Abstract

The purpose of this research is to examine the effect of stakeholder pressure and corporate governance on the quality of sustainability report. We use environment, employee, consumer, and shareholder as stakeholder while the board of commissioner effectiveness and family ownership are used as corporate governance component. This research uses multiple regression methods with total observations of 123 sustainability reports of listed firms on Indonesia Stock Exchange in 2010-2014. The result shows companies that get pressure from the environment and consumer have a higher quality of sustainability report than other firms. Pressure from employee positively affects the quality of sustainability report. Meanwhile, pressure from shareholders has no effect on quality of sustainability report. Board of commissioner effectiveness positively affects the quality of sustainability report, and family ownership has no effect on quality of sustainability report.

Keywords: Board of Commissioner effectiveness, corporate governance; family ownership; stakeholder pressure; sustainability report quality

1. INTRODUCTION

Recently, corporate social responsibility has become a more interesting issue. The definition of social responsibility lately focused on corporate responsibility to stakeholders (Spence, Coles, & Harris, 2001; Vos, 2003; Sweeney & Coughlan, 2008). Stakeholders is a person, group, or organization that has the same interest or an interest in a particular organization (Lamont, 2004). Without the support of stakeholders, companies cannot run their business, and every industry classification has different primary stakeholders (Fernandez-Feijoo, Romero, &Ruiz, 2014; Branco and Rodriguez, 2008). For example, Sweeney and Coughlan (2008) found that telecommunications companies and beauty companies have the same primary stakeholders (customers) or the oil companies and the automobile have the same primary stakeholders (environment).

Primary stakeholder’s pressure and expectations of social responsibility affect quality of social responsibility report (Ullman, 1985). The demands on the quality of sustainability reporting not only from the outside (stakeholder) but also from the inside (corporate governance). When the pressure inside the company regarding the quality report is high, the company will generate a high-quality report. This high pressure is coming from corporate governance implementation, including from board of commissioners. The existence of the commissioners cannot guarantee the quality of reports prepared if it is not well functioned. Quality reports can be generated by a company with an effective board of commissioners. The governance structure also depends on the structure of corporate ownership. The agency problem in each company has different level, depending on the
company’s level of concentration of ownership (Lazarides, Drimpetas, and Dimitrios, 2009). Companies with more concentrated ownership have fewer agency problems than the dispersed one.

Many studies have examined the effect of pressure on the key stakeholders and corporate governance to social responsibility disclosure. However, the study only showed the impact on social responsibility disclosure quantity, not quality. Cowen, Ferreri, and Parker (1987), Toms (2002), as well as Hasseldine, Salama and Toms (2005) state that depend on the quantity of disclosure alone will give the wrong conclusions. Therefore, it is important to know whether the pressure from key stakeholders, across different industry groups and corporate governance, the quality of governance and ownership structure of the company, improve the quality of information in the sustainability report.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

According to ISO 26000 (2010), corporate social responsibility is the responsibility of an organization for the impacts of its decision and activities on society and the environment, through transparency and ethical behavior that contribute to sustainable development, including health and welfare of society, takes into account the expectation of stakeholders, is in compliance with applicable law and consistent with international norms of behavior, is integrated throughout the organization and practices in its relationship. The quality of corporate sustainability report was vital to win the negotiation process with stakeholders.

According to legitimacy theory, environmentally-sensitive companies tend to have a higher quality of sustainability report to legitimize the operations of the company. This is due to the pressure from environmental groups (like Greenpeace) and society in general. Community and environmental groups demand the company to regenerate the earth that has been damaged by the company's operational activities. To meet these requirements, the company tried to do social responsibility activities and report them transparently. The more environmentally-sensitive the companies, the higher the importance of their sustainability reports are (Choi, 1999; Sulaiman, Abdullah, & Fatima, 2014; Amran & Devi, 2008; Gamerschlag, Moller, & Verbeeten 2011; Brammer & Pavelin, 2006).

Ha1: Companies in environmentally-sensitive industries have higher sustainability report quality than companies that are not environmentally sensitive industries.

Consumers tend to pay attention more to companies that have close relations with end consumers. Companies that produce goods consumed by final consumers tend to receive more attention than companies that produce production goods (McWilliams & Siegel, 2001). This forced the company to pay attention to their actions and operate by the wishes of consumers. Currently, consumers have been more transparently informed about the impact of consumer products on the environment so that they are more concerned about the environment. Research shows that consumers affect the quality of disclosure of corporate social responsibility (Saka and Noda, 2013; Branco and Rodriguez, 2008; Gamerschlag, Moller, and Verbeeten 2011). This statement is also supported by several studies that classify companies into companies in the high-profile industry (more proximity to the community and consumers) and low-profile industry (less proximity to the community and consumers) (Roberts, 1992; Branco and Rodriguez, 2008; Faisal, Tower, and Rusmin, 2012).

Ha2: Companies in the industry group with the consumer as primary stakeholder have a higher level of sustainability report quality than companies that are not in the industry with the consumer as primary stakeholders.

