Asymmetry and Governance of Corporate Social Responsible Disclosure in Indonesia

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***Abstract*—The purpose of this research is to find the influence of financial leverage, earnings management (modified Jones model), woman in board (percentage) and size of the board to environmental, social and governance disclosure (ESG). The ESG disclosure used in this research are from Bloomberg database for the period of 5 years from 2012 to 2016. The method analysis used in this study is double linear regression and the data processed using Gretl software. The results show that the financial leverage, earning management and woman in board (percentage) influence negatively to ESG disclosure and size of the board influence positively to ESG disclosure. This research limitations is the sample of companies is based on Bloomberg ESG disclosure database. Yet this study extends previous studies with the inclusion of ESG disclosure in Indonesia.**

***Keywords*—Corporate Governance, Disclosure, ESG, Bloomberg**

I. INTRODUCTION

Indonesia is in the 4.0 industrial period which made information exchange easier and faster. Industry 4.0 has an impact on company activities. Companies that were initially isolated become completely automated. Products are fully optimally integrated and data flows in global chains (Strange and Zucchella, 2017). The definition of sustainability that focuses on sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet needs (United Nations World Commission on Environment and Development, 1987).

Sustainability reporting must produce a pattern of thinking and acting on sustainability for management (Bradford, Earp, Williams, 2017). In order for sustainability reporting to be felt by people outside the company, including socially responsible investors. The information in the report must be regularly in accordance with the use of information about business decisions (Mohammed, Ahmed, Xu-Dong Ji, 2017).

At this era, investors must choose between traditional investments (financially oriented) or sustainable investments (ESG oriented) (Olmedo, Lirio, Torres and Izquierdo, 2017). Good). Good corporate governance and financial reporting environment stimulates capital market performance to increase investor confidence (Mohammed, et al., 2017).

Corporate social responsibility activities are increasingly attracting the attention of investors, customers, suppliers, employees and governments around the world (Kabir and Thai, 2017). Thus, many companies have a higher interest in reporting social responsibility and initiating CSR initiatives (Setiawan, 2016). Business competition is getting tighter with easier and more integrated access, so companies compete to carry out Corporate Social Responsibility (CSR) activities (Olmedo, 2017).

CSR performance is considered good if CSR activities are carried out by the company to meet the expectations of stakeholders. In this case, stakeholders will give positive responses if they agree with the company's goals to practice CSR (Setiawan, 2016). CSR disclosure is a manifestation of the fact that the company was established not only to maximize profits but also to have long-term goals to maintain the sustainability of the company's business (Isnalita and Narsa, 2017).

There are several decisions that must be made by the company relating to CSR information that is disclosed to the public, such as balancing the objectives to fulfill regulations, building a corporate image and implementing good corporate governance (Setiawan, 2016).

Some studies have used different approaches to measure CSR using scores and rankings generated by the sustainability index, CSR rating agencies or CSR information providers. But only a few question the validity and reliability of measurements, such as social responsibility investment (SRI) metrics, ranking sustainability ratings, economic, social and governance (ESG) (Saadaoui and Soobaroyen, 2018).

This study uses ESG measures as the quantification of CSR because of the disclosure requirements, the strength and quality of institutions are vary. This study uses ESG because specifically ESG able to predict and measure CSR in companies (Bradford, et al., 2017). According to Bajic and Yurtoglu (2018), the size of ESG is able to capture the significant impact of CSR on companies that encourage the relationship between the social aspects of CSR and the value of the company. Systematic ESG information can be used by professional investors as an investment analysis tool.

This research provides a unique contribution to CSR disclosure because it is based on third party rankings to see the extent of disclosure in Bloomberg to determine the type of information that is interesting for various types of stakeholders related to these aspects.

In the Bloomberg methodology, every important data disclosure is measured. ESG disclosure scores include items that disclose CSR responsibilities in relation to the industry in which the company operates (Giannarkis, Konteos, and Sariannidis, 2014). The purpose of this study was to examine the factors that influence the disclosure of Environmental, Social and Governance (ESG) in companies in Indonesia.

