

**CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE
AND FIRM FINANCIAL PERFORMANCE
IN MINING AND NATURAL RESOURCES INDUSTRY**

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Abstract

Business operations nowadays should not only pursue profits, but also contribute positively to the society as well as environment. This is because people currently have become more critical to the need of social control over the business. Business then has to respond this through the implementation of Corporate Social Responsibility (CSR) and disclose the activities related to it into the form of CSR disclosure. In line with this phenomenon, the purpose of this research is to examine the influence of CSR disclosure to firm financial performance. The legitimacy theory, the stakeholder theory as well as the agency theory are used in building the research framework in relation to CSR disclosure and its effect to firm financial performance. The study is conducted quantitatively by using natural resources and mining corporations listed in the Indonesian Stock Exchange from 2010-2012 as the samples. Meanwhile, the independent variable is CSR disclosure proxied by Corporate Social Disclosure Index (CSDI) and the control variables are firm financial performance represented by Return on Equity (ROE) and Cumulative Abnormal Return (CAR). Leverage, growth opportunities, firm size, and stock beta are used as control variables. To find out the relationship between the variables, the multiple regression test was applied. Finally, the results indicate that the sign of the relationships are positive but not significant. This means that although the perspective that socially responsible firm may be associated with a set of economic benefits, it is now still emerging but now yet settled in the Indonesian context.

Keywords: *Corporate Social Responsibility Disclosure, Firm Financial Performance, Mining and Natural Resources Industry*

INTRODUCTION

In conducting business operations, business people should not only pursue profits, but also expect to contribute positively to the social

environment. This is because people have become more critical and capable of social control over the business. This strategy business is known as corporate social responsibility (CSR). The term CSR was founded for the first time in the writings of Social Responsibility of the Businessman in 1953 (Bowen, 1953). Howard Rothman Brown revealed that the presence of CSR is not obliged by the government or authority, but rather a commitment that was born in the context of business ethics (beyond legal aspects) in order to prosper as a society based on the principle of merit as the value and needs of the community.

In particular, Utama (2007) stated that the development of CSR is associated with more extensive environmental damage in Indonesia and the world, ranging from deforestation, air and water pollution, to climate change. With the development above, the Act No. 40, 2007 on Limited Liability Corporations, has been published. Through this law, each corporation and is obliged to implement this. It is certainly beneficial to the presence of CSR disclosure will have an impact, either directly or indirectly to corporate finance in the future. Investors also want their investment and confidence in the company to have a good image in the public. Thus, if companies do CSR programs as an ongoing basis, the company will be able to run well. Therefore, the CSR program is more appropriate to be classified as an investment and should be the business strategy of the company (Siregar, 2007: 285).

In accounting, there is also a concept of social accounting as a part of the knowledge of accounting and report that aims to measure the social effects (social costs and benefits) arising from the business unit's activities (McNamara, 1999). Hence the company has a broader responsibility to make money not only for shareholders, but also for all stakeholders. Company in this case is an economic entity that is responsible not only to shareholders but also to the wider community (Kurniawan, 2007).

In accordance to social accounting, the annual financial report is one tool that can be used for the disclosure of social and environmental information. In addition, the economic decision made by looking at a company's financial performance, now is no longer relevant. Eipstein and Freedman (1994), in Anggrainy (2006), found that individual investors are attracted to social information reported in the annual report. Therefore, a tool that can provide information about the social, environmental and financial aspect is needed. This report then is known as sustainability report. Specifically, sustainability report is used to report on economic policy, environmental and social impact and performance of the organization and its products in the context of sustainable development. Sustainability report includes the report on economic, environmental and social influences in relation to organizational performance (The Association of Chartered Certified Accountants (ACCA), 2004 in Anggraini, 2006).

However, most companies face various challenges of the external environment which are often difficult or dilemmatic to response. Poor governance is one of main obstacles that discouraged companies to invest in Indonesia. According to Koester (2007: 2), even those with high commitment on CSR wonder how to sustain their meticulous efforts in

such a business climate. For mining companies, the attention to social issues and the development of social relations associated with the local people or local communities is increasingly important. The emergence of social problems has the potential interruption of operations and high transaction costs which would be a financial burden as well as a bad reputation and image of the company. Many big companies has a company goal to create and maintain a harmonious relationship with the environment in the surrounding areas of operations as well as working with the government to provide great benefit to society.

Therefore, a group of business activities needs a social responsibility to help the wider community, in which the activities will do. The social responsibility together with commitment and decision-makers for those general measures in addition to their own interests, also provides improved welfare. In this case, there are several elements: (1) social responsibility, an obligation that the institutions should be accountable to their economy, (2) the institutions are responsible for polluting the environment, discrimination in employment, and ignoring the needs of their employees (O'Dwyer, 2005).

Research that has been done by Dahlia and Siregar (2008) stated that the level of CSR disclosure in corporate annual reports have positive effect on return on equity (ROE) as a proxy variable of financial performance. This means that there is a significant productive effect between CSR activities undertaken by the company with the financial performance of the company. Moreover, Balbanis, et al. (1988) had examined the effect of CSR disclosure in a company's profitability listing on the London Stock Exchange. The results have shown that the disclosure of CSR in the company is positively correlated to overall profitability, but negatively correlated to market performance. However, different results by Sembiring (2003) found that profit is not proven to CSR disclosure.

