

# The Effect of Ownership Structure on Corporate Social Responsibility Disclosures

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**Keywords:** Corporate Social Responsibility Disclosure, Institutional Ownership, Managerial Ownership, Foreign Ownership.

**Abstract:** The purpose of this research was to examine the effect of ownership structure on institutional ownership, managerial ownership, and foreign ownership disclosures on corporate social responsibility. The sample used in this research are manufacturing companies listed in the Indonesia Stock Exchange (IDX) during the period 2012–2014 and amounted to 143 companies with 407 annual reports. The research proves that institutional, managerial, and foreign ownerships have a significant positive effect on corporate social responsibility disclosure. Institutional ownership pushes the company to disclose more social activities to gain public legitimacy for the assurance of long-term stability of the company. Managerial ownership would disclose more corporate social activity to show that the company works in accordance with applicable regulations, systems, and norms to gain public legitimacy. For foreign ownership, encouragement will be given to the company to disclose its corporate social responsibility activities because for foreign investors, corporate social responsibility is considered an important issue to be disclosed in annual report.

## 1 INTRODUCTION

The importance of the implementation of social and environmental responsibilities prompted the Government of the Republic of Indonesia to issue several regulations requiring their implementation as well as its reporting form. Law Number 40, 2007 regarding Limited Liability Companies and Act No. 25 of 2007 on Investment mentioned that the company's line of business, relating to natural resources is required to implement social and environmental responsibility and express this in annual financial statements. In 2012, Government Regulation Number 47, 2012 on Corporate Social Responsibility and Environment was issued, which stated the company's obligation in carrying out social and environmental responsibility. For reporting and disclosure of social responsibility, the Chairman of the Capital Market Supervisory Agency issued the Decision Chairman of the Capital Market Supervisory Agency and Financial Institution No. KEP-431/BL/2012 Rule number XK6 on Submission of Annual Report Public Company, which describes in detail how to compile, submit, and decide what information should be disclosed in

the annual report, including the disclosure of information regarding social responsibility activities.

Some studies have found that institutional ownership has an influence on the disclosure of social responsibility. Nurrahman and Sudarno (2013), Nussy (2013), Khan et al. (2013) Khan et al. (2013), Oh et al. (2011), Sri and Neem (2013) proved that companies with stake institution managerial ownership, or foreign ownership, have a positive effect on the disclosure of social responsibility, although there are some studies that demonstrate the opposite effect.

## 2 LITERATURE REVIEW

### 2.1 Theory of Legitimacy

The basis of this theory is the social contract that occurs between the company and the society in which the company operates and uses economic resources, as well as the considering the belief that a company's actions can have an impact on the environment in which it operates.

Gray et al. (1995) mention that the theory of legitimacy focuses on the interaction between companies and society. The theory of legitimacy assumes that firms provide more social disclosure to eliminate the possibility of threats to corporate legitimacy.

## 2.2 Disclosure of Social Responsibility

Law Number 40, 2007 regarding the Limited Liability Company states in article 66, paragraph 2 that in the annual report, one of the pieces of information that should be disclosed is the report on the implementation of social and environmental responsibility. Information on the implementation of social and environmental responsibilities that should also be disclosed are further stipulated in the attachment of the Decision of the Chairman of the Capital Market and Financial Institution Supervisory Agency number KEP-431/BL/2012 Rule XK6, regarding the emanation of the Issuer's Annual Report or Public Company. Items that should be disclosed are discussions regarding corporate social responsibility covering the policies, types of programs, and expenses incurred among others related to these aspects: Environmental, labor practices, social and community development, and product responsibility,

## 2.3 Institutional ownership

Aguilera et al. (2006), Rustiarini (2011), and Aguilera et al. (2006) also explained that institutional investors will be inclined to direct the company to carry out its social responsibility as investors see a good corporate social reputation as indicators of behavior management and as a form of compliance with applicable legislation. By becoming a socially responsible and law-abiding company, legitimacy can be gained from the public improving their financial performance over the long term.

## 2.4 Managerial Ownership

According to Nurrahman and Sudarno (2013), if a company has managerial ownership then the company will be more public disclosure of information in order to obtain legitimacy from the public.

## 2.5 Foreign Ownership

Nurrahman and Sudarno (2013) state that if a company has an agreement with the holder of the interest from abroad, the company will be supported in disclosing social responsibility.

## 2.6 The Effect of Institutional Ownership on Social Responsibility Disclosure

The results of the study by Oh et al. (2011), Nurrahman and Sudarno (2013) and Nussy (2013) show that institutional ownership positively affects social disclosure of responsibility. However, Anggono and Handoko (2009), Utami and Rahmawati (2010), Rustiarini (2011), and Wakidi and Siregar (2011) show different results stating that institutional ownership has no effect on the disclosure of social responsibility because there is a high amount of ownership-making investments, social responsibility is not a major criterion for institutional investors.

