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CEO'S EXPERIENCE, FOREIGN OWNERSHIP AND CORPORATE SOCIAL RESPONSIBILITY: A CASE OF MANUFACTURING COMPANIES

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Abstract

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Corporate Social Responsibility (CSR) is a commitment of the company or the business world to participate in the development of sustainable economy. It concerns companies' social responsibilities as well as stresses the balance of economic, social, and environmental aspects. This research aims to analyze the influence of CEO's international work experiences, foreign ownership and controlled variables of profitability and firm size on CSR disclosure. The sample of this research is represented by 134 manufacturing companies listed on the Indonesian Stock Exchange (IDX) in 2014. It analyzes the companies' annual reports using content analysis method based on the GRI G4. The data panel is analyzed using multiple linear regression. The results of this research show that the CEO's international work experience has a positive and significant effect on CSR disclosure. Profitability and firm size, taken as control variables, also have a significant positive effect on CSR disclosure.

Keywords: CSR, CEO's International Work Experience, Foreign Ownership, GRI G4

1. INTRODUCTION

CSR is an idea that introduces new facets of responsibility to the company performance. It no longer views company's financial condition as a single bottom line but suggests triple bottom lines, which, apart from the financial condition, are also concerned with social and environmental issues (Daniri, 2008). Corporations are not just business entities solely concerned with the achievement of financial performance by maximizing its profits in the environment around, but rather business entities that are required to pay attention to and are responsible for the company's operations that have a direct impact on the surrounding environment.

CSR development is also stipted by the worsening environmental condition in Indonesia and the world, ranging from deforestation, air and water pollution to climate change. In line with these developments, Act No. 40 dated by 2007 on Limited Companies requires the company using or related to the field of natural resources to implement social and environmental responsibility. The Act also requires the company to report on the implementation of all these responsibilities in the annual report. The existence of such reporting is the reflection of the company's need for accountability

for the implementation of social and environmental responsibility so that stakeholders can assess the implementation of these activities (Utaman, 2007).

The current level and quality of the company's CSR reporting in Indonesia are still relatively low. The low level of reporting may be attributed to the weak infrastructure that has not progressed toward CSR reporting. Up to now, there are no CSR reporting standards which can be used as a reference for companies in preparing CSR reports. The coverage of existing standards (e.g. GRI Sustainability Reporting) has already become quite comprehensive, but the absence of reports that summarize the impact of the company's activities on the social and environmental stakeholders makes it difficult to evaluate the effectiveness of the company's CSR activities (Utama, 2007). The lack of understanding of the importance of CSR activities for the environment and the benefits to be gained by conducting them add to the lack of disclosure of CSR in national companies.

In contrast to national companies which do not realize the importance of the implementation of CSR, oversea companies, particularly in Europe and the United States, tend to be more revealing of their CSR activities. The high CSR in countries abroad can not be separated from any regulations that require companies in the country to carry out CSR activities

(Kalangit, 2009). For instance, the Sarbanes-Oxley Act of 2002 in the United States introduces regulations regarding liability company directors to prepare financial statements and performance of the company as a way to improve the company's CSR; The New Economic Regulation Law of 2001 in France requires companies to provide transparent information regarding the activities of companies that have an impact on the environment, and to consider social aspects part of the operations (Kalangit, 2009).

On 13 March 2007, the European Parliament passed a resolution entitled "CSR: A new partnership" which urged the European Commission to increase the liability associated with the issue of corporate accountability such as assignment director, direct obligations of foreign and reporting of social performance and environment. Many parties welcomed this development. It is widely recognized that although the company has made a very positive contribution to the development of the world so far, it should be required to become more responsible. Because, fostering earnings it tends to ignore social responsibility (Daniri, 2008).

The high disclosure of CSR activities in countries abroad, especially in Europe and the United States, is supported by the results of a survey conducted by the Yale Center for Environmental Law and Policy (YCELP), Yale University and The Center for International Earth Science Information Network (CIESIN) and Columbia University. Survey on disclosure of CSR activities in 178 countries in the world in 2014. YCELP and CIESIN based their survey on nine indicators that impact health, water quality, water and sanitation, water resources, agriculture, forests, fisheries, biodiversity and habitat, climate and energy. The results of the study showed that the countries concerned about CSR activities are mainly located in Europe and the United States. Their Environmental Performance Index (EPI Score) is higher than the EPI Score in the countries of Asia and Africa. Indonesia (112 of 179 countries in the research samples with EPI score of 44.36.)

Strike et al (2006) argue that it proves that CSR is not merely an activity taking the company's funds but that it can be a strategic asset and competitive advantage that could ultimately provide benefits for the company. Thus, it should be seriously considered by foreign countries. This has not been understood by Indonesian companies yet, so there is still lack of CSR in companies in Indonesia. The high disclosure of CSR activities in countries abroad, especially Europe and the United States makes the authors interested to examine the influence of engagement of foreigners on the disclosure of CSR activities in the companies in Indonesia. In this study, the authors use the CSR as an index of disclosure. The authors used CEOs of sample companies who had experience of working abroad, and shareholders as non-resident individuals or companies as a factor in influencing the CSR.

An organization is usually reflected by the role of a managing director. As the leader of the company, the managing director plays a major role because he can influence the strategic decision-making and resource allocation (Hosmer, 1982). The managing director is responsible for company's profit generation, but the activities of CSR is often regarded as an activity that does not provide

benefits and may reduce the profit of the company by some major director in Indonesia, therefore CSR is quite low in companies in Indonesia. It is proved by many companies in Indonesia which still do not report their CSR activities.

In contrast to companies in Indonesia, the company overseas, particularly in Europe and the United States do report their CSR activities viewing CSR not as a mere a charity or expenditure, but as a means to maintain the continuity of the company and increase customer loyalty. Thus, when companies in Indonesia have a chief executive who has experience of working abroad, he is expected to disclose CSR activities of his company in accordance with the experience of such companies abroad (Slater and Dixon-Fowler, 2009).

Slater and Dixon-Fowler (2009) conducted research on the effect of a managing director's experience of working abroad on the disclosure of CSR. It examined the experience of the chief executive at the company in the United States and found that foreign work experience of a director positively influences CSR disclosure. The authors have not found any research on the experience of a director working abroad employed by a company in Indonesia, prompting the authors to use these variables to examine their effects on CSR.

Machmud and Djakman (2008) focused their research on foreign ownership in the company structure and its effect on the disclosure of CSR. Their research revealed that the foreigners are considered to be more concerned about the disclosure of CSR, especially multinational companies that are located in Indonesia, particularly those from Europe and the United States. The mentioned companies pay more attention to social issues such as human rights, education, employment, and environmental issues such as greenhouse effect, illegal logging, as well as water pollution. With the foreign ownership in the company, the company will face requests for information which become more numerous and diverse. So, if the company has a contract with the foreign stakeholders in both the ownership and trade, the company will be supported in doing CSR disclosure (Machmud and Djakman, 2008).

There are many studies on the effect of foreign ownership of CSR disclosure. The research of Tanimoto and Suzuki (2005) reported the widespread adoption of the GRI in social responsibility reports of public companies in Japan. Haniffa and Cooke (2005), and Rustiarini (2011) discovered a significant correlation between foreign ownership and CSR. The results of different studies carried out by Amran and Devi (2008), Machmud and Djakman (2008), and Said et al. (2009) found no effect of foreign ownership on the disclosure of CSR. The existence of the inconsistency in the earlier studies prompted the authors to conduct this study.

