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The Information Asymmetry and Corporate Social Responsibility Disclosure Juniarti1 1Petra Christian University, yunie@petra.ac.id, Siwalankerto 121-131, 60236, Surabaya, Indonesia ABSTRACT CSR become one of the highlighted activities, aligned with the requirement to adopt the interest of stakeholders. This study aims to search whether the earnestness of companies to manage CSR as disclosed in their sustainability reporting reduce information asymmetry. The sample consists of the companies that have published sustainability reporting for the period 2008-2014 and

listed in Indonesia Stock Exchange. The finding **of this research** 38

are as follow: (1) unlike the previous research that found a reducing of information asymmetry after the issuing of sustainability reporting,

this study finds the opposite, **that the** higher the **disclosure of CSR** activities, **the** 6

wider the spread, (2) further, this study finds that the companies which have a negative earning

tend to disclose more CSR information (3) **The** 64

presence of institutional investors representing well-informed investors help the company to ensure the reliability of CSR activity information delivered through Sustainability Reporting. Type of Paper: Empirical Keywords: bid-ask spread, information asymmetry, sustainability reporting 1. Introduction Companies with a high CSR rating provide broader disclosure

as a form of their **responsibility** to stakeholders **(Gelb and Strawser, 2001).** 33

Cho et al. (2013) stated that CSR activities motivate companies to provide public disclosure. CSR disclosure is used as a tool by companies in communicating about the attitudes, policies or actions of the company to stakeholders including the community as a whole

on the impact of the company's operational **activities on** social and **the** 23

environment (Setyorini and Ishak, 2012; Mathews, 1995; Campbell and Shiller, 1988). Disclosures regarding CSR aspects are not found in the company's financial statements (Jensen and Berg, 2011). Thus, CSR disclosures complement financial (economic) disclosures and help demonstrate the company's efforts and commitment in increasing transparency to investors regarding the company's performance and risk management

(Dhaliwal et al. 2011; Martinez et al. 2015). The 43

higher information disclosed by the company will show the increasing information transparency (Fung, 2014) and will reduce information asymmetry (Diamond and Verrecchia 1991; Reverte 2011; Cui

et al. 2012, 2016; Cho et al. 2013; Lopatta et al. 2015). Although there is some 17

evidence that CSR disclosure can reduce information asymmetry, 55

research

on the effect of CSR on information asymmetry has not 28

been done much.

Some studies have found a significant negative relationship 66

between CSR and information asymmetry among them (Cui et al. 2012; Cho et al. 2013; 16

Lopatta et al. (2015); Lu and Chueh, 2015; Semenescu and Curmei 2015;

Cui et al. 2016; Diebecker and Sommer 2016). 3

Many

prior studies have investigated the direct relationship between CSR and 39

financial performance (Alexander and Buchholz, 1978; Aupperle et al. 1985; Guidry and Patten 2010; Hermawan and 15

Mulyawan 2014; Firli and Akbar 2016). In Indonesia, CSR and information asymmetry research has also not been systematically summarized, because there have not been many studies exploring CSR disclosure to information asymmetry. Existing researches have focused on the motivation of implementing CSR, the relationship of CSR with performance, and 37

how consumers respond to disclosure of CSR activities (Hidayati, and Murni 2009; Dewi et al. 2014; Hermawan and Mulyawan 2014). This study fills the gap in previous empirical studies, so that more empirical evidence can be obtained regarding CSR, which is theoretically predicted to

contribute to the reduction of information asymmetry 63

(Cui

et al. 2012; Cho et al. 2013; Lopatta et al. (2015) ; Lu and Chueh, 2015; 4

Semenescu and Curmei 2015;

Cui et al. 2016; Diebecker and Sommer 2016). 3

Second, this study contributes to broadening previous empirical evidence about a decline in information asymmetry on CSR activities delivered in the Sustainability Reporting. 2. Literature Review

2.1 Corporate Social Responsibility Stakeholder Theory states that the survival and success of 27

a company depend on fulfilling economic

and non-economic (social and environmental) goals through meeting the interests of stakeholders 21

(Clarkson 1995; Pirsch et al., 2007; Laplume, 2008). Stakeholders Theory is based on the idea that outside investors, several people or groups have rights or interests related to company actions and decisions (Clarkson 1995; Branco and Rodrigues 2007). When companies make strategic decisions, companies must care about the interests of all stakeholders. CSR is an implementation of Stakeholder Theory, representing groups or people that must be considered in the company's business activities (Carroll 1991; Branco and Rodrigues 2007; Omran and Ramdhony 2015). The company is expected to be responsible not only to investors but to all parties by helping resolve

social and environmental problems caused by the company 2

(Elijido-Ten 2007).

