

The Awareness of the Indonesian Market Toward the Corporate Social Responsibility of a Company

Rintan Nuzul Ainy^{a,1,*} Alia Ariesanti^{b,2}

^a Universitas Ahmad Dahlan, Indonesia

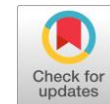
^b Universitas Ahmad Dahlan, Indonesia

¹ rintan.ainy@act.uad.ac.id *; ² alia.ariesanti@act.uad.ac.id

* Corresponding Author

ABSTRACT

The existence of CSR institutions and associations coherent with several laws and regulations concerning CSR applied in Indonesia indicates that Indonesia gives more attention to the importance of CSR. The increasing number of parties who appreciate CSR performance also motivates companies to commit to implementing CSR. However, the next question is related to whether the public (market) responds to the efforts of the government, companies, and all parties involved in the progress of CSR in Indonesia or not. Specifically, the question lingers around whether the Indonesian market is aware of the importance of CSR or not. Departing from the two questions, the study aims to determine the response of the Indonesian market after the CSR-related information has been identified since market responses will show awareness of the importance of CSR. The data that have been used in the study are the secondary ones and include the stock prices that come from 5 days before and 5 days after the announcement of the Indonesia Sustainability Reporting Award (ISRA) 2017 and 2018. The hypothesis test results show no differences in stock prices between 5 days before and 5 days after the announcement of the ISRA award. On the contrary, the hypothesis test results show that the Indonesian market has not responded to CSR information of a company. The reason is that the Indonesian market does not consider CSR information relevant for investment decision making.



KEYWORDS

Market response
CSR
ISRA



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Introduction

A company is a moral agent that holds the freedom in making decisions (Bertens, 1999). Like any other moral agent, a company should be responsible for all decisions made. In addition to being legally responsible for the decisions that have been made, a company should be morally responsible for the decisions that have been made. Recently, the responsibility of a company that has gained attention throughout the globe is Corporate Social Responsibility, also known as CSR.

CSR is not a new topic in Indonesia. The Indonesian government has not issued any laws or regulations that specifically arrange CSR, but CSR has been mandatory for any registered and operating companies in Indonesia. The statement is confirmed by approving several laws and regulations that implicitly arrange CSR. These laws and regulations become the basis for CSR implementation in Indonesia. Then, the bases for the implementation of CSR are as follows: (1) Act Number 25 the Year 2007 Regarding Capital Investment, 2007; (2) Act Number 40 Year 2007 Regarding Limited Liability Company, 2007 and Indonesian Government Regulation Number 47 Year 2012, 2012; (3) Minister of Finance Decree Number 232/KMK.013/1989 dated November 11th, 1989 Regarding Guidelines on Micro-Economy Business and Cooperative Mentorship through State-Owned Enterprise, 1989; (4) Indonesian Government Regulation Number 32 of 1998 Regarding Small-Scale Business Mentorship and Development, 1998; (5) Act Number 19 of 2003 Regarding State-Owned Enterprise, 2003; (6) Act Number 20 of 2008 Regarding Micro, Small, and Medium Enterprise, 2008; (7) Act Number 13 of 2011 Regarding the Handling of Poor Economic Background, 2011; and (8) Minister of Social Affairs Republic of Indonesia Decree Number 13 of 2012 Regarding the Forum of Business Responsibility in Maintaining the Social Welfare, 2012.

In addition to the absence of the laws and regulations that specifically arrange the CSR of the companies in Indonesia, the Indonesian government has not implemented any standards that regulate

the uniform reporting mechanism of CSR. About the statement, several global standards become the basis for reporting the CSR of a company, namely: (1) the International Organization for Standardization 26000; and (2) the Global Reporting Initiative (GRI) Standards. The need for uniform standards of CSR reporting has been realized for such a long time. The Chairman of Mirror Committee on Social Responsibility Indonesia, the Indonesian Chamber of Commerce, stated that the Indonesian government should seriously deal with CSR standardization if the country desires to exist within the business world (Daniri & Hakim, 2009). The standardization of CSR reporting itself has still been a topic of discussion among Indonesian experts on CSR.

