IRJEMS International Research Journal of Economics and Management Studies
Published by Eternal Scientific Publications
ISSN: 2583 – 5238 / Volume 3 Issue 5 May 2024 / Pg. No: 247-252
Paper Id: IRJEMS-V3I5P130, Doi: 10.56472/25835238/IRJEMS-V3I5P130

Original Article

The Relationship Between Ownership Concentration, Firm Size and Corporate Social Responsibility Disclosure in Indonesian Manufacturing Companies

[1]**Nicolas Bayu Kristiawan**
[1]*Accounting Education Study Program, Sanata Dharma University, Indonesia.*

Received Date: 23 April 2024 Revised Date: 10 May 2024 Accepted Date: 13 May 2024 Published Date: 27 May 2024

Abstract: *This study aims to examine the influence of ownership concentration and firm size towards corporate social responsibility disclosure (CSRD). This study uses agency theory and legitimacy theory as a theoretical basis to formulate hypotheses. The sample of this study consisted of 100 Indonesian manufacturing companies in 2013. The data on ownership concentration, firm size, and control variables were gathered from the annual report. The data of CSRD were gathered using the checklist method on the annual reports based on GRI G4. The result of the study shows that ownership concentration has a negative influence towards CSRD and firm size has a positive influence towards CSRD.*

Keywords: *Ownership concentration, firm size, and CSRD.*

I. INTRODUCTION

Corporate Social Responsibility Disclosure (CSRD) has become an important part of business activity in recent years. This is due to the increasing demand for accountability, not only from the financial aspect but also non-financial aspect, from investors, consumers, suppliers, creditors, and other stakeholders. In addition, increasing environmental and social problems, such as climate change caused by global warming, environmental pollution, deforestation, poverty and unemployment, attract public attention to the importance of CSRD and increase the urgency of CSRD [1]. In such situations, companies are not only required to run a business and generate profits. However, they are also required to contribute to society and the environment so that they have a role in solving social and environmental problems [1]–[3]. Furthermore, contributions to society and the environment are implemented by companies in the form of corporate social responsibility. Social responsibility is an embodiment of the company's triple bottom line, namely profit, people, and planet, which explains that the company's business activities are not only aimed at generating profits but also contributing to society (people) and the environment (planet).

However, although CSRD become an important part of business activities and the urgency of CSRD become important, the level of CSRD is still low, especially in developing countries [4]. In relation to the CSRD in developing countries, there are several reasons why developing countries are important. First, in developing countries, CSR reporting is less provided, less formalized, and more philanthropic in nature rather than in developed countries [5], [6]. Therefore, the need for CSRD is more prominent in underdeveloped nations than in developed ones [5]. Second, there is growing concern about social and environmental problems in developing countries since there are increasing problems in relation to society and the environment. According to Wang [7], there was an increase in foreign direct investment in developing countries by 16,4 percent from 2011-2016, which had an impact on economic development. In addition, the development of domestic economies in developing countries has negative consequences on the environment, such as environmental pollution [7]. One of the developing countries that has a vital role in social and environmental problems is Indonesia. Indonesia has a vital role in environmental problems, since massive deforestation and conversion of forest to oil palm land, the use of coal energy in large quantities for electricity and factories, and massive pollution from industrial factories and transportation due to economic development. However, the concern about CSR in Indonesia is still low. It can be seen from the level of CSRD that is categorized as low [8]. Therefore, it becomes important to examine what factors that influence CSRD in Indonesia.

One of the factors that influence CSRD is ownership structure. Indonesia is characterized by a concentrated ownership structure [8]–[10]. According to the alignment effect hypothesis, the interests between majority shareholders, management, and minority shareholders become aligned in a company with concentrated ownership. In this situation, information asymmetry is expected to decrease. Therefore, the level of disclosure has become lower than dispersed ownership.

On the other hand, information asymmetry between agent and principal tends to occur in companies with dispersed ownership and not in companies with concentrated ownership. Therefore, the level of disclosure is become higher than concentrated ownership. In addition, prior research concludes that ownership concentration has a negative relation with CSRD [8], [11], [12].

Another factor that may influence CSRD is firm size. Firm size become important since a large company has a significant impact on society [13]. Therefore, large companies have more responsibility to society. Furthermore, legitimacy theory explains that large companies tend to get more exposure since they have greater responsibilities towards society. Therefore, large companies tend to disclose more information to fulfill their responsibility. Prior research concludes that firm size has a positive relation with CSRD [14], [15].

