

3RD ANNUAL INTERNATIONAL CONFERENCE

PROCEEDINGS

20 - 21 May 2013, Bangkok, THAILAND

Accounting and Finance
(AF 2013)



PUBLISHED AND ORGANIZED BY
GLOBAL SCIENCE & TECHNOLOGY FORUM (GSTF)



STEERING INNOVATION, SERVING

Organised and Published by
Global Science and Technology Forum (GSTF)
Accounting and Finance AF 2013
Tel: +60 3377 0156

Proceedings of the
**3rd Annual International Conference
on Accounting and Finance
(AF 2013)**

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Bangkok, Thailand

Organised & Published By



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Global Science and Technology Forum (GSTF)

Accounting and Finance AF 2013

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**Proceedings of the 3rd Annual International Conference on
Accounting and Finance (AF 2013)**

ISSN: 2251-1997

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Editorial

It is our pleasure to present to you the Proceedings of 3rd Annual International Conference on Accounting and Finance (AF 2013) organized by Global Science and Technology Forum at Chatrium Hotel Riverside Bangkok, Thailand during 20 - 21 May 2013.

The conference serves as a forum for researchers, academics, experienced professionals and business executives to present and exchange new ideas on research in accounting and finance. The conference also is of interest to educators, especially those involved in reviewing, revising, and rewriting courses and the curricula.

All the papers selected for presentation at this conference and for publication in the proceedings were peer reviewed, by a "blind" paper evaluation method. To facilitate this process, the authors were requested to provide the full paper without any reference to themselves.

We are honored to have at the conference **Prof. Nicholas Apergis** (Program Committee Member), **Prof. the Hon. Dr. Stephen Martin** (Member, Board of Governors, GSTF), and other invited speakers, each an eminent researcher in his or her own right.

We thank all review committee members, partner universities, organising committee members and especially all the conference participants for making this conference a success.

We are sure conference participants will profit from reading by the Proceedings of AF 2013 and we trust that it will be very useful in their future research endeavors.

Dr. Robert C. Rickards
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*Professor of Accounting,
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Dr. Jianing Fang, CPA, CITP
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Foreword

This volume of conference proceedings contains a collection of research papers presented at the 3rd Annual International Conference on Accounting and Finance (AF 2013) held on 20th – 21st May 2013 at Chatrium Hotel Riverside Bangkok, Thailand.

The AF 2013 conference is an international event for the presentation, interaction and dissemination of new advances relevant to accounting and finance. As member of the Board of Governors, GSTF, I would like to express my sincere thanks to all those who have contributed to the success of AF 2013.

A special thanks to all our speakers, authors and delegates for making AF 2013 a successful platform for the industry, fostering growth, learning, networking and inspiration. We sincerely hope you find the conference proceedings enriching and thought-provoking.

Professor the Hon. Dr. Stephen Martin

Member, Board of Governors, GSTF

Dr. Anton Basindran
AF 2013 Conference Organising Chair
Visiting Professor/Researcher, Institute for Research in Applied Computing (IRAC)
University of Bedfordshire, UK
Adjunct Professor, King Nakorn University

Preface

We are pleased to welcome you to the proceedings of the 3rd Annual International Conference on Accounting and Finance (AF 2013) held on 20th – 21st May 2013 at Chatrium Hotel Riverside Bangkok, Thailand.

The AF 2013 conference continuously aims to foster the growth of the accounting and finance industry and its benefits for the community at large. The comprehensive content of the conference has attracted immense attention and the wealth of information spread out over all the papers would be extremely useful to professionals working in the related fields.

It is my pleasure to announce the participation of expert speakers from various countries in this two-day event. This truly is a unique platform for all stakeholders like researchers, users, and policy makers to discuss, deliberate and exchange experiences.

The Conference Proceedings documents and the presentations made at AF 2013, is the end result of a tremendous amount of creative work and a highly selective review process. We have received research papers from distinguished participating academics from various countries. The "AF 2013 BEST PAPER AWARDS" recognize outstanding contributions and research publications by authors and students.

