

AN OVERVIEW OF LEGITIMACY THEORY ON THE INFLUENCE OF COMPANY SIZE AND INDUSTRY SENSITIVITY TOWARDS CSR DISCLOSURE

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Abstract: *The issue about CSR disclosure increases rapidly, while the research related to CSR disclosure found dissimilar results. The purpose of this study was to analyze the effect of industry sensitivity and company's size on CSR disclosure based on legitimacy theory. The 117 manufacturing companies listed in Indonesian Stock Exchange were used as the sample. CSR disclosure was measured by using the Global Reporting Initiative (GRI) index 4.0 version, which has not been widely used in previous studies. The methods used in this study were descriptive analysis and multiple regression analysis. The results support legitimacy theory that states there is a social contract between the company and the society. More specifically, high profile industry (oil and gas, agriculture, mining, fisheries, chemical, automotive, consumer goods, food and beverage, paper, pharmaceuticals, plastics and construction) disclose CSR broader than low profile industry. The larger companies will encourage them to expand their disclosure of social responsibility. Further research can use more varied measurement for CSR Disclosure because this paper uses only a score of 0 and 1. Weighting scale which can be used for each item of criteria such as 0 (undisclosed), 1 (otherwise disclosed in this narrative), 2 (if expressed in narrative and numbers).*

Keywords: *CSR Disclosure, Industry Sensitivity, Size, GRI 4.0 Version, Legitimacy Theory*

INTRODUCTION

Corporate Social Responsibility (CSR) is an idea that company is no longer faced up the responsibility to the corporate value only, but also that responsibility should be run based on the triple bottom lines, ie planet, people and profit (Daniri 2008). Social responsibility of companies in Indonesia has become a liability for go public company as The Act No. 40 2007 states that "company in the field and or related to the natural resources is required to implement social and environmental responsibility".

This law has encouraged every company, especially companies which run their business activities by utilizing natural resources, to fulfill its social responsibility. However, responsibility disclosure is voluntary, there is no penalty for not disclosing corporate's responsibility. Thus, CSR disclosure is not implemented by

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all companies in Indonesia. Moreover, Anggraini (2006) stated that the company will consider the costs and benefits gained by disclosing social information. If the benefits of social information disclosure are greater than the cost sacrificed, the company will voluntarily disclose such information.

The legitimacy of a company can be obtained through various measures, including inform corporate's information to stakeholders (Deegan, 2000; Yoo, Lee, & Lee, 2016). Legitimacy theory states that the company will communicate information to various stakeholders to adjust people's expectations of the company (Ashforth and Gibbs, 1990). The theory of legitimacy provides more comprehensive perspective related to social responsibility disclosure. It shows that every operation carried out by the company must be congruent with the values and norms of the society and in accordance with the expectations of the society. The theory of legitimacy is also supported stakeholder theory. Stakeholder theory states that a company is established for both operating businesses and be beneficial for stakeholder, such as investors, creditors, customers, suppliers, government, and also the surrounding community (Harahap, 2011; Ilias, Razak & Rahman, 2015).

All types of business activities, especially those engaged in the utilization of natural resources either directly or indirectly, have an impact on the surrounding environment, such as the problems of environmental pollution, labor, and also problems related to the products produced (Nur and Priantinah, 2012). Therefore, we need a commitment from the company to convince and gain the trust of stakeholders that company has fulfilled these responsibilities through activities that can improve the society welfare. Confidence gained from the public greatly affect the company's ability to maintain its business going concern. Every company will attract the sympathy and trust of society through positive activities in favor of the community. These activities are called corporate social responsibility.

Disclosure of corporate social responsibility in the form of CSR reporting is already experiencing growth (Nurkin, 2009). Accounting practices coupled with the disclosure of social responsibility undertaken by the company is expected to provide added value. Nevertheless, there are companies that have not disclosure their social activities. Based on the data from ISRA (Indonesian Sustainability Reporting Award), in 2005, there was only one company that makes social and environmental responsibility report separately. Furthermore, in the year 2013, there were 42 companies did report separately. However, the increase indicates the lack of companies reporting sustainability report compared to 500 public companies listed on the Indonesia Stock Exchange in the year of 2013.

A research conducted by Gamerschlag *et al.* (2011) about the relationship between the characteristics of companies with the social and environmental disclosure of enterprises in Germany showed that company size and industries related to the amount of disclosure. According to Utomo (2000), social accounting

researchers interested in testing social disclosure on companies in different characteristics. The research is a concern with the characteristics of industry type i.e. high profile industry and low profile industry.

