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Edwin Mirfazli

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Corporate social responsibility (CSR) information disclosure by annual reports of public companies listed at Indonesia Stock Exchange (IDX)

CSR information disclosure

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Edwin Mirfazli

University of Lampung, Bandar Lampung, Indonesia

Abstract

Purpose – The purpose of this paper is to provide empirical proof concerning the social focus of responsibility information disclosure – dominant in annual reports of basic and chemical industries groups – and how the company's group type affects the amount and focus of social disclosure in a company's annual report.

Design/methodology/approach – This paper explains and describes data characteristics employed in the research. Annual reports are analyzed by content analysis method.

Findings – The results show that the main foci of social disclosure from companies registered at the Indonesia Stock Exchange are labor theme (51.60 percent), followed by customer theme (19.40 percent), society theme (14.70 percent) and environmental theme (14.30 percent), respectively. Hypothesis test proved that there is no significant difference in the presentation of social disclosure amount in all themes between companies in the basic and chemical industries group or in the variety industries group.

Research limitations/implications – The composing of a social disclosure list tends to be subjective and it is possible to omit certain items that are supposed to be disclosed by the company.

Practical implications – The paper shows that it is necessary to pay increased attention to the social environment, considering that companies and society are equally important.

Originality/value – This paper describes the importance of amount, manner, and the reason behind a company's social responsibility disclosure.

Keywords Corporate social responsibility, Annual reports, Disclosure, Indonesia, Stock exchanges

Paper type Research paper

Background

A relative large amount of staff and worker would automatically bringing on a responsibility of company to its workers and the worker union. The fund sources of company come from several of individual and society. This also makes company responsible to society, which consist of investors and creditors. Company produces goods and services to satisfy the customer's need and desirability, thus also bringing on the responsibility the costumer and society, who may sensitive to the quality and price changes.

The company operation activities also use the natural resources which may produce the soil, water and air pollutions. This makes the environmentally and social responsibilities to the government and society. Company also has the obligation to pay tax, to act on the government's rule. Further company responsible to government and community which had got benefits from government service.



The social responsibility accommodation of company have not well and normally implemented whether in the evaluation of social impact or the reported activities, which has proved with many conflicts and problem occurred in industry such as demonstration and protest that imply the dissatisfaction to several elements of stakeholder in company's management.

The other case which are often arise was the protest from several elements of community surrounding the factory, concerning of negative impact of waste and pollutant from company activities. The workers also often gone on strike, because the lack policy of salary and the welfare facilities that not reflect the sense of justice.

Company's social impacts depend on its type or operational characteristics. The social character of company operation needs a higher social responsibility fulfillment that will be socialized to public through the social disclosure on the annual report.

Utomo (2000) has done a research about social disclosure practice in Jakarta Stock Exchange and Surabaya Stock Exchange, where his social responsibility disclosure theme included the society, product, costumer, and labor, but without environmental theme, resulted that social responsibility disclosure practice was higher in the high profile industries than low profile industries.

The difference between this research and the previous research are in the way of the sampling technique applied and the edition of annual report which being observed. One category of social responsibility classification that had added is environmental theme, and the based of research on group of business of high profile industries categorized registered in Jakarta Stock Exchange and also the measurement of social responsibility is no longer based on the disclosure location. Instead the research had conducted to annual report as a whole, and considering that not all categories of evaluation stated was exist in that segment. More or less this will make differences between this research and the previous one.

The last thing that differ these two researches is the development of Corporate Social Responsibility (CSR) itself. For this moment, the disclosure of CSR activities has been conducted by many kinds of industries, such as banks, and certain service companies (which are segmented in low-profile industry) that have a high CSR activity.

Accounting as the responsibility device has functioned as main control toward company's activities. Management responsibility is not only limited to company's fund management toward its investor and creditor, but also include impacts to social and natural environment which are resulted from company's activities.

Problems

Problems formulation

Based on explanation presented above, the problems which are going to be discussed are:

- What kinds of social responsibility information disclosure focus between the companies in basic and chemical industries groups and companies in variety industries group?
- Are there any differences in serving amount of social responsibility information disclosure between companies in basic and chemical industries group and companies in variety industries group ?

Problems limitation

In this research, the author make the limitation of explanation to know how far the difference of amount and company's focus in conducting social responsibility

information disclosure between companies in basic and chemical industries group And companies in variety industries group without looking at the detail quality of disclosure.

Research objectives and advantages

Objective

The objective of this research is to proof empirically about the social focus of responsibility information disclosure which is disclosed dominantly in annual report of basic and chemical industries group, and how the difference of company's group type effecting the amount and the focus of social disclosure in Company's annual report.