The selection of the manufacturing industry in this study is explained by an evidence that manufacturing companies have a substantial contribution to the problems of pollution, waste, product safety, and labor. This is because manufacturing companies have more interaction with the public. The production process of manufacturing companies inevitably entails waste production which automatically causes environmental pollution problems. Manufacturing

companies also require to have a workforce of production and are closely related to safety issues. In addition, manufacturing companies sell products to consumers, therefore, the issue of safety and security of their products demands public disclosure. These aspects make manufacturing companies different from firms in banking and become the focal points of research on CSR in an industrial manufacturing company. We use the GRI G4 as a proxy for CSR disclosure. The reason for the use of the GRI G4 in this study as the first and main characteristics of this standard is to focus on material issues. Second, G4 eliminated the level applications on previous generations. Third, G4 will expand the boundaries of reporting. Characteristics of the latter are the emphasis on the elements of governance and ethics.

In this study, the authors used a CEO who has experience working abroad and foreigners who owned the Indonesian companies stock as an independent variable. In analyzing the influence of **11** **holders who have experience of working abroad and foreign ownership structure on the disclosure of CSR**, the authors use the control variable profitability measured by ROA and firm size measured using Ln (Total Assets) to neutralize the object of the research. This would use the companies listed on the Indonesia Stock Exchange in 2014 where the time of observation in this study differs from previous studies. Based on this background, the authors consider the importance of this research to contribute to CSR literature and help the regulator/government in implementing policies related to CSR.

This paper aims to investigate empirically two GCG issues on manufacturing listed companies in Indonesia Stock Exchange: (i) the orientation either to stakeholder theory or legitimacy theory, (ii) the effect of the CEO international experience and foreign ownership on CSR disclosure with profitability and firm's size as a control variable. This paper is organized as follows: Section 1 makes introduction to the research and outlines its main aim; Section 2 reviews the literature related to GCG and CSR; Section 3 describes research methodology; Section 4 presents the results of the study; and Section 5 provides the conclusion, the limitation of study, and suggests further research.

2. LITERATURE REVIEW

2.1. The Theory of CSR

There are several theories to explain why the company discloses information relating to its activities and the impact caused by the company. In this study, the authors will discuss two theories, which are supposed to explain the disclosure of CSR, i.e. stakeholder's theory and legitimacy theory.

2.1.1. The Stakeholder Theory

The stakeholder theory argues that the company is not only an operating entity working for its own good; it should also provide benefits to stakeholders. Thus, the existence of a company is strongly influenced by the support given to stakeholders.

Although the ethics of the stakeholder theory states that all stakeholders have equal rights to obtain information, in practice, the company decides which comes first in priority. According to the Post et.al (2002), stakeholders are divided into two categories based on priorities, namely: (1) primary stakeholders, i.e. individuals or groups that directly affect the company's ability to achieve its main objectives to provide goods and services to consumers. This stakeholder group consist of employees, shareholders, creditors, suppliers, consumers, agents and retailers, and (2) secondary stakeholders, i.e. individuals or groups of people affected directly or indirectly by business activities and policies made by the company. This group consists of local communities, local government, foreign governments, social activists, media, enterprise support groups, and public.

Stakeholders can control and influence the use of economic resources that are important to the company; the company will react in ways that satisfy stakeholders (Ghozali and Chariri, 2007). Based on it, the stakeholder theory is commonly associated with the ways that companies use to manage stakeholders. These ways depend on the strategy adopted by the company. Ullman (1985) concluded that social disclosure is a strategy used to manage relationships with stakeholders to affect the level of demand coming from the different stakeholders.

2.1.2. The Legitimacy Theory

One factor used by many researchers as a motive for social and environmental information disclosure is the desire to legitimize the company's operations (Deegan, 2002). Positioning the company as a part of the community shows that the company's operations often affect the surrounding community. Its existence can be accepted as a member of the community; otherwise, its existence can be threatened if a company can not adjust to the norms prevailing in society since it is the community that gives the company a permission to produce goods as well as use many natural and human resources. Therefore, companies with top management tried to obtain correspondence between the actions of the organization and the values in the relevant community or its stakeholders (Dowling and Pfeffer, 1975).

Companies use the **13** to describe the annual report disclosure of **social and environmental responsibility so that they are accepted by stakeholders. The acceptance of the company's actions by stakeholders is expected to increase the chances of the company to profit. It can encourage or assist investors in making an investment decision.** Ghozali and Chariri (2007) explain that the theory of legitimacy is very helpful in analyzing the behavior of the organization because the theory of legitimacy is the most important thing for the organization.

Restrictions imposed by the norms and social values as well as reactions to these restrictions encourage the importance of analysis of organizational behavior with attention to the environment. The theory is based on the legitimacy of the social contract between companies with the communities in which it operates **12** and the use of economic resources. The legitimacy of the organization can be seen as something that the

community gives to the company and the company desires or seeks from the community. So based on these theories, social disclosure in CSR is necessary, because the company obtains the added value of the contribution of the surrounding community, including the use of social resources. If the company's activities are causing damage to the social resources that can enhance their social costs, all direct and indirect costs are borne by third parties or the public caused by economic activity (Kapp, 1963a). Meanwhile, if the company can improve the quality of the resource, it will lead to social benefits that are benefits obtained by a third party or the community as a result of economic activity.

2.2. Corporate Social Responsibility

2.2.1. CSR Concepts

CSR has different definitions. The concept of CSR emerged in the early 20th century. Several studies related to CSR has been implemented, but there is no exact definition of CSR. Nevertheless, the relevant standards of CSR continue growing. CSR is a corporate responsibility towards stakeholders, including customers, shareholders, employees, suppliers, and communities (Yang et al, 2009).

CSR is an approach to the appreciation of society, nature, and ethics as a major part of the company's strategy to enhance the competitive position for the company (Mittal et al, 2008). Elkington (1997) suggests that CSR is pursuing activities that triple bottom line; this activity is intended for the creation of sustainability development, namely, profit, people, planet. The World Business Council for Sustainable Development (WBCSD) (Fox et al, 2002) defines CSR as the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life" (2).

It can be concluded that CSR is the commitment of the business community to continuously act ethically, operating legally and contribute to economic improvement, along with improved quality of life for employees and their families while also improving the quality of the local community and society at large.

According to Law No. 40 of 2007 on Limited Company, CSR or Corporate and Social Responsibility is the commitment of the Company to participate in the sustainable economic development to improve the quality of life and environment of the local community and society. In other words, CSR refers to one important thing that needs to be underlined, that apart from contributing to the shareholders financial profit, the company needs to contribute to society and the environment in the form of social action because the company can not grow without the help of the community and the neighbourhoods where they operate. Therefore, society and environment play a very important role in the development of the company.

Some of the factors that stimulate companies to implement CSR include: (1) the size of the company. Larger companies require greater accountability in decision-making; (2) the further growth and development of Non-Governmental

Organization (NGO). If the company's activities disrupt or cause damage to the environment and social aspects, the NGOs will swiftly demand corporate accountability; (3) the reputation and image of the company. Responsible business activities will maintain the reputation and image of the company; (4) the advancement of technology and information. With the growing sophistication of technology, bad news about the company will spread and can be accessed by anyone very rapidly throughout the world, including the bad news and the negative issues related to environmental and social which will affect the image of the company (Darwin (2006).

2.2.2. Benefits of CSR

CSR programs should be included in the post-investment or investment centers (not included in the post fees), as beneficial in the long run. According to Nurmansyah (2006) there are six benefits of CSR for the company: (1) The competitiveness of sustainable CSR benefits to the competitiveness of companies. CSR can strengthen a company's reputation in the eyes of stakeholders by implementing a more efficient use of energy and natural resources, reducing waste and selling recycled materials. CSR can also improve financial performance, increase sales and customer loyalty, and improve the ability to attract and retain a qualified workforce. (2) Creation of new business opportunities. Close cooperation with stakeholders is a key to innovation, creativity, and opening new markets or products. Productive communication with stakeholders will facilitate further development of innovative and creative strength. (3) Attraction and retaining of investors and qualified business partners. Doing business with a colleague who does not practice a social responsibility can pose a risk to the company's reputation. Thus, world-class companies have begun to help their suppliers to adopt CSR practices in order to reduce risks to the company. (4) Cooperation with the local community. A good cooperation between the company and the local community or local residents can help companies to adapt products and services to the local market. Besides, it becomes easier for companies to use local experts, distribution channels and production facilities. This will reduce the cost of new investments and increase employee loyalty. (5) Government support. Governments often provide financial incentives to companies that have CSR initiatives, including environmentally friendly innovations. These companies are also subjects of minimal inspection and supervision by the local government and national government. (6) Political capital. By implementing CSR, a company can have a good relationship with the government and political figures, affect regulation, restructure public institutions upon which the company relies and improve the public image of the company.