Based on the background issues that have been described above, generally the purpose of the current research is to examine the influence of CSR disclosure to firm financial performance. Specifically, this research is conducted by using the natural resources and mining firms listed in the Indonesian Stock Exchange (IDX) from 2010 to 2012. The research used Corporate Social Disclosure Index (CSDI) as a measure of CSR disclosure, with the indicators taken from the Global Reporting Initiative (GRI). The firm financial performance is proxied by Return on Equity (ROE) and Cumulative Abnormal Return (CAR).

The results of the paper, which will be discussed later on, imply the need to develop better CSR disclosure as well as its appropriate measures within corporations in Indonesia. Besides, this condition may become the consideration for regulatory body to take more action to ensure the integrity of corporate social responsibility, especially awareness of the importance of CSR and its disclosure in annual report. Moreover, this research implies that there are many companies in Indonesian that have been engaged to corporate social responsibility, although the disclosure has not been sufficient. It comes to be the evidence for internal and

external parties that it needs further consideration and should not solely rely on financial numbers listed on financial statement to take an investment and management decision. On the other hand, it may also support corporate to be more aware with a corporate social responsibility.

Finally, it is essential to integrate the CSR concept into accounting education because its important to develope and improve to broaden the perspective the term of CSR in Indonesia. It is also important to enrich the research in accounting with studies related to CSR. This is because the research result are able to contribute to the literature to more widely explain the phenomenon of corporate social responsibility disclosure and its impact on financial performance. It is expected, by refering to this research, that the academics could develope new findings to solve the problem related to social responsibility which may impact the society.

This paper is organized as follows. This first part has discussed the background as well as the contributions of the study. The next part will examine the literatures that have been written previously in relation to the connection between CSR disclosure and firm financial performance. The third part includes the research method applied and followed by the fourth section which discusses the results. Finally, the paper will be summed up and the limitations found during the study are described on the last section.

THEORETICAL FRAMEWORK

Corporate social responsibility disclosure is the process of communicating the social and environmental impacts as economic methods of companies on specific groups in the community and in society as a whole (Gray et al. 1987). Negative contribution to the environment surrounding the company has led to loss of public confidence, so that the necessary information about the company's operations with respect to the environment as a corporate responsibility needs to be disclosed.

According to Gray et al. (1995) there are two significantly different approaches in doing research on corporate social responsibility disclosure. First, social responsibility disclosure firms may be treated as a supplement to conventional accounting activity. This approach is generally considered as the primary users of corporate social responsibility disclosure and tends to limit the perception of social responsibility report. The second alternative approach is to put corporate social responsibility disclosure on an examination of the role of information in public relations and organization. Broader outlook has become a major source of advances in the understanding of corporate social responsibility disclosure and is a major source of criticism against the disclosure of corporate social responsibility.

Disclosure of corporate social responsibility is needed, however, because the company has added the value of the contribution to the community in which the company has used its social sources. If the company's activities cause damage to the social sources that may present a social cost to be borne by the public, then the company needs to improve the quality of social resources. This will lead to social benefits. Pratiwi and

Djamhuri (2004) define social disclosure as a reporting or delivering information to stakeholders on all activities related to the company's social environment. The results proved in different countries, that the annual report is an appropriate media to convey corporate social responsibility. Social responsibility arises if the organization has the awareness that they have a duty to perform responsibility towards the environment. CSR Disclosure categorized as voluntary disclosure. Some companies are trying to disclose information voluntarily on social responsibility because it is in demand by investors and shareholders (Suwardjono, 2005 in Benny, 2008). The company has a contract with the community to perform activities based on the values of justice and how companies are responding to some interest groups to legitimize the actions of firms (Tilt, 1994 in Wahyu, 2008). If there is a conflict then the company will lose its legitimacy and would threaten the life of the company (Lindblom, 1994 in Benny, 2008).

The diversity of the above understanding shows that up to now there is no single definition of the disclosure of corporate social responsibility. According to (Gray et al., 1995 in Novalianto, 2006) there are two reasons why there is no clear definition of social responsibility disclosure, such as:

1. The definition of social disclosure is still too difficult to describe. It means that the results and the complete impacts of the activities of the company can not be publicly known, so that it has not been able to communicate.
2. The social disclosure is too embracing all activities of the company that have a social and environmental impacts and all the financial data can be considered relevant to the social and environmental surroundings.

Moreover, every firm should have its own purpose related to the reasons to conduct CSR disclosure. In general, Ramanathan (1976) in Puspitaningrum (2004) suggest several goals of social disclosure, including:

1. To identify and measure corporate social contribution each period, which is not only a form of internalization of social costs and social benefits, but also the effect of these externalities to different social groups.
2. To help determine whether the strategies and practices directly affect the company's resources and the status of the power of individuals, communities, social groups and generations which are consistent with the social priorities, on the one hand, and the aspirations of the individual on the other.
3. To provide optimal information relevant to the social elements in the objectives, policies, programs, performance and contribution to the company's social goals.
4. To enhance enterprise competitive advantage in globalization and free trade.

Social disclosure is intended as a medium for communicating social reality in order to make decisions economically, socially, and politically acceptable. Social disclosure is also a response to the information needs of

interested parties such as labor unions, environmentalists, the religious group and other groups (Guthrie and Parker, 1990 in Utomo, 2000). Corporate social disclosure, which only focuses on environmental disclosure, makes the public want to know how began impact the company's activities on the environment. However, many companies assume that the public (citizens and NGOs) do not contribute feedback, especially regarding earnings, for the company so many companies are reluctant to undertake social responsibility (Susan, 2006).

