PROFITABILITY AND CORPORATE SOCIAL RESPONSIBILITY: AN ANALYSIS OF INDONESIA'S LISTED COMPANY

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Abstract

Studies in Corporate Social Responsibility (CSR) and financial performance have been subject to debates due to various results between these variables. In several cases, the effect of CSR and financial performance varies across industries and countries, which convey further scrutiny. In developing countries, listed companies are aware of the importance of CSR reporting, which correspond to their financial performance. Hence, the purpose of this study is to test whether companies' profitability contributes to Corporate Social Responsibility in the Indonesian context. The research includes company's profitability of net profit margin, ROA and ROE, in relation to number of lines in CSR disclosure. Firm's size, Kompas100 companies and industry-specific are included as control variables. The samples are taken from 543listed companies in Indonesia from 2007 to 2009 after fulfilling certain requirements. The result suggests not all profitability ratios are significantly correlated to CSR disclosure.Kompas100 and industry-specific tend to have a relationship with number of lines in the CSR report. This study suggests that the motivation of Indonesian CSR disclosure is merely to maintain good reputation to shareholders, rather than a consequence of allocating surplus funds.

Keywords: return of equity (ROE), return of asset (ROA), net profit margin (NPM), corporate social responsibility (CSR), Bowman and Haire, kompas 100.

1. INTRODUCTION

The issue of Corporate Social Responsibility (hereafter referred as CSR) and financial performance has been a subject of debate since the 1960's (Cochran and Wood 1984), and whether or not the former acts as the driver to influence the latter. For more than thirty years, CSR has been investigated to achieve a common goal: to find an answer acceptable to every occurrence, including period of investigation, industry-wise, and country specific-wise. However, there have been arguments related to the extent on how CSR reporting is measured, in corresponding company's performance. Various models have been offered, which may be misspecified due to oversight of important variables to explain determinants of profitability (McWilliams and Siegel 2000).As such, further scrutiny is needed, in order to justify the appropriate measurement on this relationship in a specific context.

In terms of country-specific, studies in CSR have been conducted in various developing countries. The spirit of vast economic development in these countries, the pressure from environmental organisations and activists, and the strict requirements from capital markets, has triggered listed companies to disclose environment sustainability reporting. Jamali and Mirshak (2007) investigated CSR activities in the Lebanese context where they found lack of a systematic, focused, and institutionalised approach to CSR. They argued that this is due to common understanding and CSR practice which limit to the context of philanthropic purpose. Another study by Kuasirikun and Sherer (2004) found a similar finding, in that in the Thailand context, CSR disclosure in the annual report tends to be ambiguous and is presented in a minimal content. Moreover, they found that corporate reports are quiet silent on a wider impact of Thai business upon and commitments to local communities' social and economic structure (p. 648). In the Indonesian context, Lindgren and Hendeberg (2009) studied CSR from the managerial point of view as well as the positive and negative impacts of the Indonesian CSR in a qualitative manner. They found that the perception of CSR is widely interpreted and very unclear in which companies and government exchange mutual agreement on this issue. They suggested further research is needed to identify the misperceptions and inconsistency in regard to the CSR activity in Indonesia. Based on the above reasons, this research attempts to translate the above question into an empirical manner.

This paper specifically focuses on the relationship between company's financial performance and CSR disclosure, conducted internally and/or externally as disclosed in Annual Reports, in the Indonesian context. The main motivation to conduct this study is to investigate whether or not financial reporting affects CSR disclosure and characteristic. Previous research has confirmed that different countries provide different characters of disclosing social activities (Siregar and Bachtiar 2010), which may derived from the behaviour of the companies and regulatory requirements (Waagstein 2011). Internal CSR includes relationship with the people inside the organization such as employees whereas external CSR describes the relationship with people outside the organization such as government body, suppliers, or the community at large. In general, companies wish to generate CSR in order to gain profitability in the following year whereas this paper wishes to analyse otherwise.

To summarise the above questions, a research question thus follows: *Does higher profitability drive companies in Indonesia to disclose more CSR activities?* To elaborate the question, this paper differentiates three definitions of profitability ratios, namely ROA, ROE and net profit margin. This study also proposes that public companies listed in Kompas 100 in the stock exchange and industry specific may have significant differences in terms of CSR reporting in their financial report. These proxies act as proposed hypotheses and will be tested in order to find the appropriate measurement.

