May-June 2020
ISSN: 0193-4120 Page No. 7168 - 7172

Disclosure Corporate Social Responsibility and Earning Response Coefficient Companies in Indonesia

Memed Sueb[1]* and Amir Machmud[2]
[1]Universitas Padjadjaran, Indonesia
[2]Universitas Pendidikan Indonesia
Memed.sueb@fe.unpad.ac.id[1*], amir@upi.edu[2]

Article Info
Volume 83
Page Number: 7168 - 7172
Publication Issue:
March - April 2020

Abstract
This study aims to analyze the effect of Corporate Social Responsibility (CSR disclosure) disclosure on Earning Response Coefficient (ERC) companies in Indonesia. The study method uses explanatory surveys with data collection techniques sourced from the Indonesia Stock Exchange report. The samples used were as many as 150 companies listed on the Indonesia Stock Exchange in 2018. The collected data was then analyzed using multiple regression analysis. The results of the study indicate that the disclosure of Corporate Social Responsibility does not affect the Earning Response Coefficient (ERC). This finding implies that investors have not paid attention to social information disclosed in the company's annual report as information that can influence investors in making investment decisions.

Article History
Article Received*: 19 November 2019*
Revised*: 27 January 2020*
Accepted*: 24 February 2020*
Publication*: 18 May 2020*

Keywords; corporate social responsibility, earning response coefficient, cumulative abnormal return, price-to-book-value ratio, and sustainability

1. INTRODUCTION

Corporate Social Responsibility (hereinafter referred to as CSR) is a concept for the whole company [1 – 3]. Corporate Social Responsibility is defined as a business commitment to contribute to sustainable economic development, in collaboration with employees and their representatives, their families, the local community and the general public to improve the quality of life in ways that benefit both the business itself and for development [4]. CSR is a mechanism for an organization to voluntarily integrate environmental and social attention into its operations and interactions with stakeholders, which exceeds organizational responsibility in the legal field [5 - 6]. This topic is an important study because of globalization and liberalization [7]. Many companies make CSR disclosures in company annual reports that are still voluntary as one of their business strategies and to comply with established regulations. Multinational companies not only expect to have a social response in a juridical manner [8]. Corporate social responsibility is expressed in a report called the Sustainability Report. Sustainability Reporting is reporting on economic, environmental and social policies, the influence and performance of an organization and its products in the context of sustainable development.

In the last three decades, it has been shown that the business community (especially in developed countries) are increasingly aware that the sustainability of their businesses does not only depend on the efficient use of resources to maximize short-term profits. The business world no longer only pays attention to financial statements alone but also pays attention to three important aspects which include financial, environmental and social aspects. Companies are required to report on social responsibility carried out by Global Globalization Reporting Initiatives (GRI) is an organization-based network that has spearheaded the development of the world, uses the most sustainability reporting frameworks and is committed to continual improvement and implementation throughout the world. The GRI

May-June 2020
ISSN: 0193-4120 Page No. 7168 - 7172

standard is intended to provide a generally accepted framework for reporting on an organization's economic, environmental and social performance. This framework is designed and used by all organizations of different sizes, sectors and locations. In addition, the GRI standard is a company guide to support sustainable development. In addition, a global survey conducted by The Economist Intelligence Unit shows that 88% of senior executives and investors from various organizations make CSR a key consideration in decision making [9 – 10].

One of the elements in the financial statements that most attention to information is the income statement. The income statement is a report that provides information about the profits achieved by the company in a period. Earnings information is a reference for investors to invest in the company because profits, both positive and negative obtained from the company's income statement will affect stock returns. Accounting profit is closely related to company valuation which is presented with stock price. Earnings Response Coefficient (ERC) is defined as the effect of every dollar of unexpected earnings on stock returns, and is usually measured by the slope coefficient in the regression of abnormal stock returns and unexpected earnings [11]. Earnings Response Coefficient (ERC) ERC is the coefficient obtained from the regression between the proxy of stock prices and accounting earnings. This coefficient measures the response of stock prices or the market value of equity to the information contained in accounting earnings. The low ERC shows that earnings are less informative for investors to make an economic decision. Every event that occurs in the capital market will cause a reaction from market participants, one of which is with the announcement of earnings, the market will react which can be seen from stock movements. ERC value decreases along with the decrease in people's attention to the value of profit and increasingly pay attention to other factors beyond profit. Other factors that can influence investor responses in making decisions are Corporate Social Responsibility (CSR), systematic risk and growth opportunities [12 – 14].