On the other hand, CSR disclosure in annual financial statements which is intended to enhance their corporate image is characterized by the attention of investors to invest in the company's stock. It also motivates some companies to undertake CSR disclosure to the surrounding environment in the forms of the annual financial statements, a separate environmental reports and corporate websites. According to Wibisono (2007, in Ronni 2008), firms gain some advantage for disclosing social responsibility, such as to maintain and to boost the company's reputation and brand image, to get license to operate (social license to operate), to reduce the risk of the company's business, to enhance the access to resources and to the market, to reduce costs, to improve relations with stakeholders, to improve relations with regulators, and to improve employee morale and productivity.

Research on the effect of CSR disclosure on financial performance has been widely performed and produced mixed results. Eptein and Freedman (2008) found that individual investors interested in social information disclosed in the financial statements of the company. However research conducted by Lina (2007) concludes that corporate social performance does not affect the company's financial performance, while research conducted by Aldilla and Dian (2009) suggests that CSR disclosure has a significant positive effect on the financial performance of corporations.

Moreover, research by Anggraini (2006) found the company will disclose certain information if there are rules that ask them to do so. Banking and insurance companies in majority (more than 50%) disclose more information about the development of human resources if compared with other industries. This is because banking and insurance companies are highly dependent on the ability of human resources (employees) in providing services to the customers. Companies with large ownership and management and are included as the industry with high political risk (high-profile company) tend to disclose more social information than other companies. Nahar (2007) provides empirical evidence of the compare with high profile category, and feels the need of those companies to implement broad social disclosure with the aim of creating a positive impact on firm performance.

There are three types of theories used in this research which is related to CSR disclosure, namely legitimacy, stakeholder and agency theories. Legitimacy theory explains that the companies which conduct business activities, with the limits set by the norms, social values and reactions to these restrictions, encourage the importance of organizational

behavior with respect to the environment (Chariri, 2007). O'Donovan (2002) finds that organizational legitimacy can be seen as something to be desired or sought by the company from the society. Thus, the legitimacy can be a benefit or potential resource for the company to survive (going concern issue). Dowling and Pfeffer (1975) state that the company's organizational activities should be appropriate to the social environment.

Furthermore, it is stated that there are two dimensions in order to gain support for the legitimacy of the company, namely: (1) activities of corporate organizations should fit (congruence) with the value system in community, (2) the reporting of the company's activities should also reflect social values. Barkemeyer (2007) reveals that in the explanation of the power of the legitimacy theory of the organization there are two things in the context of corporate social responsibility in the developing country: first, the capability to put the motive of profit maximizing makes a clearer picture of the company's motivation to enlarge its social responsibility. Second, the legitimacy of an organization can be used to incorporate cultural factors which shape the different institutional pressure in distinctive concept. The above description explains that the legitimacy theory is a theory underlying CSR disclosure. It is performed to obtain a positive value and legitimacy from the society.

Additionally, the company is not only responsible for the owners (shareholder) as occurred during this time. Company responsibility originally measured only limited to economic indicators (economic focused) in the financial report, and now shifted to take into account social factors (social dimensions) to stakeholders, both internally and externally. Stakeholder theory argued that the company is not only operating the entity of its own, but provides benefits to stakeholders (Chariri, 2007). Stakeholders are all parties, both internal and external, that has relationships which are affected and influenced, directly or indirectly by the company. Stakeholder is a group or an individual who can affect, or affected by, the success or failure of an organization (Luke et al. 2005).

Therefore, stakeholders are internal and external parties, such as governments, company's competitors, community, corporate workers, and others that had greatly existence affected and influenced by the company. Based on the basic assumption of the stakeholder theory, the company cannot release itself from social environment (social setting). Companies need to maintain stakeholders legitimacy and support in the policy framework and decision-making, so as to support the achievement of it in the objectives of companies, which guarantee its stability and going concern.

Finally, agency theory bases its contractual relationships among the members of the companies, on where the principal and the agent as the main actors. Principals (shareholders) are parties that mandate the agency to act on the name of the principal, while the agent (management) is a party entrusted by their principal to run the company (Arifin, 2005). Agents are obliged to account for what has been entrusted by her principal. Agency theory explains the relationship between the principal and the agent. CSR practice and its disclosure are also associated with

agency theory (Cowen et al. 1987; Adams, 2002, and Campbell, 2000 in Farook and Lanis, 2005). Social responsibility is one of management's commitments to improve performances especially in the social ones. Therefore, management will get a positive assessment by the owners of the capital. Gray et al. (1987) states that disclosure of social responsibility is an extension of organizational responsibility beyond its traditional role to provide financial reports to the owners of the capital, particularly shareholders.

The performance of a firm can be assessed through its annual account reports, where information about growth, investments, earnings, costs, etc. are listed. In this case, assessing CSR is a necessary condition to study their own social responsibility and thus to control environmental and social impacts. In this section the researcher would like to describe and review the performance of company. There are non financial performance and financial performance. The relationship between non financial performance and financial performance in the context of CSR will be discussed on the next section.