The rest of the article is described as follow: The first section focuses on the theoretical and hypothesis development, the second section outlines the methodology underlying the research. The third section presents the data collection, the fourth section describes the empirical analysis and discussion. The last section concludes the findings with certain limitation.

2. THEORETICAL AND HYPOTHESIS DEVELOPMENT

Recent studies have confirmed that CSR reporting can be articulated as an ethically behaved business towards its environment as well as its stakeholders by providing sustainable society measurements that includes suppliers, government body as regulators, community at large and the environment, in compliance with the laws. Companies strive to nurture good and a win-win relationship between CSR and their financial performance success (Van de Ven and Graafland 2006). Furthermore, the emergence of CSR has come to the point where companies are forced to provide sustainability report while maximizing shareholders' profits. Thus, CSR report can be as a competitive advantage to increase firms' value and provide better understanding between company and society.

According to the Business for Social Responsibility, CSR is a set of management practices that ensures the company maximises the positive impacts of its operations on society of operating in a manner that meets and even exceeds the legal, ethical, commercial and public expectations that society has of business (BSR 2013). A number of studies claimed that there is a relationship between CSR and company financial performance (hereafter referred as CFP). Others investigate endeavours by companies, such as how the market reacts, and stock price movement and conclude from there. In providing useful report, studies have been conducted to measure CSR using various methods; one of them relates with company's performances and values; in a quantitative manner. Others measured in qualitative, are trying to gain deeper understanding on CSR which include company's motives and CSR bias points. Despite the on-going arguments on appropriate measurement, this topic continues to develop into a complex stage which involves the company and its stakeholders. The motivation of this study is that CSR attempts to create a positive value for company's shareholders in circumstances of negative events (Godfrey, Merrill, and Hansen 2009). In addition, McWilliams and Siegel (2001) argued that a company should offer a certain level of CSR in order to gain relevant demands of stakeholders.

Previous studies have confirmed a mixed result in attempt to establish the relationship between CSR activity and profitability in that the outcome of these result have been inconclusive, possibly a positive, negative and neutral result (Cochran and Wood 1984, Griffin and Mahon 1997, McWilliams and Siegel 2000, 2001). This phenomena exists due to

the nature of the models and the empirical approaches to these studies (McWilliams and Siegel 2000). As no such consensus is determined to explain this relationship, nevertheless this paper attempts to justify the appropriate measurement in the Indonesian context.

Waddock and Graves (1997) and Hillman and Keim (2001) found that an increase in CSR could lead to an enhance financial performance and vice versa. In a more detail manner, there are two possible measurements that fall into two categories: investor returns and accounting returns. According to Cochran and Wood (1984) an investor returns is measured from the perspective of shareholders. Some of the underlying tools considered are changes in price per share and dividend income. The other measurement, which will be employed to this paper, is the accounting returns. A possible reason is that this category is free from the effects of bias that can result from differences in capital structure between firms. Alongside, this measurement attempts to focus on how firm earnings respond to different managerial policies (Cochran and Wood 1984). In other words, accounting returns measurement can be determined as the closest magnitude to depict financial performance.

Godfrey et al. (2009) argued that if quality management drives both CSR and company's financial performance (CFP), then an observed relationship between CSR and CFP will be positive. Other studies conducted by Van de Ven and Graafland (2006) denoted CSR has a positive influence with financial result in the long run. Heinz (1976)conducted a research using CSR ratings against ROE, ROA and profit margins. Again, the result supports the previous two studies, concluding that there is a significant and positive correlation between CSR and ROE.

In contrast, a study conducted by Aupperle, Carroll, and Hatfield (1985) in an attempt to investigate the relationship between corporate social responsibility and profitability found no significant relationship between the two. Furthermore, the study also suggested that it is neither beneficial nor harmful for companies to fulfil their social responsibilities. This finding is supported by previous study by Arlow and Gannon's (1982) who came into the same conclusion in assessing the relationship between profitability and social responsibility. Other indications of the same relationship is depicted from a study by theStewart (2010), revealing a consumer behaviour that 81% of the respondents prefer to buy from when 79% choose to work for a social responsible entities. Supporting this finding, Savas and Reid (2005) found that more than half of Canadian consumers choose a product or service from a supplier because it seemed to be a better corporate citizen than its competitors.

