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Does Social and Environmental Disclosure Affect Stock Price? Evidence From Indonesian

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ABSTRACT

This study examines the influence of social and environmental disclosure on stock prices. If investors consider such information as the information is good news, then there is a difference between the abnormal returns before and after the publication of the annual report.This study uses event study approach by looking at the average abnormal return during the 7 days before and 7 days after the date of publication of the annual report. The sample in this study is a mining listed company on the Indonesia Stock Exchange in 2014.The results showed that the social and environmental disclosure (which consists of the themes of economic, environmental, labor, human rights, society, product liability, and additional indicators for mining) will only affect at 19.5%, and 80.5% are influenced by other factors. So it can be concluded that the social and environmental disclosure in annual reports have the weak effect and is not significant to the stock price.

Keywords: Social and environmental disclosure, event study, abnormal returns.

1. INTRODUCTION

The mining sector in Indonesia is very attractive to investors both domestic and foreign. During 2012, the mining sector occupies the realization of Foreign Direct Investment (FDI) is the highest, amounting to US $ 4.3 billion. While the realization of Domestic Investment (PDMN) for the mining sector was Rp 10.5 trillion, the third highest among other sectors (BKPM, 2013). Despite the positive impact was so great to Indonesia's economy, the mining sector also had a negative impact is no less great in the environmental realm. Approximately 70% of environmental damage in Indonesia caused by the mining operations (Messwati, 2012).

Companies in the mining sector also often cause problems in the social sphere such as arson representative office of PT. International Nickel Indonesia, Tbk. (Now known as PT. Vale Indonesia, Tbk.) By villagers of Lele, District Bahodapi, Morowali regency, Central Sulawesi. The combustion community to do because the company prohibits communities manage their land to be used as farmland and also does not fulfill its promise to recruit people as workers (Christina, 2012).

In order to minimize negative impacts on the company's social and environmental fields, on July 20, 2007, parliament passed a social and environmental responsibility, or better known as Corporate Social Responsibility (CSR) as liabilities in article 74 of Law no. 40 Year 2007 regarding Limited Liability Company (Company Law). The reason, the company in business activity and profit has caused negative impacts are detrimental to society and the environment .. Kian increasing number of poor people and environmental damage allegedly triggered by the act of businesses that unethical or socially and environmentally friendly. Meanwhile, the State received the benefits of the company in the form of taxes, the supply of goods and services, employment, and other much smaller than sacrifice and rehabilitate the State to address social issues and the environment. Case PT Lapindo Brantas hot mudflow in Sidoarjo is said to trigger the Parliament and the Government to make CSR as liabilities.

According to Elkington in Slaper (2011), CSR is also significant as a commitment of the company or the business world to contribute to the sustainable economic development by aligning the achievement of economic performance with social and environmental performance in its business operations. In other words, the corporation must maintain a balance between the purpose of obtaining profit (profit) and social objectives (People) and the environment (planet) or the so-called Triple-Botton-Line strategy.

Sustainability report is expected to give a positive signal and could increase the company's value in the eyes of investors. An information can be said to have a value in order for the investor if the information is inviting reactions to conduct transactions in the capital market. Presence or absence of such reactions, can be seen from the abnormal return is one indicator that can be used to view the state of the market is going (Hartono, 2009). If the content of the information in the sustainability report does have a use value for investors, there will be abnormal return on the company's shares in the capital market.

Eduardus (2001) stock return is one of the factors that motivate investors to invest and also a reward for the courage of investors bear the investment risk does. The information most frequently requested by investors to be disclosed by the company today is the disclosure of information about social responsibility, known as Corporate Social Responsibility (CSR) disclosure.

This research is an explanatory research aimed to test the influence of a sustainability report on stock prices. By examining whether there are abnormal returns around the publication of reports on the sustainability report.

1.1. Question

problem in this research is how much influence social disclosure and the environment (which consists of the theme of economic, environmental, labor, human rights, society, product responsibility, and additional indicators mining) to share price mining companies listed on the Indonesian Stock Exchange?