In assessing the social and environmental performance, the establishment of a steering system for the performance and accountability on these external dimensions imply the existence of metrics to assess the quality of management of the business related to non-financial aspects. In fact, the existence of these metrics is also of particular importance to other stakeholders where ethical investors require such information to select the best performing companies. This leads companies to establish a legal and socio technical infrastructure to make measurable CSR stakeholders. In theoretical terms, the extent of CSR faces similar problems to those identified to define the concept of CSR such as, the multiplicity of approaches and dimensions of this complex concept, the difficulty in reporting objectively its more subjective components which are often linked to an assessment based on criteria related to ethics or a social context. Among the different methods of measurement of CSR that have been used, there are several categories that can be applied (Dikhili and Ansi, 2012), i.e.:

1. Measures of speech, such as content analysis of corporate social disclosure in annual reports, which are to be based on remarks made by companies to assess their CSR, for example by counting the number of lines or words dedicated to CSR themes in the annual report of a company.
2. Indicators of pollution provided by some agencies to assess the business pollution and, such as the "Toxic Release Inventory" in the U.S., and measurements of the diffusion of CO₂ by businesses.
3. Measures of attitudes and values aimed at assessing the sensitivity of members of the organization (e.g. managers and employees) to the various dimensions of CSR and are generally administered in the form of a questionnaire.
4. Measures of reputation, such as the indicator of reputation developed by Markowitz in the 1970s in the American Fortune magazine, which

includes criteria related to CSR that are assessed by a panel of industry experts.

Meanwhile, the financial performance is based on data from financial statements. In fact, the accounting measures provide most of the time positive correlations between CSR and financial performance. (Cochran and Wood, 1984; Waddock and Graves, 1997; Preston and Bannon, 1997). In addition, these measures from the accounts have the advantage of providing a more relevant economic performance of the company. On the other hand, stock measures have the advantage of being less subjective to managerial manipulation. However, these variables represent a specific assessment to the investor and not allowing revealing the economic reality of the company (Ullmann, 1985).

Therefore, the relationship between corporate social disclosure (non financial performance) and profitability (financial performance) has become basic concept to describe the view that the social responses require the same managerial style as what needs to be done to make the company profitable (Bowman and Haire, 1916 in Ahmad, 2007). Corporate social disclosure reflects a credible approach to adaptive management related to a dynamic environment, multidimensional, which has the ability to deal with social pressure and responsive to social needs. The greater the social disclosure is, the lower the political cost of the company (Hasibuan, 2001 in Jayanti, 2011) will be. By expressing concern for the environment through financial reporting, the company in the long term can avoid huge expenses resulting from the demands of society.

Several previous academics have conducted research regarding the relationship between CSR disclosure and financial performance. Among them are Belkaoui (1989, in Benny 2008) who find the results that there is a positive relationship between social disclosures and the level of financial leverage. This suggests that the higher the social disclosure, the lower the ratio of debt / equity is, since the companies with a higher debt level more likely will violate the credit agreement. Therefore, the company must provide higher earnings than the current in the future. In order to present a higher profit, the company must reduce costs (including the costs to disclose social information).

Meanwhile a research by Cheng and Kristiawan (2011) uses return on equity (ROE) and price to book value (PBV) as the control variables. CSR disclosure is based on the Global Reporting Initiative (GRI). This research uses annual reports of 40 the natural resources companies in Indonesia stock exchange listed in the period of 2007-2009. The results of this research conclude that CSR disclosure has significant effect on abnormal return indicating that investors consider CSR in decision making. ROE as the control variable has a negative relationship with abnormal returns. However, PBV has no significant effect on abnormal returns.

Furthermore, in their research, Dahlia and Siregar (2008) use CSR as the independent variable and financial performance, as represented by the ROE and CAR, as the dependent variable. Leverage, size, growth and the unexpected return are used as the control variable. This study uses a

sample of public companies listed on the Indonesian Stock Exchange during 2005 and 2006 which publish annual reports and other documents either physically or via website. The result of the study states that there is an influence of CSR on the corporate financial performance. CSR effects positively on ROE, but not on CAR. Based on these previous studies, the hypothesis can be formulated as follows:

H1: CSR disclosures have a positive effect on Return on Equity (ROE).

Then, another research by Tsoutsora (2004) uses extensive data over a period of five years. This study explores and tests the sign of the relationship between the corporate social responsibility and the financial performance. The dataset includes most of the S & P 500 firms and covers the years of 1996-2000. The relationship is tested by using empirical methods. The result indicates that the sign of the relationship is positive and statistically significant, supporting the view that the corporate social responsibility performance can be associated with series of bottom-line benefits.

According to Almilial and Vitello (2007, in Dahlia and Siregar 2008), companies with good environmental performance will be responded positively by investors through the stock price fluctuation increasing period to period, otherwise if the company has poor environmental performance, it will get some doubt from investors against the company and be responded negatively that its price fluctuations in the stock market can decline year to year. Thus, the hypothesis can be formulated as follows:

H2: CSR disclosures have a positive effect on Cumulative Abnormal Returns (CAR)

RESEARCH METHOD

The current quantitative research used the secondary data from annual reports of natural resources and mining company listed on the Indonesia Stock Exchange for the period 2010-2012. The use of secondary data is based on the premise that the secondary data have a good level of validity so that the expected results obtained have good accuracy as well. A data collection technique in this research is the documentation or records method (archival research).

