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# FACTORS AFFECTING DISCLOSURE OF SOCIAL RESPONSIBILITY OF THE COMPANY AND ITS IMPACT ON INVESTOR REACTIONS

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## ABSTRAK

*Tujuan dari penelitian ini adalah untuk mengetahui pengaruh ukuran perusahaan, tipe kantor akuntan publik, dan konsentrasi kepemilikan terhadap pengungkapan tanggung jawab sosial perusahaan dan dampaknya terhadap reaksi investor. Populasi penelitian ini adalah 1.573 perusahaan yang terdaftar di Bursa Efek Indonesia tahun 2014-2016. Teknik pengambilan sampel menggunakan purposive sampling dan didapat 135 perusahaan. Hasil penelitian ini menunjukkan bahwa tipe kantor akuntan publik berpengaruh terhadap pengungkapan tanggung jawab sosial perusahaan sedangkan yang tidak berpengaruh yaitu ukuran perusahaan dan konsentrasi kepemilikan. Selain itu, pengungkapan tanggung jawab sosial perusahaan juga berpengaruh terhadap reaksi investor. Penelitian ini diharapkan menjadi pengembangan pengetahuan tentang pentingnya pengungkapan tanggung jawab sosial perusahaan di Indonesia serta dapat dijadikan sebagai bahan pertimbangan perusahaan dalam pembuatan kebijakan guna meningkatkan kepeduliannya terhadap lingkungan sosial.*

**Keyword** : ***Tanggungjawab sosial, reaksi investor, abnormal return***

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## Introduction

In the context of current economic development this, the company is no longer only faced with responsibility in terms of profit only, but also must pay attention to aspects social and environmental. Based on data from the Ministry of Environment and Forestry of the Republic of Indonesia in 2017, currently Indonesia faces a high threat of forest destruction of which 82% is due to human greed exploiting nature without regard to environmental sustainability (Hadi, 2018).

Floods, landslides and disasters others are threats from forest destruction. The most important factor causing floods and landslides are factors anthropogenic or human effect. Head of the National Disaster Management Agency's Information Data and Public Relations Center, Sutopo Purwo Nugroho, explained that local politics also increases vulnerability to floods and landslides (Ramdhani, 2016). There are several governments the area that passed mining business permits in the upper reaches of the river basin. Funding for disaster risk reduction

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in the region as well very minimal, and professional staff are also very limited. Based on information about many disasters that occur as a result of human activities or the company causes the importance of conservation environment. Company it is appropriate to take part in preserving the environment, one of them in the form of corporate social responsibility.

Corporate social responsibility is an ongoing obligation of every company to the surrounding community as a result of the company's operational activities for the future of the company by providing the best assistance and solutions to employees, communities, consumers and the environment. The implementation and reporting of the company's social and environmental responsibility has been required through Law Number 40 Year 2007 regarding Limited Liability Company.

Implementation of the implementation of sustainable social responsibility in Indonesia is supported by Law Number 32 Year 2009 on Environmental Protection and Management. Although it has been regulated by the government in the Act, but the procedures on the implementation of corporate social responsibility are not explained more specifically. The law does not explain in detail how corporate social responsibility is performed and reported in annual reports, so its implementation at the company seems only to comply with applicable regulations. In fact, investors appreciate information on corporate social responsibility disclosed in the annual report.

Based on legitimacy theory and stakeholder theory, the influence of the wider community can determine the allocation of financial resources and other economic resources. Companies tend to use environmental-based performance and disclosure of environmental information to justify or legitimize company activities in the eyes of society and investors (Gray et al.,1995). In legitimacy theory, firm size has a relationship with social responsibility disclosure where large companies will be more publicly highlighted so that large companies are required to disclose information more widely as a form of accountability than small companies (Suta and Laksito, 2012).

The greater the type of public accounting firm that audits the company, the better the financial statements reported by the company, including the disclosure of corporate social responsibility (Uyar et al., 2013). Companies with institutional ownership see the legitimacy benefits that come from their stakeholders so that they can provide high existence in the long run. This disclosure of social responsibility is one way that is used to show the company's concern for the surrounding community. Disclosure of corporate social responsibility is expected to provide a positive response to investors. An information can be a signal for investors if the information reacts to conduct transactions in the capital market (Spence, 1973). This can be seen from the abnormal return which is one indicator that can be used to see the current market situation. Abnormal return itself is the difference between real return and expected return (Jogiyanto, 2009). If the company voluntarily discloses its positive social responsibility, this action can reduce the risk of reduced prosperity that the company might face in the future. This shows a positive signal for investors to invest their shares.