Studies on the effect of CSR disclosure on ERC are still rarely conducted and have not shown consistent results. In general, the results of previous studies indicate market appreciation of CSR information on ERC [12 – 26]. This study aims to reexamine the relationship between disclosure of social responsibility, whether disclosure has a negative effect on ERC. The population used in this study are manufacturing companies listed on the Indonesia Stock Exchange (BEI) in 2018 - 2019. Findings from this study are expected to be used as input for policy makers related to CSR and ECR.

2. METHODOLOGY

The study method uses an explanatory survey with a population of manufacturing companies listed on the Indonesia Stock Exchange (BEI) in 2018 - 2019. The sample selection in this study uses a purposive sampling method based on certain criteria. Samples that meet the criteria are 36 companies from 150 manufacturing companies listed on the IDX in 2018-209. Data used in this study are secondary data or data that has been reported on the Indonesia Stock Exchange (IDX). Data in the form of financial statements for fiscal year 2018 and 2019, social responsibility report (Sustainability Report) for fiscal year 2019, and stock price data for 11 days period 5 days before the announcement of the annual report, 1 day for the announcement of the annual report, and 5 days after the announcement of the company's annual report.

The independent variable in this study is the disclosure of CSR information in the company's annual report or the Corporate Social Responsibility Disclosure Index (CSRI) and Unexpected Earnings (EU). The EU variable is calculated as a change from the company's current earnings per share minus the previous year's earnings per share, and is scaled to the price per share at the end of the previous period [12]-[14]. The CSR information measurement instruments that will be used in this study classify CSR information into categories: Environment, Energy, Labor, Products, Community Involvement, and General. Total CSR items range from 63 to 78, depending on the type of company industry. The dependent variable in this study is Cumulative Abnormal Return (CAR) which is calculated every day for a period of 15 months, from January 4, 2018 to March 31, 2019. Abnormal corporate stock returns are calculated by reducing the company's stock returns with market index returns in the same period [27].

May-June 2020
ISSN: 0193-4120 Page No. 7168 - 7172

Before testing, a classic assumption test consists of testing normality, multicollinearity, and heterokedastisitas. The hypothesis in this study:

H_1: The level of CSR information disclosure in the company's annual report has a negative effect on ERC

The hypothesis was tested using regression analysis with two model.

Model 1 (without control variables):

$$CAR = \alpha + \beta 1\ UE + \beta 2\ CSRI + \beta 3\ UE * CSRI + e \quad (1)$$

Model 2 (with control variables):

$$CAR = \alpha + \beta_1\ UE + \beta_2\ CSRI + \beta_3\ PBV + \beta_4\ BETA + \beta_5\ UE * CSRI + \beta_6\ UE * BETA + \beta_7\ UE * PBV + e \quad (2)$$

Information:

CAR: Cumulative Abnormal Return
EU: Unexpected Earnings
CSRI: Corporate Social Disclosure Index
BETA: Corporate beta
PBV: Price-to-Book-Value Ratio
UE * CSRI: Interaction of EU variables and
EU CSRI * BETA: Interaction of EU and BETA variables
UE * PBV: Interaction of EU and PBV variables
.

3. RESULTS AND DISCUSSION

Based on the results of data analysis, it is known that the data in this study are normally distributed and there is no multicollinearity, autocorrelation or heteroscedasticity. This means that the available data meets the requirements to be processed using a regression model. In this study, the data obtained will be processed with multiple linear regression models (multiple regression). Model summary results are shown in Table 1 and Table 2.

Table 1. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.234	.005	.035	.496528

Table 2. Model 1 Coefficient

Model	Unstandardized Coefficient		Standardized Coefficient	t	Sig.
	B	Std. Error	Beta		
1 (constant)	.241	.107		2.249	.026
UE	1.955	.684	.234	2.857	.005
CSRI	-.113	.324	-.028	-.348	.728
UE*CSRI	-.013	.048	-.023	-.273	.785

a. dependent variable: CAR

The results of multiple regression testing in model two are shown in Table 3 and Table 4.