Gray et al. (1995) mentions the theory of legitimacy that states that companies use environment-based performance and environmental disclosure to legitimize corporate activity.

H<sub>1</sub>: Institutional ownership positively affects the disclosure of corporate social responsibility.

## 2.7 The Effect of Managerial Ownership on Social Responsibility Disclosure

Nussy (2013) found that managerial ownership has a positive influence on the disclosure of social responsibility. The contrasting results found by Ghazali (2007), Oh et al. (2011), and Khan et al. (2013) found that managerial ownership negatively affects the disclosure of social responsibility.

Deegan (2006) mentions the theory of legitimacy in which the company should explicitly pay attention to the expectations of the community and ensure the company appears to be in-line with those expectations.

H<sub>2</sub>: Managerial ownership positively affects social responsibility disclosure.

## 2.8 The Influence of Foreign Ownership on the Disclosure of Social Responsibility

The previous study by Rustiarini (2011), Oh et al. (2011), Nurrahman and Sudarno (2013), Sriayu and Neem (2013), and Khan et al. (2013) found that stock ownership by foreign parties disclosure had a positive effect on social responsibility. However, Darus et al. (2009) and Utami and Rahmawati (2010) show that foreign ownership has no effect on the disclosure of social responsibility because foreign ownership of firms in Indonesia generally do not care about environmental and social issues as critical issues that are extensively disclosed in the annual report.

H<sub>3</sub>: Foreign ownership positively affects social responsibility disclosure.

## 3 RESEARCH METHODS

This study uses a quantitative approach to secondary data from the annual financial statements published by manufacturing companies in the Indonesia Stock Exchange (BEI) during the period 2012–2014, as well as information related to social responsibility that is expressed on the official web page of each company.

This study used a census study that took just one population group. Samples were taken from all manufacturing companies listed on the Stock Exchange during the period 2012–2014. There were 135 companies listed on the Stock Exchange in 2012, 142 in 2013, and 144 in 2014.

### 3.1 Operational Definition and Measurement of Variables

The following variables used in this study include:

#### 3.1.1 Disclosure of social responsibility (Dependent variable)

Disclosure of social responsibility is a process used by a company to disclose information relating to a company's activities and its effect on the social conditions of society and the environment. This variable was calculated by adopting the measurement instrument disclosure of social responsibility by Hackston and Milne (1996) with the initial number of disclosure items at 90, tailored

to the prevailing regulations in Indonesia, among others. Act.

$$CSR_{Dj} = \sum X_{ij} / N_j \times 100\%$$

Information:

$$CSR_{Dj} = CSR \text{ Disclosure Index company } j$$

X<sub>ij</sub> = dummy variable (1= if disclosed; 0 = if not disclosed)

$$N_j = \text{Number of items for company } j; N_j = 89$$

#### 3.1.2 Institutional ownership (independent variable)

Institutional ownership is defined by the number of shares owned by institutions (government, foreign companies and financial institutions, such as insurance companies, banks, and pension funds) relating to the companies (Anggono and Handoko, 2009).

$$KPI = \text{Number of Shares Institutional}$$

$$\text{Ownership/Total Corporate Shares}$$

#### 3.1.3 Managerial ownership (independent variable)

Managerial ownership relates to stock ownership, as the proportion of shares are held by non-executive and independent directors (Ghazali, 2007).

$$KPM = \frac{\text{Number of Shares Managerial Ownership}}{\text{Total Corporate Shares}}$$

#### 3.1.4 Foreign ownership (independent variable)

Foreign ownership is related to the proportion of the company's shares in Indonesia owned by foreign parties: either individuals or institutions for total ownership (Anggono and Handoko, 2009).

$$KPA = \frac{\text{Number of Shares Foreign Ownership}}{\text{Total Corporate Shares}}$$

### 3.2 Analysis Data

Analysis data used in this research is carried out using multiple regression analysis with the following model:

$$CSR_{Dj} = \alpha + \beta_1 KPI + \beta_2 KPM + \beta_3 KPA + \beta_4 PROFIT + \beta_5 SIZE + \varepsilon \quad (1)$$

CSR<sub>D</sub> = Disclosure of Social Responsibility

α = Constants

β<sub>i</sub> = Regression coefficients

KPI = Institutional ownership

KPM = Managerial ownership

KPA = Foreign ownership

PROFIT = Profitability  
 SIZE = Company size  
 $\epsilon$  = Error

## 4 RESULTS

This study uses multiple regression analysis to determine the effect of institutional ownership, managerial ownership, and foreign ownership on the disclosure of social responsibility. The results of the multiple regression analysis are as follows:

Table 1: Test Result t Regression Equation.