Documentation is the secondary data collection method in which researchers collect data obtained indirectly through an intermediary (obtained and recorded by other parties), in the form of historical data which are then used as research material (Ghozali, 2006). As a guide, research instruments were used in the form of a checklist or a list of questions that contain disclosure of social responsibility items based on the Global Reporting Initiative. The Global Reporting Initiative (GRI) is a non-profit organization that promotes economic, environmental and social sustainability. GRI provides all companies and organizations with a comprehensive sustainability reporting framework that is widely used around the world (www.globalreporting.org).

The population of the study involves natural resources and mining corporations listed in Indonesia Stock Exchange in 2010-2012. This

industry is chosen as the representative of high-profile company which has high social and environmental risk. Besides, this type of industry has not been explored in previous research in the Indonesian context. Meanwhile, 2010-2012 were selected to be the sample of the study since the firms have the most recent annual reports to describe the latest condition. The total population of the study are 41 corporations per year. The sample selection is done using purposive sampling method, which is limited to certain types that can provide desired information and meet some of the criteria specified by the researcher (Sekaran, 2006). The criteria used to determine the sample are publishing financial statement in 2010-2012, ending the financial statements on December 31, 2010 up to 2012, having a complete data to be used to measure the variables, and using rupiahs as the reporting currency.

Furthermore, the independent variable in this study is Corporate Social Disclosure Index (CSDI), which is the proxy of CSR disclosure. Information on CSDI, which are based on Global Reporting Initiative (GRI) was obtained from its official website. GRI consists of three main disclosures, namely economic, environment and social as the basis of sustainability reporting (Dahlia and Siregar, 2008). CSDI calculations are performed by using dichotomous approach, i.e. each item in CSR research instrument which is given a value of 1 if it is disclosed and the value of 0 if it is not disclosed. Additionally, the scores of each item are summed up to obtain the overall score for each company (Haniffa et al., 2005 in Sayekti and Wondabio, 2007). CSDI calculation formula is as follows:

$$CSDI_j = \frac{\sum X_{ij}}{n_j}$$

where:

CSDI_j : *Corporate Social Responsibility Disclosure Index* corporation j

n_j : number of item of firm j, n_j = 34 (in this study the researcher used 34 disclosure items are used based on GRI i.e.: community themes (8 items), consumer and products themes (5 items), employment themes (14 items), and environmental themes (7 items). The descriptions of these items can be seen on the appendices at the end of this paper.

X_{ij} : 1 = if the item 1 is disclosed; 0 = if the item 1 is not disclosed

Hence, 0 < CSDI_j < 1

Meanwhile, the dependent variable is the firm financial performance represented by the ROE and CAR. ROE is obtained from the sum of the regression's coefficient of CSDI, leverage, size, stock beta (correction beta), growth, and unexpected earnings (Dahlia and Siregar, 2007). CAR is obtained from the sum of the regression's coefficient between CSDI, leverage, size, stock beta (beta correction), growth, and unexpected earnings (Dahlia and Siregar, 2007). Based on the above definition, ROE and CAR can be described as follows:

a) ROE one year ahead

ROE is one of the main tools that investors use in assessing a stock. In general, the ROE calculation is resulted from the division of profit in

equity during the past years. Prihadi (2008) states that ROE can give some idea of the company include:

1. The ability of the company to make a profit (profitability).
2. The efficiency in managing the company's assets (asset management).
3. The debt used to conduct business (financial leverage).

In this study the one-year ROE is calculated using the formula of net income divided by equity to measure the financial performance of companies. According to Prihadi (2008) the formula to calculate ROE is as follows:

$$ROE = \frac{\text{Net Profit}}{\text{Equity}} \times 100\%$$

b) CAR

CAR is expressed as a percentage of the revenue from the initial capital investment (Samson, 2006). Earnings in equity investments include the advantages of buying and selling shares, while capital gain (loss) is the difference in profit (loss) from current investment price relative to the price of the last period (Jogiyanto, 1998). According to Jogiyanto (1998), CAR can be divided into two terms i.e. the return realization (realized return) and the return expectations (expected return). In this research, abnormal return is obtained in two stages. The first phase represents the excess of the actual return less the market return obtained from the second stage (Dahlia and Siregar, 2008), by using the following formula:

$$R_{it} = \frac{IHSI_t - IHSI_{t-1}}{IHSI_{t-1}}$$

$$R_{mt} = \frac{IHSG_t - IHSG_{t-1}}{IHSG_{t-1}}$$

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

where:

AR_{it} : Abnormal return for company i on day t.

R_{it} : Firm's daily return on day t.

R_{mt} : Index of market return on day t.

$IHSI_t$: Individual stock price index of the firm i at time t.

$IHSI_{t-1}$: Individual stock price index of the firm i at time t - 1.

$IHSG_t$: Composite stock price index at time t.

$IHSG_{t-1}$: Composite stock price index at time t - 1

The research also includes several variables that previous studies found to affect CSR. These control variables involve the firm's capital structure, growth opportunities, profitability, the firm's size, stock beta, and unexpected earnings. The proxies of each control variables are leverage, the ratio of market value of equity to the shareholders' price to book value (PBV), logarithm of total assets, correction beta, and the difference between realized accounting profit and the expected accounting earnings. Furthermore, this study used the classical assumption test before testing the hypothesis. This classic assumption testing is used so that the independent variable as an estimator of the dependent variable will not be bias. The tests include the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test.