Table 3. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
2	.373	.139	.096	.480542

Predictors: (Constant). UE*PBV, BETA, PBV, UE, UE*BETA, CSRI, UE*CSR

Table 4. Model 2 Coefficient

Model	Unstandardized Coefficient		Standardized Coefficient	t	Sig.
	B	Std. Error	Beta		

May-June 2020
ISSN: 0193-4120 Page No. 7168 - 7172

1 (constant)	.304	.139		2.177	.031
UE	2.716	.702	.324	3.867	.000
CSRI	-.179	.366	-.045	-.489	.626
BETA	-.144	.091	-.130	-1.584	.115
PBV	.073	.037	.183	1.985	.049
UE*CSRI	.038	.055	.066	.687	.493
UE*BETA	.071	.050	.124	1.410	.161
UE*PBV	-.171	.059	-282	-2.913	.004

Model I without including control variables does not support the proposed hypothesis. This means that the level of CSR disclosure has no effect on ERC. The results of testing the hypothesis of model I are not consistent with the results of testing model I conducted by [12 – 14] which shows that the level of CSR information disclosure has a positive and significant effect on ERC. The results of this model I test are consistent with [22]. who tested the effect of CSR disclosure on ERC in high profile companies. The results of model one conducted by [23]. found that CSR information had no effect on the ERC which was proxied by CAR. According to [22] this might be caused by investors being unsure of the CSR information disclosed by the company.

Investors only buy shares in a short period of time, only for trading where the shares are not held by investors for a long period of time, so investors only pay attention to the returns or profits that can be obtained from the shares in the short term, without taking into account the company's sustainability in long-term. CSR provides more long-term benefits compared to short-term so that CSR information is not given much attention by investors. If a company announces CSR information without earnings information, investors tend not to use CSR information in making investment decisions. However, if CSR information is disclosed together with earnings information, investors will react where investors' reaction to CSR information minimizes the relevance of earnings.

In Model 2 by entering control variables, the results show that it does not support the proposed hypothesis. This means that the level of CSR disclosure has no effect on ERC. These results are in line with previous research [24-26] which shows that the level of CSR disclosure in the company's annual report has no effect on CAR. This finding gives an indication that the issue of CSR is relatively new in Indonesia and most investors have a perception that low about CSR, the quality of CSR disclosure is not easy to measure, and most investors are oriented to short-term performance, whereas CSR is considered to have an effect on medium-term and short-term performance. CSR disclosures in annual reports do not make stock prices more informative, because disclosures in annual reports do not sufficient to provide information about the company's prospects in the future. The results of this study are also in accordance with the results of research conducted by [12-13] where they also did not find a significant relationship between CSR disclosure with the stock market. The market for CSR implementation by companies cannot directly affect returns, but requires more time.

4. CONCLUSION

Based on a study of 150 companies in Indonesia, it was concluded that CSR Disclosures have no effect on ERC both when not using control variables or when using control variables namely BETA and PBV. Broadly speaking, this research proves that CSR disclosure information by companies is still not trusted by investors to be able to increase the company's shareholders so that CSR disclosure information is not responded to by the company and is not used by investors in the investment decision-making process. This finding indicates that investors in Indonesia are not quite sure of the voluntary information disclosed in the management report. Investors are more likely to be oriented in the short term, whereas CSR is more influential in the medium and long term.

Limitations in research in the form of CSR issues in Indonesia are still relatively new and most investors have low perceptions about CSR, so many companies have not made sufficiency reporting in their annual reports. For this reason, in subsequent studies there needs to be a study of

May-June 2020
ISSN: 0193-4120 Page No. 7168 - 7172

variables that are able to encourage awareness of the importance of CSR.

REFERENCES

[1] Lindgreen, A., Swaen, V., Maon, F., Andersen, M., & Skjoett-Larsen, T. (2009). Corporate social responsibility in global supply chains. Supply Chain Management: An International Journal.

[2] Farcane, N., & Bureana, E. (2015). History of" Corporate Social Responsibility" Concept. Annales Universitatis Apulensis: Series Oeconomica, 17(2), 31.

[3] Klonoski, R. J. (1991). Foundational considerations in the corporate social responsibility debate; (includes bibliography) (corporate social responsibility theories). Business Horizons, 34(4), 9-19.

[4] Dahlsrud, A. (2008). How corporate social responsibility is defined: An analysis of 37 definitions. Corporate Social Responsibility and Environmental Management, 15(1), 1-13.

[5] Banerjee, S. B. (2008). Corporate social responsibility: The good, the bad and the ugly. Critical Sociology, 34(1), 51-79.