This study discuss the "Information Asymmetry and Governance of Corporate Social Responsible Disclosure in Indonesia". The indicator used to measure CSR in this study is Environmental, Social and Governance (ESG score). The ESG component includes indicators related to environmental, social and governance which will be discussed further in this study.

II. LITERATURE REVIEW

A. *Corporate Social Responsibility (CSR)*

The company adopt CSR governance mechanisms to achieve social, environmental goals and build legitimacy in society and business (Wang and Sarkis, 2017). Corporate social and environmental responsibility appears to be becoming established in many corporations as a critical element of strategic direction, as well as an essential component of risk management (Al-Shaer, Salama and Toms, 2017).

Companies use different reporting tools to communicate the company's CSR initiatives to stakeholders. However, companies cannot treat all stakeholders equally and communicate with the same intensity (Giannarkis, et al., 2014). The implementation of strict CSR governance can produce superior CSR through adequate allocation of resources and changes in business structure (Wang and Sarkis, 2017).

The results of implementing superior CSR activities will help companies achieve and maintain social legitimacy, and contribute to improving the business and financial environment (Wang and Sarkis, 2017). So that, for sustainability reporting to meet the needs of company's stakeholder, including socially responsible investors, information in the report must be used to make business decisions. (Bradford,et al., 2017).

The company is expected to reveal more information to the public so that the company is able to meet the information needs needed by stakeholders. CSR forms relationships between companies and stakeholders. CSR is able to predict company value (Bajic and Yurtoglu, 2018). To realize the quality of CSR management that can cause a positive market reaction, the mechanism of corporate governance is an important key to the company. The company's goals from stakeholders are related to differences in demands that must be prioritized (Velte, 2016).

B. *Environmental, Social and Governance (ESG)*

ESG scores are used to supplement financial scores, improve accuracy in performance and risk assessment (Achima and Borlea, 2015). ESG is a comprehensive information about sustainability performance and represents information that shows whether a company is working to achieve sustainability goals (Bradford, et al, 2017).

The integration of environmental, social and governance (ESG) criteria in the asset evaluation process is widely accepted among socially responsible investor. Thus, the company is expected to provide detailed information about the company's achievements through ESG (Olmedo, et al., 2017).

Through ESG scores obtained from Bloomberg, companies can assess company practices in environmental, social, and governance policies using publicly available data, annual reports and sustainability reports, direct communication, broadcast press, third party research, and news. The more information the company discloses, the higher the ESG score.

ESG factors offer long-term performance benefits for potential investors when integrated into investment analysis and decision making (Olmedo, et al., 2017). This shows the company's increasing commitment to transparency and accountability (Tamimi and Sebastianelli, 2017). ESG in this study was measured using ESG score, based on danBloomberg data sources and the company's annual report data from 2012 to 2016. Bloomberg calculated the extent of CSR disclosures through three different categories, namely environmental, social and government using ESG scores (Giannarkis, et al., 2014).

In contrast to literature reviews that consider specific information sources such as websites or annual reports to build disclosure indices, Bloomberg's methodology combines information resources more broadly, including CSR reports, annual reports, company websites and Bloomberg surveys. (Giannarkis, et al., 2014).

C. *Agency Theory*

The Agency Theory describes the problems that arise in a company because of the separation of powers between the owner (principal) and management (agent) (Eisenhard, 1989). Agency theory explains that there is a conflict of interest inherent between the principal (shareholders) and agents (management) (Eisenhard, 1989).

Separation between owners and management can cause agency problems as a result of the different interests and objectives of each party concerned. The conflict between principal and agent is manifested in various ways, including manipulating financial information, accounting fraud and seizing shareholder wealth. Thus, a strong corporate governance mechanism is needed to reduce the consequences of this conflict. Corporate governance mechanisms require accounting numbers to be used as a tool by the board of directors to monitor and control the system (Mohammed, et al., 2017).

Shareholders want to maximize their profits, while management may be mnore interested in their own benefits.