The awareness of the importance of CSR in Indonesia is apparent, as shown by the presence of several institutions or associations related to CSR in numerous aspects. One of the associations that actively review CSR issues in Indonesia is the Indonesian Association of CSR Profession (APCSRI, Asosiasi Profesi CSR Indonesia). APCSRI consists of experts, practitioners, companies, and non-government organizations. One of the objectives behind its establishment is to improve the quality, policy, and CSR program (Visi, Misi, Tujuan, dan Program Kerja APCSRI, 2009). In addition to APCSRI, another association named the Institution of CSR Development (LPCI, Lembaga Pengembangan CSR Indonesia) was established on November 15th, 2007. Its establishment has been approved through the Minister of Law and Human Rights Republic of Indonesia Decree Number AHU-00169170.AH.104 Year 2017. LPCI aims to grow and develop the awareness of the national private companies and multinational companies to implement the Corporate Social Responsibility (CSR) regulations throughout Indonesia in accordance with the existing governmental regulations and coordinate and channel the CSR fund in a transparent and accountable manner (Muhammad, 2018).

Several external parties appreciate the companies that have dedicated themselves to CSR implementation. At the end of 2016, Sindo Media appreciated 22 companies that have kept pursuing innovation in the performance of their CSR activities (Yofanda, 2016). Then, in the middle of 2018, Media CSR Indonesia gave the highest award through an event named CSR Indonesia Awards 2018 (Red, 2018). Not only that, a magazine named Economic Review has awarded the Indonesia Corporate Social Responsibility Award (ICSRA) to the best company in the domain of CSR (Corry, 2018). On top of it, the Ministry of Environment and Forestry, the Republic of Indonesia, has a program that ranks the CSR performance of all companies in Indonesia concerning environmental management. This program is known as PROPER, which stands for Program Penilaian Peringkat Kinerja Perusahaan (Company Performance Ranking Assessment Program). The Ministry holds the PROPER on an annual basis by classifying the companies into five types (colors) based on their performance rank (Mekanisme Proper, 2009)

The presence of CSR institutions and associations and the numerous laws and regulations that arrange CSR show that Indonesia has paid greater attention to the importance of CSR. The more the parties appreciate the CSR performance of the companies, the more the companies become motivated to keep their commitment to implementing CSR. However, another question lingers in mind, namely whether the public (market) responds to the government's efforts, the companies, and all related parties or not in terms of CSR progress in Indonesia. Specifically, the question can be whether the Indonesian market is aware of the importance of CSR or not. Nugraha and Juniarti (2015) have tested the influence of CSR on the investor response in the mining sector, and the results show that CSR has a positive impact on investor response. The test results have also demonstrated similar results by Budiman and Juniarti (2015). CSR information in the annual report of a company is considered to contain significant cues. Therefore, the CSR information can be used as a matter of consideration for the decision-making activities of the investor.

In comparison to the previous studies, this research gives contribution on reviewing the direct market response toward CSR performance within the context of Indonesian companies. Thus, the researchers benefit from the information of appreciation by the external parties to the companies with the best performance within CSR. The bottom line is that the researchers would like to test the influence of market awareness on the information of CSR performance within the given companies through the study.

Literature Review

Corporate Social Responsibility

Corporate Social Responsibility (CSR) refers to the commitment of a company to minimize and compensate for the negative impact and also maximize the positive effects of its operations in the domain of social affairs, economy, and environment for the welfare of all stakeholders to achieve the continuous development (APCSRI, 2009). The meaning of the constant development in this regard is related to the decision making in which the company considers the economic perspective and the social and the environmental perspective. The statement is relevant to the two theories of social economy, namely the stakeholder theory and the legitimacy theory. Based on the stakeholder theory, a company is not viewed as an entity that operates for its interest but, instead, a company should deliver benefits to the influencing and influenced parties (stakeholders). The reason is that both the influencing and the affected parties do not only refer to the shareholders of the companies but also refer to the government, the suppliers, the trading organizations, the employees, the communities, the customers, the politicians, and alike (Donaldson & Preston, 1995).