I want to thank all authors of submitted papers for their participation. They contributed a great deal of effort and creativity to produce this work, and I am happy that they chose AF 2013, as the place to present it. Credit also goes to the Program Committee members and reviewers, who donated substantial time from their busy schedules to carefully read and evaluate the submissions.

I would also like to thank **Prof. Nicholas Apergis** (Program Committee Member) for delivering the keynote address and **Dr. Jianing Fang, CPA, CITP** (Co-Editor-in-Chief) for conducting the workshop.

In addition, the Organizing Committee would like to take this opportunity to extend our sincere gratitude to all supporting Organizations for their support and encouragement and for making the event a success.

Dr. Anton Ravindran

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THE QUALITY OF VOLUNTARY CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE EFFECT ON THE FIRM VALUE OF SERVICE COMPANIES LISTED IN THE INDONESIAN STOCK EXCHANGE

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ABSTRACT

The objective of this research is to explore the quality of voluntary corporate social responsibility (CSR) disclosure and how it effects the firm value of service companies that are listed in the Indonesian Stock Exchange within the period of 2008-2010. The research analyzed 120 reports from 40 companies in the service sector that contain CSR contents to see the depth of CSR disclosure and whether or not the quality of the voluntary disclosure has an effect on the companies' firm value.

The association between the quality of voluntary CSR disclosure and firm value is analyzed using crosstabs statistics and single regression method by SPSS 17.0 program. The quality of voluntary CSR disclosure is assessed by using the six criteria set by Global Reporting Initiative (GRI) through 24 tests of quality

in the G3.1 Guidelines that are elaborated further into 50 indicators.

Firm value is represented by the free cash flow to the firm (FCFF) discounted at the rate of weighted average cost of capital (WACC). Based on the value of symmetric Lambda from the crosstabs statistics, it shows that there is a significant association between the quality of voluntary CSR disclosure and firm value of companies in the service sector which for the period of 2008-2010 yielded 0.716-0.816. The results from the single regression method also supports the alternative hypothesis that there is a positive association between both variables shown by the increasing level of firmvalue following the rise of quality.

Keywords: Corporate Social Responsibility, voluntary disclosure, firm value, FCFF, service sector

1. INTRODUCTION

Corporate social responsibility (CSR) is now demanded from companies so that they can communicate the social and environmental state of their operations. In Indonesia, the requirement for companies to report their CSR and environmental activities and initiative is regulated in two main state laws namely capital investment law or Undang-undang Penanaman Modal (UU PM) No.25 year 2007 article 15 point b and limited company law or Undang-undang Perseroan Terbatas (UU PT) No.40 year 2007 article 66 point c. However, these two laws create an inconsistency in terms of what companies must include a CSR segment in their annual report. Article 66 point c in UU PT No.40 year 2007 states that all companies must report their CSR and environment initiative while in article 73 numbers 1 and 3 only mandates companies that are environmentally sensitive and operate in an environment that use up natural resources.

The concept of CSR is still mainly tied to issues regarding the environment although in fact that is not the case. The Global Reporting Initiative (GRI) as one of the leading organizations that promotes economic, environment and social sustainability has set a standard in sustainability reporting used worldwide. The GRI standards in reporting includes various aspects in regards to CSR reporting that does not only emphasize on environmental aspect but also economic and social aspect represented in its standards and disclosure items (see Appendix I). Therefore, CSR and sustainability reporting does not only communicate how a company deals with environmental issues but it also should report how the company is responsible for the well-being of its

employees including human rights and contribution to economic development.

CSR reporting in Indonesia is still in its early stage. Since the issue of the two laws mentioned previously in 2007, the number of companies reporting their CSR and/or sustainability reports has increased although it is still considerably low. Before 2007, Suprpto (2006) conducted a survey on 375 companies in Jakarta which showed that 44.27% of the companies did not have any CSR activities while 55.75% performed CSR activities such as social gatherings, donations to religious and social institutions as well as community development programs. The survey also noted that the type of CSR activities performed are strongly related to the decision of each company's management.

