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CSR DISCLOSURE IN REAL ESTATE AND PROPERTY SECTOR'S COMPANIES LISTED AT INDONESIAN STOCK EXCHANGE (IDX)

Abstract

***Introduction**. This research used Corporate Social Disclosure Index (CSDI) as a measure of CSR disclosure, based focus on social indicators from Global Reporting Initiatives (GRI). The samples of this research are 36 public companies in Real Estate and Property sector listed in Indonesian Stock Exchange (IDX) year 2004-2007.*

***Purpose.** The purpose of this research is to test the effect of CSR and financial ratios on market performance. This research is motivated by the fact of activities of CSR and its disclosure and also mixed results from previous research.*

***Methods.** Research method did collaboration qualitative and quantitative methods approach.*

***Results.** Relatively score of CSDI shows that CSR disclosure in public companies' annual report is still low. This may due even there is mandatory rules regarding CSR disclosure in Indonesia but the lack of public companies not awareness of the importance of CSR and its disclosure in annual report.*

***Discussion.** Test results show that CSR disclosure do not has significant effect on Stock Return (SR) as a measure of market performance.*

***Keyword**: CSR, Stock Returns, Social Indicators and Financial Ratios.*

Introduction. Economic decision by looking at the financial performance of a company in this time is not relevant (Zhang, 2012; Mbekomize and Wally-Dima, 2013); Sitnikov and Bocean, 2012; Kim et al. 2012; Pyo and Lee, 2013). Adam et al (1998) found that individual investors interested in social information reported in the annual report. For that need a tool that can provide information about the social, environmental and financial simultaneously as sustainability reports (Kim et al, 2012; Candy, 2013; Martinez et al, 2014). Balabanis et al (1988) indicated that the disclosure of CSR undertaken by companies listing on London Stock Exchange positively correlated with overall corporate profitability. However, hypothesis of ethical investors indicates that capital markets tend to be attracted to the CSR activities undertaken by these companies, it is empirically proven that CSR negatively affect market performance (Salewski and Zulch, 2012; Kurniawan and Wibowo, 2011; Chen et al, 2008)

Corporate social responsibility (CSR) is claim that the company not only operates for benefit of shareholders, but also for the benefit of stakeholders in business practices such as workers, local communities, government, NGOs, consumers, and environment (Grey et al, 1987; Sitnikov and Bocean, 2012; Karagiorgos, 2010). Global Compact Initiative calls this understanding with 3P (profit, people, planet), which is the purpose of business is not only for profit (profit), but also the welfare of people (people), and ensure the sustainability of planet (Sitnikov and Bocean, 2012). According to Siregar and Yanivi, (2010), in Indonesia, the awareness of need to preserve the environment is regulated by the Law on Limited Liability 40 Article 74 of 2007, where the company is conducting business with regard to the natural resources required to conduct a social and environmental responsibility (Siregar and Yanivi, 2010). Concern with corporate social responsibility (CSR) in Indonesia has increased. Initially, in Indonesia, the Companies Act No. 1 of 1995 does not assume the existence of CSR, but then, in 2007 when the Act was revised and enacted Company (Company Law No. 40 Tahun2007), measures including CSR in article 74, which states that companies that has business activities in the field of natural resources required to implement social and environmental responsibility. It may be triggered by a number of issues related to CSR, such as the environmental problems caused by large populations, forest destruction and poor labor standards (Siregar and Yanivi, 2010).

Based on the description above, the purpose of this study is to see empirically whether corporate social responsibility disclosure positive effect on financial performance and market performance of the company. While the contribution of this study is to provide consideration in policy-making company in order to further enhance the responsibility and concern for the social environment, as well as provide an overview of the importance of corporate social responsibility, so that the government can follow up Company Law, to require all other companies in Indonesia to implementing social responsibility (Tjia and Setiawati, 2012; Siregar and Yanivi, 2010)

Analysis of recent researches and publications. In empirical studies, some researchers have tried to express this in a variety of different perspectives (Heal and Garret, 2004; Siegel and Paul, 2006; Finch, 2005). Heal and Garret (2004) showed that CSR activities can be beneficial element as corporate strategy, contributing to the management of risk and maintain relationships that can provide long-term benefits for the company. While Research Siegel and Paul (2006), showed that CSR activities have a significant impact on the efficiency of the productive, technical change, and economies of scale enterprise. In a literature study conducted by Finch (2005), said that the motivation of companies to use sustainability reporting framework is to communicate the performance of management in achieving the company's long-term benefit to stakeholders, such as the improvement of financial performance, the increase in competitive advantage, profit maximization, as well as the company's success in the long term.