2. LITERATURE REVIEW

This research was conducted in order to see whether there is a difference of abnormal return before and after publication of the annual report. Signaling theory emphasizes the importance of information released by the company to outsiders investment decisions. This theory states that the company is of good quality will deliberately give a signal to the market. One of the information that can be used as the signal is the publication of an annual report conducted by a company. Information annual reports examined in this study, is a non-financial information that is expected to affect the capital markets and a positive signal for investors. Abnormal return is often used as a proxy in assessing stock prices. Research shows that disclosure of social responsibility influence the abnormal returns, among others, performed by Frankental (2001), which proves that social responsibility is one of the findings in imaging innovation company because it can affect investors by proving an increase in abnormal return. According Raar (2004), the combination of environmental and social value in the company's policy to improve the company's image and create prosperity for both companies and investors. Then, Branco (2006) obtained evidence that the implementation of social responsibility strategically can increase the abnormal return. These Whereas et al. (2005) identified that one of the important motivations implementation of social responsibility is to obtain abnormal return. Furthermore, according to Hill et al. (2007) in Daniri (2008) states that companies that implement CSR will increase the price of the stock and the company's performance will be better when compared to companies that do not implement CSR. Eipstein and Freedman (1994) in Anggraini (2006) found that individual investors interested in social information reported in the financial statements. This shows that in addition to economic aspects, investors and prospective investors also consider the environmental and social aspects of the company. According Jogiyanto (2008), a study of events (event study) is the study of market reaction to an event (event) that information is published as an announcement. The information is published as an announcement will give a signal to investors in making investment decisions. If the announcement contains a positive value, it is expected that the market will react when the announcement was welcomed by the market.

Based on the above hypothesis is formulated as follows:

Ho: There is no disclosure of social and environmental effects of the abnormal return.

H*a*: There is the influence of social and environmental disclosure to the abnormal return.

2.1. Signaling theory

Signaling theory is rooted in the idea of the existence of asymmetric information (deviation from perfect information), which occurs in an organization that is to say that in some economic transactions, disparities in access to public information that affects the exchange of goods and services. Spence (1973), proposed that the two sides can get the problem of asymmetric information in which one party sends a signal that would reveal some parts of the relevant information to another party. The parties would then interpret the signal will adjust their purchasing behavior by offering a higher price than if he does not receive a signal. Signaling theory emphasizes the importance of information released by the company to outsiders investment decisions. This theory states that the company is of good quality will deliberately give a signal to the market. One of the information that can be used as the signal is the announcement made by a company. This announcement will be able to affect the price fluctuations of securities companies issuers that do announcements. In this study, the signals given by the company are of good quality is regarded as good news (good news) while the signal provided by the company are of poor quality is regarded as bad news (bad news).

2.2. Triple Bottom Line (TBL)

John Elkington create a new framework for measuring the performance of corporate America. This accounting framework, the so-called Triple Bottom Line (TBL), exceeding the size of a traditional income, investment returns and shareholder value by incorporating environmental and social dimensions. Focusing on comprehensive investment results that, with respect to performance along the interrelated dimensions profit (Profit), the person (People) and the environment (Planet).

2.3. Social and Environmental Disclosure

Disclosure of social and environmental disclosure is voluntary, both qualitatively and quantitatively made by the organization to inform its activities, which the quantitative disclosures in the form of financial and non-financial information Mathews (1997: 483).

2.4. Sustainability Report (Sustainability Report)

Report of sustainability is the practice of measurement, disclosure and accountability efforts of the organization's performance in achieving the goals of sustainable development to stakeholders both internal and external. 'Sustainability Report' is a general term that is considered to be synonymous with other terms to describe a report on the impact of economic, environmental, and social (*eg*, triple bottom line, corporate responsibility reporting, etc.). A sustainability report should provide an overview of a balanced and sensible of the sustainability performance of an organization, either positive or negative contribution (Global Reporting Initiative, 2006).