In accordance with the research conducted by Dahlia and Siregar (2007), to test the first hypothesis, Ordinary Least Square (OLS) test was used. It is a method that fits a curve to data pairs $(x_1, y_1), \dots, (x_n, y_n)$ by minimizing the sum of the squared vertical distances between the "y" values of the curves. The first model proposed is to regress the variable of ROE over the next year with CSDI variable, as well as control variables consisting of leverage, size and growth. The purpose of this test was to determine the effect of disclosure between CSR and ROE. The statistical model is as follows:

$$ROE_{it+1} = \beta_0 + \beta_1 CSDI_{it} + \beta_2 LEV_{it+1} + \beta_3 SIZE_{it+1} + \beta_4 GROWTH_{it+1} + \varepsilon_{it}$$

Where:

GROWTH	: growth opportunities
ROE	: Return on Equity
CSDI	: Corporate Social Disclosure Index based on GRI indicators
LEV	: firms Ratio (leverage)
SIZE	: Firm's Size
$\beta_0 - \beta_2$: the estimated coefficient
ε_{it}	: error term
i	: 1, 2, ..., N (number of observations)
t	: 1, 2, ..., T (amount of time)

Then, the testing of second hypothesis is also conducted by using multiple regression test and Ordinary Least Square (OLS). The second model is regressing CAR as a proxy of financial performance with CSDI and leverage, size, beta, growth, and unexpected earnings. The following is the statistical model

$$CAR_{it} = \beta_0 + \beta_1 CSDI_{it} + \beta_2 LEV_{it} + \beta_3 SIZE_{it} + \beta_4 BETA_{it} + \beta_5 GROWTH_{1it} + \beta_6 UE_{it} + \varepsilon_{it}$$

ROE	: Return on Equity
CAR	: Cumulative Abnormal Return
CSDI	: Corporate Social Disclosure Index based on GRI indicators
LEV	: Firms Ratio (leverage)
SIZE	: Firm's Size
BETA	: Enterprise's market beta(beta correction)
GROWTH	: growth opportunities
EU	: Unexpected Earnings
$\beta_0 - \beta_2$: Estimated coefficient
ε_{it}	: error term
i	: 1, 2, ..., N (number of observations)
t	: 1, 2, ..., T (amount of time)

FINDINGS AND DISCUSSIONS

A total of 48 companies remained in the sample for 2010-2012 after being excluded either because the data is not complete, the firm is delisted during the years, and do not meet other criteria mentioned in the previous section. Table 1 below is the descriptive explanation of the variables used in this research. Then, the statistical result for the first hypothesis can be seen in Table 2. From the table above it is known that the value of F-statistic

has theProb (F-statistic) of 0.036, meaning that H1 is accepted. Thus, it can be concluded that simultaneous increase in CSDI, leverage, size, and growth has significant effect on ROE_{t+1} . However, the variables of CSDI, leverage, and growth partially do not have significant effect to the ROE, except firm size.

Table 1: Descriptive Statistic

Description	ROE	CSDI	LEV	SIZE	GROWTH	UE	B	CAR
Average	14,9475	0,485	0,6025	15,10938	2,1975	0,015581	0,268606	0,132481
Standard of								
Deviation	14,58747	0,151789	0,654762	1,219139	4,029706	0,041208	0,268475	0,277597
Minimum								
Value	-29,62	0,26	0,11	11,9	-10,93	-0,020	-0,1007	-0,3692
Maximum								
Value	31,03	0,74	2,56	16,86	8,31	0,155	0,9401	0,4413

Table 2: Regression Results of Hypothesis 1

Dependent Variable	Independent Variable	B	t _{stats}	Significance	Conclusion
	Constant	-110,51			
ROE	X ₁ (CSDI)	9,1722	0,406	0,693	Not significant
	X ₂ (LEV)	10,728	1,549	0,149	Not significant
	X ₃ (SIZE)	7,328	2,730	0,020	significant
	X ₄ (GROWTH)	1,738	1,518	0,157	Not significant
a		= 0,050			
R		= 0,760			
Determination Coefficient (adj. R ²)		= 0,578			
F-statistics		= 3,771			
F-table (F _{4,11, 0.05})		= 3,357			
significance		= 0,036			
t-table (t _{11, 0.025})		= 2,201			

Moreover, Table 3 below shows the regression results of the second hypothesis. F test for this model indicates that independent variables (CSDI, leverage, size, growth, unexpected earning, and beta) have no significant simultaneous effect on the dependent variable (CAR). In this second hypothesis test, it is also found that there is no partial effect of each independent variable to the dependent variable.

Table 3: Regression Results of Hypothesis 2

Dependent Variable	Independent Variable	B	t_{stats}	Significance	Conclusion
CAR	Constant	-0,389			
	X ₁ (CSDI)	-0,023	- 0,036	0,972	Not significant
	X ₂ (LEV)	0,022	0,106	0,918	Not significant
	X ₃ (SIZE)	0,037	0,455	0,660	Not significant
	X ₄ (GROWTH)	-0,021	- 0,612	0,556	Not significant
	X ₅ (UE)	2,300	1,111	0,295	Not significant
	X ₆ (BETA)	-0,102	- 0,309	0,764	Not significant
	α			= 0,050	
	R			= 0,491	
	Determination Coefficient (adj. R ²)			= 0,241	
	F-statistics			= 0,477	
	F-table (F _{6,9, 0.05})			= 3,374	
	significance			= 0,810	
	t-table (t _{11, 0.025})			= 2,262	

Based on the findings, CSDI and the control variables generally have significant effect on ROE. This means that CSDI of a firm affects its ROE in the future. This result is in the contrary to Setiawan and Janet (2010) which state that the investors and analyst interview in their study have stated CSR is not a consideration for their investment decision. They argue that CSR will have no effect on their investment, especially in the short term. In the case of mining and natural resources industry, it implies that the investors in this industry already have considered CSR as one important factor of investment decision.