Similarly, the legitimacy theory states a social contract between the company and the neighborhood/community in which the company has been operating and using the resources. Therefore, the company should meet the social contract to gain legitimacy (support) from the community. O'Donovan (2002) explains that in order to continue operational activities, a company should act in accordance with the acceptable social norms within the surrounding community so that the company can gain support from the surrounding community. Departing from the two theories, it can be concluded that the presence of CSR is highly significant for the companies, the communities, and the parties who have been involved with the companies. Li et al. (2013) state that there are benefits that a company can harness from the implementation of CSR, and these benefits are: (1) having improved relationships with the workers and the employees' productiveness; (2) decreasing the risk of litigation; (3) decreasing public complaints in relation to the environmental issues; (4) gaining low regulation cost; and (5) gaining better brand recognition.

Corporate Social Responsibility in Indonesia

As discussed previously, Indonesia has not issued any specific laws or regulations concerning Corporate Social Responsibility (CSR). Still, the topic of CSR has been regulated in several laws and regulations. The laws and regulations that have arranged the implementation of CSR are as follows: (1) Act Number 25 Year 2007 Regarding Capital Investment, 2007; (2) Act Number 40 Year 2007 Regarding Limited Liability Company, 2007 and Indonesian Government Regulation Number 47 Year 2012, 2012; (3) Minister of Finance Decree Number 232/KMK.013/1989 dated November 11th, 1989 Regarding Guidelines on Micro-Economy Business and Cooperative Mentorship through State-Owned Enterprise, 1989; (4) Government Regulation Number 32 of 1998 Regarding Small-Scale Business Mentorship and Development, 1998; (5) Act Number 19 of 2003 Regarding State-Owned Enterprise, 2003; (6) Act Number 20 of 2008 Regarding Micro, Small, and Medium Enterprise, 2008; (7) Act Number 13 of 2011 Regarding the Handling of Poor Economic Background, 2011; and (8) Minister of Social Affairs Republic of Indonesia Decree Number 13 of 2012 Regarding the Forum of Business Responsibility in Maintaining the Social Welfare, 2012.

The Awareness of the Indonesian Market toward CSR

Nowadays, many companies do not only pay attention to the financial aspects but also to the non-financial aspects of running the operational activities. A similar situation has also taken place in the market since the investors do not only pay attention to the bottom line (profit) aspects but also the triple bottom line information in assessing a company's performance. The concept of the triple bottom line, which is widely known nowadays, asserts that a company's performance is not only profit-oriented but also people and planet-oriented.

The above statement is relevant to the stakeholder theory, which emphasizes that the needs of the shareholders and the needs of all influencing and influenced parties within a company should be met. In addition, the legitimacy theory also emphasizes that to continue the operationalization, a company should gain legitimacy from the community. Therefore, the company should not only pay attention to the profit but also to the people and the planet, which have been part of the interests of the employees, the government, the community, and the other stakeholders. Nugraha and Juniarti (2015) and Budiman

and Juniarti (2015) show that the market pays attention to the CSR performance of a company. Thus, in conducting the study, the hypothesis that will be proposed is as follows:

H: There is a market response toward the CSR of a company.

Research Method

The study aims at testing the market reaction toward the announcement of CSR performance within a company. Therefore, the data are secondary and include the stock price before and after the announcement of the CSR Indonesia Award 2017 and CSR Indonesia Award 2018. Furthermore, the data that have been used in the study are quantitative ones, and these data are gathered from the Indonesia Capital Market Directory (ICMD) and the website csr-indonesia.com.

Population and Sample

The population in the study is all Indonesian companies that have earned the Indonesia Sustainability Reporting Award (ISRA). Then, the samples in the study are all Indonesian companies that have made the Indonesia Sustainability Reporting Award (ISRA) 2017 and Indonesia Sustainability Reporting Award (ISRA) 2018. The samples are gathered through the purposive sampling technique, and the criteria of sample selection are as follows:

1. The samples are enlisted as the issuers in the Indonesian Stock Exchange and issued the financial report in 2017 and 2018.
2. The samples submit the annual report that ends in December 2017 and December 2018.
3. The samples have the ISRA 2017 and ISRA 2018.