Verschoor (1998) studied the 500 largest public companies in the United States in terms of sales or revenues listed in the 1996 Business Week 1000, found a significant positive relationship between the company's strong commitment to ethical behavior and social responsibility and financial performance. Balabanis et al. (1998) studied 56 large companies in the UK found that there was a relationship between CSR and economic performance are divided into finance, namely return on capital employed, return on equity and gross profit to sales ratio; and capital market performance, namely the systematic risk and excessive market assessment although the relationship is weak and has no overall consistency. But Ruf et al. (2001) reported that there is a positive relationship between changes in corporate social performance and short-term benefits (eg sales growth) and long-term benefits (eg, return on sales). Moneva et al. (2007) also found a positive relationship between CSR and financial performance. They studied 52 companies listed in Spain six different sectors (ie gasoline and electricity, basic materials, industry and construction, consumer goods, consumer services, financial services and real estate, and technology and telecommunications) and the measured level of CSR based guidelines GRI. They found only 58 percent of companies generate sustainability or CSR reports, and 63 percent of them follow the GRI guidelines "(Moneva et al., 2007). They further stated that" stakeholder-oriented industry has generated higher profits both at total assets and shareholders' funds them in compared with those shareholder-oriented (Moneva et al., 2007).

Odemilin et al. (2010) studied the relationship between CSR and financial performance (ie EPS) of 20 British companies were selected and found a weak positive relationship (14.7 percent) between the two variables. They argue that CSR policies of companies can make an impact on the bottom line companies as consumers and investors become more aware of the civil (Odemilin et al., 2010). Therefore, CSR investment is not just another business expense but it is very important for a company to survive in an increasingly competitive business world today "(Odemilin et al., 2010). They further found that 20 percent met all six indicators GRI, 25 percent met five indicators, four indicators meet the 40 percent and 15 percent met three indicators, where most companies are worried about the economic and environmental aspects (95 per cent of each aspect) and 80 percent obey product liability indicators. In addition to then, 70 percent of the companies in their research reported of labor practices and indicators of the community. Human rights are the most fulfilling indicators (40 percent). Based on variaty results of previous research, the proposed hypothesis can be formulated as follows:

Ha: CSR disclosure positive and significant effect on stock return.

GRI (2007a, b) states that "sustainability reporting has evolved from an incredible workout by pioneering organizations decades ago for an important management tool and a valuable resource for many businesses as a way to inform the corporate social responsibility to its internal and external stakeholders. Mervyn King, GRI Chairman of the Board added that "sustainability reporting has become essential for the company. It is important for companies to build the trust and confidence of stakeholders (GRI, 2007a, b). GRI (2006, p. 24) has a main indicator which form the basis for reporting by the company: the core indicators are intended to identify generally accepted indicators and assumed material for most organizations. Additional indicators represent emerging practice or address topics that may be material for some organizations, but are not material for others.

The main indicators are as follows:

i) economy;
ii) environment;
iii) social;
iv) Human rights;
v) community; and
vi) product responsibility (GRI, 2006).

However, in this research will focused on four indicators such as social, human rights, society and product responsibility indicators.

Purpose. The purpose of this research is to test the effect of CSR and financial ratios on market performance. This research is motivated by the fact of activities of CSR and its disclosure and also mixed results from previous research.

Methods. Sample selection methods used in this research is purposive judgment sampling method, namely the type of sample selection is not random that the information obtained by using certain considerations (Siregar and Yanivi, 2010). The criteria used in determining the sample of this study are: the sample is a public company listed on the Stock Exchange on real estate and property sector in 2004-2007, which samples the company's annual report is available in full, either physically or through the website, and specifically for the data samples in 2007, consisting of companies that have to release 2008 financial statements on the website *www.idx.co.id*.

In the process of selecting the data, as many as 36 companies in three, bringing the total final sample to 108 annual report and the financial statements in though (36 companies for 2004-2007). The data used in this research is secondary data derived from the Capital Market Reference Center (PRPM) Indonesia Stock Exchange, mainly for financial statement data and the annual report on the 2004-2007 sample company, also IDX website (*www.idx.co.id*).