However, leverage partially gives no significant effect on ROE_t. This result is supported by previous research conducted by Sembiring (2005). Belkaoui and Karpik (1989, in Anggraeni, 2006) stated that it is because the higher the leverage, the more likely the company experiences a breach of contract in which the manager will attempt to report a higher current profit than it is in the future, including expenses for the expressed corporate social responsibility. Meanwhile company size in this section has positive coefficient which indicates that the increase of the size of the company may increase ROE. It can be explained that larger firms are usually more diversified in terms of type of business, so the risk of failure is smaller than small firms. Thus, large companies generally can generate future cash flow better, so as to improve its financial performance in the future. Results of this study proved the hypothesis of Balabanis, Phillips

and Lyall (1998), which state that the size of the company affects its financial performance. Finally, it is known that growth has no significant effect on ROE. This result is in contrast with the result obtained by Tampubolon (2008, in Lucyanda and Siagian, 2012) who found that company's growth rate has an effect to the company. The level of sales as the proxy of growth can cause this to happen and the increase is not an aspect to be seriously considered by the company in doing its corporate social responsibility.

In terms of the second hypothesis, this study failed to prove that the companies doing high environmental disclosures in the financial statements have an impact on market performance. This is probably because the issue of CSR is relatively new in Indonesia and most investors have a low perception towards it. This means that investors still do not consider CSR disclosure as a factor to motivate investment in particular company. Besides, the quality of CSR disclosure is not easy to measure because generally companies disclose CSR only as part of the advertising and avoid giving the relevant information. Moreover, most investors are oriented to short-term performance, while CSR is considered to affect the medium-term and long-term performance which caused it to take longer time to see the benefit of adopting CSR.

Tsoutsura (2004) states that corporate social responsibility affects the financial performance. The results indicate that the sign of the relationship is positive and statistically significant, supporting the view that socially responsible corporation can be associated with a series of triple bottom-line benefits that consists of profit, people and planet that links together with CSR. The result is contrary to research done by Brine, Brown and Hackett (2005) that their preliminary results revealed no statistically significant relationship between corporate social responsibility and financial performance. One of the reason was still few companies adopted CSR in their companies. Then, Widiastuti (2002, in Dahlia and Siregar, 2008) states that the phrase in the annual report does not make stock prices more informative, because the expression given there only provide financial information without any description related to market performance. The result is contrary to research done by Cheng and Kristiawan (2011), that the company doing social responsibility well will enjoy better market performance. It means that companies adopting CSR make their companies have a good image which affects their financial performance, and attracts investor's to their company.

Nevertheless, the results of this study are consistent with the research conducted by Dahlia and Siregar (2008), where they also found no significant relationship between CSR disclosure with the market performance of the firm. One possibility is that the market response to the implementation of CSR undertaken by the company cannot directly influence the return, but it takes a longer time. Furthermore, leverage variable in this current study has no effect on CAR. The greater the leverage of a company means the company has a higher debt level compared to the capital. Thus, if there is an increase in profit then the benefit is for the debtholders because debtors have confidence that the

company will be able to pay off their debts. However, it will be responded negatively by investors because investors believe that the company will tend to make debt rather than pay dividends (Mulyani et., al 2007). Therefore, the company which has high leverage will be responded negatively by the market, so that the relationship of accounting earnings on stock returns will be lower (Naimah, 2008). In addition, the company having a high level of leverage without balancing it with good monitoring activity against creditors, strong control of the financial cash flow, and lack of discipline of the manager, will be responded negatively by the market, which in turn can exacerbate the performance of the market (CAR).

Moreover, company size has no effect on CAR. Results of this study indicate that company size does not help to determine the level of investor's confidence. The larger the company, the more it can control the market conditions, and face economic competition, or the less susceptible it is to economic fluctuations (Wahyudi 2004, in Dahlia and Siregar 2008), thus reducing the uncertainty of the company in terms of its financial performance. In other words, the size of the company is not among the factors that are considered by investors to be interested in investing in a company. This result is consistent with the results of the study (Sulistio 2005, in Dahlia and Siregar 2008), which states that the size of the company does not have a significant effect on cumulative abnormal return.

Growth of the company also has no significant effect on CAR. The results of this study failed to show that companies that have high growth opportunities are expected to provide high profitability in the future, and are expected to return more persistently. Then, the unexpected earnings (UE) is found positive but does not have significant effect on abnormal returns for investors. These results indicate that earning per share (EPS) contains information that tends to be small and not significant enough to affect market reaction.