Advantages

This research is expected to give advantages as below:

- This research is expected to give description about the importance of amount, manner, and the reason behind company's social responsibility disclosure.
- To the company, as the consideration and stimulation in the policies-making process to improve the company's attention and social responsibility.
- This research could give the contribution of knowledge about amount, manner, and reason behind company's social responsibility disclosure.

Framework

Company's social responsibility is a moral responsibility of an institution or business organization toward groups which become its stakeholder, who get direct or indirect impact from company's operation.

The concept of company's social responsibility could be defined in a wide and limited definition. Based on limited concept "there is one and only one business's social responsibility – it is to use all its resources to activities directing to profit accumulation" (Jones, 2001, p. 151 in Nursahid, 2006).

Company in this point of view is the device from stakeholder (company owner), so if a company is going to give social charity, this will be conduct by its individual owner or individual workers, not by the company itself. The classical model also state that the business conduct by company is intended only to fulfill the market's demand and looking for profits, which are to be presented to capital owner (Harahap, 1993).

A fundamentalist in this field, Milton Friedman, said:

There is one and only one company's responsibility – it is to use its assets to increase profit as long as suitable to rule of game works in a free competitive system, without deceives and cheats.

While in the wide definition, social responsibility is a more humankind concept. Where an organization is viewed as moral agent. By so, with or without law rules, an organization – include business organization, is obligated to uphold morality highly. Further, even with the absence of law or ethics in society, social responsibility could still be implemented in several conditions by considering the best result or the least loss of its stakeholder. The right action conducted by company will give advantages to society.

Socio economic accounting or often call socio accounting is a new phenomenon in accounting. Socio accounting is different from conventional accounting. In conventional accounting, what become the focus of attention is the summarizing and measuring toward activities or impact caused by company's relationship with its

customer, while socio accounting is a sub-discipline from Accounting which conduct measurement and report company's social impacts. So, conventional accounting did not accommodate the aspect of company's social responsibility, fully.

The overall social responsibility conducted by company will be socialized to public; one of them is through *social disclosure* in company's annual report. Indonesian Accounting Association implicitly explained that annual report must accommodate the importance of decision maker. That explanation stated in Finance Accounting Standard Statement (PSAK) No, 1 year 2004, the ninth paragraph:

Company could also present additional statement such as environmental statement, and value added statement, especially for industries where environmental factors hold an important role and for industry which consider its workers as a group of report user, whose hold an important role.

In the process of reporting company's annual report, disclosure is a qualitative report aspect, which is urgently needed by financial report information user. Because of this qualitative nature, the form of this report is unstructured, which could happen directly in company's financial annual report through a correct titling, record for financial report or several footnotes.

Disclosure is defined as serving an amount of information needed to operate optimally an efficient capital market (Hendriksen, 1996, in Zuhroh and I Putu Pande, 2003). Disclosure could be mandatory; it is a compulsory for an information disclosure conducted by company based on certain rule or standard. Disclosure could also be voluntary, it is information disclosure overweigh minimum requirement from the rules.

The objective of disclosure based on Security Exchange Commission (SEC) categorized into two:

- (1) Protective disclosure, intended as a protecting effort for investor.
- (2) Informative disclosure, intended to give a worthy information to report user (Wolk *et al.*, 2000 in Zuhroh and I Putu Pande, 2003).

Information about the implementation of company's social responsibility explained in annual report, could be understood without generating misinterpretation, if the annual report complemented by a worthy social disclosure. By giving worthy information, it is expected to be useful for decision making process by the user of financial annual report.

Hypothesis

In this research, the authors formulate hypothesis to support the answer for the existing problems. The hypothesis formulas are:

There is no significant difference in the amount of social disclosure between companies in basic and chemical industries groups and companies in variety industries groups.

Research methodology

Data collecting method

Data collecting method in this research is using documentation method or direct quotation from several sources. The data used in this research are secondary data comes from:

- Capital Market References Center in Jakarta Stock Exchange.
- The other supportive literatures, such as literatures related with Socio Accounting, CSR, or literatures from the previous research which are related to current problems.

Sampling technique

Sampling technique method used in this research is purposive judgment sampling method. It is structured sampling which the information gainer with several certain consideration.

The criteria used in determining the sample are:

- Recorded as members in Indonesia Stock Exchange (ISX) in 2004.
- The company has finished its obligation to hand out its 2004 annual report.
- The sample of company's annual report, is physically complete and whole in ISX.

Research's operational variable

The variables used in this research are:

- (1) Social disclosure conducted by companies categorized in the industry of basic and chemical industries group.
- (2) Social disclosure conducted by companies categorized in the industry of variety industries groups.