On a global scale, as of April 2012, GRI has received 10,034 sustainability reports from 3,889 organizations around the world. From that number, 9,346 reports are made according to the GRI standard. Sustainability report coming from organizations in Asian region is 1,836 of which 22 reports were submitted by Indonesian companies. Furthermore, from the 22 reports, only five reports came from a company in the service sector which is PT. Telekomunikasi Indonesia (GRI Sustainability Disclosure Database, 2012). Why is the number of companies willing to report its CSR activities still low?

National Center for Sustainability Reporting (NCSR) as the main organization in Indonesia that promotes and provides the assurance and development for sustainability reporting (as one of the forms of CSR reporting) since 2005 continues to observe the trend in sustainability reporting and has become a Licensed Assurance Provider. NCSR gives awards to companies

that report and submit their sustainability report in the annual judging. Although NCSR has noted an increase in the sustainability reporting trend (see Illustration 1), it is still hoped that the general awareness on the importance of reporting such matters continue to rise.

The Ministry of Environment of the Republic of Indonesia has developed a performance rating assessment in environmental management for companies (PROPER) since 1995 as an alternative instrument of Public Disclosure Program for Environmental Compliance. Companies are rated according to color resembling a certain level of compliance where 'black' is the lowest meaning the company has committed serious acts or negligence that led to environmental damage while 'gold' is the highest meaning the company has consistently shown environmental excellency. From the 995 companies rated by PROPER in 2010-2011, 415 companies are from the manufacture, infrastructure and service (MPJ) sector. Also in that period, from the 11.2% companies that were rated green and gold, only 32 companies are from the MPJ sector. This means that the number of companies in the service sector that is considered to have good performance in terms of environmental and social repositibility is still low.

GRI reported in their Sustainability Reporting Statistics of 2011 that 14% of the GRI reports in 2011 come from companies in the financial service sector. This is interesting because although in general, there aren't many companies from the service sector that report their CSR activities, the banking sector which is part of the service sector seem to show the contrary.

There are still arguments regarding the effect and benefit of disclosing and conducting CSR related activities. Some argue that CSR will only burden the company with more costs. Friedman (1970) considered CSR as a misguided virtue and that responsibility for social matters lie on the shoulders of individuals instead of the company. so, companies should not be obliged to disclose such matters. On the other hand, there are those who think that social performance, which in this case is related to CSR activities, is important and positively connected to financial benefits. Is this why many companies are still reluctant in sacrificing their resources for disclosing and engaging CSR activities?

KPMG (2011) in their international survey on Corporate Sustainability Reporting, analyzed over 3,400 reports from 34 countries to obtain an illustration on the condition of that matter. KPMG tested various issues such as the benefit of corporate social responsibility reporting, adoption of an integrated report, the need for global reporting standard and the use of assurance services from a third party. KPMG also provided a benchmark and view on developing the corporate social responsibility reporting.

From that survey, KPMG concluded that corporate social responsibility will increase financial value and encourage innovation. Companies can find the opportunity to improve their operations by analyzing the data obtained from their reports and conducting improvement programs. Financial benefits can be

obtained from two sources: direct savings and reputation improvement in the market. This survey found that service sectors fall into the categories of 'getting it right' (finance, insurance&securities and communication and media) even 'starting behind' (transportation). KPMG views CSR reporting as a requirement for companies that want to be considered to be a responsible member of the society.

This research seeks to find out how the quality of voluntary CSR disclosure conducted by companies in the service sector affects firm value.

2. LITERATURE REVIEW

Researches have proven that a company's social performance and financial performance correlate positively. Orlitzky et al (2003) used the data from 52 researches with cases from 33,878 companies for 30 years to support this argument. Other researches that show no relationship between social performance and financial performance usually base their conclusions on small scale cases.

Graham et al. (2005) in Brown et al. (2008) said that the extent of disclosure is determined by considering the effects of the disclosure on the cost of capital or information risk as well as the ability of the disclosure in reducing uncertainties of the company's future. Theories suggest that the quality of voluntary disclosure will effect the value of the firm both directly and indirectly to the firm's cost of capital (Lambert et al., 2006) and/ or indirectly to the firm's cash flow (Lambert et al., 2006). Most emprical studies in this case are focused on the relationship between the quality of voluntary disclosure and cost of capital, most of the evidence found show that the increase of quality will decrease the cost of capital (Leuz&Verrecchia, 2001). Empirical research that test the relationship between expected cash flow and the quality of voluntary disclosure is still limited (Li, 2006).