II. LITERATURE REVIEW

A) Agency Theory

Agency theory explains that there is a separation of roles between principals, namely company owners, and agents, namely company management in a corporation. This separation resulted in a contractual relationship between the owner and management of the company [16]. The separation of roles between management and company owners can cause agency problems that create information asymmetry [16]. Information asymmetry occurs because agents have more access and information than principals. Therefore, principals need to monitor the agent to ensure that the interest of shareholders (as principal) and management (as agent) are aligned and prevent opportunistic behavior from an agent. In relation to the ownership structure, management's opportunistic behavior and conflicts of interest between agents and principals tend to occur in companies with distributed ownership [17] and not in companies with concentrated ownership. This happens because, in companies with a concentrated ownership structure, the interests of shareholders and management tend to be the same (alignment effect). Companies with several owners (distributed ownership structure) tend to disclose more information compared to companies with a concentrated ownership structure. This happens because voluntary disclosure can act as a monitoring tool to reduce agency conflicts [17] and information asymmetry [18] between management and shareholders.

On the other hand, the interests between majority shareholders, management, and minority shareholders become aligned in the company with concentrated ownership. In this situation, information asymmetry is expected to decrease. Therefore, the level of disclosure has become lower than dispersed ownership. Prior research concludes that ownership concentration has a negative relation with CSRD [8], [11], [12]. Ananzeh [12] conducted research on 94 companies in Jordan from 2010-2016 and found that ownership concentration has a negative influence towards CSRD.

Furthermore, Ananzeh [11] also conducted research on 94 non-financial Jordanian companies and found similar results. Kristiawan [8] conducted research on 93 Indonesian companies from 2013-2015 and found that ownership concentration has a negative influence towards CSRD. Based on these arguments and prior research, hypothesis 1 is stated as follows.

H1: Ownership concentration has a negative influence towards corporate social responsibility disclosure

B) Legitimacy Theory

Legitimacy theory explains that corporate social responsibility is implemented by companies with the aim of meeting society's expectations so that the company's business activities can continue because they gain legitimacy from society and are in line with the values that exist in society [1], [19]. In relation to firm size, a large company has a significant impact on society [13]. Therefore, large companies have more responsibility to society. Furthermore, legitimacy theory explains that large companies tend to get more exposure since they have greater responsibilities in society. Therefore, large companies tend to disclose more information compared to smaller firms in order to fulfill their responsibility to get support for the sustainability of their business. Prior research concludes that firm size has a positive relation with CSRD [14], [15]. Jacqualine [14] conducted research on 10 Indonesian mining companies from 2014-2017 and found that firm size has a positive relation with CSRD. Nawaiseh [15] conducted research on 59 Jordanian companies in 2013. The results of the study show that there is a positive relationship between firm size and CSRD. Based on these arguments and prior research, hypothesis 2 is stated as follows.

H2: Firm size has a positive influence towards corporate social responsibility disclosure

III. RESEARCH METHOD

A) Research Design

This study used a quantitative research design. Data from a manufacturing company registered on the Indonesia Stock Exchange (IDX) was used in this investigation. There were 164 businesses registered on the IDX overall in 2013. After excluding the 100 companies that did not have complete financial data, purposive sampling was used as the sampling approach. The year 2013 was chosen because the Global Reporting Initiative (GRI) G4 indicators were published and implemented in

2013. This study used 1 dependent variable, namely corporate social responsibility disclosure, 2 variables independent, namely ownership concentration and firm size, and 3 variable controls, namely firm performance, leverage, and audit quality.

B) Method of Collecting Data

This research uses archival data that was collected from annual reports. Variable CSRD was measured based on GRI G4 indicators using content analysis. The GRI G4 index is a reliable, complete and widely used measurement of corporate social responsibility disclosure in research examining corporate social responsibility [20], [21]. The GRI G4 index consists of 91 corporate social responsibility reporting items, which are divided into three categories, namely the economic category, the environmental category items and the social category. Each corporate social responsibility disclosure item is given a value of 1 if it is reported and 0 if it is not reported in the company's annual report. The scores for each item will be added up to obtain an overall company score. The following is the formula for calculating corporate social responsibility disclosure (CSRD).

$$CSRDI_j = \frac{\Sigma X_j}{n_j}$$

Where :

$CSRDI_j$ = Corporate Social Responsibility Disclosure Index based on GRI G4 for company j