Data Analysis Method

In conducting the study, the event study method has been implemented to test the market reaction toward certain news or events. Then, the market reaction is measured by using abnormal returns during the event window. The event windows used in the study are five days before and five days after the announcement of the Indonesia Sustainability Reporting Award (ISRA). Short-term event studies assume that any lag in the response of prices to an event is the short-live and short window is more reliable in getting abnormal returns (Fama, 1998). It's also because anyone can easily access the information about ISRA. The differences in the stock price during the event windows are analyzed using the independent sample t-test.

Results and Discussion

Descriptive Statistics

The samples that have been used in the study consist of eight companies that have gained the Indonesia Sustainability Reporting Award (ISRA) 2017 and Indonesia Sustainability Reporting Award (ISRA) 2018. Then, the stock price mean of the sampled companies is IDR 7,533 per share, with the highest stock price IDR 29,700 and the lowest stock price IDR 269. This finding shows that the company's market capitalization range for the sampled companies has been tremendous. At the same time, this finding confirms that the ISRA has not only been awarded to the big companies.

Table 1. Descriptive Statistics

No	Company	Mean	Min	Max	Std. Deviation
1	PT Vale Indonesia Tbk	2,980	2,800	3,170	187.083
2	PT Perusahaan Gas Negara Tbk	2,120	1,740	2,860	516.978
3	PT Wijaya Karya (Persero) Tbk	1,808	1,560	2,400	399.114
4	PT ANTAM Tbk	751	655	800	65.368
5	PT Indocement Tunggul Prakarsa Tbk	19,369	16,000	23,225	3090.265
6	PT Bank Maybank Indonesia Tbk	269	206	338	54,144
7	PT United Tractors Tbk	29,700	21,975	35,425	6,315.490
8	PT Bank Rakyat Indonesia (Persero), Tbk.	3,268	2,420	3,600	568.587

Hypothesis Testing

The hypothesis in the study, namely "There is a market response toward the CSR of a company," is tested using the independent sample t-test with the event windows five days before and five days after the announcement of the Indonesia Sustainability Reporting Award (ISRA). The results of the hypothesis testing are available in Table 2 below.

Table 2. Results of Hypothesis Testing

		t	df	sig. (2-tailed)	Std. Error Diff
Stock Price	Equal variance assumed	-0.459	30	0.65	4,315,757
	Equal variance not assumed	-0.459	29,740	0.65	4,315,757

The results of the hypothesis testing show that the sig. value is 0.65 ($\alpha > 0.05$). Such value implies no significant difference in the stock price before and after the announcement of the CSR information. Therefore, the independent sample t-test shows that the Indonesian market does not respond to the CSR information of a company (the hypothesis has been rejected).

Indonesia is indeed a country that has not fully regulated the disclosure of CSR information within a company's annual report. Such a situation can lead both the companies and the investors to not consider CSR as relevant information in making an investment decision. In addition, the vast range of market capitalization within the sampled companies has caused the hypothesis within the study to be rejected.

Conclusion

The results of the hypothesis testing show that the market does not respond to the CSR information of a company. In addition, the study results show that the Indonesian market has not considered CSR as relevant information in making the investment decision. The absence of governmental regulations that specifically arrange the disclosure of CSR information can lead the market not to consider CSR as necessary information.

Nowadays, CSR in Indonesia has developed rapidly. Numerous awards from both the government and the private institutions have been given to the companies and non-profit organizations that have been considered to perform CSR well. Therefore, future researchers can expand the number of samples in the study, and the expansion may include both profit organizations and non-profit organizations in Indonesia.

This study used only Indonesian companies. Literature shows that there are several prestigious global awards. Future researchers can use this information to compare and improve CSR in Indonesia.

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