The level of CSR disclosure can be seen on the company profile or industry sensitivity. Putra (2011) found that high profile company would disclose their social activities more than low profile company. Putra (2011) and Permana and Raharja (2012) have proved a significant positive effect on the company profiles and CSR disclosure. In contrary, Suryanto (2013) stated that company profile is not a factor that affects the extent of company's social disclosure. This research was supported by the findings of Karina and Etna (2013) who stated that company profile has no significant effect on CSR disclosure in Indonesia.

In this study, CSR disclosure is measured using the Global Reporting Initiative Index 4.0 version implemented in Indonesia since 2013, whereas initial studies are still using the GRI index 3.0 version or 3.1 version in 2002-2006. More importantly, the usage of GRI Index 4.0 version is conducted due to the issues related to corporate social responsibility that quickly changes along the times.

LITERATURE REVIEW

Legitimacy Theory

Several studies on social environmental disclosures have been using legitimacy theory as the grand theory (Ghozali and Chariri, 2007). Legitimacy theory explains that the company operates in the external environment that changes constantly and they are trying to convince that their behavior in accordance with the limits and norms in the society (Brown and Deegan, 1998). Legitimacy theory focuses on the interaction between companies and communities (Ulman, 1982; in Ghozali and Chariri, 2007). The legitimacy of a company can be seen as something is given to the community and something to be desired or sought the company from the community. Thus, legitimacy is a benefit or a potential source for companies to survive (Ashforth and Gibbs, 1990) and may affect the company's ability to continue its business activity. Legitimacy theory explicitly recognizes that business is limited by the social contract that company agreed to conduct social activities to obtain society's acceptance of the company's objectives, which in turn will ensure the survival of the company (Brown and Deegan, 1999). Gray et al (1995) showed that environmental and social disclosure is a way to legitimize the survival and company's operations in the community.

Corporate Social Responsibility (CSR)

World Bank (2002) defines CSR as the commitment of the company to give a contribution to sustainable economic development, working with employees, families, local communities and society to improve their quality of life. Indonesian

CSR Award defines corporate social responsibility as a commitment and the efforts of companies that operate legally and ethically to minimize the risk of their presence, contributing to the development of social, economic, environment and sustainable development in order to improve the quality of life for stakeholders. Based on the descriptions above, CSR is a form of company responsibility to the social and environmental as the commitment that company's business is conducted sustainably and obey the legal procedures in order to improve the stakeholders' quality of life (Jariyah and Solikhah, 2015).

Disclosure of Corporate Social Responsibility (CSR)

According to Hackston and Milne (1996), the disclosure of corporate social responsibility is also referred to as corporate social responsibility disclosure or corporate social reporting or social reporting. CSR disclosure is a communication process of the social and environmental impact of organizational economic activities to the groups of special interest and the whole society. Issues related to CSR is an issue that is rapidly changing along the times. Therefore, it is necessary to update the indicators to measure the disclosure. Alternatively, Global Reporting Initiatives have developed GRI index 4.0 version (G4) which can be used as guidelines for reporting under the GRI that is regularly reviewed to provide the best and latest guidelines for effective reporting. GRI indicator consists of three focus disclosures, ie economic, environmental and social. Disclosure of corporate social responsibility is a type of voluntary disclosure. More specifically, the company has the freedom to disclose information on activities related to social responsibility. There is no standard regarding the disclosure of corporate social responsibility. This leads to different social disclosure among the companies depending on the perception of each company.

Effect of Company Size on CSR Disclosure

The size of the company is a scale to determine whether a company is categorized big or small. The relationship between firm size and environmental disclosure has been proven by several researchers (Belkaoui and Karpik, 1989; Cowen *et al.*, 1987; Patten, 1991, 1992; Suhardjanto, 2010). Cowen *et al.* (1987) argues that large companies are under pressure to reveal their activity to legitimize their businesses. Large companies do more activities, have a greater impact on the community, have shareholders who may be concerned with the environmental program undertaken by the company, and their annual report is more efficient in communicating such information to stakeholders. Large companies are companies mostly highlighted by the public so greater disclosure is a form of corporate responsibility (Sembiring, 2005). Thus, big companies always encouraged to make disclosure of environmental information. Based on the description, the hypotheses developed is as follows:

H1: Larger companies will disclose CSR more widely.