2.1. The Quality of CSR Disclosure

There are many approaches used to measure the quality of environmental and sustainability reporting. There are those devised independently by assessing firms that have been analyzed by independent researchers such as Davis-Walling/Batterman (1997), Deloitte Touche Tohmatsu (1999) and SustainAbility/UNEP (1996, 1997, 2000). Other approaches used by various organizations internationally such as Pacific Sustainability Index or PSI which was developed based on the standards set in the GRI Guidelines (GRI, 2002), ISO 14031 Guidelines (ISO, 1999) until the most recent which is ISO 26000 (ISO, 2010), and SA8000 Guidelines (Social Accountability International, 1997). Other organizations that made standards and guidelines to assess and report the quality and quantity of sustainability reports are World Business Council for Sustainable Development (WBCSD) and Eco-Management Audit Scheme (EMAS).

The standards developed by GRI allow organizations to measure and report their performance focused on four fields considered to be indicators of

sustainability, namely: economic, environmental, social and governance performance. The framework developed by GRI is considered more dominant than others (KPMG, 2005). Besides the four main fields specified before, other factors assessed in the GRI standards are materiality, stakeholder inclusiveness, sustainability context and completeness. The GRI disclosure standard in GRI Guidelines (G3 Guidelines 2000-2006 which is then updated to G3.1 Guidelines 2000-2011) contain principles that should be used in making decisions regarding the process of presenting information in a sustainability report to ensure the quality of the information being reported. By ensuring information quality, stakeholders can assess the firm's performance accordingly and take necessary measures. The principles defined to ensure quality set in the GRI 3.1 Guidelines are balance, comparability, accuracy, timeliness, clarity and reliability.

2.2. Firm Value

Schweser (2008) defines *Free Cash Flow to the Firm* (FCFF) formally as the cash available to all firm investors, including shareholders and bondholders, after the firm has purchased and sold products, provide services, paid its operational expenses in cash, and made long term as well as short term investments. After getting the FCFF, the firm will then pay interests to its bondholders then borrow more money from bondholders or pay previous debts. The remaining cash after the firm has fulfilled its obligations to other investors is referred to as *Free Cash Flow to Equity* (FCFE).

The free cash flow is preferred by analysts compared to dividend-based valuation because many companies pay low amount of cash dividends if not at all; dividends are paid at the discretion of the board of directors therefore, it is a poor reflection of the firm's long-term profitability; if a firm becomes an acquisition target, free cash flow is a more appropriate measure because the new owners will have discretion over its distribution.

2.3. Voluntary CSR Disclosure Effect on Firm Value

There are prior researches that support the association between the quality of voluntary disclosure and cash flow (Brown et al., 2008; Anwar et al., 2010). However, there are arguments stating that increasing the quality of voluntary disclosure will increase the expenses needed for additional expenses to produce more information for different parties so in the long run it will waste valuable company resources which will result to a negative implication on cash flow. Some view that the more open the information is to the public, cash flow will be positively effected in the long run.

Clarkson et al (2006) in Brown et al (2008) noted a positive association between the quality of voluntary environmental disclosure regarding issues such as toxic emission and waste management but it does not explain as to how it will effect cash flow.

2.4. Theory on Voluntary Disclosure

Oliveira et al. (2005) states that there are many reasons for firms to disclose more information that

necessary. Oliveira also argued that there are several theories that attempted to explain those reasons through theoretical framework but none can thoroughly explain that phenomenon concisely.

Agency Theory and Political Cost Theory can explain the decision to report something voluntarily. Positive Accounting Theory focuses on the consideration of contractual and political costs in explaining the management's motive in making a decision in a condition of information asymmetry in the market, in case there is a significant cost in making and administering contracts (agency costs), and in case there should be a political cost that arises from the regulatory process. In the view of agency theory, disclosure works as a control mechanism for manager performance. According to political cost theory, firms that are politically sensitive will be effected by high political costs (depending on the size of the firm), therefore will tend to disclose more information. (Watts&Zimmerman, 1978).