Currently, employees and prospective employees consider whether the company where he works is a company is socially responsible or not. Qualified employees have understood the importance of corporate social responsibility. The most valuable asset for the company is no longer an asset that can be measured and can be seen but assets that can not be measured, namely intellectual capital or human resources. Hence, companies must meet the demands of employees to perform corporate social responsibility and report it. Sun and Yu (2015), Huang and Kung (2010), Betts, Wiengarten, and Tadisina (2015), Turban and Greening (1997), Campbell (2007) found that employees in the company's socially responsible work better than in places that are not socially responsible.

Ha3: Employees’ pressure positively affects quality of sustainability report

A company with a high level of ownership concentration tend to have worse sustainability report than the company with a low level of ownership concentration. This is because companies with a high level of ownership concentration give a lighter pressure on companies to report its social responsibility activities due to a high level of information knowledge. As a result, there is just a few asymmetric information and agency problem. Small agency problem results in small agency fees, so companies are not required to disclose a report with high quality.

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to minimize agency costs, vice versa (Frost, 1999). Therefore, shareholders’ pressure can improve the quality of sustainability report (Choi, 1999; Liu & Anbumozhi, 2009).

Ha4: Shareholders’ pressure positively affects quality of sustainability report

Board of commissioner’s function is to supervise management in order to act in the interests of its stakeholders (Huse & Ridova, 2001 in Handajani, Subroto, Saraswati, & Sutrisno, 2014). An effective board of commissioner helps the company to ensure that management behaves by the wishes of the stakeholders, which is the basis of corporate social responsibility by stakeholder theory. Granting the quality of social responsibility report from companies, institutional theory concluded that the presence of the commissioners as a supervisor could effectively improve the quantity of the disclosure and quality of the reports presented.

Ha5: Board of commissioner’s effectiveness positively affects sustainability report quality

Companies in Indonesia are mostly family-controlled companies (Claessens, Djankov, and Lang 1999). In the family-controlled companies, family members actively participate in the management of the company and act as a director (Yoshikawa & Rasheed, 2009; Ho & Kang, 2013). Thus, in addition to being an owner, family members also act as managers. This shows that family-controlled companies have a few type 1 agency problem but a huge amount of type II agency problem. This situation causes family companies have worse sustainability report than other companies (Ben-Ali, 2014; Ho & Wong, 2001; Chau & Gray, 2002; Barakat, Lopez Perez, & Ariza, 2014; Khiair & Karaa, 2013).

Ha6: Family ownership negatively affects sustainability report quality

3. RESEARCH METHOD

To measure the quality of sustainability report, we use content analysis with GRI G3 and G4, number of pages, opinion on the sustainability report, and independent party assessment on GRI application check, follow Man (2015), but based on GRI G3 and G4 (Dilling, 2010; Fernandez-Feijoo, Romero, & Ruiz, 2014) as well as adding independent party assessment on GRI application check. Measurement of content analysis based on the GRI G3 and G4 depend on what each company uses (G3.1, 2000; G4, 2013a and 2013b). The score for GRI content analysis are 0 for components that are not disclosed, 1 for components expressed qualitatively, and 2 for components expressed quantitatively. Quality measurements are taken of the results of the factor analysis of a percentage of disclosure quantity score with GRI G3 and G4, the natural logarithm of the number of pages on sustainability report, the existence of opinion on the sustainability report, and the existence of an independent party assessment on GRI application check.

Classification of industries with environment as the stakeholder is using measurement from Fernandez-Feijoo, Romero and Ruiz (2014), based on list of industries in the Indonesia Stock Exchange; which is 1 for firms in industries agriculture, mining, chemical, machinery, automobile parts and components, cables, property, housing, construction, energy, highways, airfields, ports, transport, construction of non-building, and electronics industry and 0 for otherwise. Classification of industries with the consumer as the stakeholder follows Saka and Noda (2013), which is natural logarithm of some employees. Classification of industries with shareholder as the stakeholder is based on Thomsen, Pederson, and Kvist (2006), which is level of ownership structure concentration measured by percentage ownership by the parent company.

Board of commissioner’s effectiveness is measured based on Hermawan (2009). Family ownership according to Arifin (2003) is measured by the ownership percentage of all individuals and companies whose ownership is recorded (ownership more than 5% must be registered), which is not a public company, the government, financial institutions and public (individual ownership shall not be registered).

Firm size is used as a control variable because firm size has been widely used by researchers as the variable that positively affects corporate social responsibility disclosure (Guthrie & Parker, 1989; Hackston & Milne, 1996). By Lan, Wang, & Zhang (2013), Purwanto (2011), Gamerschlag, Moller, & Verbeeten (2011) firm size is measured using natural logarithm of total assets. Leverage is a variable that positively affects corporate social responsibility disclosure (Meek, Roberts, & Gray, 1995). Profitability is also a variable that is expected to have a positive influence on corporate social responsibility (Albers & Gunther, 2011).