These two variables are independent and have a symmetrical relation. The relation between these variables called symmetrical if one variable does not being affected or influenced by the other variable. (Hagul *et al.*, 1989, and Utomo, 2000).

Each variable composed by four categories determined in this research, that is society, environmental, labor, and customer.

Analysis tool

Qualitative analysis. The method used in composing this paper is descriptive method, which explain and describe data characteristic, so the result of research can give a clear description. The annual report is analyzed by content analysis method. Content method analysis is a data collecting process method through observation technique and analysis of content or message from a document to generate an objective and systematic description, such as content category, review, coding based on event's characteristic, or transaction exist in a document (Indriantoro and Supomo, 1999).

Quantitative analysis. The data processing includes checking and counting the items of social disclosure on the annual report. The quantification process use indexing yes/no approach technique. This technique is the simplest form of content method analysis. In this technique, number 1 is given when a sub-category of social disclosure is filled or disclosed, on the annual report of company being sample, while number 0 is given to a sub-category which is not disclosed by company being sample.

The statistic technique used to test the comparative hypothesis is rate different test. The base of decision making is by comparing *t*-table and *t*-count:

- If $t\text{-count} > t\text{-table}$, H_0 is rejected or Asymp. Sig < 0.05.
- If $t\text{-count} < t\text{-table}$, H_0 is accepted or Asymp.sig > 0.05.

In the test of hypothesis observed, the researcher is assisted by MiniTab Version 13 statistic software.

Data analysis

The data processed was obtained from Capital Market Reference Center (PRPM) in Jakarta Stock Exchange. Based on criteria determined in sampling technique and consideration of data's completeness and availability, it is obtained 42 companies as the samples, consist of 25 company from basic and chemical industries group, and 17 companies from variety industries group. The activity of data processing includes the checking and counting the items of social disclosure existed in company's annual report (Appendix 1).

The result of descriptive statistic analysis

Data processing by MiniTab software generate the result that social disclosure of companies in basic and chemical industries group have minimum score 8 (eight) and maximum score 26 (twenty six), with 1,31,983 of average, and 4,58,711 of standard deviation. While companies in variety industries group have minimum score 5 (five) and maximum score 25 (twenty-five), with 1,19,412 of average and 6,25,970 of standard deviation. The minimum amount of social disclosure is INDR and SMCR as the highest amount of social disclosure. While the amount of social disclosure from the other companies, spread between 5 (five), and 26 (twenty-six).

Normality test result

The test of data distribution normality use Two-Sample Kolmogorov-Smirnov Test, with the rate of faith is 95 percent, and $N = 26$ for basic and chemical industries group, and $N = 17$ for variety industries group. From the result of data processing using MiniTab Software ver 13, it is obtained as described through graphics showed normal distributed data.

Discussion

An analysis of problems identification stated above will be conducted in this part. The first problem identification is not proved by hypothesis test, instead it will be examined by analysis to data which are resulted from the research. While the second problem identification will be proved by hypothesis test.

The focus of company's social disclosure

In the previous research (Utomo, 2000) disclosed that focused on social disclosure from Emittent in Jakarta Stock Exchange and Surabaya Stock Exchange is on labor theme (29.87 percent), and on product and customer theme (20.74 percent), then on society theme (13.21 percent).

Meanwhile Khodijah, Dede (Khodijah and Mirfazli, 2006) in overall, got the result that state labor theme has the biggest percentage, 53.40 percent from the total of social disclosure conducted by the companies being sample, followed by customer theme, 19.16 percent, society theme with 17.99 percent, and the last is environmental theme, 9.45 percent. This research obtained the same result as the previous research where the labor theme is the main focus, with 51.60 percent, followed by customer theme (19.40 percent), society theme (14.70 percent), and environmental theme (14.30 percent) (Table I).

The comparison of social disclosure amount between companies in basic and chemical industries group and variety industries group

Comparative hypothesis test of social disclosure amount between high and low profile companies is conducted using z-test (*t*-test) to compare two independent sample at the faith of rate 95 percent, with the determinations below:

- If *p*-value < 0.05: H_0 is rejected and H_a is accepted.
- If *p*-value > 0.05: H_0 is accepted and H_a is rejected.

Comparative test for all themes of social disclosure amount between companies in basic and chemical industries group and variety industries group. Based on the Table II, *p*-value of 0.758 > 0.05, so it can be concluded that there is no significant difference in presentation of social disclosure amount between companies in basic and chemical industries groups and in variety industries groups.