2.2.3. Regulation of CSR Disclosure in Indonesia

The Indonesian government seeks to provide a positive response to CSR implementation with the revision of Law No. 1 of 1995 on Limited Company into Law No. 40 of 2007 of the limited company. A revised chapter of which is related to the inclusion

of the regulations to accommodate the application and reporting of CSR (Waagstein, 2011). Article 74 states that: (1) the Company conducting its business activities in the field and/or related to the natural resources is required to implement the Social and Environmental Responsibility; (2) social and Environmental Responsibility as referred to in paragraph 1 is an obligation of the Company to conduct its business with decency and fairness; (3) if the Company does not carry out the obligations referred to in paragraph 1 it will be sanctioned in accordance with the provisions of the legislation; (4) further provisions on Social and Environmental Responsibility is regulated by government regulation. Law No. 25 Year 2007 regarding Investment seeks to regulate the implementation of CSR in article 15 (b) to reach a company engaged in is not related to natural resources, the article states that Every investor is obliged to implement CSR.

Indonesian Institute of Accountants implicitly conveys social information through the Statement of Financial Accounting Standards (SFAS) No. 1 Paragraph 14 (revised 2009) by stating: "Entities can also present reports on the environment and report value added, apart from the financial statements, especially for an industry that considers its employees as a group of users. The report plays an important role, additional reports are beyond the scope of Financial Accounting Standards".

2.3. Previous Research

Several prior studies have attempted to look at the factors that affect the level of CSR. Amran and Devi (2008) investigated the influence of the government and affiliated foreign parties on the development of CSR. The independent variables in this study are the foreign shareholders, government shareholders, dependence on government, dependence on foreign partners of industry, size, and profitability, while the dependent variable in this study is the disclosure of CSR. The results showed the government's influence on the development of CSR in Malaysia, while the affiliation with foreign parties showed no significant influence on the development of CSR in Malaysia.

Branco and Rodrigues (2008) used International experience, company size, customer proximity, environmental sensitivity, and media disclosures as independent variables. This study measured the effect of CSR disclosures in annual reports and corporate websites as independent variables. The study states significant influence of the size of the company on CSR disclosure in annual reports and corporate websites. Media disclosure significantly influences CSR disclosure in the annual report. International experience, proximity consumer and environmental sensitivity do not significantly influence CSR disclosure in annual reports and corporate websites.

Machmud and Djakman (2008) identify the effect of foreign and institutional ownership on CSR disclosure. Machmud and Djakman (2008) were using CSR as the dependent variable and two independent variables as factors affecting the level of CSR disclosure. The study states that the structure of ownership (foreign and institutional) have no effect on extensive disclosure of CSR in Indonesia.

Slater and Dixon-Fowler (2009) conducted research on the International working experience of CEO and Corporate Social Performance (CSP). The results show that CEOs with international work experience has a significant and positive effect on improvement of CSP and moderated by functional backgrounds of CEO. Rustiarini (2011) found that managerial ownership and institutional ownership have no effect on CSR disclosure. Foreign ownership has affected the disclosure of CSR.

2.4. Research Hypothesis

2.4.1. Relationship between The CEO International Working Experience and Disclosure of CSR

A managing director is the leader of a company who plays a major role in strategic decision-making and resource allocation (Hosmer, 1982). As the leader of the company, the managing director is responsible for company's profit. Since some managing directors in Indonesia consider CSR as an activity that does not provide benefits and may reduce profit for the company, the disclosure of CSR is scarcely provided by companies in Indonesia. It is also evident that not all the companies in Indonesia have a sustainability report in reporting their CSR activity yet.

In contrast to firms in Indonesia, the companies abroad, especially Europe and the United States consider that CSR is not just a charity or expenditure, but it also can provide good benefits for the state and the company. Besides the countries abroad have regarded CSR as part of activities to gain legitimacy from the community in order to maintain its existence, so the disclosure of CSR activities overseas is higher than those of companies in Indonesia. It is proved by YCELP survey and CIESIN Annex 1 in which foreign countries, especially in Europe and America, come on top in disclosing CSR activities.

Slater and Dixon-Fowler (2009) examined the influence of the chief executive experience working abroad on CSR disclosure. They took a sample of 502 chief executives at companies who were in the United States in 2004. The Results of their research showed that the director' working abroad experience has a positive influence on CSR disclosure.

The authors found no similar studies on companies in Indonesia. This makes researchers aspire to study the influence of the chief executive experience working abroad on the CSR disclosure. Thus, the first hypothesis in this study: *H1: The CEO International Working Experience has a positive effect on the level of disclosure of CSR.*

2.4.2. Relationship between Foreign Ownership and Disclosure of CSR

Foreign ownership is the number of shares held by foreigners (either by individuals or institutions) in the shares of companies in Indonesia. So far, the parties concerned about the disclosure of CSR consider foreign owners. Machmud and Djakman (2008) outlined that the countries in Europe are very concerned with social issues e.g. human rights, education, labor, and environmental issues such as the greenhouse effect, illegal logging, as well as water pollution. It makes multinational companies

began to change their behavior in order to maintain the legitimacy of the operation and reputation of the company.

Tanimoto and Suzuki (2005) showed that foreign ownership in public companies in Japan becomes the driving factor in the adoption of the GRI CSR disclosure. These results are consistent with the research conducted by Rustiari (2011). By taking a sample of the companies listed on the Stock Exchange, Rustiari managed to show that the positive effect on the foreign ownership of CSR disclosure. Another study conducted by Haniffa and Cooke (2005) also found a positive effect of foreign ownership on CSR. Multinational companies or companies with foreign ownership primarily gain legitimacy derived from its stakeholders who are usually based on the home market (spot market operation). CSR is one of the selected media to demonstrate the company's concern surrounding the community. In other words, if a company has a contract with the foreign stakeholders in both ownership and trade, the company will be supported in doing CSR (Barkemeyer, 2007). The results of discovered by Amran and Devi (2008), Machmud and Djakman (2008), and Said et al. (2009) found no effect of foreign ownership on the disclosure of CSR.

Huafang and Jianguo (2002) stated that companies with foreign ownership face the problem of information asymmetry more often due to the reasons of geographical and language barriers. Therefore, companies with large foreign ownership will be encouraged to report or disclose CSR more broadly. This is due to several reasons. First, foreign companies mainly from Europe and America are more familiar with the concept of CSR practices and disclosure. Second, foreign companies receive better training in accounting from parent companies abroad. Third, the company has a more efficient information system to meet internal needs and the needs of the foreign-based company from customers, suppliers and the general society. Fourth, a foreign-based company is more likely to be in greater demand for customers, suppliers and the general public (Rustiari, 2011). Their inconsistent results in previous studies encourage similar studies to complement each other. Similar studies are performed using samples, years of research, as well as different methods. The goal is to assess the consistency of the results and findings and strengthen one of the group results. This prompted the authors to conduct similar studies using a sample of companies in Indonesia. Thus, the second hypothesis in this study: *H2: Foreign ownership has positively affects the disclosure of CSR.*