The legitimacy theory considers that organizations will thrive to convince that their activities are conducted within the acceptable scope and norm set by the society where they operate. This theory is based on the assumption that there is a social contract between the organization and its social environment which demands that the organization report their activities voluntarily provided that the management views that it is expected by the community. (Guthrie et al., 2004). Information disclosure is used as a means for organization to create a respectable image and to justify that it operates in accordance to social values held by the society in order to maintain or gain social legitimacy (Cuganesan et al. 2007). Legitimacy theory is used to analyze social and environmental accounting of the a firm. According to Guthrie et al. (2004), it is closely tied to intellectual capital reporting. Firms tend to report intangibles if they need to do so for certain purposes. In other words, firms cannot legitimate their status only by revealing tangible asset which is considered to be a traditional symbol of the firm's success. (Guthrie et al., 2004).

Fontaine et al. (2006) who quoted the definition given by Freeman (1984) on the term 'stakeholder', said that the main point of the stakeholder concept is to change the definition of organization and regulates how an organization should be run and conceptualized. The stakeholder theory is considered to bear three approaches (Carrol, 1991; Good, 2002; Fontaine et al., 2006), namely the normative approach, the descriptive approach and the instrumental approach regarding how, what and by what means an organization should be run and conceptualized. In this view, an organization will succeed in the long run if its managers treat its stakeholders according to the stakeholder concept.

The Commission of the European Communities (2001) in their Green Paper stated that most CSR definition describes CSR as a concept in which companies integrate their interest in social and environmental matters into their interaction with their stakeholders on a voluntary basis. It is also considered that companies with respectable social and environmental records will have

better performance and will be able to generate higher profit and growth.

A firm's decision to disclose information may impair its competitive position in the product market (Lambert et al., 2006). Hence, the existence of proprietary cost drives firms to exchange the positive effect of disclosure to offset the negative effects. However, information disclosure to competitors does not always result to a decline in the firm's future gains. Firms should provide information to coordinate their action for their own advantage (Darrough, 1993). The effect of the disclosure depends on other factors as well such as market competition (Darrough, 1993), the type of information being disclosed and the threat of entrance from other firms (Feltham&Xie, 1992). Even so, there are little proof to support those allegations (Healy&Palepu, 2001). Gelb (2000) argues that firms operating in markets with low entry barrier or high proprietary cost will tend to disclose good information by distributing cash as opposed to disclosing discretionary accounting.

2.5. Prior Researches

Sayekti & Wondabio (2007) studied the effect of CSR information on earnings measured by earning response coefficient (ERC). The results show that the level of CSR disclosure has a negative effect on ERC. It also indicated that investors use information in the CSR report to make decisions on investment.

Poddi et al. (2009) studied the effect of firms' CSR behavior and CSR certification on several performance indicators. The result supports the notion that firms conducting CSR activities gain more benefit and has better long-term performance due to its ability to improve its reputation that leads to higher sales and profit in the long run although they had to deal with increased initial cost in the beginning.

Arx&Ziegler (2008) studied the effect of CSR on firm performance for companies in the United States and Europe. The results show that CSR activities conducted by those firms effect the financial market in both regions.

Kent&Chan (2003) provided a comprehensive and integrated theory to explain CSR disclosure. By applying Ullman's three dimensional CSR disclosure model (1985), the research to study whether or not the stakeholder theory can explain the quantity and quality of voluntary CSR disclosure. Quantity here is measure by the number of sentence used to explain CSR issues in annual reports while quality is measured by an index devised by financial report users based of financial reporting qualifications. The result shows that both quantity and quality are highly correlated. The result also support prior studies that firm size is a significant determinator in disclosure.

The association between firm value which is represented by the value of free cash flow to the firm (FCFF) discounted weighted average cost of capital (WACC) and the quality of voluntary CSR disclosure is depicted in illustration 4.