CSR implies that companies strive to achieve economic performance 61

by

considering the social and environmental impacts of their actions 47

on each entity that may be directly or indirectly influenced by the company going forward (Cormier at al. 2011; Lu and Chueh, 2015). Van Marrewijk (2003) and Joseph (2009) define CSR as an activity that reflects the company's moral responsibility as a whole as a whole

for the impact of the company's operational activities on social and environment. 24

In social terms related to employees,

human rights, society, and product responsibility 67

(Taskin 2015). Whereas concerning the environment it shows how a company pays attention to environmental impacts and through company actions or initiatives to minimize ecological impacts, such as waste management, recycling (Saleh 2009).

CSR relates to phenomena such as transparency and sustainability 11

report (Van Marrewijk, 2003). Companies with high CSR performance are expected to be able to disclose broader non- financial information, thereby increasing the transparency of information for investors

(Dhaliwal et al. 2011; Martinez et al. 2015). In Indonesia, according to 54

BAPEPAM-LK Regulation XK6 concerning Submission of Annual Report of Issuers or Public Companies in 2012, companies have to disclose information on CSR performance in

annual reports or separate reports, such as sustainability reports or reports on corporate social 32

responsibility delivered together with an annual report to BAPEPAM 2.2 Information Asymmetry

Information asymmetry describes a situation where one party has more 22

information (Nestorowicz 2014; Martinez et al. 2015) and does not pass it on to others (Boujelbene and Besbes 2012). Internal parties, such as management and board of director members (BoD) have more advantages than external stakeholders regarding information about company’s activities, revenue, events or company decisions that may affect stock prices and performance company in the future (Lopatta et al. 2015; Liu et al. 2013). Investors need clear information to provide an assessment of the real company (Scordis

et al. 2008). When the level of disclosure is 49 inadequate, those who feel they have inadequate information such as investors will protect themselves by giving prices that are lower than the actual price or refusing to do transactions that ultimately lead to an increase in bid-ask spreads

(Dhaliwal et al. 2011; Thorne et al. 2014). This is 10

in line with what Akerlof (1970) put forward that the information asymmetry phenomenon causes a good car to be valued as much as a lemon car because of the widening gap with the real information. This study uses

the bid-ask spread to measure information asymmetry, 5

referring to Cormier

et al. (2011), Cho et al. (2013), Hung et al. (2013), 1

Lu and Chueh (2015),

Cui et al. (2016), Diebecker and Sommer (2016). 3

Bid-ask spread shows the difference between the price offered at the requested price. 2

The wider the spread shows, the higher information asymmetry (Diebecker and Sommer 2016). 2.3 Hypothesis Development CSR activities as the manifestation of the Stakeholder Theory (Carroll 1991; Branco and Rodrigues 2007), where the company seeks to accommodate the interests of all stakeholders (Elijido-Ten 2007). This encourages companies to provide disclosures on CSR activities (Joseph, 2009; Cormier

et al. 2011; Cho at al. 2013; Diebecker and Sommer 2016). 3

The company's action to provide CSR disclosure is a signal delivered to outside parties that the company is a good company (Mahoney 2012;

Thorne et al. 2014). The company 69

does not only strive to achieve economic performance but is also morally responsible for all parties (Cormier et al. 2011; Lu and Chueh 2015). CSR disclosure increases the availability of information for investors (Su et al. 2014; Martinez et al. 2015). Higher CSR disclosures will provide additional non-financial information to increase information transparency (Liu

et al. 2013; Cui et al. 2016). 59

This will

lead to a decrease in information asymmetry (Diamond and Verrecchia, 57

1991; Reverte 2011; Cui

et al. 2012, 2016; Cho et al. 2013; Lopatta et al. 2015). With the 26

increasing amount of information, investors are expected to be able to provide an assessment as expected by the company (Kirmani and Rao 2000; Scordis