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Firm size, type of public accounting firm, and concentration of ownership have the potential to have an influence on disclosure of corporate social responsibility and finally disclosure of corporate social responsibility will have an impact on investor reactions. Anugerah et al.,(2010) concluded that firm size has a positive effect on corporate social responsibility disclosure. Large companies are issuers that are highlighted by investors, more disclosure is a reduction in political costs as a form of corporate social responsibility. Yuliana et al.,(2008) showed that concentration of ownership influenced the extent of corporate social responsibility disclosure, while firm size was not proven to influence the extent of corporate social responsibility disclosure. Kastutisari and Dewi (2011) conducted a study to determine the effect of corporate social responsibility disclosure against abnormal return with corporate social responsibility results have no effect on abnormal return.

This study aims to reexamine the effect of firm size, type of public accounting firm, and concentration of ownership on the disclosure of corporate social responsibility and its impact on investor reaction in companies listed on the Indonesia Stock Exchange in 2014-2016 which is the development of previous research because based on research results previously showed differences in results. The reason for choosing 2014-2016 as a research period is because in 2017, the House of Representatives of the Republic of Indonesia canceled the draft corporate social responsibility law which had been regularly held for 3 years through commission meetings. The year 2014-2016 was considered by researchers as a transition period and to find out the reaction of investors before the adoption of the latest law on corporate social responsibility. The government actually objected to the rules of corporate social responsibility stipulated in the law. Moreover, many companies that reject corporate social responsibility are regulated by law. As a result, due to the government's disapproval, the draft law was replaced by a draft law on the practice of social work (Hidayat, 2017). The results of this study are expected to provide information to potential investors as a consideration of decision making in assessing the company in Indonesia and for the company as a consideration that corporate social responsibility is very important to disclose and can increase the value of the company.



## Review of Literature and Hypotheses

### Stakeholder Theory

Stakeholder theory as a collection of policies and practices related to stakeholders, values, fulfillment of legal provisions, community and environmental awards, and the commitment of the business world to contribute to sustainable development (Freeman, 1984). Stakeholders are both internal and external parties, such as governments, competing companies, surrounding communities, the international environment, outside agencies (NGOs and the like), environmental organizations, corporate workers and minorities because of their influence and influence.

This applies to both variants of stakeholder theory (Hadi, 2011). The first variant relates directly to a model of accountability in which stakeholders and organizations influence each other. This can be seen from the social relations both in the form of responsibility and accountability. Therefore, the organization has accountability to its stakeholders. The nature of accountability is determined by the relationship between stakeholders and the organization.

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The second variant of stakeholder theory relates to a view of empirical accountability. Stakeholder theory may be used strictly in a centralized direction organization. It was revealed that corporate social responsibility is a means of success for companies to negotiate relationships with stakeholders.

Based on the assumptions of stakeholder theory, the company can not escape from the social environment. Companies need to maintain the legitimacy of stakeholders and their position in the framework of policy and decision making, so as to support the achievement of corporate goals, namely business stability and survival (Hadi, 2011).

**Legitimacy Theory**

According to Dowling and Pfeffer (1975) shows a legitimacy is important for the organization, the boundaries emphasized by social norms and values, and the reaction to these limits encourage the importance of analyzing organizational behavior with regard to the environment. Legitimacy theory focuses on the interaction between companies and society. This theory states that organizations are part of society so they must pay attention to social norms of society because conformity with social norms can make companies more legitimate.

Community legitimacy is a strategic factor for the company in order to develop the company in the future. This can be used as a vehicle to construct corporate strategy, especially related to efforts to position themselves in the midst of an increasingly advanced society. The legitimacy of the organization can be seen as a desired or sought company from the community. Thus, legitimacy must be properly considered by the newly established company because it is a potential benefit or resource for the company to survive.

The definition implies that legitimacy is a corporate management system oriented to the alignment of society, government, individuals and community groups. For that, the operation of a system put forward the alignment to the community and the company's operations must be in line with the expectations of the community (Hadi, 2011).



**Signaling Theory**

Signal theory suggests how a company signals financial users (Spence, 1973). One type of information issued by a company that can be a signal to investors is the disclosure of corporate social responsibility which can lead to investor reaction. Information published by management will give a signal to creditors and investors in decision making, be it a good signal or a bad signal.

Signaling theory explains that giving signals is given by company management to reduce the existence of information asymmetry. Company management provides information through an annual report that contains not only financial information, but also non-financial information. Financial reports published by the company are expected to be able to help users of financial statements, especially creditors and investors in making credit and investment decisions. These creditors and investors expect to get complete information, to avoid asymmetric information.