Illustration 4. The effect of voluntary CSR disclosure on firm value.

Based on related theories on the voluntary disclosure on non-financial information such as CSR (Watts&Zimmerman, 1978; Feltham&Xie, 1992; Guthrie et.al., 2004; Cuganesan et.al., 2007; Lambert et.al., 2006) and the results of prior researches (Brown et.al., 2008; Arx&Ziegler, 2008; Poddi et.al., 2009; Anwar et.al., 2010).

3. RESEARCH METHOD

The companies being observed are those from the service sectors listed in the Indonesian Stock Exchange (ISE) per December 2011. The service sector is selected because most companies in this sector are not operating in and/or related closely to natural resources, therefore not implicitly mandated by existing law to report their CSR activities. The sample companies are those that report their CSR through the internet consecutively from 2008 to 2010.

Data used in this research is secondary data obtained from materials published by the ISE through Indonesian Capital Market Directory (ICMD) 2009-2011 along with CSR Report, Sustainability Report and/ or Annual Report published through the internet either in company web sites or idx.co.id.

First of all, data analysis will be performed by using crosstabs statistics to see the association between the firm value (FV) variabel and quality of CSR disclosure (QCSR) variable. The strength of association will be measured by observing the value of symmetric Lambda and the significance level of each variable.

Lambda means that the independent variable can perfectly predict the dependent variable. The value of *Approximate Significance* (Approx.Sig.) for each symmetric Lambda value will be compared to alpha ($\alpha=0.05$). If the value is less than 0.05 it means that there is a correlation between the two variables in the table. The *Uncertainty Coefficient* in the crosstabs is a PRE (*proportional reduction in error*) measure which shows the level of error that can be reduced to predict the dependent variable by considering the independent variable (IBM crosstabs statistics, www.ibm.com).

In this first stage of analysis, crosstabs is done to the pooled data of all companies for three years. Then analysis will be conducted to see the association between those two variables with different period settings ($t=\text{year}$). For this stage, two forms of association will be observed:

- Direct association, where: $QCSR_t \rightarrow FV_t$
- Lag 1 association, where: $QCSR_t \rightarrow FV_{t-1}$

The second stage of analysis will use linear regression to see how varying levels of QCSR affects FV. In this case, the QCSR will be treated as a dummy variable split into three levels incorporated in the following regression model:

$$FV = \gamma_1 + \gamma_2 DQCSR_2 + \gamma_3 DQCSR_3 + e$$

where:

FV = FCFF discounted at WACC

$DQCSR_2 = 1$ if the level of QCSR is moderate, 0 otherwise

$DQCSR_3 = 1$ if the level of QCSR is low, 0 otherwise

3.1. OPERATIONAL DEFINITION OF VARIABLES

FV as the dependent variable is reflected by FCFF discounted at WACC as used by Velez-Pareja (2005, 2007, 2008); Fernandez (2007); Dhaliwal et al. (2010) and Yaaria et al. (2012) as such:

$$FV = \sum_{t=1}^{\infty} \frac{FCFF}{(1 + WACC)^t}$$

FCFF is calculated based on the formula found in Schweser (2008):

$$FCFF = CFO + [Int \times (1 - \text{tax rate})] - FCInv$$

where:

CFO = cash flow from operations

Int = interest expense

FCInv = fixed capital investments

and,

$$WACC = (w_e \times r_e) + [w_d \times r_d \times (1 - \text{tax rate})]$$

where:

The independent variable assigned here is KCSR assessed by referring to the method applied by Freundlieb & Teuteberg (2012). An assessment checklist is comprised based on the principles and tests found in the G3.1 Guideline (Reporting Principles for Defining Quality: pp. 13-17), see Appendix IX. The reports will be analyzed by referring to the checklist. Every test that is fulfilled will be scored 1 and 0 otherwise. The scores will be counted per principle (BALN, COMP, ACCR, TIME, CLAR, and RELY), then the six individual scores will be added to obtain the total score of CSR disclosure quality (QCSR).

$$QCSR = BALN + COMP + ACCR + TIME + CLAR + RELY$$

where:

BALN = balance, COMP = comparability, ACCR = accuracy, TIME = timeliness, CLAR = clarity and RELY = reliability

The level of QCSR used in the dummy variable regression analysis is split into three categories: high (6.0-4.1), moderate (4.0-2.1) and low (2.0-0.0).