2.4.3. Control Variable

2.4.3.1. Profitability

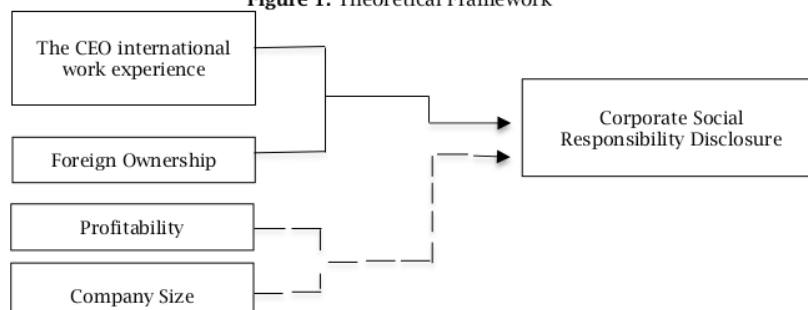
The profitability ratio is a ratio that measures a company's ability to generate earnings (profit) on the level of sales, assets and capital during a certain period. In companies that have greater profitability, management has the freedom and flexibility to be responsible in their CSR (Haniffa and Cooke, 2005). In accordance with the theory of legitimacy, the more profitable the company is, the more information it discloses to express concern to the community. This is shown by Roberts (1992) who found that the company had a profitable level of attention to the higher social activity. A positive relationship between profitability and social broader disclosure can be seen from the increase of profits. Company will spend more to make disclosure reports widely known (Haniffa and Cooke, 2005).

2.4.3.2. Company Size

The company size is a variable predictor that is widely used to describe various disclosures in the company's annual report. This is associated with agency theory, in which the large companies that have greater agency costs will disclose more extensive information to reduce the agency costs. Besides, large companies are listed companies that are closely observed by the public, so greater disclosure is a political cost reduction as a form of CSR (Sembiring, 2005).

Reverte (2008) presented empirical evidence on the factors that determine the disclosure of CSR in Spain. The research results show that the company size influences CSR disclosure. Branco (2008) presented empirical evidence regarding the factors that affect the company's CSR disclosure in Portugal. The results reported that the company size has a positive and significant relationship to CSR. The company size is a variable that is used to describe CSR disclosure in the annual report. Sembiring (2005), Machmud and Djakman (2008), Branco (2008), and Reverte (2008) found that the company size affects the disclosure of social responsibility.

Figure 1. Theoretical Framework



2.5. Theoretical Framework

Based on the framework above, the authors intend to test the effect of independent variables consisting of variable experience of managing directors working abroad and foreign ownership, and the dependent variable that is the disclosure of CSR. In addition, the authors took two control variables that are considered to affect the disclosure of CSR. The control variables include profitability and firm size. The uninterrupted arrow lines indicate the independent variables that are considered to affect the dependent variable and are the main variable that will be examined in this study. While the dotted line arrows indicate the control variables that are considered to affect the dependent variable, but is not a major variable that will be examined in this study.

3. RESEARCH METHODOLOGY

3.1. Data Panel and Sample

The data panel of this research is all manufacturing companies registered (listed) on the Indonesia Stock Exchange in 2014. The sample was selected based on the companies that meet the criteria set by the authors. The selection of the sample belongs to the cross sectional method, meaning that the selected study sample includes only one year, namely 2014. It also belong is to the purposive sampling method, which means that the study sample was selected based on certain criteria. This study uses a company in Indonesia as a sample for consideration of ease of acquisition of data and information needed.

For the selection period, this study refers to previous studies conducted by Nelling and Webb (2009) by using cross section data and time series. The study's findings show that, on a sample of the same company, the positive effect of these two

variables is weaker when studies performed using time series data. Therefore, the authors hope to find a strong relationship between the two variables studied, the study chose to use cross section data. Cross section data selected as the research sample is data on industrial manufacturing companies listed on the Stock Exchange in 2014.

3.2. Data Sources

The data used in this research is secondary data, i.e. data obtained by researchers indirectly through an intermediary medium in the form of evidence, records or historical reports compiled in the documentary, published and unpublished. To view CSR the authors used secondary data with the following criteria: (1) The companies listed on the Indonesia Stock Exchange in 2014, (2) The Companies' annual reports for 2014 were obtained from the Indonesia Stock Exchange at web-site www.idx.co.id or through direct access to web-sites of related companies, (3) Manufacturing Companies using the unit of currency and (4) It has complete data related to the variables used in the study such as the availability of information on the details of the company's shares based on the location of companies/individuals.

A corporate sustainability report is not used as a source of CSR information disclosure in this research because not all manufacturing companies have a sustainability report. Moreover, there was a need to use the information from the Internet to obtain complete data on independent variables, but the information does not increase/decrease item CSR disclosure by GRI G4.

3.3. Research Model

The model used for testing the hypothesis is as follows:

$$CSR_{it} = \alpha + \beta_1 CEO_{it} + \beta_2 FORG_{it} + \beta_3 ROA_{it} + \beta_4 LNSIZE_{it} + \varepsilon \quad (1)$$

Where:

CSR_{it} = CSR Disclosure Index company i in period t ;
 α = Constanta;
 β_1-4 = Coefficient
 CEO_{it} = CEO has international working experience = 1, CEO has not international working experience = 0;
 $FORG_{it}$ = Foreign Ownership company i in period t (>5%);
 ROA_{it} = Return on Assets (control variable);
 $LNSIZE_{it}$ = Company Size (Total Assets) (control variable);
 ε = error.

3.4. Operational Definition and Measurement of Variables

3.4.1. Dependent Variable

This study uses CSR assessment score as the dependent variable which is obtained through content analysis on the source of company documentation. The steps undertaken in measuring CSR with content analysis are (1) Selecting the right

document to be analyzed. This study uses the company's documents, namely annual report data. The media selection was based on consideration of the easier data acquisition. Sustainability report is omitted given that not all manufacturing companies have a sustainability report, (2) Selecting the contents of the measurement method. The method of measuring the content of the corporate documents used in this study is the GRI standards. The method is chosen for its international acceptability. Given the absence of a single understanding of the CSR activities, Xu et al., (2003) argue that the application of CSR generally refers to a standard accepted by most consumers of the most extensive in scope. In addition, CSR GRI is a standard that has been developed based on an approach to the triple bottom lines. Where the principle elements of the triple bottom lines build the concept of CSR. Therefore, CSR reporting reference which is considered the most relevant and appropriate is like the GRI standard category (Moneva et al., 2007). More specifically the application rate used in this study is based on the GRI-G4. GRI-G4 is designed to be universally applicable to all organizations, large and small, around the world. GRI-G4 provides a framework of

relevant work globally to support the standardized approach in reporting, which encourages transparency and consistency needed to make the information submitted to be useful and can be trusted by the market and society. GRI-G4 also provides guidance on how to present the disclosure of sustainability in different formats: the standalone sustainability report, integrated reports, annual reports, reports that discuss certain international norms, or report online. GRI-G4 measurements were based on the contents of the annual report with aspects of social responsibility assessment issued by GRI, which is obtained from the website www.globalreporting.org. GRI standard was chosen because it focuses on disclosure standards of performance of various economic, social, and environmental companies with the aim of improving the quality, and the use of sustainability reporting, (3) Identify themes or categories for content classification. This study is based on the concept of triple bottom lines that have a primary focus on the category of economic, environmental, and social issues. In the standard GRI-G4 (2013) performance indicators are divided into three main components, namely the economic, environmental, and social. The labor practices and working comfort, human rights, community, responsibility for products with a total performance indicator reached 91 indicators. (Source: www.globalreporting.org) and (4) Calculate the number of disclosures specified category. Counting the number of disclosures per category GRI-G4 was conducted using a dummy. This method gives a score of 1 for reporting categories disclosed by the company in the annual report, and a value of 0 (zero) for the reporting categories not disclosed. Then the score of compliance reporting with GRI G4 was obtained by the following formula:

$$CSRli = \frac{\sum xi}{n} \times 100\% \quad (2)$$

Where:

$CSRli$ = CSR Disclosure Index based on GRI G4 company i in 2014;
 xi = Total category GRI G4 company i in 2014;
 n = Total category GRI G4, n=91.