Therefore, board members need to play an important role in monitoring management behavior that leads to the achievement of the objectives set out in the planning process (Russell, 2015).

D. Legitimacy Theory

Legitimacy theory explains that every organization must ensure that the organization operates in the standards, boundaries and policies that exist in the society in which the organization is located (Deegan, 2000). By using this theory, the company will voluntarily report the entire activity, if management feels that certain activities are expected by the community.

Corporate governance must ensure that disclosures are carried out on time and accurately on all material matters regarding the company, including financial position, performance, ownership and corporate governance. The board of directors will set strict rules, designed to protect the interests of the company, in the areas of financial reporting, internal control and risk management (Achima and Borlea, 2015).

According to Rouf (2018) there is a negative relationship between liquidity and company leverage. Liquidity is the company's ability to collect short-term liabilities (Rouf, 2018). Prior research, based on legitimacy (Wilmshurst and Frost, 2000; Cormier and Gordon, 2001; Khan, A., Muttakin, M.B. and Siddiqui, J., 2013; Al-Shaer,H.,et al, 2017) and stakeholder theories (Orlitzky and Benjamin, 2001; Gyöngyi, 2008; Van Der Laan et al., 2008;Al-Shaer,H.,et al, 2017), derived from political economy theory, has enhanced our understanding of CSR accounting (Gray and Laughlin, 2012; Al-Shaer,H.,et al, 2017).

Many similarities exist between stakeholder and legitimacy theories. Companies may respond to stakeholders' expectations by integrating disclosures into corporate strategies to reflect real commitment or alternatively they just do the minimum to maintain certain levels of legitimacy, which may include tactical or symbolic legitimacy (Dawkins and Fraas, 2011; Al-Shaer,H.,et al, 2017). Companies with increased vulnerability due to their size or industry disclose more information voluntarily as means to managing legitimacy.

III. HYPOTHESIS DEVELOPMENT

A. Earnings Management

Earnings management occurs when managers use valuations in financial reporting and transactions to change financial statements that aim to mislead some stakeholders about the economic performance that underlies the company or to influence the outcome of a contract that depends on the accounting numbers reported (Healy and Wahlen, 1999). The level of CSR disclosure is related to the level of corporate transparency. So, by implementing CSR, the company will be more transparent and increasingly trusted by stakeholders.

Earning management can reduce transparency if information related to earnings management is not given in full. Earnings quality is better if the value of earnings management gets smaller and the ESG score is higher. Social responsibility disclosure plays an important role and a complementary role in reducing information asymmetry (Zhong and Gao, 2017).

Information asymmetry explains the presence or absence of information gaps between shareholders and management. Information asymmetry is related to earnings management variables which are indicative of earnings quality. According to Velte (2016), sustainability information contributes to reducing information asymmetry and transaction costs from agency relations between stakeholders and companies.

CSR activities have increased with the rapid growth of the stock market which has led to increased demand for transparency (Kabir and Thai, 2017).

In calculating earnings management, the writer uses the Modified Jones Model formula because this model is considered as the best model in detecting earnings management compared to other models and provides the most powerful results (Dechow.P.M, Sloan.R.G dan Sweeney.A.P, 1995). Thus, the hypothesis is:

H1. Earning management has a negative effect on Environmental, Social and Governance (ESG).

B. Financial Leverage

Companies with low CSR levels can increase the company's financial risk due to lack of social responsibility initiatives. In contrast, companies that present a high level of CSR disclosure face lower financial risks and create a more stable relationship with the government and financial community (McGuire et al., 1988).

According to Berger dan Humphrey (1997), managers tend to maintain a low level of debt in order to have more wisdom in carrying out investment decisions. Leverage refers to the amount of debt used to finance company assets and business operations other than capital. Leverage can be used as an efficient control mechanism to avoid excessive income reporting practices by management which will ultimately harm the company.