This study will use a multiple regression model as follows :

$$SR_{it} = \beta_0 + \beta_1 CSDI_{it} + \beta_2 CR_{it} + \beta_3 DER_{it} + \beta_4 TAT_{it} + \varepsilon_{it,}$$

Where:

SR : Stock Return
CSDI : Corporate Social Disclosure Index
CR : Current Ratio
DER : Debt to Equity
TAT : Total Assets Turnover
$\beta_0 - \beta_2$: The estimated coefficient
ε_{it} : *error term*
i : 1,2,..., **N**
t : 1,2,..., **T**

where : **N**: number of observations and **T:** amount of time

Stock Return (SR) is calculated as follows:

$$Y = \frac{H_t - H_{t-1}}{H_{t-1}}$$

Where :

Y = % Stock price change
$\mathbf{H_t}$ = Stock price in t
$\mathbf{H_{t-1}}$ = Stock price previous year.
(Fiori, et al, 2007)

Information Corporate Social Disclosure Index (CSDI) based on the GRI are used in this study was obtained from the website *www.globalreporting.org*. GRI consists with social disclosure indicator as a part of sustainability reporting. CSDI calculation is done by using a dichotomous approach, ie each item of CSR in the research instrument rated 1 if disclosed, and the value 0 if not disclosed (Haniffa et al (2005). Furthermore, scores of each item is summed to obtain the overall score for each company. CSDI calculation formula is as follows (Haniffa et al, 2005) :

$$\mathrm{CSDI}_j = \frac{\sum X_{Ij}}{n_j},$$

Where:
CSDIt : *Corporate Social Responsibility Disclosure Index* company j
nj : number of items for firm j, nj = 40
Xij : 1 = if *item* i disclose; 0 = if *item* i no disclose.
Thus, 0 < **CSDIt** < 1
(Haniffa et al, 2005).

Analysis and Finding

Descriptive statistical analysis of this study are presented in Table 1. The dependent variable for the research models that SRt had an average (mean) of 0.5237. It also suggests that the SR (as a proxy of market performance) that are owned by companies sampled value is very diverse, and relatively low. For the independent variables are CSDIt which is a proxy of the level of disclosure of corporate social responsibility and measured using 40 items for disclosure of social indicators with the GRI (Global Reporting Initiative) have an average index value of 0.5703 with a standard deviation of 0.03031. The average index value CSDI shows that the level of social responsibility disclosure by the company in its annual report is still very low. This is in accordance with the conditions in Indonesia where they are not too focused its attention to disclosure of corporate social responsibility.

Tabel 1

Descriptive statistics Models

$$\mathbf{SR_t = \beta_0 + \beta_1\, CSDI_t + \beta_2\, CR_t + \beta_3\, DER_t + \beta_4\, TAT_t + \varepsilon_t}$$

	Mean	Std. Deviation	N
SR	.5237	1.22553	108
CSDi	.5703	.03031	108
CR	4.6308	14.13112	108
DER	1.2950	2.16306	108
TAT	.2235	.18260	108

Source : SPSS process result data

In this reserach used 40 based on GRI disclosure items consisting of labor (14 items), human rights (9 items), society (8 items), and product responsibility (9 items) indicators . Based on the above analysis of descriptive statistics, the average obtained CSDI index of 36 companies listed on IDX sampled in 2004-2007 amounted to 0.5703 (maximum index = 1). Figure 4.1 shows the proportion of the level of disclosure of CSR is based on GRI indicators. Companies that become the most widely sampled disclosure of CSR for labor aspects, namely by 54%, then 21% for the aspects of product responsibility, 22 % for aspects of society and for human rights aspect that is only 22%.

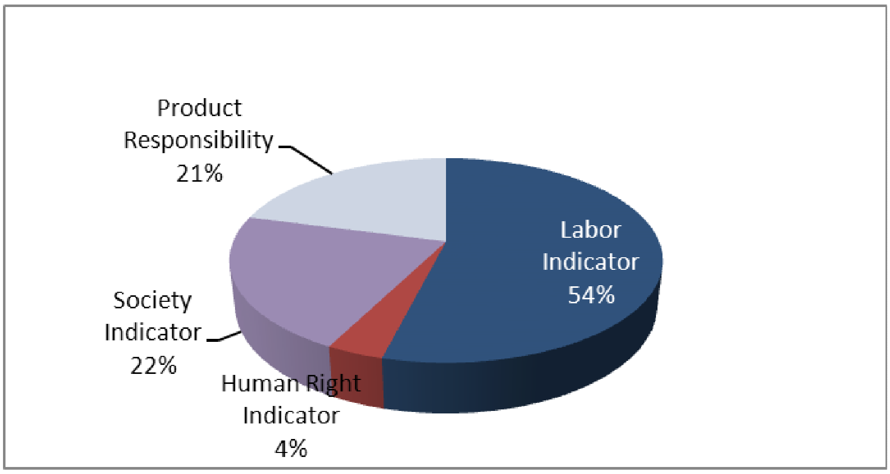

Fig. 1. GRI Social disclosure proportion

Source : Content analysis result

Based on the regression results obtained in Table 2, the model for this study are:

$$SR_t = -3,331 + 0,150\ CSDI_t + 0.074\ CR_t + -0.041\ DER_t + 0,252\ TAT_t$$

Tabel 2

Result Regression Model

$$SR_t = \beta_0 + \beta_1 CSDI_t + \beta_2 CR_t + \beta_3 DER_{t} + \beta_4 TAT_t + \varepsilon_t$$