et al. 2008; Dhaliwal et al. 2011; Mahoney 2012; Su et al. 2014). 10

Investors who have more information about the condition of the company will set a bargaining price that is close to the requested price or in the ask that is approaching the bid. This will then cause

the difference between the bid and ask to narrow the 40

bid-ask spread (Akerlof, 1970; Greenstein and Sami 1994; Cormier et al. 2011). Previous research consistently stated that Corporate Social Responsibility (CSR) affects information asymmetry. Cormier et al. (2011) with

a sample of large Canadian companies in 2005, found that social and environmental disclosure 13

reduced information asymmetry, as reflected in the volatility of stock prices and lower bid-ask spreads. Lopatta et al. (2015), Cui

et al. (2012, 2016) and Cho et al. (2013) researched US companies to 34

find consistent results

that there is an inverse relationship between CSR involvement and the level of information 18

asymmetry. Similar results were expressed in Hung et al. (2013) research, and Liu et al. (2013) who researched companies in China found that CSR can play the same role as financial disclosure in promoting stock market transparency and then affecting investor behavior. With CSR reporting can cause a decrease in information asymmetry. In Indonesia, Hapsoro and Zidni (2015) conducted a study of 167 high-profile

companies listed on the Indonesia Stock Exchange (IDX) 2 found that overall disclosures related to CSR performance had

a negative and significant relationship to **the bid-ask spread.** 46

Based on the explanation above and previous research studies, the hypothesis proposed

in this study are: H1: **The level of** CSR **disclosure** 42

hurts

information asymmetry as measured by the bid-ask spread. 3. Research Methodology **This** 4

study examines the information presented by the company through CSR disclosures that are reported separately in sustainability reporting. this study includes some control variables such as leverage, negative earnings, liquidity ratios and the proportion of institutional ownership that is a proxy of investors who are well-informed, to test the hypothesis = + 1,−1 + 2,−1 + 3,−1 + 4,−1 + 5,−1 + (1) where: , = the

average of the bid and ask spread during **the** stock trading period **for the** 35

firm i in period i **,t** ,−1 = **the** level **of** CSR **disclosure** 50

form the

firm i in period **t-1** i, **−1** 7

= company lever for the

firm i in period **t-1** , **−1=** 7

negative earning

of firm i in period **t-** 1 , **−1** 7

= liquidity ratio for the

firm i in period **t-1** , **−1** 7

= institutional ownership of the

firm i in period t-1 This study uses **the** 60 following formula to calculate SPREAD: 3.1 Variable Operationalization

3.1. 1. Bid-Ask Spread (SPREAD) 68

Bid-Ask Spread is a proxy of information asymmetry. This measurement refers to 36

Cormier

et al. (2011), Cho et al. (2013), Hung et al. (2013), Hapsoro and Zidni (2015), Lu and Chueh (2015), Cui et al. 14

(2016), Diebecker and Sommer (2016). SPREAd is obtained from the spread at the end of the

day divided by the average price of the last bid and ask. Daily spreads 5

are then summed up then

divided by the number of trading days for the annual spread. The 25

formula for calculating SPREAD is as follow. ∑ , , + , = 2 (2) where: SPREADi = Average bid and ask difference during the stock trading period i Si, t = Difference between last bid and ask

on day t of stock i BID i, t 62

= Last price offered on

day t of stock i ASK i, t = The last price requested on day t of stock i n = Number of trading days in 12

a year 3.1

.2. Corporate Social Responsibility (TCSR) The level of disclosure of Corporate Social Responsibility 29

(TCSR), shows how much disclosure of CSR

activities carried out by the company through sustainability report (SR). The 11 assessment uses the

Global Reporting Initiative (GRI) reference, both version 3.0, 53

3.1, or 4.0 which are core options, following the references used by each company. If the company discloses the criteria in the GRI, then it will be given a score of 1, if not disclosed then given a score of 0. The score is then summed and divided by the total GRI criteria. The total criteria for GRI version 3.0 are 79 criteria, GRI version 3.1 is 84 criteria, while GRI version 4.0 with core options is 91 criteria. The GRI measurement index is also used by many previous studies such as Guidry and Patten (2010), Najah and Jarboui (2013), Hapsoro and Zidni (2015), and Taskin (2015). TCSR = Σcompany disclosure (3) Σ GRI 3.1.3.