2.5. Stock Return

Return stocks are the benefits of shareholders as a result of the investment. Jogiyanto (2008) distinguishes return stock into two types of returns that have been realized (Tirrenus return) and return are still the (expected return). First, the Tirrenus return is the return that has occurred and is calculated relative. Realized return is important in measuring the performance of the company as a basis for determining future risk and return. And the second is the expected return is the return that is expected to occur in the future and are uncertain. The composition calculation stock returns consist of capital gain (loss) and dividends. Capital gain (loss) represents the difference between profit / loss suffered by shareholders as the share price is relatively higher or lower than the stock price the previous period. And dividends are part of company profits distributed to shareholders at a certain period in accordance with management decisions. Abnormal return is often used as a proxy in assessing stock prices. Research shows that disclosure of social responsibility influence the abnormal returns, among others, performed by Frankental (2001), which proves that social responsibility is one of the findings in imaging innovation company because it can affect investors by proving an increase in abnormal return.

3. MATERIALS AND METHODS

3.1. Event Study

Study of the event (event study) is the study of market reaction to an event (event) that information is published as an announcement. Event study can be used to test the information content (information content) of an announcement. Testing information content is meant to see the reaction of an announcement. If an announcement contains information it is expected that the market will react when the announcement was welcomed by the market. The market reaction indicated by the change in the price of the securities concerned. This reaction can be measured using returns as the value of changes in prices or by using abnormal return. If an announcement has information it will provide abnormal return. Conversely, if an announcement does not contain information that would not have happened abnormal return (Jogiyanto, 2008).

3.2. Sample Selection and Data Research

The sample in this study is as large as the population of mining companies already go public in Indonesia Stock Exchange that is numbered 40 companies, using the annual report 2013 with the publication date varies each company starting on February 5, 2014 until June 16, 2014.

3.3. Dependent Variables

This study uses a model of market adjusted returns, stock prices is the price of the stock market closing (closing price), published in the period of observation for 15 days (7 days before the date of publication until 7 days after the date of publication). As an indicator of abnormal stock price return is used with the following stages:

1. Identify the date of publication of the annual report.
2. Determining the estimation period, which is the time period used to estimate the expected return.
3. Calculate the actual return that occurred during the observation period by the following equation:

$$R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}}$$

where: R_{it} = Actual return stock i at time i

P_{it} = Share price i at time t

P_{it-1} = The share price i at time $t - 1$

4. Calculate expected returns on the observation period obtained by the following equation:

$$E(R_{it}) = R_m = \frac{IHSG_t - IHSG_{t-1}}{IHSG_{t-1}}$$

where: R_m = Return to the daily market at the time t $IHSG_t$

= Composite Stock Price Index at time t $IHSG_{t-1}$

= Composite Stock Price Index at time $t - 1$

5. Calculate abnormal returns obtained by the following equation:

$$AR_{it} = R_{it} - ER_{it}$$

where: AR_{it} = Abnormal return

R_{it} = Actual return

ER_{it} = Expected return

6. Calculate the average abnormal return with the following formula:

$$AAR_{it} = \frac{\sum AR_{it}}{n}$$

where: AAR_{it} = Average abnormal return

N = Sample

AR_{it} = Abnormal return

3.4. Independent variables

Independent variables used in this study is Disclosures Social Responsibility and environment company in the annual report (annual report), using a list of the disclosure of the 90 items indicators guidelines sustainability report third generation (G3) made by the Global Reporting Initiative (GRI) which consists of the theme of economic performance, environmental performance, labor practices and decent work, human rights, society, product responsibility, and additional indicators for the mining company. This approach to measuring social and environmental disclosure using the weighted index (Garcia and Martinez, 2005: 308) with a score as in the table as follows:

Table 2.1
Score of the Environmental and Social Disclosure

Criteria	*Score*
Not disclosed	0
Unveiled with narration	1
Unveiled with narration and figures / tables / graphs	2
Source: Garcia and Martinez (2005)	