Andrade and Kaplan (1998) stated that high corporate leverage causes the company's financial risk to be higher such as financial difficulties, payment failure, debt and bankruptcy risk. Jensen (1991) argues that the formation of new regulations and a declining economic crisis have a significant influence on high corporate leverage. Thus, the higher the debt ratio, the greater the risk, and the higher the interest rate (Ghazali, Shafie, and Sanusi, 2015).

The level of leverage tends to affect earnings management both positively and negatively. The tendency to avoid violations of debt agreements by companies results in higher earnings management by these companies (Maheswari and Agrawal, 2015).

In this study, it is accepted that financial leverage affect negatively, Thus, the hypothesis is:
H2: Financial leverage has a negative effect on Environmental, Social and Governance (ESG).

C. Size of the Board

Firm size is an important dimension of corporate governance (Ali, 2018) According to Eisenberg, Sundgren, and Wells (1998), the size of a small company is more efficient than the size of a large company, because the size of a large company is characterized by a slow bureaucratic decision process so that it is less effective in overseeing CEO actions.

According to Humphries and Whelan (2017), in a culture of high individualism, the council will appear more legitimate if it can represent the interests of various individuals or stakeholders. Firm size tends to influence the level of earnings management both positively and negatively. Larger companies are in a better position to manage profits using complex financial structures. On the other hand, companies are also subject to higher supervision and tend to refrain from engaging in higher earnings management (Maheswari and Agrawal, 2015).

Board size, measured by the total number of directors, is included as a variable reflecting the role and effectiveness of the board. Prior literature argues that board size leads to greater attention to corporate social responsibility activities (Al-Shaer,H.,et al, 2017; Halme and Huse, 1997). A larger board is more likely to be diverse and include directors with different skills, experience, knowledge and background related to social and environmental responsibility issues (Al-Shaer,H.,et al, 2017). In this study, it is accepted that size of the board affect positively, Thus, the hypothesis is:
H3: Size of the Board has a positive effect on Environmental, Social and Governance (ESG).

D. Woman in Board

According to Giannarkis, et al (2014), the presence of woman in board has a positive effect on CSR disclosure because it can add a unique perspective, experience and work style compared to male directors. The presence of woman in board also increase rankings for CSR and the company's reputation by sending important signals to investors showing potential financial performance.

The high percentage of woman in board positively influences the level of social disclosure which shows that women are more sensitive to social problems. Thus, the company sends a signal to socially responsible stakeholders for the intention to integrate CSR initiatives into the company's business processes. The board leadership structure tends to influence the level of social disclosure significantly (Giannarkis, et al, 2014).

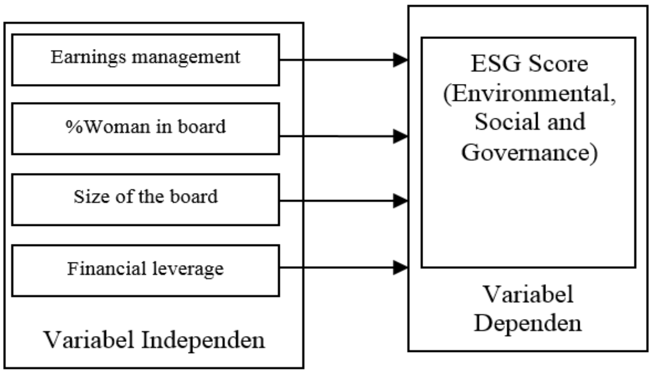
Humphries and Whelan (2017) found that the proportion of women in the board of directors was lower in countries with high power distance due to lack of regulatory requirements. In a high power distance culture, recommendations regarding the composition of gender on the board of directors are not considered important, because everyone knows where they are. Gender roles traditionally show that women will not be well represented on company board. the higher the power distance, the less likely the requirements related to gender composition on the board of directors. Thus, the hypothesis is:
H4: Woman in board has a negative effect on Environmental, Social and Governance (ESG)

IV. METHODOLOGY

This research was conducted to examine the effect of independent variables, namely earnings management (modified Jones model), woman in board (percentage) and size of the board, financial leverage on the dependent variable, namely environmental, social and governance (ESG).