ΣX_j = number of items disclosed by company j

1: if item i is disclosed; 0: if the item i is not disclosed

n_j = the number of items in the GRI guidelines is 91 items

Ownership concentration was measured by referring to the definition of concentrated ownership explained by La Porta [22]. La Porta [22] explained that a concentrated ownership structure occurs when direct or indirect ownership exceeds 20%. Dam & Scholtens [23] measure concentrated ownership structure using thresholds of 5%, 10%, and 20%. Dam & Scholtens [23] define a company as having block holders if one of the company's shareholders has share ownership in excess of this threshold value. Determining whether the shareholder has ownership that exceeds the threshold is carried out using a dummy variable. This research uses percentage ownership and does not use dummy variables to measure concentrated ownership with the aim of seeing how much influence greater ownership has on corporate social responsibility and earnings quality. The data used to measure concentrated ownership structure was taken from the BVD Osiris database and the annual reports.

C) Data Analysis Techniques

Multiple linear regression analysis is the method used in this study for data analysis. Classical assumption evaluation, such as multicollinearity, heteroscedasticity, and normalcy of data distribution tests, is done prior to data analysis. The IBM SPSS 25 Statistics for Windows tool was used to do multiple regression analysis and classical assumption testing. This is the study's model displayed.

$$CSRD = \alpha + \beta 1 OWC + \beta 2 Ln\_Size + \beta 3 ROA + + \beta 4 LEV + \beta 4 AUD + \mathcal{E}$$

Where:
CSRD = Corporate Social Responsibility Disclosure
OWC = Ownership Concentration
Ln_Size = Natural Logarithm of Size
ROA = Firm Performance Measured with Return on Assets
LEV = Leverage
AUD = Audit Quality

III. RESULTS AND DISCUSSION

A) Description of Research Data

The data description of Corporate Social Responsibility Disclosure (CSRD), Ownership Concentration (OWC), Firm Performance (ROA), Firm Size (Ln_Size), Leverage (LEV), and Audit Quality (AUD) is presented in Table 1.

Table 1. Description of Research Variable

Variable	N	Minimum	Maximum	Mean	Standard Deviation
CSRD	100	0,01099	0,13187	0,0543967	0,02935981
OWC	100	0,26160	1,00000	0,7251942	0,19325673
Log_Size	100	3,97	6,42	5,2222	0,61742
LEV	100	-0,31000	0,41000	0,0621000	0,11224338
ROA	100	-0,05000	4,93000	0,6078000	0,84018947
AUD	100	0,00	1,00	0,4300	0,49757

B) Classical Assumption Test

Prior to evaluating hypotheses 1 and 2, this study performed tests of classical assumptions, specifically the heteroscedasticity, multicollinearity, and normality tests. The one-sample Kolmogorov-Smirnov test was performed in this work to check for normalcy in the data distribution. Table 2 displays the normalcy test result. The value of Asymptotic Sig indicates the research data's normal data distribution. (2-tailed), which is 0.200. Table 3 displays the multicollinearity test result. Given that the VIF value is less than 10 and the tolerance value of each variable is greater than 0.10, it can be stated that the study model does not exhibit multiple correlations. Table 4 displays the heteroscedasticity test result. As indicated by the value of Asymp, the variables in the framework of regression are not relevant. Sig. (two-tailed) is more than 0.05. Thus, the conclusion reached was that heteroscedasticity does not exist.

Table 2. One-Sample Kolmogorov Test

		Unstandardized Residual
N		100
Normal Parameters[a,b]	Mean	0, 0000000
	Std. Deviation	0,02435512
Most Extreme Differences	Absolute	0,057
	Positive	0,057
	Negative	-0,051
Test Statistic		0,057
Asymp. Sig. (2-tailed)		0,200[c,d]

Table 3: Multicollinearity test

Model		Unstandardized Coefficients		t	Sig.	Collinearity Statistics	
		B	Std. Error			Tolerance	VIF
	(Constant)	0,001	0,025	0,031	0,975		
	OWC	-0,041	0,013	-3,142	0,002	0,991	1,009
	Ln_Size	0,015	0,005	3,309	0,001	0,810	1,234
	LEV	0,056	0,024	2,372	0,020	0,897	1,114
	ROA	-0,002	0,003	-0,648	0,519	0,917	1,090
	AUD	0,007	0,006	1,199	0,233	0,756	1,322

Table 4: Heteroscedasticity Test

Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
	(Constant)	-0,010	0,014	-0,697	0,488
	OWC	0,000	0,007	-0,057	0,955
	Ln_Size	0,006	0,003	2,187	0,313
	LEV	0,013	0,013	0,990	0,325
	ROA	0,000	0,002	-0,268	0,789
	AUD	0,000	0,003	-0,074	0,941

C) Hypothesis Testing

Tables 5 and 6 display the results of the hypothesis evaluation. Table 5 indicates that the regression model can be used to predict CSRD because the value of significance (sig.) is less than 0.05. The results of Table 6's multiple linear regression indicate that the variables of concentrated ownership and company size have significant (sig. value less than 0.05) values. Thus, it can be said that this study's hypotheses are all validated. Ownership concentration has a negative influence towards CSRD, whereas firm size has a positive influence towards CSRD.