Effect of Industry Sensitivity on CSR Disclosure

Industry sensitivity is one of the potential factors affecting the practice of the corporate social disclosure. Putra (2011) found that high-profile companies will reveal more corporate social activities compared with the low-profile company. Previous studies conducted by Putra (2011) and Permana and Raharja (2012) found a significant positive effect that occurs between the company profiles with CSR disclosure. High-profile companies are likely to report its CSR disclosure better than the low-profile company. This is because the high-profile company has a high level of sensitivity to social and environmental problems that may arise. Thus, high profile company will gain greater pressure from stakeholders to implement social disclosure well (Karina and Etna, 2013). Therefore, it can be formulated hypotheses as follows:

H2: Companies that have high sensitivity industries CSR Disclosure

METHODOLOGY

Sample

The sample used in this study were 117 companies listed on the Indonesia Stock Exchange in 2013 - 2014. The year of 2013 is chosen because it is the period of GRI Index 4.0 version implementation which is an improvement over previous versions of the standard CSR disclosure.

Research Variable

The dependent variable in this study is the disclosure of CSR measured using GRI index V-4.0 obtained from the GRI official website (www.globalreporting.org). GRI indicator consists of three disclosures focus, i.e. economic, environmental and social. These indicators have been selected based on international rules recognized by the company in the world. The approach used is a dichotomous approach where each item of CSR in the research instrument will be rated 1 if disclosed, and rated 0 if it is not disclosed. Furthermore, scores for each item are summed to derive the overall score for each company.

The independent variables in this study are company size and industry sensitivity. Firm size was measured using the natural log of the total assets. While, industry sensitivity measured using measurements done by Patten (1991), Roberts (1992), Hakston and Milne (1996), Putra (2011) and Karina and Etna (2013). They classify the oil and gas industry, forestry, agriculture, mining, fisheries, chemical, automotive, consumer goods, food and beverages, paper, pharmaceuticals, plastics and construction as a high-profile industry, whereas other industries will be grouped as the low-profile industry. Company profile measurement uses a dummy variable with the provision of number 1 for high-profile industry and 0 is given to low-profile industries.

Data Analysis

Data were analyzed by descriptive statistical and multiple regression. Descriptive statistics used were are mean, standard deviation, maximum, and minimum. Multiple linear regression is conducted by Ordinary Least Square method (OLS). Classic assumption test is used to ensure that the regression model can be used for estimation purposes as well as reduce the data bias. Those classic assumption tests are normality test, multicollinearity test, and heteroscedasticity test.

RESULTS

Table 1 describes the disclosure of corporate social responsibility (CSR) variables according to the GRI index 4.0 Version. The table shows that social responsibility disclosure of manufacturing company in Indonesia is still relatively classified as low at only 15.10%. There are even companies that only reveals its social responsibility by 6%. The highest disclosure is 29%. This indicates that manufacturing companies in Indonesia do not have a great awareness to reveal its social responsibility. This can be motivated by company belief that they do not have to disclose its long-term performance in the form of social and environmental performance as stakeholders tend to give more attention to the short-term performance of the company (profit).

Table 1
Statistical Descriptive of CSR Disclosure

	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Std. Deviation</i>
CSR_Disclosure	117	,06	,29	,1510	,04891
Valid N (listwise)	117				

DISCUSSION AND CONCLUSION

Table 2 shows that the average score of disclosure in each theme is 49,01% for economic, 9.90% for social and 12.26% for environmental. These findings show that manufacturing company in Indonesia disclose more on economic themes than the environmental and social disclosure. The company believes that disclose economic performance can attract the investor to invest in its business. Thus, the company tends to ignore environmental and social performance. Disclosures on the theme of the environment are the least disclosure among those three themes. Disclosure on social themes is also relatively small. Furthermore, there are companies that did not inform the social themes in the disclosure of social responsibility.

Based on the descriptions above, it can be concluded that manufacturing companies in Indonesia have not given comprehensive attention related to social and environmental responsibility. More specifically, company considers investors

and other stakeholders prefer short-term performance in the form of profits to the company's long-term performance that is social and environmental problems. In addition, the company considers costs and benefits factors in carrying out its social responsibility. Therefore, the disclosure of the company is still relatively low.

Table 2
CSR Disclosure based on GRI Index V.4.0

	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Std. Deviation</i>
Economic	117	,22	,67	,4910	,10358
Environmental	117	,03	,36	,0990	,06606
Social	117	,00	,31	,1226	,05226
Valid N (listwise)	117				

Source: SPSS Output, 2015

Multiple Regression Testing Results

Results of multiple regression tests showed that company size has a significant and positive impact towards CSR disclosure in the alpha 1%. Similarly, industry sensitivity affects positively on CSR disclosure.