Variable	Coefficients	t-Statistics	Prob
(Constant)	-3.331123	-1.483081	0.141106
CSDI	0.150738	1.572494	0.118902
CR	0.074421	0.776131	0.439445
DER	-0.041426	-0.433497	0.665559
TAT	0.252627	2.617962	0.010172
Adjusted R-squared	**0.927231**		
F-statistics	**2.166123**		
Prob (F-stattistic)	**0.078122**		

CSDI *= Corporate Social Disclosure index;* ***CR*** *= Current Ratio;* ***DER*** *= Debt of Equity ;* ***TAT****= Total Assets Turnover*

Source: SPSS result data process

F test for research models indicate that all independent variables (CSDI, CR, DER and TAT) has a significant influence on the dependent variable (SR). In Table 4.2 it can be seen that the value of the F-statistic has a value of Prob (F-statistic) of 0. So is the value of adjusted R2 of 0.945, indicating that this study may explain the relationship between the variables CSDI, CR, DER and TAT to SR at 92,7%. The remaining 7.3% is influenced by other variables that are not addressed in this study. In Table 4.2 it can be seen that the variable coefficient value -0.1507 CSDI with a significance of 0.1189 meaning that the variable has no effect CSDI on SR (**Ha** *rejected*). Thus, this research failed to prove that the company is doing high social disclosures in its financial statements had an influence on market performance.

This is probably due to: (1) the issue of CSR is a relatively new thing in Indonesia and most investors have a low perception towards it, (2) the quality of CSR disclosure is not easy to measure; Most companies do CSR disclosure only as part of the advertising and avoiding to provide relevant information, and (3) most investors are oriented to short-term performance, while CSR is considered influential in the medium-term performance and long-term. Balabanis et al.(1998) states that the phrase in the annual report does not make stock prices more informative, because the expression in the annual report did not provide enough information about the company's prospects for the future.

This contrasts with the results of research studies conducted Ruf et al. (2001), that the company is doing well social responsibility will enjoy a better market performance. Nevertheless, the results of this study in accordance with the results of research conducted by Balabanis et al.(1998), where they also found no significant relationship between CSR disclosure by the stock market. One possibility is that the market response to the implementation of CSR undertaken by the company can not directly affects stock return, but require a longer time.

Discussion. The empirical evidence of this study do not support the hypothesis that the level of CSR disclosures in annual reports positive effect on SR variable (as a proxy for market performance). For control variables, namely TAT statistically positive and significant impact on the SR, while CR and DER statistically significant negative effect and does not affect the SR. Results of this study indicate that (1) issue of CSR is a relatively new in Indonesia and most investors have a low perception towards it, (2) the quality of CSR disclosure is not easy to measure; Most companies do CSR disclosure only as part of the advertising and avoiding to provide relevant information, and (3) most investors are oriented to short-term performance, while CSR is considered influential in the medium-term performance and long-term.

These results indicate that the disclosure of CSR positive and significant impact on financial performance, shows the level of corporate accountability, minimizing risk, protecting both the company image, and as an analytical tool for investors and creditors. This is expected to increase awareness of the company's CSR activities and disclosure. In addition, investors are also expected to be more aware of the importance of CSR issues in the future, so the company will perform CSR activities significantly by maximizing the positive impacts and minimize the negative impact of a particular business activity. In the long run, companies can enjoy a good market performance and in turn will be enjoyed by the community in general.

There are several limitations in this study, among other things:

1) the small sample size, namely 108 annual reports of 388 companies listed on the Indonesian Stock Exchange (IDX in 2004-2007. For further research, it is advisable to increase the number of samples and using the data most recent annual report to be able to describe the most recent conditions.

2) The period of investigation is only 3 years old, so the long-term results of the implementation of corporate social responsibility disclosure ignored. For further research suggested weeks to extend into several periods in order to predict the results of research in the long term.

3) The study does not distinguish between types of industrial companies that may be

able to influence the level of disclosure of CSR in the company's annual report, and its influence on economic performance. For further research, it is advisable to differentiate types of industrial companies.

4) Reviewing CSDI index ranges between 0 and 1, so this study does not provide information on the quality of detail presented expression of each company. For further research, it is advisable to use an index measuring the weight of numbers, for example 1-5 scale (likert scale).

5) The presence of the element of subjectivity in determining the disclosure index, due to the absence of a standard provision that can be used as a reference standard and, thus determining the index for the same GRI indicators can vary between each researcher.

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