Then this study uses an analysis model in the form of the following scheme:

Picture 1 Research model



Based on the analysis model above, the authors form a model that will be tested with double linear regression models. The statistical equation is:

ESG =α +β_1 *board size* - β_2 %*WB* -β_3 *leverage* - β_4 EM +ε
Where:

ESG = *Environmental, social and governance*
EM = *Earnings management* (*modified Jones model*)
%WB = *% Woman in board*
Board size = *Size of the board*
Leverage = *Financial Leverage*
α = *Constant*
$\beta_1, \beta_2, \beta_3, \beta_4$ = *Coeficients*
ε = *Error*

The type of data used in this study is quantitative data. Details of data and data sources used include: financial leverage, revenue, total assets, property, plant and equipment, net income, cash flow from operations, total accruals, percentage of woman in board, size of the board and ESG score obtained from financial statements of companies listed on the Indonesia Stock Exchange (IDX) through the Indonesian Stock Exhange website (www.idx.co.id) and Bloomberg. This study uses documentation method to collect company financial report data from 2012 to 2016.

The unit of analysis in this study is at the company level. This study uses double linear regression. Data testing is needed to ensure that the available data can be used to test the model that has been formulated so that the hypothesis that has been proposed can be tested. The data in this study will be analyzed using Gretl and SPSS software.

The population in this study were companies listed on the Indonesia Stock Exchange (IDX) from 2012 to 2016. The initial population was 80 companies, but only 27 companies passed the criteria with five years of observation, namely during the period 2012-2016. The sampling technique used in this study is purposive judgment sampling:

Table 1 Sample Criteria

Sample Criteria	Amount
Total companies listed on the Indonesia Stock Exchange during 2012 - 2016	582 company
The number of companies that have ESG scores	80 company
The number of companies that have an incomplete ESG report	(53) company
The number of companies that are the research sample	27 company
Number of years of observation	5 year
Number of observational data	135 data

Calculation formula for earning management modified Jones model. The steps taken in calculating are as follows:

1. Calculate total accruals
= Net income - Cash flow from operation
2. Perform the regression equation below

$$\frac{TA_{it}}{A_{it-1}} = \alpha\left(\frac{1}{A_{it-1}}\right) + \alpha_2\left(\frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}}\right) + \alpha_3\left(\frac{PPE_{it}}{A_{it-1}}\right) + \varepsilon_{it}$$

Information:
TA it = Total accrual in year t for company i
A it-1 = Total assets in year t-1 minus income in year t-1 for companies i
Δ REV it = Revenue in year t minus income in year t-1 for company i
Δ REC it = Receivables in year t minus receivables in year t-1 for companies i
PPE it = Gross property, plant and equipment
α, α2, α3 = regression coefficient

V. RESULTS

A. *Descriptive Statistics*

Table 2 Descriptive Statistics calculation results

Variable	Min	Max	Mean	S.D.
ESG Disclosure	6,61	54,1	24,2	13,5
Financial Lev	1,16	15,0	2,34	1,62
EM	-0,000264	0,000228	4,89e-021	7,43e-005
Woman in Board	0,00	0,333	0,0607	0,102
Size of the Board	3,00	12,0	5,90	2,04

source: output gretl

From Table 2 above, the main dependent variable is ESG Disclosure, having an average value in the company research sample is 24.2 with a standard deviation of 13.5. The highest number of ESG Disclosure was 54.1 owned by SMCB in 2014. While the lowest number of ESG Disclosure was 6.61 owned by BMTR in 2015.

In the independent variable financial leverage. The average of the research sample companies was 2.34 with a standard deviation of 1.62. The highest amount of financial leverage is 15 owned by TBIG 2016. The lowest amount of financial leverage is 1.16 (owned by INTP in 2015.

In the independent variable earnings management. The average of the research sample companies was 4.89e-021 with a standard deviation of 7.43e-005. The highest earnings management amount is 0,000228 owned by AKRA in 2013. The lowest amount of earning management is -0,000264, owned by HEXA in 2016

On woman in board independent variables. The average of the research sample companies was 0.0607 with a standard deviation of 0.102. The highest number of woman in board is 0.333 owned by PWON in 2014, 2015, 2016 and GGRM in 2013. While the lowest number of woman in board is 0 owned by 15 companies.