4. RESULTS AND DISCUSSION

4.1. General Observation of CSR Disclosure

The reports analyzed prove to be very diverse. For the most part, CSR is disclosed in annual reports which means that the scope and depth of disclosure is overshadowed by other contents in such as Good Corporate Governance and Financial Reporting.

4.2. Quality Assessment

The result of quality assessment shows that the highest overall score of QCSR is 5.7 achieved by PT. Bank Negara Indonesia Tbk. (BBNI) in years 2009 and 2010, whereas the lowest is 1.4 owned by PT. Bank Mega Tbk (MEGA) for 2008 and 2009 also PT. Yulie Sekurindo Tbk (YULE) for 2008-2010. The average KCSR achieved

by the companies overall during the three year period is 2.643 which falls into the moderate category.

Table 2. *Quality Scores*

| Principle | Max | | | Min | |
|-----------|-------|-------|---|-------|----|
| | Mean | Score | % | Score | % |
| KCSR | 2.643 | 5.7 | 2 | 1.4 | 4 |
| CLAR | 0.717 | 1.0 | 4 | 0.4 | 11 |
| TIME | 0.563 | 1.0 | 9 | 0.4 | 44 |
| BALN | 0.470 | 1.0 | 3 | 0.2 | 19 |
| RELY | 0.375 | 1.0 | 7 | 0.2 | 54 |
| ACCR | 0.292 | 1.0 | 3 | 0.1 | 34 |
| COMP | 0.249 | 0.9 | 5 | 0.1 | 31 |

Source: *processed data*

The quality principle with the highest fulfilment is clarity (0.717) because most of the reports utilize different forms of presentation methods such as pictures, tables and graphs to help convey CSR information. Besides different tools, most the reports are also presented in more than one language to cater to different users. Meanwhile, the quality principle with the lowest fulfilment is comparability (0.249) because most of the reports are highly inconsistent in terms of presentation, material discussion, and use of benchmark and GRI protocol. A summary of minimum and maximum scores for QCSR and each quality principle is listed in Table 2.

4.3. Firm Value Calculation

The highest FV achieved is 9,468,488 by PT. Bank Danamon Tbk in 2010 while the lowest is -2,802,766 by PT. Bank Rakyat Indonesia Tbk in 2008. In most of the companies observed, there seem to be a rise in each year of observation. In this case, we take into account the economic condition of 2008 which was influenced by the global economic crisis.

4.4. Results of Crosstabs Analysis

In the direct association setting of the crosstabs analysis, there are three sets of tabulation:

- QCSR 2008 → FV 2008
- QCSR 2009 → FV 2009
- QCSR 2010 → FV 2010

For the lag 1 association, there are two sets of tabulation:

- QCSR 2008 → FV 2009
- QCSR 2009 → FV 2010

From the results of the crosstabs analysis to the pooled data of the three year period of observation, it shows that there is a strong association between KCSR and FV overall ($\neq 0.607$, Approx.Sig. 0.000) and that QCSR can be used to predict FV with a PRE of 80.1%. From both the direct association and lag 1 association, it shows that there is an increase of correlation between the two variables every year of observation. This could indicate in the rise of awareness of an association of CSR disclosure quality with firm value. Since it was mandated in 2007, CSR disclosure has grown to be a social demand for stakeholders which in turn affects firm performance and firm value possibly because both the company and its stakeholders are more aware that CSR can benefit both

parties in terms of increased efficiency and reputation. Table 3 shows the summary of crosstabs analysis results. Table 3. *Summary of Crosstabs directional measures Results*

| Association | Symmetric Lambda | | Uncertainty Coefficient |
|------------------------------|------------------|---------------|-------------------------|
| | Value | Appro x. Sig. | |
| KCSR to Firm Value 2008-2010 | 0.607 | 0.000 | 80.1% |
| KCSR 2008 to Firm Value 2008 | 0.716 | 0.000 | 86.1% |
| KCSR 2009 to Firm Value 2009 | 0.813 | 0.000 | 92.0% |
| KCSR 2010 to Firm Value 2010 | 0.816 | 0.000 | 91.9% |
| KCSR 2008 to Firm Value 2009 | 0.716 | 0.000 | 86.1% |
| KCSR 2009 to Firm Value 2010 | 0.813 | 0.000 | 92.0% |