Table 3: Multiple Linear Regression Result

<i>Model</i>		<i>Unstandardized Coefficients</i>		<i>Standardized Coefficients</i>	<i>T</i>	<i>Sig.</i>
		<i>B</i>	<i>Std. Error</i>	<i>Beta</i>		
1	(Constant)	-,021	,033		-,639	,524
	SIZE	,009	,002	,303	4,144	,000***
	PROFIL	,034	,009	,263	3,679	,000***

a. Dependent Variable: CSRDI

***) Significant at α 1%

The Effect of Company Size on CSR disclosure

Cowen *et al.* (1987) said that large companies tend to get more attention from public. Thus, the big companies get greater public pressure to demonstrate its social responsibility. Based on stakeholder theory, large-sized companies have more stakeholders than those small companies. Those stakeholders encourage the large companies to have a wider information disclosure to fulfill stakeholders' information needs. More specifically, the larger the company the broader its social responsibility disclosure.

The size of the asset value of a company can determine how much the company disclose its social responsibility. Companies with high asset tend to reveal more about social activities. Generally, those companies have a greater ability to finance activities and disclosures related to social responsibility. Financing activities and CSR disclosure are met by using total assets / wealth owned by the company.

Moreover, large-scale companies also have more stakeholders than the smaller companies. Thus, companies need to do more disclosures related to corporate social responsibility in order to meet the information needs of its stakeholders.

Nur and Priantinah (2012) found the same results and revealed that large companies cannot escape from the pressures of their stakeholders. Besides, a larger company will probably have shareholders who pay attention to social programs. Thus, a larger company will extend its corporate social responsibility disclosure. Rouf (2011) stated the reason for the difference disclosure among companies is that the manager of a larger company may be aware of the possibility to gain more benefit from disclosure, while smaller companies consider that full information disclosure may harm their competitive position.

The Effect of Industry Sensitivity on CSR disclosure

Adam and Harte, (1998) explained that the sensitivity of the industry is the impact and influence created by the company related to the business field, business risk and its employees to the corporate environment. Based on the theory of legitimacy, the company with great impact on the environment and stakeholders will be disclosed environmental information more widely. This is because the company wants to gain legitimacy from stakeholders for ensuring the continuation of its business. Generally, companies with a high level of sensitivity to the environment will receive high attention from the public because its operating activities may have a greater potential for environmental damage. The level of corporate social responsibility disclosure can also be seen on the company profile. The high-profile company will disclose more its social activities. The high-profile company is considered produce more waste and environmental damage associated with the production process. If this is associated with the theory of legitimacy, a company belonging to the category of high-profile tend to reveal more about social responsibility. The company tries to legitimize its operations and reduce the pressure from social and environmental activists. Therefore, it can be concluded that the disclosure of corporate social responsibility depends on the company profile.

This research proved empirically that company profile has a positive influence on CSR disclosure, so the third hypothesis is accepted. These results are congruent with the research conducted by Putra (2011) and Permana and Raharja (2012). This finding is appropriate to legitimacy theory which states that the company should maintain the social contract with the community in order to assist the company in maintaining its continuity.

The high-profile companies tend to express its social responsibility because the company in this category is more vulnerable of offenses related to its business. Thus, there will be pressures from stakeholders that requires the company to make social activities disclosures as an action in fulfilling its responsibilities.

Putra (2011) suggested that high-profile industry is an industry with consumer visibility, high political risk, or face high competition. Those companies will tend to disclose CSR more than the low-profile industry. The existence of Undang-Undang No. 40 the year 2007 in article 74 and article 66 paragraph 2 of section C has driven big attention to high profile industry by its stakeholders, especially the public, investors, and government.

CONCLUSION

1. Variable of company size give a positive impact on CSR disclosure, the larger the size of the company will encourage companies to make disclosure of its social responsibility.
2. Company profile has been proved affects positively on CSR disclosure. High-profile companies were more likely to implement CSR disclosure than low profile company because these types of companies are more vulnerable to do offenses related to its business.

SUGGESTION

Companies in Indonesia, especially manufacturing companies, are expected to perform their social responsibility disclosure better and covers all aspects of economic, environmental and social as well. Government and IAI are expected to formulate a clear policy on CSR disclosure as the importance of this disclosure to be used as consideration for investors and other stakeholders in making economic decisions.

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