Table 5. Anova

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	0,027	5	0,005	8,520	0,000
	Residual	0,059	94	0,001		
	Total	0,085	99			

Table 6. Multiple Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0,001	0,025		0,031	0,975
OWC	-0,041	0,013	-0,270	-3,142	0,002***
Ln_Size	0,015	0,005	0,315	3,309	0,001***
LEV	0,056	0,024	0,214	2,372	0,020**
ROA	-0,002	0,003	-0,058	-0,648	0,519
AUD	0,007	0,006	0,118	1,199	0,233
N	100				
R^2	0,312				
Adj R^2	0,275				

D) Discussion

Based on multiple regression results, it can be concluded that all hypotheses are accepted. Ownership concentration has a negative influence towards CSRD. The study's findings are in line with earlier investigations [8], [11], [12]. According to agency theory, a concentrated ownership structure allows the interests between majority shareholders, management, and minority shareholders to be aligned. In this situation, information asymmetry is expected to decrease. Therefore, the level of disclosure has become lower than dispersed ownership.

Furthermore, firm size has a positive relation with CSRD. The result is also consistent with previous research [14], [15]. According to legitimacy theory, corporate social responsibility is implemented by companies with the aim of meeting society's expectations so that the company's business activities can continue because they gain legitimacy from society and are in line with the values that exist in society [1], [19]. In relation to firm size, a large company has a significant impact on society [13]. Therefore, large companies have more responsibility to society. Furthermore, legitimacy theory explains that large companies tend to get more exposure since they have greater responsibilities in society. Therefore, large companies tend to disclose more information compared to smaller firms in order to fulfill their responsibility to get support for the sustainability of their business.

IV. CONCLUSION

A) Conclusion

This study aims to investigate the determinants of CSRD. The issues of CSRD become important in recent years due to the increasing demand from investors, consumers, suppliers, creditors, and other stakeholders for the implementation of CSRD in business activity. The results of this study are consistent with previous research. First, concentration of ownership and CSRD were found to be negatively correlated in this study. This implies that the CSRD will decrease as the degree of concentrated ownership increases. Second, this study found that firm size has a positive influence towards CSRD, which means the larger the company size, the higher the level of CSRD.

B) Future research

There are several limitations to this research. First, the measurement of ownership concentration does not consider types of ownership such as family ownership, institutional ownership or other types of ownership that may influence the result. Therefore, future research may include the different types of ownership as variables that influence CSRD. Second, the data that is used in this study is limited to 2013 only; future research can use data from a wider range of years to capture better results. Third, the sample that is used is limited to manufacturing companies; therefore, future research may use other company sectors.

V. REFERENCES

[1] R. Kumala and S. V. Siregar, "Corporate social responsibility, family ownership and earnings management: the case of Indonesia," *Soc. Responsib. J.*, vol. 17, no. 1, pp. 69–86, 2021, doi: 10.1108/SRJ-09-2016-0156.

[2] M. Bergamaschi and K. Randerson, "The futures of family businesses and the development of corporate social responsibility," *Futures*, vol. 75, pp. 54–65, 2016, doi: 10.1016/j.futures.2015.10.006.

[3] F. Faisal, A. R. Prasetya, A. Chariri, and H. Haryanto, "The relationship between corporate social responsibility disclosure and earnings management: Is it a complement mechanism or a substitute mechanism?," *Int. J. Bus. Gov. Ethics*, vol. 13, no. 1, pp. 1–14, 2018, doi: 10.1504/IJBGE.2018.095411.

[4] R. Nurhayati, G. Taylor, R. Rusmin, G. Tower, and B. Chatterjee, "Factors determining social and environmental reporting by Indian textile and apparel firms: A test of legitimacy theory," *Soc. Responsib. J.*, vol. 12, no. 1, pp. 167–189, 2016, doi: 10.1108/SRJ-06-2013-0074.

[5] P. Dobers and M. Halme, "CSR and developing countries," *Corp. Soc. Responsib. Environ. Manag. Manag.*, vol. 16, no. 5, pp. 237–249, 2009.