Conclusion

This research tested 43 samples from companies registered in Jakarta Stock Exchange. Based on the analysis result explained in analysis and discussion chapter, the conclusion that could be draw are:

- The result show that the focus of social disclosure from companies registered in Jakarta Stock Exchange, is on labor theme with 51.60 percent and the next focus are customer theme (19.40 percent), society theme (14.70 percent), and environmental theme (14.30 percent), respectively.
- Hypothesis test proved that there is no significant difference in the presentation of social disclosure amount in all themes between companies in basic and chemical industries group and in variety industries group. This indicate that there are a lot of social impacts appear in most of those companies which categorized as high profile company, and stimulate them to act and to disclose its corporate social responsibility.

Constraints

This research is not free from constraints. The constraints are:

Theme	Disclosure amount	Percentage
Society	80	14.70
Customer	108	19.40
Labor	282	51.60
Environmental	78	14.30
Total	546	100.00

Table I.
Social disclosure from all companies being sample

Source: Appendix 2

company's type	Mean	SD	<i>t</i> -value	<i>p</i> -value	Decision
Basic industry	13.19	4.59	0.71	0.758	H_0 Accepted
Variety industry	11.94	6.26			H_a Rejected

Table II.
t-test result (all themes), with rate of faith 95 percent and *df* = 27

- The composing of social disclosure list tend to be subjective and possible to miss certain items that suppose to disclosed by company.
- The use of Indexing Yes/No Approach technique maybe cause a difficulty to differ the quality of one company with another.
- The comparison is done by only looking at the overall without detailing each theme.

Suggestion

Based on conclusion and constraints explained above, the suggestion for the next research are:

- To complete the list of social disclosure used as the research instrument. This can be done by looking the most current and up-to-date referances about social disclosure's theme and sub-theme.
- This research only disclose the amount of social disclosure. Further, the other researcher can enlarge the research's coverage, such as to differ the quality of financially social disclosure or non-financially, or to consider the reason why company conducts the social disclosure.
- For company; it is necessary to intensivly its attention to social environment, considering that company and society are share importance each other. Company's behavior which ignore the social responsibility will give disadvantages to company itself.

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Appendix 1. Social disclosure list

Society theme

- (1) Support to Art and Cultural Activities.
- (2) Support to Sports Activities (include sponsorship).
- (3) Participation to society's activity around the company.
- (4) Support to Religion Institution.
- (5) Support to Education Institution (include: scholarship, apprentice chance, research chance).
- (6) Social charity.
- (7) Social facilities and Public facilities.
- (8) Prioritize job vacancy to people around the company (includes to give facilities and motivation about entrepreneurship).

Customer theme

- (1) Product's quality.
- (2) Quality's reward (include quality's certificate, rightful certificate, and reward).
- (3) *Customer Satisfaction* (the effort to increase customer satisfaction).

Labor theme

- (1) The amount of workers.
- (2) Job Safety (policies dan facilities of working safety).
- (3) Health (include doctor and company's polyclinic).
- (4) Worker's Cooperative.
- (5) Salary/wage.
- (6) Health and other Benefits (include minimum wage, critical age assistance, welfare for workers, insurance, and transportation facilities).
- (7) Education and Training (include cooperation with State Universities).
- (8) Gender Equality in work and carrier chance.
- (9) Worship facilities (include Religion's Holy day).
- (10) Worker's Leave (include leave needed by women worker).
- (11) Pension (include forming/choosing pension fund).
- (12) Worker Union.
- (13) Collective Agreement.
- (14) *Worker's Turn over* (include job dismissal and recruitment).

Environmental theme

- (1) Environmental Policies.
- (2) The certification of Environmental and Analysis about Environmental Impact (AMDAL).
- (3) Rating (include reward in environmental field).
- (4) Pollutant Prevention/Management (include waste management).
- (5) Support to animal conservation and environment.

Appendix 2. Social disclosure percentage of all companies being sample

Table AI.
Social disclosure of
company being sample
all theme in basic and
chemical industries
groups

Theme	Disclosure amount	Percentage
Society	50	14.58
Customer	68	19.83
Labor	180	52.48
Environmental	45	13.15
Total	343	100.00

Source: Processed from Microsoft Excel

Table AII.
Social disclosure of
company being sample
all theme in variety
industries groups

Theme	Disclosure amount	Percentage
Society	30	14.78
Customer	38	19.72
Labor	180	50.25
Environmental	33	16.26
Total	203	100.00

Source: Processed from Microsoft Excel

Table AIII.
Social disclosure of
company being sample
all themes

Theme	Disclosure amount	Percentage
Society	80	14.70
Customer	108	19.40
Labor	282	51.60
Environmental	78	14.30
Total	546	100.00

Source: Processed from Microsoft Excel

Corresponding author

Edwin Mirfazli can be contacted at: mirfazli@yahoo.com

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