The population used in this study are all companies listed on Indonesia Stock Exchange (BEI) from 2010 to 2014. The year 2010 is chosen because, in 2010, the ISO member countries (including Indonesia) has agreed on the issuance of ISO 26000 Guidance on Social Responsibility which provides guidelines for the implementation of corporate social responsibility. ISO 26000 is also associated with GRI-measured sustainability report.
4. RESULTS AND DISCUSSIONS

The number of samples that meet the criteria is 123 observations with a total of 37 companies. The majority of the samples is in the financial services industry (26.01%). The industry that has the least sustainability report is the trade, service, and investment industry (retail industry) (3.25%). Descriptive statistics is presented in Table 1. It can be concluded that the quality of sustainability report in Indonesia is still low, shown by the low number of opinions on sustainability report and independent party assessment on GRI application check. The small number of sustainability reports show that companies in Indonesia are still unaware of the importance of corporate sustainability reporting to the public. Nevertheless, the number of sustainability reports is increasing from year to year, from the 19 reports in 2010 to 32 reports in 2013. The number falls in 2014 because many companies that typically make a sustainability report had yet to make a sustainability report in 2014. Typically, reports sustainability is reported in the April to October in the following year.

From Table 2 it can be seen that the environmentally-sensitive companies (ESI) have a higher quality of sustainability report than others. Thus Ha1 is accepted. This is supported by Fernandez-Feijoo, Romero and Ruiz (2014), Sulaiman, Abdullah and Fatima (2014), Amran and Devi (2008), Gamerschlag, Moller, and Verbeeten (2011). This result indicates that our samples are concerned about environment condition and the impact of companies’ operation on the environment. Companies with the consumer as key stakeholders (CPI) have higher sustainability report quality than others. Thus, Ha2 is accepted. The result supports the finding from Fernandez-Feijoo, Romero and Ruiz (2014), Saka and Stains (2013), Branco and Rodriguez (2008), Gamerschlag, Moller, and Verbeeten (2011). This also indicates that consumers consider whether the product they consumed is made of environmentally-friendly materials or not, forced labor usage or not, and other sustainability considerations.

Employees (EOI) negatively affect the quality of sustainability report. Thus, Ha3 is rejected. The result of this study does not support the statement of Fernandez-Feijoo, Romero and Ruiz (2014), Huang and Kung (2010), Betts, Wiengarten, and Tadisina (2015), Turban and Greening (1997), Campbell (2007). Employees in Indonesia maybe tend to see social responsibility and sustainability report as something that is detrimental to the company and reduces the value of the company. This is by Ceil (2012) which is employees tend to presume that social responsibility activities increase company’s expense and thus reduce their salaries. Besides, social responsibility activities also make employees feel left out because the practice of corporate social responsibility is not socialized properly. Although the disclosure of the number and rate of new employee recruitment and employee turnover became the most widely expressed component (92%) in a report using the GRI G4, the disclosure may not be addressed to employees as readers of sustainability reports but to other parties. On the
other hand, maybe companies have no idea that employee does not support social responsibility activities and sustainability report, so they still disclose employee-related items in their sustainability reports.

The result of this study indicates that the shareholders (IOI) do not affect the sustainability reports’ quality. Thus Ha4 is rejected. The result of this study is supported by Mukti (2013) who finds that the shareholders do not react to the announcement of corporate social responsibility report. This indicates that shareholders in Indonesia do not pay attention to corporate social responsibility report in determining which companies they should invest. Shareholders still do not understand the concept of social responsibility and its impact on companies so there is no significant shareholder pressure effect to the quality of corporate sustainability report.

The effectiveness of the board of commissioners (BOCEFF) positively affects the quality of sustainability report. Thus Ha5 is accepted. The result of this study is supported by Das, Dixon, and Michael (2015), and Hossain and Reaz (2007). Family ownership (FAM) does not affect the quality of corporate social responsibility report. Thus Ha6 is rejected. The result of this study is not supported by Ho and Wong (2001), Chau and Gray (2002), Barakat, Lopez Perez, and Ariza (2014), Khiari and Karaa (2013). This is maybe due to in average percentage of family ownership in the sample is low of only 17.85%. Most family-controlled companies do not even make sustainability reports. Control variable Firm size (SIZE) positively affects the sustainability report quality. Leverage (LEV) negatively affects the sustainability report quality. Profitability (PROFIT) positively affects the sustainability report quality.

5. CONCLUSION

The environmentally-sensitive companies have a higher quality of sustainability report than non-environmentally-sensitive companies. Companies with the consumer as the main stakeholders have higher sustainability report quality than those without consumer as key stakeholders. Employees’ pressure negatively affects the quality of sustainability report. Shareholders’ pressure does not affect the sustainability reports’ quality. The effectiveness of the board of commissioners positively affects the quality of sustainability report. Family ownership in companies does not influence the quality of corporate social responsibility report.

REFERENCES