4. RESULTS AND DISCUSSION

4.1. Correlation Coefficient Test and Coefficient of Determination

The result of the correlation coefficient (R) and the coefficient of determination (adjusted R^2) can be seen in the table as follows:

Table 2.2
Correlation Coefficient Test and Coefficient

Model	R	*R. Square*	*Adjusted. R.Square*	*Std. Error of the Estimated*
1	0,589[a]	0,347	0,195	0,084047

Table 2.2 shows that the correlation coefficient (R) of 0.589, meaning that the relationship between the disclosure of social responsibility and the environment (which consists of the theme economy [EC_I], environment [EN_i] labor [LA_i], the human rights [HR_I], society [SO_I], product liability [PR_I], and additional indicators mining [MM_I]) against Abnormal Return. While the value of the coefficient of determination (adjusted R^2) of 0.195 indicates the magnitude of the effect of disclosure of social responsibility and the environment (which consists of the theme economy [EC_I], environment [EN_i] labor [LA_i], the human rights [HR_I], society [SO_I], product liability [PR_I], and additional indicators mining [MM_I]) on Abnormal Return of 19.5%, and that can not be explained by 80.5%.

4.2. F-Test

F statistics test results can be seen in Table 2.3 below:

Table 2.3
F-Test Results

	Model	*Sum of Squares*	*df*	*Mean*	*F*	*Sig.*
1.	Regression	0,001	7	0,000	2,279	$0{,}055^{b}$
	Residual	0,002	30	0,000		
	Total	0,003	37			

From the results of the F test obtained F value of 2.279 with a significance level 0.055^{b}. If the value of F arithmetic compared with F table with DF1 = $k - 1 = 8 - 1 = 7$, and DF2 = $n - k = 38\text{-}8 = 30$, the importance of the F table at 2,334. Therefore F arithmetic < F table and the *p*-value is greater than 0.005, then this means that there is no significant influence jointly between the disclosure of social responsibility and the environment (which consists of the theme economy [EC_I], environment [EN_i] labor [LA_i], the human rights [HR_I], society [SO_I], product liability [PR_I], and additional indicators mining [MM_I]) against Abnormal Return.

4.3. T-test

Statistics t test results can be seen in the following table 2.4:

Table 2.4
Test Results Statistics *t*

	Model	*Unstandardized Coefficients*		*Unstandardized Coefficients*	*T*	*Sig.*
		B	*Std. Error*	*Beta*		
1.	(Constant)	0,016	0,006		2,665	0,012
	EC*i*	–0,009	0,008	–0,292	–1,167	0,253
	EN*i*	0,001	0,005	0,045	0,198	0,844
	LA*i*	–0,006	0,005	–0,283	–1,152	0,259

Model	*Unstandardized Coefficients*		*Unstandardized Coefficients*	*T*	*Sig.*
	B	*Std. Error*	*Beta*		
HR*i*	0,003	0,007	0,077	0,405	0,688
SO*i*	–0,010	0,008	–0,266	–1,184	0,246
PR*i*	0,003	0,011	0,051	0,282	0,780
MM*i*	0,007	0,006	0,006	1,113	0,275

From the results of the test statistics *t* (Table 2.4) it can be seen that the value of the test statistics *t* for the independent variables: the disclosure of social and environmental (which consists of the theme of economic, environmental, labor, human rights, society, product responsibility, and additional indicators mining), from the table 2.4 can also be made a mathematical equation as follows:

$$\text{Abnormal Return} = 0{,}016 - 0{,}009\ \text{EC}i + 0{,}001\ \text{EN}i - 0{,}006\ \text{LA}i + 0{,}003\ \text{HR}i - 0{,}010\ \text{SO}i + 0{,}003\ \text{PR}i + 0{,}007\ \text{MM}i + e_1$$

4.4. Compare Mean Test

The average difference test was conducted to determine the influence of social and environmental disclosure to the stock price, namely by comparing the abnormal return seven days before and seven days after the publication of the annual report. Therefore two samples do interrelate the Paired Samples T Test to test the influence of social and environmental disclosure to the stock price. The results are as follows:

Table 2.5
AAR 7 Days Before and After publication

	Mean	*N*	*Std. Deviation*	*Std. Error Mean*
Before Publication	.002197966679	38	.0144267214747	.0023403232599
After Publication	.001943184184	38	.0152831549934	.0024792551224

Table 2.5 shows that the mean of the average abnormal return is relatively the same between before and after the publication of the annual report, or decreased slightly by 0.000254782. This means that social and environmental disclosure does not affect the stock price.

