR disclosure.

This result contrast with previous research [1], [21]. In empirical fact, the level of foreign-owned shares is not able to influence CSR disclosure in the financial statements. It could be a reasonably high sensitivity to the surrounding environment, a high enough political risk, or a tight competition in its business environment. The foreign ownership structure does not affect CSR disclosure.

The results indicate a positive influence between CSR disclosures and market performance. It suggests that the sample companies have been maximal in carrying out CSR activities. Therefore, the market performance achieved is a reflection of the expectations of the stakeholders. If the company can maximize the benefits received by stakeholders, it will create satisfaction from stakeholders.

CSR activities have an effect on market performance which the impact of CSR activities can also cause. The market performance causes a condition for the emergence of public trust in the company after going through a process of activity for several years, namely when the company was founded to the present. This result similar to previous research [5], [24], [25]. Companies that carry out environmental activities well will get increased revenue in the long run. The company must produce more comprehensive CSR disclosure to increase the firm value in the long term.

CONCLUSION AND LIMITATIONS

Conclusion

This study examines firm performance, financial risk, and foreign ownership structure on CSR disclosure in manufacturing companies' financial statements. The following conclusions can be drawn:

1. CSR disclosure has a direct influence on market performance. The results indicate that the scope of CSR disclosure determines the market performance of manufacturing companies.
2. The financial risk of the firm influences CSR disclosure. The more significant the financial risk, the more comprehensive CSR disclosure.
3. Firm performance influences market performance. This study indicates that manufacturing companies' better performance in Indonesia will have a more excellent firm value.
4. The foreign ownership structure variable does not statistically have a significant effect on CSR disclosure.

Limitations

This research is inseparable from the limitations that require improvement and development in further studies. The limitations of this study are:

1. The value of adjusted R square is only 17.1% and 4.6%, which means that the model can only explain a little concerning the determinants of the extent of CSR disclosure. Many other variables influence the market performance that has not been examined.
2. Selection of a relatively short study period so that the results are obtained.

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