3.4.2. Independent variables

The independent variables are variables that affect the dependent variable, either positively or negatively (Sekaran and Bougie, 2010). In this research there are two independent variables: managing director experience working abroad; foreign ownership.

3.4.2.1. CEO International Working Experience

Slater and Dixon-Fowler's research (2009) states that the experience of a chief executive work abroad operationalized as variables that can affect the disclosure of CSR. The time difference in the length of the main director to work abroad are not treated differently by the authors on the study similar to that carried out by Slater and Dixon-Fowler (2009). Moreover, we still give the same rating to the chief executive who has experience of working abroad, regardless of CSR discloser rates in the country he

worked. This is due to the lack of information on the company's annual report regarding the length of experience the managing director working abroad and the difficulty of classifying countries both in CSR or not, so the judgment between the chief executive who has experience working overseas for a year is equal to ratings managing director who has experience working abroad for three months and ratings of a managing director who has experience of working in Asian countries together with the assessment of major directors who have experience of working in Europe and America.

As in the research conducted by Slater and Dixon-Fowler (2009), the experience of managing director working abroad is measured by using a dummy variable that Score 1: If the managing director has experience of working overseas/outside Indonesia until 2014 and Score 0: If the chief executive does not have the experience of working overseas/outside Indonesia until 2014. Information on work experience of managing directors can be seen through the chief executive biographies, annual reports, corporate websites, and other sources.

3.4.2.2. Foreign ownership

Foreign ownership is a variable that has been studied extensively both abroad and in Indonesia as a variable that can affect the disclosure of CSR. Tanimoto and Suzuki (2005) conducted research on the effect of foreign ownership in a public company in Japan, Machmud and Djakman (2008) examined the influence of foreign ownership in companies listed on the Stock Exchange, Rustiarini (2011), investigated the influence of foreign ownership of companies manufacturing listed on IDX. The measurement of the percentage of foreign ownership of a company is measured in different ways. Research conducted by Rustiarini (2011) calculated the percentage of foreign ownership in a company based on the total percentage of foreign ownership in the company, while Machmud and Djakman (2008) calculated foreign ownership by using the percentage of foreign shareholding of more than 5%. In this study the authors chose to calculate foreign ownership through using the percentage of foreign shareholder of more than > 5%. This is due to limited information on the composition of shareholders at the company's annual report. Not all companies disclose ownership of less than five percent. The amount of stock is measured based on the ratio (%) of the foreign-owner shares (owned by either by individuals or institutions), which is more than 5% of the total shares of the company. Data on foreign ownership can be seen in the company's annual report.

3.4.3. Control Variable

3.4.3.1. Profitability (ROA)

Profitability is a fundamental aspect of the company, because in addition to providing a great appeal for investors who will invest their funds in the company as well as a measurement of the effectiveness and efficiency of the use of all available resources in the operational processes of the company. Profitability ratio can be measured through several ratios, among others, Return on Assets (ROA), Return on Equity

(ROE), Earning per Share (EPS), or the Net Profit Margin (NPM). Hackston and Milne (1996) use ROE and ROA. Sembiring (2005) uses EPS. Profitability ratio used in this study is one of the profitability ratios according to Belkaoui and Karpik (1989) in Branco (2008) ROA:

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Total Assets}} \quad (3)$$

3.4.3.2. Company Size (SIZE)

Company size in this study was measured by the value of total assets. Total assets are total resources owned by the company, so the company's large size inevitably requires total assets (resources) to run its operations. Therefore, the authors use total assets as a proxy measurement of the size of the company. Company size was measured by total assets are transformed into logarithms with the goal to equalize with other variables, because the value of total assets of the company is relatively larger than the other variables in this study. This variable has been widely tested in empirical research related to CSR, among others Reverte (2008), Branco (2009), and Sembiring (2005). The size of the company is formulated as follows:

$$\text{Size} = \log(\text{Total assets}) \quad (4)$$

3.5. Data analysis method

3.5.1. Analysis Descriptive Statistics

Descriptive statistics was used to describe the variable in this study. The analysis tool used is the average (mean), standard deviation, maximum and minimum values. Descriptive statistics present numerical measures which are very important for the sample data.

3.5.2. Hypothesis testing

Having passed the quality test data, continued with a statistical test to test the hypothesis by using F (F test), test the coefficient of determination (R²), and test the effect of partial (t test).

3.5.2.1. F-test

According Ghozali (2007), statistical F test basically indicates whether all the independent variables included in the model together have simultaneous effect on the dependent variable. Tests carried out using 0.05 significance level ($\alpha = 5\%$). Conditions of acceptance or rejection of the hypothesis is as follows: (1) When the value of significance $F < 0.05$, then H₀ is rejected or H_a accepted which means regression coefficient is significant, means a significant impact of independent variables on the dependent variable and (2) If a significant value $F > 0.05$, then H₀ is accepted or rejected, which means H_a regression coefficient is not significant. It means that all independent variables did not significantly affect the dependent variable.

3.5.2.2. Partial test (t test)

This test is intended to show the influence of the independent variables individually in explaining the variation of the dependent variable. The tests were carried out using 0.005 significance level ($\alpha = 5\%$). Acceptance or rejection of the hypothesis is done by the following criteria (1) When the value of significance $t < 0.05$, then H₀ is rejected, meaning a significant influence of the independent variable on the dependent variable and (2) If the significance value of $t > 0.05$ then H₀ is accepted, it means no significant influence of the independent variable on the dependent variable.

3.5.3. The coefficient of determination

The coefficient of determination (goodness of fit), which is denoted by R² is an important measure in the regression because it can tell whether or not the estimated regression model. The coefficient of determination (R²) reflects the magnitude of the variation of the dependent variable can be explained by the independent variables. The coefficient of determination used is that has taken into account the number of independent variables in a regression model called R² which has been adjusted (Adjusted R²). When the coefficient of determination equal to 0 (R² = 0) means that the variation of the dependent variable can not be explained by the independent variables. Meanwhile, if R² = 1, meaning that the variation of the dependent variable can be explained by the independent variables.

4. DATA, RESULTS AND DISCUSSION

4.1. Description Data

This study uses data on manufacturing companies listed in Indonesia Stock Exchange in 2014, published by the official website of Indonesia Stock Exchange (www.idx.co.id) and the Indonesian Capital Market Electronic Library (www.icamel.id). In this study, we take a sample of 141 manufacturing companies.

4.2. Description Population and Sample Research

This study focuses on manufacturing companies that go-public on the Indonesian Stock Exchange in 2014. Based on the data from the website of Indonesia Stock Exchange, it is known that there are 509 companies which listed its stock in 2014. At the end of 2014, the number of manufacturing enterprises is 141 companies, divided into 19 groups. The large numbers of industrial sectors in the manufacturing industry are sectors of the metal industry and textile and garment companies (12.06%). The lesser numbers of industrial sectors are the electronics industry sector and the industrial sector of machinery and heavy equipment (0.71%).

The selection of the sample belongs to the cross sectional method, which means that the we use information on the companies of only 2014. We also apply the purposive sampling method, which means that the study sample were selected based on certain criteria. The number of samples that can be used in this study is 134 companies, with 7

companies excluded from the sample. 5 companies were excluded from the sample because the data is incomplete, for example, the unavailability of explanation regarding disclosure of CSR, and the composition of the shareholder in the company is required to conduct research. 2 other companies were excluded from sample since their financial statements are denominated in dollars. The samples used in this study are manufacturing industry. Most of the samples in this study came from the textile and garment industry which equals to 11.94% of the total number of samples and industrial sector which constitutes 11.19% of the total number of samples. The rest samples are below that percentage.

4.3. Description of Research Variables

CSRI in 2014 has a minimum value of 0.088 is the ALTO (PT. Tri Banyan Tirta Tbk.). The maximum value of CSRI in 2014 Of 0.4289 is the SMCB (PT. Holcim Indonesia Tbk.). The average value of CSRI is 0.2012.