4.5. Correlation Average Abnormal Return 7 Days Before and After publication

Table 2.6
Correlation Average Abnormal Return 7 Days Before and After Publication

	N	*Std. Deviation*	*Std. Error Mean*
Before Publication & After Publication	38	– .096	.567

Table 2.6 shows that the correlation between abnormal returns during the 7 days before and 7 days after is -0.096 with a significance of 0.567. This means that social and environmental disclosure in the annual report influential weak and not significant to the stock price.

4.6. Hypothesis testing.

Further testing the hypothesis can be seen in the following table 2.7:

Table 2.7
Testing Hypotheses

		Before Publication– After Publication
Mean		0.000254782
Std. Deviation		0.021999699
Std. Error Mean		0.003568823
95% Confidence	Lower	–0.006976339
	Upper	0.007485904
T		0.071
Df		37
Sig. (2-tailed)		0.943

Table 2.7 shows the testing of two sides with $\alpha = 5\%$ (significance = 0.025) with degrees of freedom (*df*) $n - 1$ or $38 - 1 = 37$, which produces t count of 0,071, when compared with t table or + 2.026 –2.026, then the table t < t < t table, it means there is no difference between the abnormal return before and after the disclosure of social and environmental criteria in the company's annual report.

5. CONCLUSION

Overall, it can be concluded that the disclosure of social and environmental dimensions of the most widely expressed in the annual report mining company listed on the Indonesia Stock Exchange is the economic performance and disclosure of labor. The lack of uniform or not social and environmental disclosure indicates that the authorities are still limited to keep the company submit the report on time and there are no strict standards of professional associations.

The influence of social disclosure and the environment (which consists of the theme economy [EC_I], environment [EN_i] labor [LA_i], the human rights [HR_I], society [SO_I], product liability [PR_I], and additional indicators mining [MM_I]) to the price of shares of mining companies listed on the Indonesia stock Exchange is weak and does not significantly influence stock prices. This indicates that most investors are not yet using social and environmental information in making their investment decisions,

6. LIMITATIONS

Limitations of this study were (*a*) The sample used in this study is less comprehensive, because the only mining company that went public. (*b*) Not all mining companies make sustainability report (Sustainability Report) with the GRI-G3 guidelines.

7. RECOMMENDATIONS

The advice that can be given is as follows:

1. Suggestions for issuers, is expected to pay attention and be more transparent about the completeness of the disclosure of items of social and environmental themes that need to be disclosed in the annual report. Expected CSR programs implemented by the company are not merely incidental, but rather a program on an ongoing basis, so as to improve people's lives. Also expected the company is also able to view CSR not only as a mere cost center, but one obligations of the company as part of good citizenship. Companies are expected not only focused on the good name when conducting CSR activities and social accountability when publishing reports.
2. Suggestions for Financial Services Authority and professional associations, the existence of rules and guidelines clear disclosure regarding the preparation or disclosure of social responsibility and environmental company to all stakeholders so that there is a clear standard as a benchmark to assess the extent to which the issuer has implement and disclose its social responsibility and disclosure of the company to be uniform.
3. Suggestions for further research. In connection with the weak impact of the disclosure of social and environmental on stock prices, and the problems outlined at the point of discussion, it is expected that further researchers can develop other variables that may influence the stock price changes, such as: the perception of the management / owners, Authority, Accounting Standards, Calculation of Return, Company Characteristics and Investor Behavior, as well as the use of samples and period even more so that research results more representative.

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