[6] D. Jamali and C. Karam, "Corporate Social Responsibility in Developing Countries as an Emerging Field of Study," vol. 00, pp. 1–30, 2016.

[7] S. Wang, Y. He, and M. Song, "Global value chains, technological progress, and environmental pollution: Inequality towards developing countries," *J. Environ. Manage.*, vol. 277, no. June 2020, p. 110999, 2021, doi: 10.1016/j.jenvman.2020.110999.

[8] N. B. Kristiawan, "Ceo Characteristics, Ownership Concentration and Corporate Social Responsibility Disclosure," *J. Bisnis dan Akunt.*, vol. 22, no. 2,

pp. 147–166, 2020, doi: 10.34208/jba.v22i2.701.
[9] S. Claessens, P. H. J. P. H. Fan, S. Djankov, and H. P. L. Lang, "Expropriation of minority shareholders: evidence from East Asia," 1999. doi: 10.2139/ssrn.202390.
[10] S. Claessens, S. Djankov, J. P. H. Fan, and L. H. P. Lang, "Disentangling the Incentive and Entrenchment Effects of Large Shareholdings," *J. Finance*, vol. LVII, no. 6, pp. 2741–2771, 2002.
[11] H. Ananzeh, M. O. Al Shbail, H. Al Amosh, S. F. A. Khatib, and S. H. Abualoush, "Political connection, ownership concentration, and corporate social responsibility disclosure quality (CSRD): empirical evidence from Jordan," *Int. J. Discl. Gov.*, vol. 20, no. 1, pp. 83–98, 2023, doi: 10.1057/s41310-022-00167-z.
[12] H. Ananzeh, "Corporate governance and the quality of CSR disclosure: lessons from an emerging economy," *Soc. Bus. Rev.*, vol. 17, no. 2, pp. 280–306, 2022, doi: 10.1108/SBR-09-2021-0153.
[13] M. J. Milne and D. Hackston, "Some determinants of social and environmental disclosures in New Zealand companies," *Accounting, Audit. Account. J.*, vol. 9, no. 1, pp. 77–108, 1996.
[14] J. V. Wardhani, L. P. Widianingsih, and F. Karundeng, "The Effect Of Company Size, Profitability, Leverage, And Management Ownership Towards The Level Of Corporate Social Responsibility (CSR) Disclosure," *J. Accounting, Entrep. Financ. Technol.*, vol. 1, no. 1, pp. 39–60, 2019, doi: 10.37715/jaef.v1i1.1338.
[15] M. E. Nawaiseh, "Do firm size and financial performance affect corporate social responsibility disclosure: Employees' and environmental dimensions?," *Am. J. Appl. Sci.*, vol. 12, no. 12, pp. 967–981, 2015, doi: 10.3844/ajassp.2015.967.981.
[16] M. Jensen and W. Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure," *J. financ. econ.*, vol. 3, pp. 305–360, 1976.
[17] C. Reverte, "Determinants of Corporate Social Responsibility Disclosure Ratings by Spanish Listed Firms," *J. Bus. Ethics*, vol. 88, pp. 351–366, 2009.
[18] A. Prencipe, "Proprietary costs and determinants of voluntary segment disclosure: evidence from Italian listed companies," *European Accounting Review*, vol. 13. pp. 319–340, 2004.
[19] N. Brown and C. Deegan, "The public disclosure of environmental performance information - A dual test of media agenda setting theory and legitimacy theory," *Account. Bus. Res.*, vol. 29, no. 1, pp. 21–41, 1998, doi: 10.1080/00014788.1998.9729564.
[20] B. Fernandez-Feijoo, S. Romero, and S. Ruiz, "Commitment to Corporate social responsibility measured through global reporting initiative reporting: Factors affecting the behavior of companies," *J. Clean. Prod.*, vol. 81, pp. 244–254, 2014.
[21] KPMG, "KPMG International Responsibility Reporting 2011," 2011. [Online]. Available: https://www.kpmg.com/PT/pt/IssuesAndInsights/Documents/corporate-responsibility2011.pdf%5Cnwww.kpmg.com
[22] R. La Porta, F. Lopez-de-Slianze, and A. Shleifer, "Corporate ownership around the world," *J. Finance*, vol. 54, no. 2, pp. 471–517, 1999.
[23] L. Dam and B. Scholtens, "Ownership Concentration and CSR Policy of European Multinational Enterprises," *J. Bus. Ethics*, vol. 118, pp. 117–126, 2013.