The CEO international working experience in 2014. There are 53 companies or 39.55% which have

a director with international working experience. While the 81 sample companies or 60.45% do not have a chief executive with international working experience.

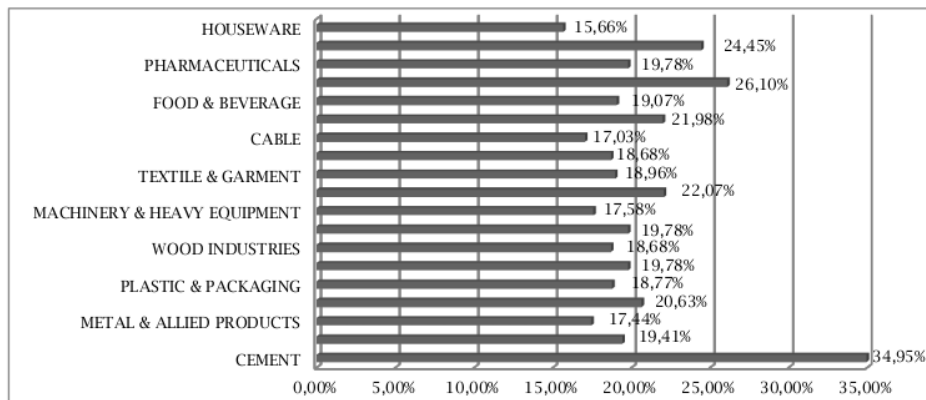
Foreign ownership in 2014 has a minimum value of 0.00000 or 0.00% of 38 manufacturing companies. The maximum value of foreign ownership as 0.989 or 98.96% is the RMBA (PT. Bentoel International Investama Tbk.). The average value of foreign ownership is 0.3833.

Profitability has a minimum value of -0.29070 is POLY (PT. Asia Pacific Fibers Tbk.). The maximum value of profitability as 0.4018 is the UNVR (PT. Unilever Indonesia Tbk.). The average value of profitability is 0.0442.

Company size has a minimum value of 62,608,000 of SIMA (PT. Siwani Makmur Tbk.). The maximum value of company size as 236, 029, 000 is the ASII (PT. Astra International Tbk.). The average value of company size in 2014 is 7,981,788 (in thousand rupiah).

The percentage of CSR disclosure in manufacturing companies in 2014 can be seen in the figure below:

Figure 2. The average of CSR disclosure (based on industry sectors)



Sources: Process Data (2015)

Based on the type of industrial sector (see Figure 2), the average CSR mostly came from the cement industrial sector (34.95%). Samples of cement industry in this study consisted of PT. Holcim Indonesia bk., PT. Indocement Tunggak Prakasa Tbk., PT. Semen Balfour Persero Tbk., PT. Semen Gresik Tbk., and PT. Wijaya Karya Beton Tbk. While the industry with less disclosure of CSR activity comes from houseware industry sector (15.66%) e.g. PT. Chitose International Tbk., PT. Kedaung Indah Can Tbk., PT. Kedawung Setia Industrial Tbk. and PT. Lasting Makmur Industri Tbk.

CSR is high on industrial sector of cement due to the use of natural resources used to produce the cement and the impact of the company's operations on the pollution of the environment and society. These impacts include (1) the decline of soil fertility caused by mining the materials needed to produce cement such as lime (limestone), silica (silica sand), alumina (clay), iron oxide (hematite), etc. other, (2) Water quality decline due to liquid waste from factories in the form of oil and waste water from mining activities. It may consequently cause erosion

and silting of the river, which will eventually lead to flooding in the rainy season, (3) The quantity of water or the water flow is reduced due to the absorption of rainwater by the soil where it is reduced, so that the ground water supplies are depleted and will cause rivers to become dry during the dry season and floods in the rainy season and (4) the air is being polluted as a result of the combustion process of raw materials such as gas CO, CO₂, SO₂ and other gases containing hydrocarbons and sulfur. Environmental pollution caused by the production of cement as well as the use of natural resources for the needs of companies make them feel responsible for the pollution of the environment so that the disclosure of CSR in the industry sector is high.

The graph also shows that the average CSR is the lowest in houseware industry sector equalling to only 15.66%. Industry Houseware Company's scope of activities includes industrial household articles made of plastic, aluminium, plastic sacks etc. Low disclosure in the houseware industry is due to not using energy directly from nature; therefore, this sector does not feel the need to carry out

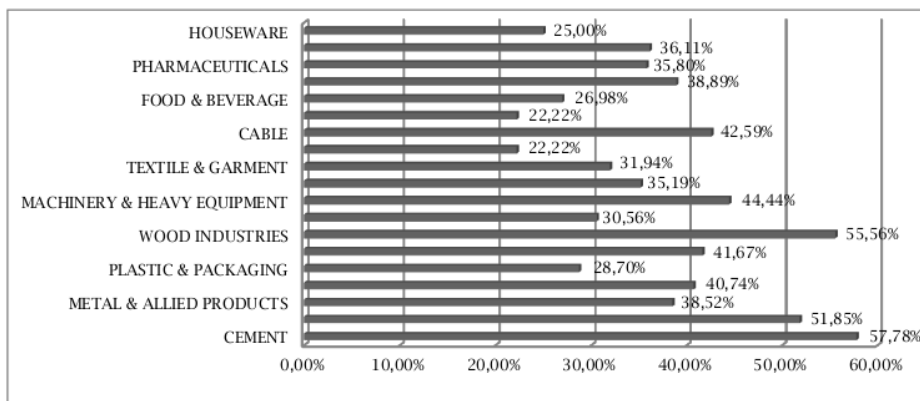
environmental conservation. In addition houseware industry also gets less attention from the public on the activities undertaken by the company so that they are not motivated to do a CSR.

Figure 3 illustrates the percentage of CSR disclosure of economic sectors in accordance with GRI G4 on each sector of the manufacturing industry. The graph in Figure 3 shows the percentage of disclosure of economic sectors in accordance with GRI G4 where the cement industry sector is the largest amounting to 57.78%. Indicators of economic sectors include economic performance, market presence, indirect economic impacts, and procurement practices.

The variable most widely disclosed by the company in the cement industry sector is the economy's performance. Variable financial implications and other risks due to climate change

as well as the chances for the organization's activities have been minimized by the contract to suppliers that can reduce the risk of rising raw material prices. Guarantee obligations of the organization to the defined benefit plan is also evidenced by the defined benefit pension plan for all employees who remain employed by the company. The policy and the proportion of spending on local suppliers in the region as part of industrial operations to improve the welfare of the area around the industrial operations were also expressed in the samples. Furthermore, the construction of infrastructure as a result of indirect variables is expressed by many if the industry because the cement industry is actively involved with environment and social development so public infrastructure is one of the priorities of the industry.

Figure 3. Economics sectors disclosure

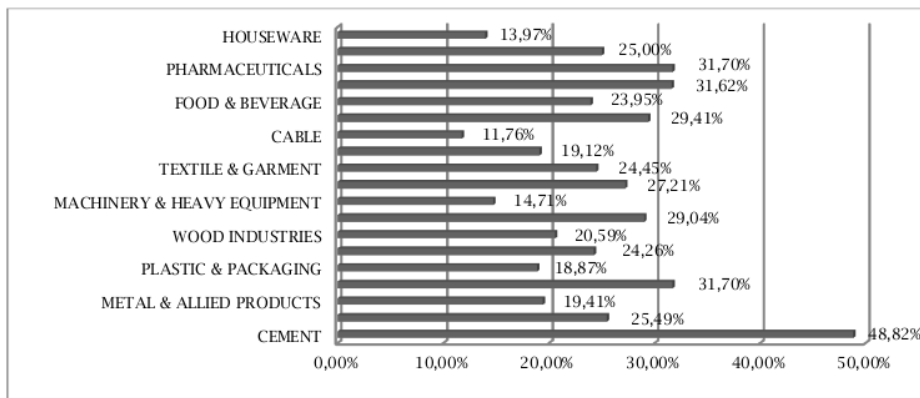


Sources: Process Data (2015)

Figure 4 shows the percentage of CSR disclosure in accordance with the environmental sector GRI G4 in each sector of the manufacturing industry. The bar chart illustrates that the cement industry sector has the highest percentage of

environmental sector disclosure in accordance with GRI G4 (48.82%). The environmental sector indicators include materials, energy, water, biodiversity, emissions, effluents and waste, products and services, compliance, transportation, etc.