Dependent Variables	Independent Variables	t	Sig t	Information
CSDR	KPI	1.969	0.050	Sig ( $\alpha = 5\%$ )
	KPM	2.047	0.041	Sig ( $\alpha = 5\%$ )
	KPA	1.796	0.073	Sig( $\alpha = 10\%$ )
	PROFIT	-0.613	0.540	No Sig
	SIZE	1.657	0.098	No Sig

T-test for institutional ownership has a variable significance value of t count equal to 0.050 and the value is equal to the 5% significance level. This test yields the conclusion that institutional ownership has a significant positive effect on the disclosure of social responsibility. Positive influence means the higher the institutional ownership of the company, the higher the level of social responsibility disclosure.

For managerial ownership variables, the value of the significance of t counted for 0.041, where the value is smaller dibandingkan with a significance level of 5%. This test yields the conclusion that managerial ownership has a significant positive effect on the disclosure of social responsibility.

Results t to foreign ownership variables obtained t signifikansi of 0.073 where the value is less than the 10% significance level. This test resulted in the conclusion that foreign ownership has a significant positive effect on the disclosure of social responsibility.

The control variable is profitability and for the size of the company note the significant value of t, respectively 0.540 and 0.098. Not variables use values for the significance of profitability for 0.540 where the value is greater than a significance level of 10%. This test shows that profitability has no influence on the disclosure of social responsibility. For the variable size of the company, the value signifikansi t is 0.098, where the value is less than the rate of signifikansi 10%. This indicates that the size of the company has a significant positive effect on social responsibility disclosure.

### 4.1 The Effect of Institutional Ownership on Social Responsibility Disclosure

Several previous studies support the positive influence of institutional ownership on the disclosure of social responsibility including work by Oh et al. (2011), Nurrahman and Sudarno (2013), and Nussy (2013) who state that institutional ownership will enhance the supervision of management to disclose additional information in its report, prompting an increase in the disclosure of social responsibility.

Aguilera et al. (2006) mentioned that most institutional investors are hunting for a stable profit in the long term. By carrying out activities related to social responsibility, Crisostomo (2010) states that social responsibility can enhance a company's image and reputation in the long term. According to the theory of legitimacy Gray et al. (1995),

### 4.2 The Effect of Managerial Ownership on Social Responsibility Disclosure

The results support the research by Nussy (2013), which states that managerial ownership has a positive influence on social responsibility disclosure. Semakin high managerial ownership and the motivation to reveal the activity of the company will be even greater because the manager and owner will feel the direct impact of strategic decisions taken to achieve a good reputation. Ghazali (2007), Oh et al. (2011), and Khan et al. (2013) also found a significant relationship between managerial ownership and social responsibility disclosure but with a negative direction so the higher the managerial ownership, the fewer social responsibility activities will be disclosed because

public accountability is not important for companies owned by managers.

### 4.3 Effect Foreign Ownership on Corporate Social Responsibility Disclosure

Results of research in support work carried out by Anggono and Handoko (2009), Oh et al. (2011), Rustiarini (2011), Khan et al (2013), Nurrahman and Sudarno (2013), and Sriayu and Mimba (2013), stated that foreign ownership has a positive influence on the disclosure of social responsibility. However, this study contradicts research by Darus et al. (2009) and Utami and Rahmawati (2010).

Due to the rapid development of social responsibility abroad, foreign investors are concerned about social responsibility activities and disclosure. By running performance based on environmental disclosure, according to Gray et al. (1995) the company seeks to justify or legitimize its activities in society by building a positive reputation. Foreign investors will give corporate encouragement to perform social responsibility because for foreign investors, social responsibility is considered an important issue that should be disclosed in the company's annual report.

## 5 CONCLUSIONS

From the research that has been done, the following can be concluded:

1. Institutional ownership positively affects the disclosure of corporate social responsibility. Institutional investors will attempt to direct the company to implement and disclose social responsibility activities in order to gain legitimacy from the public and improve its financial performance in the long term.
2. Managerial ownership positively affects the disclosure of corporate social responsibility. A company with managerial ownership will seek more social responsibility to disclose information, indicating that the company is working in accordance with the regulations, systems and norms with an aim obtain the public legitimacy.
3. Foreign ownership is a positive influence on the disclosure of corporate social responsibility. Foreign investors will give the company a boost to social responsibility for

foreign investors social responsibility considered important issues that must be disclosed in the company's annual report.

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