There has been an initial study that profitability ratio are most appropriate as a basic survival proxy such as share price, profit margins or ROI (Tuzzolino and Armandi 1981). These proxies are assumed to reflect company's performance, in terms of financial profitability, shareholders' decision to company's performance, and investors' return to financial performance. This research will thus employ these proxies as related variables to CSR disclosure, which be presented in the proposed hypotheses.

This research exercises reasoning from Parket and Eilbirt (1975), where they employ net income, profit margin, ROE and EPS as measurements of profitability against CSR. Another study by Cochran and Wood (1984) which measure financial performance represented by three accounting returns measures. One of the measurements is ratio of operating earnings to sales and proved to be a significant factor to explain its correlation with CSR. The latest research by Blomgren (2011) employs net-effect on profit margin from CSR

in a qualitative manner. He interviewed several executives in Norway and found most of the responses had no effect in CSR.

There have been recent empirical studies in the Indonesian context; most of these investigate the relationships between CSR and companies' financial performance.Siregar and Bachtiar (2010)observe board size, foreign ownership, firm size, profitability and leverage against CSR reporting. They found that firm size has positive effect on CSR, while profitability and leverage found to be insignificant to CSR. Mirfazli (2008) also investigate whether there has been a difference in disclosing CSR report in the basic and chemical industries' financial reports. The finding found no significant difference in the presentation of social disclosure themes. Another study by Fauzi and Idris (2012), where they found positive relationship between these variables. Nevertheless, the above studies generate a mixed result in defining the relationship between financial performance and CSR report. In turn, this research does not intend to summarize or even clarify each of the previous findings, but attempts to find an alternative and possibly appropriate method to observe this phenomena. Thus, the three hypotheses are generated to employ all profitability ratios as the independent variables, in order to hypothetically prove otherwise in explaining CSR.

The primary independent variable is financial performance in year t-1, measured by ROA, ROE and NPM. Based on Nelling and Webb (2009), the study found that the relationship between social responsibility and lagged financial performance is positive and significant. A similar approach will accommodate the assumption that higher profitability in the lagged year can derive higher activity in CSR in the following year. In other study, Bowman and Haire (1975) found a positive correlation between ROE and activities in pollution control, profitability positively related to corporate responsibility using ROE. Bragdon and Marlin (1972) performed a research on 17 firms' ROE in paper industry against pollution index and the results were positive. The study concluded that better pollution index (CSR) leads to higher profit.

H_{1a}:   **The higher the company's profit margin, the more CSR is disclosed.**

H_{1b}:   **The higher the company's ROA, the more CSR is disclosed.**

$H_{1c:}$ **The higher the company's ROE, the more CSR is disclosed.**

The second hypothesis derives from the notion that public companies with high performance of liquidity and market capitalisation presume to disclose more information in CSR. Indonesian stock exchange provides a group of these companies called the *Kompas100* (IDX, 2012). McWilliams and Siegel (2000) contend that firm's reputation is a vital part for consumer (investor) decision and thus CSR attributes are more likely to be associated with company's experience. Godfrey et al. (2009) argue that if there a negative event occurred in the CSR activity, there will be a negative reaction towards investment decision. Furthermore, Investors are likely to invest their money to companies with better liquidity and held the majority of capitalisation in the market. Shauki (2011) argues shareholders' decision in investments are positively correlated with CSR content, incentives and CSR format in Indonesia. Thus the second hypothesis can be constructed

H$_{2:}$ **The Kompas100 companies generate more CSR disclosure than other listed companies.**

It is also imperative to observe specific industry sectors in the listed companies, in which these companies are presumed to disclose more CSR reporting than other sectors. There have been recent studies conducted in Indonesia regarding industry specific. Mirfazli (2008) conducted a study on basic and chemical industries in the Indonesian stock exchange and found no significant differences with other industry groups when presenting CSR disclosure. Another study by Fauzi and Idris (2012) argue that within the Indonesian listed companies, manufacturing sector, including mining companies, has contributed more to the social aspect and environmental than other sectors. Moreover, there is a tendency and even moral obligation for mining companies to disclose more information in CSR due to pressure from the local environment and environment bodies (Kiroyan 2006). Thus the third hypothesis can be provided.