Figure 4. Environment disclosure



Sources: Process Data (2015)

There is no major disclosure on material variables, detailed use of raw materials based on weight and volume and the disclosure on the percentage of recycled materials that can be reused as an alternative fuel. Moreover, variables that revealed the energy use of primary energy resources such as lime (limestone) and coal. The use of natural resources as raw material for the cement industry makes this industry partially responsible for the preservation of the environment. It is behind the high CSR environment in this industry sector.

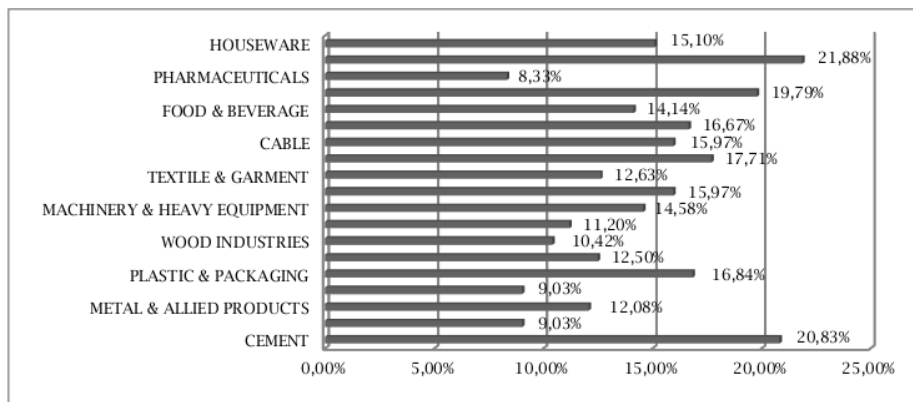
Figure 5 shows the percentage of social sector CSR disclosure in accordance with GRI G4 in each sector of the manufacturing industry. The percentage of social sector disclosure in accordance with GRI G4 in cosmetics industry and household sector amounts to 21.88% are the percentage. The social sector indicators are composed of four sub-categories, namely labor practices and working

comfort, human rights, community, and responsibility for the product.

Overall CSR with a value of 21.88% indicates that CSR in the industrial sector of cosmetics and household is better than in other sectors. It shows higher disclosure on the sub-categories of human rights with indicators of freedom of association and collective bargaining agreements, child labor, and forced or compulsory labor, as well as on the sub-categories of people with indicators of local communities, and sub-categories of responsibility for products with health indicators and customer safety.

The study of 134 manufacturing companies and their attitude to social problems reveals that they tend only to the problem of food, clothing, housing, and health, especially in areas affected by natural disasters. Therefore, companies' social actions are yet to be improved.

Figure 5. Social disclosure



Sources: Process Data (2015)

4.4. Hypothesis testing

4.4.1. Results of F test

This test aims to show whether all the independent variables and control variables (the CEO international working experience, foreign ownership, profitability, and the size of the company) simultaneously affect the dependent variable (CSR disclosure GRI G4). From the results of this test, it can be seen that the probability value of 24.173 and F-Statistic are significant at 0.000. By using a level of α 0:05 or 5%, H_0 was successfully rejected. The rejection of H_0 was evidenced by the results of calculations that the value sig (0000) < of α (alpha) = 0:05, so it can be concluded, that all independent variables and control variables have a simultaneous effect on the dependent variable. Thus, the model is valid for using.

4.4.2. Partial Test results (t test)

The T test is used to test two independent variables, namely the CEO international working experience and foreign ownership, two control variables are profitability, company size. One independent variable and two control variables have a significant

affect on the CSR disclosure, such as the CEO international working experience, profitability, and company size, while foreign ownership has no significant effect. Below we will discuss the results of each independent variable and the control variables and their effect on CSR disclosure.

- *The CEO International Working Experience.* Based on the regression results, the CEO's international working experience has a significance value of 0.00. Using a significance level of 99% ($\alpha = 1\%$), the p-value is less than 0.01 and H_0 may be rejected. These results prove that the CEO's international working experience has a positive and significant influence on CSR disclosure. So, the first hypothesis is accepted.

- *Foreign Ownership.* Based on the regression results, the foreign ownership variable has a value of 0.598. Using a significance level of 90% ($\alpha = 10\%$), the p-value is greater than 0.05 and H_0 may be accepted. This proves that foreign ownership variable has no effect on the disclosure of CSR based on the GRI G4. So, the second hypothesis is rejected.

- *Profitability (control variable).* Based on the regression results of the control variables of profitability, as seen from the ratio of net income to total assets, has significant value of 0001. By using a significance level of 99% ($\alpha = 1\%$), the p-value is less

than 0.01. This means, that profitability significantly affects CSR disclosure in the annual report.

• *The company size (control variable).* Based on the regression results, the company size has a significant value of 0.000. Using a significance level

of 99% ($\alpha = 1\%$), the p-value is less than 0.01. This means that the company size has significant effect on the company's CSR disclosure in the annual report.

Table 1. T-test result

Model	Hypothesis	Unstandardized Coefficients	T	Sig.
(Constant)		-.440	-5.343	.000
Board of Directors	+	.030	2.967	.004***
Foreign Ownership	+	.008	.529	.598
Profitability	+	.159	3.342	.001***
Company Size	+	.050	7.545	.000***
Adjusted R-squared		0.411		
F Statistics		24.173		
Sig-F		0.000		

Note: a. Dependent Variable: CSRI

***significant at $\alpha = 1\%$ (one-tailed);

** significant at level $\alpha = 5\%$ (one-tailed);

* significant at level $\alpha = 10\%$ (one-tailed).

Source: Processing Data (2015)

4.4.3. The coefficient of determination (R^2)

The value of 0.411 of Adjusted R-squared means the variability of the dependent variable that can be explained by the independent variables and the control variables of 41.1%. This means that 41.1% of CSR disclosure variables were influenced by the CEO international working experience, foreign ownership,

profitability, and firm size. The remaining 58.9% is influenced by other variables not examined in this study. Adjusted R-squared level is still low (41.1%), it shows the need for further research to add another variable as a predictor of CSR disclosure.

Based on the research results of the regression models, the regression equation to model the study is as follows:

$$CSRI = -0.440 + 0.030CEO + 0.008 FORG + 0.159ROA + 0.050SIZE + \epsilon_i \quad (5)$$

The results of the regression equation above can be explained as follows:

• *Constants (a).* Based on the regression equation, if the CEO international working experience, foreign ownership, profitability, and company size value are zero, the value of CSR disclosure in annual reports is -0.440. The negative values in constant indicate that if the independent variable and the control variable have a value of zero, then the value of CSR disclosure will be negative.

• *Regression coefficient of CEO.* The coefficient of the CEO international working experience is 0.030. The positive sign indicates that the relationship between these two variables is unidirectional. The increase in the number of the CEO international working experience to 1 would raise the level of CSR disclosure to 3.0%, assuming that other factors affect the constant.

• *Regression coefficient FORG.* Foreign ownership has a coefficient of 0.008. The positive sign indicates that the relationship between these two variables is unidirectional. Any increase in foreign ownership to 1% will increase CSR disclosure in annual report to 0.8%.

• *Regression coefficient ROA.* Profitability is measured by the ROA has a positive coefficient value of 0.159. It means that increase in the value of ROA to 1% would lead to an increase in the company's CSR disclosure to 15.9%.