Source: *processed data*

4.5. Regression Analysis

The regression analysis shows that the higher the quality level of CSR disclosure, the higher the firm value (see tables 4 and 5).

Table 4. *CSR disclosure quality level categories*

| Quality Level | QCSR | Frequency | % | FV Average |
|---------------|-----------|-----------|-----|------------|
| High | 6.0 – 4.1 | 18 | 15% | 596,433 |
| Moderate | 4.0 – 2.1 | 56 | 47% | 585,706 |
| Low | 2.0 – 0.0 | 46 | 38% | 555,607 |

Source: *processed data*

Table 5. *ANOVA coefficients*

| Model | Unstandardized Coefficients | | Stand Beta | t | Sig. |
|---------------|-----------------------------|--------|------------|-------|------|
| | B | SE | | | |
| (Constant) | 596433 | 361418 | | 1.65 | .102 |
| Moderate QCSR | -10727 | 415463 | -.003 | -.03 | .979 |
| Low QCSR | -652040 | 426306 | -.205 | -1.53 | .129 |

Source: *processed data*

The ANOVA procedure produced the following formula:

$$FV = 596,433 - 10,727DQCSR_2 - 652,040DQCSR_3 + e$$

The unfavorable significance value (higher than α) is assumed to be the result of inconsistent condition of both quality level and firm value. This is considered to be the effect of CSR disclosure being voluntary and newly enforced for the companies observed in this research.

This research overall supports previous researches (Brown et.al., 2008; Arx&Ziegler, 2008; Poddi et.al., 2009; Anwar et.al., 2010) and theories (Feltham&Xie, 1992; Guthrie et.al., 2004; Cuganesan et.al., 2007; Lambert et.al., 2006) in showing an association between the quality of voluntary CSR disclosure and firm value. This is possible due to the following argument:

1. Although the business sectors observed in this research is considered low profile it contributes to other aspects of CSR that does not necessarily relate to the environment such as social and economic aspect. Most of the companies observed obtain their good CSR reputation from contribution in social activities such as providing financial aid, donations, and social awareness therefore, it can still effect firm value.

2. High variation and inconsistency in CSR disclosure quality due to its voluntary nature and FV due to economic condition might have impacted in the unfavorable level of significance.
3. Improving economic and investment condition which before was influenced by the global crisis, will increase the responsiveness in the association between the quality of CSR disclosure and firm value.

5. CONCLUSIONS AND SUGGESTIONS

5.1. Conclusion

This research shows a significant association between the quality of voluntary CSR disclosure and firm value for companies in the service sector. The results of this research has also proven that the quality of voluntary CSR disclosure has a positive influence on firm value in that the firm value will increase along with the rise of quality in CSR disclosure. There is a difference in mean FV between companies with low, moderate and high quality level of CSR disclosure.

5.2. Research Limitations

This research did not take into account the 79 items of performance indicator set by GRI in assessing the quality of CSR disclosure as applied by Freundlieb&Teuteberg. Beside that, this reasearch did not see the association between the quality of CSR disclosure with other proxies of firm value such as ROE, ROA and EVA.

There are other business sectors that are not implicitly mandated to report CSR by law that were not observed in this research such as retail&trade and services such hospitals and real estate.

5.3. Suggestions

In regards to the limitations stated above, as a suggestion for further research to gain more perspective on the influence of voluntary CSR quality and firm value, it is advisable that more research is conducted:

- Using other measures of firm value such as ROE, ROA, EVA and market capitalization.
- To other business sectors such as retail&trade, hospitals and real estate.

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