H3:   **In terms of industry specific, mining companies generate higher disclosure than other sectors.**

3. RESEARCH METHODOLOGY

There are numbers of methodology to measure CSR as the dependent variable. One of the well-known methodologies that are applicable is Carroll's four CSR classifications and was first introduced in 1979. Carroll (1979)proposes 4-stage classification namely economic, legal, ethical and philanthropic responsibility. The economic responsibility is the area consists of business history and the economic concern. The second is legal responsibility, where law is considered as standardized code in determining what is right or wrong, which is legal or illegal. In other words, firms are expected to pursue their goal within the framework of laws. The third is the ethical responsibility; a stage where there is a separation between what is good or bad according to norms and social standards, even though they are not ruled by the laws. The fourth is the philanthropic responsibility, where companies act as a good corporate citizen by contributing resources back to the community at large to improve life's quality. This can be done by donating some money for arts and education to promote goodwill. Even though ethical and philanthropic responsibilities sounds similar, they are actually different, considering the latter is more voluntary and it is not unethical if the forms do not contribute enough to the community. Moreover, Carroll (1991) defined CSR as "a conduct of a business so that it is economically profitable, law abiding, ethical and social supportive. To be socially responsible then means that profitability and obedience to the law are foremost conditions when discussing the firms' ethics and the extent to which it supports the society in which it exists with contribution of money, time and talent." (p.608).The above framework will be used as the indicator of content analysis in the respective financial statements.

According to Milne and Adler (1999), content analysis has been commonly used to assess organisations' social and environmental disclosures. Previous studies attempt to

accommodate empirical measurement, especially in relation to corporate financial performance(see Cochran & Wood, 1984; Kuasirikun & Sherer, 2004). Content analysis enables to discover corporate annual reports' employees and their conditions, impact of corporate activities to the environment and other impact in respect of other dimensions of the activity (Kuasirikun & Sherer, 2004). One of the method to accommodate CSR content is the study by Bowman and Haire (1975). The idea is to identify low/high social responsible firms based on the number of lines dedicated to CSR in their Annual Reports. Moreover, this method measures how many lines of the Annual Reports are dedicated to calculate, listing, or discusses any CSR information. Although Aupperle et al. (1985) argued that Bowman and Haire's method has limitation of no risk adjustment and difficulties to ascertain the sentences, this method is believed to be the most simplistic tool to measure CSR content.

In terms of Indonesian context, Lindgren and Hendeberg (2009) argued that companies in Indonesia do not have clear interpretation in terms of CSR context, as no such standard applied in this country. Although the government has introduced the Indonesian Corporation Law *(Undang-Undang Perseroan Terbatas no. 40 Tahun 2007)*in 2007, which stated a 1-3% allocation of earnings for environmental development, the disclosure of this mandatory has always been voluntarily (Achda, 2006; Koestoer, 2007; Shauki, 2011).Having such preconditioned disclosure of CSR presumes that listed companies enclose this section in a variety and ununiformed way. Similar research method has been conducted by Siregar and Bachtiar (2010) where one of the measures employed is to count the number of sentences in the annual reports. This method is repeated until all the CSR activities from the final samples from 2008 until 2010 are captured. Thus, content analysis based on number of lines can be applied in this research. Based on Carroll's classification, this study will focus only on the legal, ethical and philanthropic responsibility, which mostly described under the CSR section in the annual report.

The next measurement focuses on three essential proxies for companies' profitability as independent variables. This study attempts to consider whether higher profit results in companies doing more CSR and thus addresses the issue of time lag between profitability and CSR disclosure. The common sense behind this is because the companies need evaluate their performance last year to plan how much money they can spend next year. The first indicator of profitability is net profit margin. It measures how much of net income is generated by each sale in rupiah terms. According toGibson (2008), NPM is calculated as follows:

$$Net\ Profit\ Margin = \frac{Net\ Profit}{Net\ Sales}$$

The second indicator for profitability is ROA. It can be derived from the mathematical equation below:

$$ROA = \frac{Net\ Income}{Average\ Total\ Assets}$$

The third indicator of profitability is ROE. This ratio reveals companies' capability in making use of their assets to make profits, as illustrated below:

$$ROE = \frac{Net\ Income}{Total\ Equity}$$

Whereby gross profit is the result of net sales revenue minus the cost of goods sold. Cost of goods sold is computed by subtracting ending inventory from beginning inventory.