On woman in board independent variables. The average of the research sample companies was 0.0607 with a standard deviation of 0.102. The highest number of woman in board is 0.333 owned by PWON in 2014, 2015, 2016 and GGRM in 2013. While the lowest number of woman in board is 0, owned by KLBF and UNVR

On the independent variable size of the board. The average of the research sample companies was 5.90 with a standard deviation of 2.04. The highest size of the board is 12 which was owned by JSMR in 2016 and INCO in 2013, 2014. While the lowest size of the board is 3 owned by PWON, HEXA, SMR, AKRA in 2012-2016 and SCMA in 2012.

B. *Panel Data Regression Analysis*

Table 3 *Ordinary Least Square Model*

Model 1: Pooled OLS, using 135 observations
Included 27 cross-sectional units
Time-series length = 5
Dependent variable: ESGDISCLOSURE

	Coefficient	*p-value*	
Const	16,0939	<0,0001	***
FINANCIALLEVERAGE	−2,16902	0,0007	***
EMRES	−4265,59	0,7530	
WOMANINBOARD	−33,0299	0,0011	***
SIZEOFTHEBOARD	2,57479	<0,0001	***

Adjusted R-squared	0,282722
P-value(F)	1,21e-09

source: output gretl

Based on Table 3 above, this research model has a Pvalue of 1.21e-09. The value of P value indicates that the model is fit and can be used to test hypotheses. This study uses the 2 best models to be used, namely Pooled Effect Model and Random Effect Model.

Picture 2 Hausman test statistic

Hausman test statistic:
H = 4,43403 with p-value = prob(chi-square(4) > 4,43403) = 0,350441
(A low p-value counts against the null hypothesis that the random effects
model is consistent, in favor of the fixed effects model.)

Table 3

Model: Random-effects (GLS), using 135 observations
Included 27 cross-sectional units
Time-series length = 5
Dependent variable: ESGDISCLOSURE

	Coefficient	*Std. Error*	*p-value*	
const	16,0939	3,65230	<0,0001	***
FINANCIALLEVERAGE	−2,16902	0,620904	0,0005	***
EMRES	−4265,59	13524,7	0,7525	
WOMANINBOARD	−33,0299	9,92746	0,0009	***
SIZEOFTHEBOARD	2,57479	0,489634	<0,0001	***

*** = Sig 1%

Source: output gretl

VI. MANAGERIAL IMPLICATION AND CONCLUSION

Corporate social responsibility activities are increasingly attracting the attention of investors, customers, suppliers, employees and governments around the world (Kabir and Thai, 2017). Thus, many companies have a higher interest in reporting social responsibility and initiating CSR initiatives (Setiawan, 2016). CSR performance is considered good if CSR activities are carried out by the company to meet the expectations of stakeholders. The advantage for companies that implement CSR is that companies become more competitive and have more competitiveness compared to their competitors. CSR is a strategy for companies and can be a communication tool between companies and stakeholders, because not all activities carried out by companies in the field can be known by stakeholders.

ESG contains sustainability performance and represents information that shows whether a company is working to achieve sustainability goals (Bradford, et al, 2017). Through ESG scores obtained from Bloomberg, companies can assess company practices in environmental, social, and corporate governance policies using publicly available data, annual reports and sustainability reports, direct communication, broadcast press, third party research, and news (Tamimi and Sebastianelli, 2017).

The results of this study show that financial leverage, earning management (modified Jones model), woman in board (percentage) have a negative effect on ESG disclosure and size of the board has a positive effect on ESG disclosure. This research is based on the Bloomberg ESG disclosure database. (modified Jones model).

The limitations of this study are the company's sample based on the ESG disclosure database on Bloomberg. However, this study extends previous studies with the inclusion of ESG disclosures in Indonesia.

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