[6] Babalola, Y. A. (2012). The impact of corporate social responsibility on firms' profitability in Nigeria. European Journal of Economics, Finance and Administrative Sciences, 45(1), 39-50.

[7] Sharma, A., & Kiran, R. (2013). Corporate social responsibility: Driving forces and challenges. International Journal of Business Research and Development, 2(1).

[8] Pedersen, E. R., & Neergaard, P. (2006). Caveat emptor–let the buyer beware! Environmental labelling and the limitations of 'green' consumerism. Business Strategy and the Environment, 15(1), 15-29.

[9] Gugler, P., & Shi, J. Y. (2009). Corporate social responsibility for developing country multinational corporations: Lost war in pertaining global competitiveness? Journal of Business Ethics, 87(1), 3-24.

[10] Klettner, A., Clarke, T., & Boersma, M. (2014). The governance of corporate sustainability: Empirical insights into the development, leadership and implementation of responsible business strategy. Journal of Business Ethics, 122(1), 145-165.

[11] Jung, K., & Cho, J. (1991). Earnings Response Coefficients: Synthesis of Theory and Empirical Evidence. Journal of Accounting Literature, 10(1), 85-116.

[12] Balabanis, G., Phillips, H. C., & Lyall, J. (1998). Corporate social responsibility and economic performance in the top British companies: Are they linked? European Business Review.

[13] Weber, M, 2008. The business case for corporate social responsibility: A company-level measurement approach for CSR. European Management Journal, 26(4), 247-261.

[14] Sayekti, Y, 2015. Strategic Corporate Social Responsibility (CSR), Company Financial Performance, and Earning Response Coefficient: Empirical Evidence On Indonesian Listed Companies. Procedia-Social and Behavioral Sciences, 211, 411-420.

[15] Christensen, H. B., Floyd, E., Liu, L. Y., & Maffett, M, 2017. The real effects of mandated information on social responsibility in financial reports: Evidence from mine-safety records. Journal of Accounting and Economics, 64(2-3), 284-304.

[16] Tsang, E. W, 1998. A longitudinal study of corporate social reporting in Singapore. Accounting, Auditing & Accountability Journal.

[17] Hirst, D. E., Koonce, L., & Venkataraman, S, 2007. How disaggregation enhances the credibility of management earnings forecasts. Journal of Accounting Research, 45(4), 811-837.

[18] Johnson, B. R., Connolly, E., & Carter, T. S, 2011. Corporate social responsibility: The role of Fortune 100 companies in domestic and international natural disasters. Corporate Social Responsibility and Environmental Management, 18(6), 352-369.

[19] Bolton, G. E., & Ockenfels, A, 2000. ERC: A theory of equity, reciprocity, and competition. American Economic Review, 90(1), 166-193.

[20] Anas, A., Rashid, H. M. A., & Annuar, H. A., 2015. The effect of award on CSR disclosures in annual reports of Malaysian PLCs. Social Responsibility Journal.

[21] Kavitha, W., & Anita, P, 2011. Disclosures About CSR Practices: A Literature Review. IUP Journal of Corporate Governance, 10(1).

[22] Utaminingtyas, H., & Ahalik, T, 2010. The Relationship between Corporate Social Responsibility and Earnings Response Coefficient: Evidence from Indonesian Stock Exchange. Jurnal Akuntansi.

[23] Murwaningsari, E, 2008. The role of organizational commitment and procedural justice in moderating the relationship between budgetary participation and managerial performance. Gadjah Mada International Journal of Business, 10(2), 185-210.

[24] Mulya, A. S., & Si, M, 2018. Implementation of Corporate Social Responsibility and Good Corporate Governance Can Reduce. International Journal of Pure and Applied Mathematics, 119(15), 757-770.

[25] Bihari, S. C., & Pradhan, S, 2011. CSR and Performance: The story of banks in India. Journal of Transnational Management, 16(1), 20-35.

[26] Story, J., & Neves, P, 2015. When corporate social responsibility (CSR) increases performance: Exploring the role of intrinsic and extrinsic CSR attribution. Business Ethics: A European Review, 24(2), 111-124.

[27] Lyon, J. D., Barber, B. M., & Tsai, C. L, 1999. Improved methods for tests of long-run abnormal stock returns. Journal of Finance, 54(1), 165-201.