In order to answer the first three hypotheses (H1a, H1b, H1c), the following step is to construct three regression models. The aim of this research is to indicate factors that motivate listed companies to disclose CSR activity one year after the financial reports is generated. The dependent variable is denoted as CSR, while the independent variables consist of the profitability ratio, a control variable of company size, represented by Log natural of Total Assets and other control variables of Kompas100 companies and industry specific. The first control variable of Log Natural Total Assets represents the size of each listed companies, where this variable has proven to be a significant factor in depicting CSR relationship with financial performance (Godfrey et al., 2009; Nelling & Webb, 2009; Siregar & Bachtiar, 2010). The other two control variables, namely Kompas100 and Industry specific, are purposed to acknowledge the investment decision factor related to CSR (Godfrey et al., 2009; Shauki, 2011) and the extent to which industry specific contributes to these relationships (Cochran & Wood, 1984; Godfrey et al., 2009; Nelling & Webb, 2009). Thus, the regression models to test the first three hypotheses are as follow:

Model 1: $CSR_t = b_0 + b_1NPM_{t-1} + b_1LnTA_{t-1} + b_2Kompas100_{t-1} + b_2Industry_{t-1} + \varepsilon$

Model 2: $CSR_t = b_0 + b_1ROA_{t-1} + b_1LnTA_{t-1} + b_2Kompas100_{t-1} + b_2Industry_{t-1} + \varepsilon$

Model 3: $CSR_t = b_0 + b_1ROE_{t-1} + b_1LnTA_{t-1} + b_2Kompas100_{t-1} + b_2Industry_{t-1} + \varepsilon$

Where:

CSR_t	: Number of lines of CSR activity in year *t*
NPM_{t-1}	: Net profit margin in year *t-1*
ROA_{t-1}	: Return on Assets in year *t-1*
ROE_{t-1}	: Return on Equity in year *t-1*
$LnTA_{t-1}$	: Logarithm Natural of Total Assets in year *t-1*
$Kompas100_{t-1}$	: Dummy variables of Kompas100 and non Kompas100 companies in year *t-1*
$Industry_{t-1}$	: Dummy variables of Industry specific in year *t-1*

To test the second hypothesis, a t- test will be used, in order to test two samples and whether there is a significant difference between the Kompas100 and the non-Kompas100 in relation to CSR disclosure. In terms of hypothesis three, a one-way ANOVA and a post-hoc Turkey will be used to observe the difference between the mining industries and the other industries in the listed companies.

3.1   Data Collection

Samples are taken from listed corporations in Indonesia under the Indonesia Stock Exchange. They are classified into nine industries namely agriculture, mining, basic industry and chemicals, miscellaneous, consumer products, property and real estate, infrastructure, utility and transportation, trade, services and investment, and financial and insurance. The latter is excluded due to the different nature of business with the other industries. The measurements for computing ratios are all taken from the financial highlights for the year 2007 to 2009, while the documents needed to measure CSR disclosure are from year 2008 until 2010 annual Reports. Due to data availability and annual report accessibility, and the omission of financial companies, the total sample collected is 543 company-years.

In terms of the CSR content analysis, a careful justification is needed to count each of the sentence related to CSR activities. There are various layouts that companies provide in every financial report, including the bilingual presentation, diagram and graphs. There are several requirements in order to unify the counting lines, such as when there is a bilingual (English and Indonesian) layout in the report, only one language line is to be counted. Headings and subheadings will not be counted and tables' presentation will be counted per lines. If the report presents such diagram or pictures, they will be counted based on the closest sentences paralleled with these graphics.

4.   RESULT AND DISCUSSION

Table 1 presents descriptive statistics of the regression models used in the study. It consists of both dependent variable of CSR year t1, and independent variables of profitability ratios (NPM, ROE and ROA), natural logarithm of Total Assets, dummy variable of industry specific and dummy variable kompas100 companies, all in year t-1.The reliability test indicate that the provided variables have a Cronbach α of 71.3%, which is considered acceptable (DeVellis, 1991).Based on the table 1, the average of CSR lines is 78.36 lines, with a minimum of 0 and a maximum 648, and a standard deviation of 96.195. On the other hand, the independent variable predictors, represented by the three profitability ratios, have various figures. The NPM ratio has a mean of -.0969, a minimum of -78.6045 and a maximum of 11.6475. This indicates that most of the listed companies during year 2007 – 2009 had a net loss. In terms of ROE ratio, the mean indicates a .1103 with a minimum of -2.3076 and a maximum of 6.8237 with a standard deviation of .512, whereas ROA ratio provides a mean of .0408, a minimum of -9.8777 and maximum of 4.7249, with a standard deviation of .4987.