Finally, it is obtained that beta stock has no significant effect on CAR, showing that beta stock, as a proxy of risk securities, was not significantly influence the market performance of the company. The results of this study might be due to the low value of the beta, which indicates that there is a decrease in the company's business activities, making it less attractive to investors (Dahlia and Siregar, 2008). This is because if $\beta < 1$, it means that the movement of stock returns is lower than the market return. Thus, the beta will have no effect on the company's stock price or return. This result is consistent with the results of the study of Widiastuti (2002), who found that the beta had no significant effect on CAR.

CONCLUSION

The objective of this research is to examine the effect of earnings CSDI (Corporate Social Disclosure Index) on financial performance. The basic model in this study is a multiple linear equation in which CSDI (Corporate Social Disclosure Index) as the independent variable, ROE (Return on Equity) and CAR (Cumulative Abnormal Return) as the dependent variables. Meanwhile, the control variables are leverage, firm size, beta stock, unexpected earning and growth. In the samples consist of

mining and natural resources companies listed in the Indonesia Stock Exchange. Based on the results of the data analysis, it can be concluded generally that CSDI does not affect both ROE and CAR with control variables such as leverage, beta stock, growth, and unexpected earning, except size variable although CSDI and the control variables is found to affect ROE simultaneously. It may be due to the lack of investor's perception toward CSR disclosure since it is still new in Indonesia.

The current research also has several limitations. The firms used as a sample in this research include only mining and natural resources company. It may cause this research result to be unable to be generalized to other sectors. Furthermore, this research only covers three-years annual financial report. Consequently, this research result may not represent a long-year period. Then, the possible weaknesses in this study may also lie in the determination of measurement of corporate social disclosure. when analyzing the link between CSR and economic performance, as well as one of the reasons for obtaining conflicting results, lies in defining adequate and representative quantitative measures for the complex CSR concept. And the other is CSR disclosure index determination and assessment is subjective indicators. because there is no standard terms or reference for this assessment, so as to make the results differ among researchers.

Therefore, more extensive studies are needed to explore the causal mechanisms linking CSR to financial performance and to determine whether or not those relationships hold consistently over time. The source of the connection between CSR and financial performance has rarely been systematically investigated. It is also important to posit the timing in the relationship, since it would be valuable to investigate and to ascertain how long it takes for the impact of CSR on financial performance to be revealed. For the above to be realized, more data on CSR should become available. Besides, the number of samples during the three-year study may still be insufficient to produce a conclusion that can be generalized for a long year period. Therefore, either the period or the number of sample observations should be given special attention in further similar research. Moreover, this study only focused on companies with established criteria, from the mining and natural resources industry. In the subsequent study, it might be better to develop the research with the addition of another industry sector.

Another suggestion for future research is related to the proxy of corporate social responsibility. An alternative approach to measure corporate social responsibility would be to draw on existing corporate social responsibility indices such as the Corporate Responsibility Index. As stated by Brine, Brown and Hackett (2005) there are two empirical approaches to identify corporate social responsibility such as corporate responsibility index and socially responsible investment funds to identify appropriate investments. Tsoutsura (2004) also found that KLD (Kinder, Lydenberg and Domini) Index uses a combination of surveys, financial statements, articles on companies in the popular press, academic journals (especially law journals), and government reports in order to assess CSP

(corporate social performance) along eleven dimensions. Based on this information, KLD constructed the Domini 400 Social Index (DSI 400 and the functional equivalent of the Standard and Poors 500 Index, for socially responsible firms.

On the other hand, the suggestion for future research comes from the notable source, which is a meta analysis such as the study undertaken by Orlitzky et al. (2003), who integrated 30 years of research from 52 previous studies and used meta analytical techniques to support the proposition that corporate social performance and corporate financial performance are positively correlated and statistically significant. Interestingly, the meta analysis found a higher correlation between financial performance and a company's management of its social impact than between financial performance and a company's management of its environmental performance.

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APPENDICES

CSR Disclosure Themes:

COMMUNITY THEMES

1. Support the arts and cultural activities
2. Support for sports activities (including sponsorship)
3. Participation in community activities around the office plant
4. Spiritual support to institutions
5. Support to educational institutions (including scholarships, internship opportunities and research opportunities)
6. Support to other social institutions
7. Social facilities and public facilities
8. Priority jobs for the surrounding communities (including the provision of facilities and motivation for self-employed by the company)

CONSUMER AND PRODUCTS THEMES

1. Product quality
2. Quality awards (including a certificate of quality, halal certificates and awards)
3. Customer satisfaction
4. Computer Problems Year (Masalah Komputer Tahun) 2000 YTK
5. Research, innovation and development of products or services

EMPLOYMENT THEMES

1. The amount of labor
2. Safety (Safety policies and facilities)
3. Health (including doctors and clinic facilities company)
4. Cooperation with employees
5. Salary or wages
6. Health and other benefits (including UMR, crisis assistance, welfare for employees, insurance and transport facilities)
7. Education and training (including collaboration with public universities)
8. Gender equality in employment and career opportunities
9. Worship (including commemoration religious holidays)
10. Employee time off (including time of required by female workers)
11. Retirement (including retirement fund formation or election)
12. Labour Union
13. Collective labor agreement
14. Employee turn over

ENVIRONMENTAL THEMES

1. Environment policy
2. Environmental certification and environmental impact assessment (EIA)
3. Rating (including awards in the field of environment)
4. Energy (including energy saving, the total energy used and so on)
5. Pollution prevention or treatment (including sewage treatment)
6. Support for wildlife conservation
7. Support for environmental conservation