Leverage (LEV) Leverage is measured by dividing total debt with total assets, 9

such as Ryan (1996), Cormier

et al. (2011), Dhaliwal et al. (2011), Lopatta et al. (2015), 19

Habbash (2016). Debt is an obligation due to the influx of funds into the company, such as loans. 3.1.4 Negative earning (LABNEG) Negative earning is part of the company's risk. Negative profit indicates a loss in the company's operations (Hayn, 1995) is determined when the company's profit after tax shows a negative value. This study uses a dummy variable if the company loses the value of 1, and if it does not experience a loss, it is given a value of 0. 3.1.5 Institutional Investors (KINST) The number of institutional investors is a proxy of investors who have greater information access to the company, measured by the proportion of share

ownership by institutional investors. Institutional investors are considered to 13

have more information than individual investors. 3.1.6 Liquidity (LIKUID) The level of liquidity shows the level of short-term risk of a company,

as measured by the portion of current liabilities divided by total current assets. 41

3.2 Samples This study assesses CSR disclosures reported by companies through separate reports, known as sustainability reporting. The reason for not using CSR disclosures through annual reports is because companies that individually convey information on CSR activities separately show a high

commitment to social and environmental responsibility. The sample selection in this 56

study follows a purposive sampling technique, where the sample is selected based on the following criteria: (1) the 6

company publishes sustainability reporting, (2) is registered in the GRI database in 2008 - 2014, (3) has been listed on the Exchange Indonesian Securities, and (3) have the data needed to calculate SPREAD. There were 131 observations from 34 companies that met the criteria as research samples. 4. Results The number of sustainability reporting (SR) published from 2008 to 2014, as many as 250 reports, but as many as 80 reports were published by companies that are not yet listed on the IDX. Besides, four reports do not have a bid and ask data, so they are excluded from the sample. There were 131 SR reports published by 34 companies, which met the requirements as samples. The sample profile is as follows. On average, companies convey CSR disclosures that are quite high, namely as much as 58.7% of the standard criteria set by the GRI version. Even some companies express fully under GRI, because of the maximum value of 1. SPREAD which represents the existence of information asymmetry from the sample company has a relatively narrow average. The results of the hypothesis are presented in table 2, showing that high CSR performance represented by the score of CSR implementation (TCSR)

has a positive and significant effect on SPREAD. The higher the 31

TCSR is directly proportional to the increase in SPREAD. Investors have not seen

that the score of CSR disclosure is high as 44

an effort to distribute information as widely as possible to the public. Table 2. Testing hypotheses using 131 observations Dependent variable: SPREAD Coefficient t-ratio p-value TCSR 0,00332264 4,175 <0,0001 LEV 0,00364179 4,060 <0,0001 LABNEG 0,00827151 4,706 <0,0001 LIKUID −0,00110041 −0,9031 0,3682 KINST −0,0005431 −2,890 0,0045

R-squared 0, 281859 Adjt .R- squared 0, 253133 F(5, 125) 9,812105 P-value(F) 8

6,27e-08 Following the results of Cho et al. (2013) which proves that there is an institutional role of investors in enlarging SPREAD, this study tries to integrate CSR variables and institutional investors (Table 3). The test results show that the existence of institutional investors narrows SPREAD, contrary to previous research (Kyle 1985). This can be seen from the negative and significant KINST * TCSR interaction coefficient. Institutional investors have high confidence in their private information

about the company's CSR activities, thus reducing doubts about the information disclosed in 30

sustainability reporting. Without being interacted with the CSR disclosure score, it turns out that the KINST variable widens the SPREAD (Table 3). Table 3. Testing of Interaction of Institutional Investors and CSR Score Dependent variable: SPREAD Coefficient t-ratio p-value const 0,00238723 2,536 0,0125 TCSR 0,00520172 4,532 <0,0001 LEV 0,00739845 4,235 <0,0001 LABNEG −0,0018193 −1,345 0,1811 LIKUID −0,0005750 −3,330 0,0011 KINST 0,00578026 2,530 0,0127 KINST*TC SR −0,0054240 −1,845 0,0674