• *Regression coefficient Size.* Company size has a positive coefficient value of 0.050. It means that increase in the value of company size to 1% would lead to an increase in the company's CSR disclosure to 5.0%.

4.6. Discussion

4.6.1. The CEO International Working Experience

The first hypothesis testing in this study aimed to examine the influence of the chief executive's experience of working overseas on the disclosure of CSR. In this study, this experience is measured by whether or not the chief executives of an industrial manufacturing company has ever worked in overseas companies. The time difference in the length of their work abroad is treated along the lines of Slater and Dixon-Fowler's (2009) findings. This is due to the lack of information on the company's annual report regarding the length of the experience.

Based on the statistical analysis of the test results for the variable experience of managing director abroad we discovered that the experience of the managing director has a significant positive effect on CSR disclosure, i.e. Indonesian companies managed by such directors are more willing to disclose CSR activities particularly in manufacturing business. This shows that chief executives implement CSR activities they practiced abroad in Indonesia and therefore contributes to the disclosure of CSR activities.

The results of this study are also consistent with the theory of legitimacy which states that companies with top management try to obtain correspondence between the actions of the organization and the values of the general community (Dowling and Pfeffer, 1975) which allowed the company to carry out its activities, and use a variety of natural and human resources which often cause environmental and social problems

(Hackston and Milne, 1996). The Company through top management is also increasingly motivated to carry out CSR activities to conform to the norms and expectations of the stakeholders as this may strengthen the company's reputation in the eyes of the stakeholders who will ultimately support the company's growth and sustainable competition.

The results of this study support the previous research carried out by Slater and Dixon-Fowler (2009) on the US companies, which also found a positive influence between major director's working experience abroad and CSR.

4.6.2. Foreign ownership

The second hypothesis testing in this study aimed to examine the effect of foreign ownership on the disclosure of CSR. In this study, the percentage of foreign ownership, both individual and institutional, is more than 5%. The test results of the statistical analysis of foreign ownership revealed that foreign ownership variable has no significant effect on the disclosure of CSR. But the positive direction coefficient values indicate that foreign ownership has a positive relationship to the disclosure of CSR. The reason for it is that the foreign owners of companies in Indonesia generally care about social and environmental issues as a critical issue that must be disclosed in the annual report. If the percent of foreign ownership in the parent company is very small, foreign owners do not deem CSR important enough to be disclosed to the public (Machmud and Djakman, 2008).

These results contradict the hypothesis that foreign ownership has a significant effect on environmental disclosure but they concur with those of Amran and Devi (2008), Machmud and Djakman (2008), and Said et al (2009), who discovered the significant relationship between foreign ownership and CSR disclosure. The test results were not significant allegedly because the proportion of foreign ownership is small and tends to spread; making foreign investors unable to encourage companies to disclose information about the environment. Although this study did not look at the country of origin of foreign investors, the authors find that quite a lot of companies sample was owned by companies from Asian countries. Although the company's highest foreign ownership, namely PT. Bentoel International Investama Tbk is owned by companies from America and Europe, but Asian companies dominate the overall foreign ownership in Indonesia. In this regard, the authors assume that the demand for disclosure of information about the environment by Asian investors is not as strict as the American and European investors.

The results of this study is unable to support the organizational legitimacy theory which states that companies with foreign ownership primarily gain legitimacy derived from its stakeholders who are typically based on the home market (Barkemeyer, 2007). This is because foreign investors in Indonesia do not consider social and environmental criteria, so the need for social responsibility information has not been taken into consideration in investment decision-making (Machmud and Djakman, 2008).

4.6.3. Control Variable

4.6.3.1. Profitability

Profitability is a fundamental aspect of the company, because it provides a great appeal for investors and serves as a measurement of the effectiveness and efficiency of the use of all available resources in the operational processes of the company. Based on the statistical analysis of the test results, profitability has a positive and significant effect on CSR disclosure. This result proves that profitability is an important issue in deciding upon CSR implementation. Companies with high profitability have the financial resources to carry out CSR activities, and vice versa. The results are consistent with the theory of legitimacy which states that more profitable companies reveal information of their concern for the community, because they are considered to finance social activities.

The results of this study support the previous research conducted by Roberts (1992) and Haniffa & Cooke (1996) which proved the positive influence of the profitability on CSR disclosure. Heinze (1976) explains it stating that profitability is a factor that makes the management free and flexible to reveal social accountability to shareholders. So the higher the profitability of the company, the greater is the disclosure of social information.

4.6.3.2. Company size

Company size is a predictor variable that is widely used to describe various disclosures in the company's annual report. This is associated with the agency theory which claims that large companies that have greater agency costs will disclose more extensive information to reduce the agency costs (Jensen, 1976). Based on the statistical analysis of the test results for the variable company size, the company size has a positive and significant effect on CSR disclosure. These results prove that large companies tend to disclose more extensive information and will do many CSR activities that impact society and environment as well as reveal more about the undertaken CSR activities in the company's annual report.

These results are consistent with the agency theory. To reduce the cost of the agency, the company will disclose more extensive information. In addition, large companies tend to practice greater disclosure as a form of CSR to reduce the political cost. According to Cowen et. al., (1987), large companies will not escape from the pressure, and larger company with operating activities and a greater influence on society will probably have shareholders who pay attention to social programs, thus, the disclosure of CSR will be more extensive.

These results support the previous studies that the larger the company, the higher is its initiative to conduct and disclose CSR. Branco's research (2008) present empirical evidence regarding the factors affecting CSR in Portuguese companies in which research results proved a positive relationship between firm size and CSR. The results also support the previous research conducted by Sembiring (2005), Machmud and Djakman (2008), and Reverte (2008).

5. CONCLUSIONS AND RECOMMENDATIONS

This study examined the influence of the chief executive experience working abroad and ownership independent variables, as well as profitability and firm size as control variables on the disclosure of CSR. This research was based on information provided by industrial manufacturing companies listed on the Indonesia Stock Exchange in 2014. The date analysis and discussions allow us to conclude the following:

- The CEOs' international working experience contributes to the disclosure of CSR activities in manufacturing companies in Indonesia in accordance with their foreign working experience.

- Foreign ownership in Indonesia does not fully consider social and environmental criteria in making investment decisions. Foreign owners of companies in Indonesia do not extensively disclose environmental and social issues in annual reports, particularly if foreign ownership is consolidated with the parent company in the country of origin and the percentage of its ownership is very small.

- Profitability is an important consideration in CSR. This is because companies that have high profitability will have financial resources to carry out and disclose CSR activities, because the companies with high profitability are considered to finance social activities.

- Large companies tend to disclose more extensive information and do various CSR activities that influence society and environment as well as reveal more information about the undertaken CSR activities in the company's annual report. This is because large companies are listed companies that are mostly highlighted by the public so greater CSR disclosure is a form of political cost reduction.

In this research, there are some limitations:

- The sample of only industrial manufacturing companies can not possibly describe the overall condition of the CSR practice in Indonesia.

- There is an element of subjectivity in determining the CSR disclosure index, where the absence of a standard provision in the determination of the standard is concerned, so the value of disclosures obtained can not be used as a reference for further research.

- The observation period of a year, used for this study, cannot grant a full understanding of CSR disclosure practices. The study also did not consider the length of the managing directors' experience of working abroad nor provided different values on the country's involvement with the disclosure of CSR activities, thus it may fail to describe the actual conditions.

The limitations stipulate the following areas for future research:

- To take a sample of the entire industry listed on the Stock Exchange to better describe the condition of CSR disclosure practices in Indonesia.

- To extend the observation period to describe the objective condition of CSR disclosure.

- To give different assessments to the length of the managing directors' experience of working abroad and assess countries that are considered to be more concerned with CSR activities in order to better describe the actual outcome.

- To use sustainability reports as sources of CSR ratings along with annual reports.

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