R-squared 0, 290720 Adjt .R- squared 0, 25640 F(5, 125) 8, 470855 P- 8 value(F)

1,04e- 07 5. Discussion The results showed the opposite of predicted that the level of disclosure of

corporate social responsibility (CSR) had a significant positive effect on 48

information asymmetry as measured by the bid-ask spread. This 4

result is not consistent with previous studies such as 45

Cui

et al (2012), Cormier et al (2011), Cho et al (2013), Hung et al (2013), Liu et al (2013), 1

Lopatta

et al (2015), Lu and Chueh (2015), Martinez et al (2015), Semenescu and Curmei (2015), Cui et al 20

(2016), Diebecker and Sommer (2016), which states that CSR has a negative influence on information asymmetry. This study found

that the higher the level of disclosure of corporate social responsibility (TCSR) the higher the 9

information asymmetry, which was reflected in the higher

value of the bid-ask spread (SPREAD). 65

Jaggi and Freedman (1992) show that companies that provide disclosure of CSR activities do not receive positive responses from investors. Investors consider the extent of the disclosure provided

by the company does not contain additional information for them (Jagi and 2

Freedman, 1982). Investors suspect the company's actions that provide broad disclosure as

a company effort to be seen as a good company. 52

The follow-up tests conducted above revealed that companies that have negative profits make more CSR disclosures to distract investors from deteriorating operational performance. This answers why investors generally do not believe in the substantial amount of CSR disclosures. Investors have not captured the seriousness of the company to distribute information that occurs on the company's internal. However,

in contrast to previous studies which found that the existence **of** 51

institutional investors was counterproductive with a decrease in asymmetry information (Cho et al., 2013), this study proved otherwise. When institutional investors have private information access to CSR activities carried out by the company, they do not exploit that information and use the superiority that is owned for their interests. Access to private information on CSR can eliminate investors' institutional doubts that the information submitted is less reliable. Institutional investor confidence will reduce the information gap which can be seen from the narrower bid- ask spread. .

6. Conclusion This study aims to examine the effect **of** the level **of** corporate social responsibility **disclosure** 6

on information asymmetry as measured by the bid-ask spread. Contrary to **the results** 5

of previous studies, this study found the opposite result, that CSR disclosure through Sustainability Reporting hurts decreasing information asymmetry. The higher counterproductive disclosure scores with a decrease in information asymmetry. An interesting phenomenon in developing countries, where the level of openness to disclose information is still suspected as an action with specific intentions to divert investor attention to the actual condition of the company. However, the investor's suspicion is entirely rational, given the additional testing results indicate a significant negative correlation between companies that have negative earnings and the extent of CSR disclosures. However, the existence of institutional investors representing investors who are well-informed is enough to help the company to ensure the reliability of information on CSR activities delivered through Sustainability Reporting. In contrast to the results of previous studies which showed that institutional investors tend to use the superiority of information, they have to maximize their interests, in this study institutional investors also distributed the information they possess to reduce asymmetry information. This study has limitations because some companies do not continuously submit reports through SR, so consistency

in the impact **of** CSR **disclosures on the** reduction **of information asymmetry** 1

cannot be obtained. The number of companies submitting reports on CSR activities through SR is still very little less than 10%

of the total **companies listed** on **the IDX,** thus limiting **the** generality **of** 58

the results of this study. References Akerlof, G. (1970). The market for “lemons”: Quality uncertainty and the market mechanism. The Quarterly Journal of Economics, 84(3), 488-500. Alexander, G. J., and Buchholz, R. A. (1978). Corporate social responsibility and stock market performance. Academy of Management Journal, 21(3), 479-486. Aupperle, K. E., Carroll, A. B., and Hatfield, J. D. (1985). An empirical examination of the relationship between corporate social responsibility and profitability. Academy of Management Journal, 28(2), 446-463. Bahreini, V., Baghbani, M., and Bahreini, R. (2013). Analysis between financial leverage with the stock price and the operational performance of the accepted companies in Tehran's stock market. European Online Journal of Natural and Social Science, 2(3), 25-34. Birjandi, H. (2015). The study effect agency theory and signaling theory on the level of voluntary disclosure of listed companies in Tehran Stock Exchange. 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