Table 2 depicts the result of the regression tests, based on the three models illustrated above. The three models represent the three profitability ratios which might affect the number of CSR lines produced in the companies' financial reports. Under these models, the dependent variable is the CSR lines in the reports, whereas the independent variables are NPM (model 1), ROA (model 2), ROE (model 3), control variables consist of log natural of Total Assets, dummy variable of kompas100 companies and dummy variable of industry specific. The overall models has an adjusted R^2 of more than .30, respectfully model 1 of .332, model 2 of .334 and model 3 of .336. This means that more than 30% explanatory terms can be explained by these three models. The table also indicates that the models have

significant influence between independent and dependent variables (all p-values are 0.000).Model 1 describes the profitability ratio of NPM to influence CSR lines in the following year (t+1). The finding suggests a weak negative relationship between NPM and CSR, where the coefficient is -.0008 and a t-statistic of -.0231, with a significance level of .9816 (p>0.05). On the other hand, the LnTA and Kompas100 variables are strongly significant to CSR, with a p-value of .0000 each (p<0.05), whereas industry specific does not prove to be a significant factor to CSR (p-value: .4143; p>0.05).

Model 2 of the regression test illustrate the profitability ratio of ROA. The result describes similar finding with model 1, in that ROA ratio has a weak positive influence to CSR, with p-value of .2139 (p>0.05). Nonetheless, some control variables have strong influences to CSR, namely LnTA and Kompas100, while industry specific has weak influence to CSR. Model 3 represents a slight difference in the finding. ROE ratio found to have a relatively strong influence to CSR, with a p-value of 0.0613 (p<0.1), while the control variables have similar finding with the other two models.

The above result suggests a mixed interpretation. Generally, there has been no relationship between profitability ratio and CSR disclosure. This finding contradicts with previous finding fromBowman and Haire (1975); Bragdon and Marlin (1972); McWilliams and Siegel (2000); Nelling and Webb (2009), and Fauzi and Idris (2012). However, the finding support previous findings by Aupperle et al. (1985); Blomgren (2011); Hillman and Keim (2001) and Siregar and Bachtiar (2010). These inconsistency results are not surprising, given the fact that these studies are generated in based on various nature of the models and empirical backgrounds. For instance, McWilliams and Siegel (2000) observe the effect of CSP to financial performance, as well as Blomgren (2011), although their result contradict one another. On the other hand, Nelling and Webb (2009) studies the effect of financial performance to CSR disclosure, where their finding contradicts with this study.

As described earlier, this research does not attempt to summarise or emphasise the overwhelming various models presented either from previous or current findings, but attempts to examine an alternative approach in relation to Indonesian context. Moreover, the establishment of Indonesian Corporation Law in 2007 enforced companies to disclose and allocate CSR activities in their reports. One of the purposes of this research is whether there has been a substantial change in the reporting behaviour due to this enforcement, especially in the short-term basis. The above findings suggest that there has not been a significant change in CSR disclosure in which financial performance have been the main issue. In comparison to previous research, the finding is different to the to Godfrey et al. (2009) argument, in that Western companies who possess more access to resources may provide greater opportunities in disclosing their social reporting. This behaviour is unlikely to happen in within Indonesian context, due to different orientation of the company in providing such reports.

Companies who perform better financial performance, or otherwise, do not seem to comply with the level of CSR disclosures in their reports. There are possible reasons that can be explained. Firstly, there may be tendency for the listed companies to consider CSR activities as cost addition as opposed to value addition. This phenomena is not uncommon due the fact companies are concern with their profit orientation to favour shareholders' benefit (Siregar & Bachtiar, 2010). The eagerness to disclose a sincere and thorough CSR

activity is doubted since such activity is believed to reduce the profit (Rahendrawan, 2006), although there are trend that shareholders are expecting to view CSR disclosure as an important factor (Shauki, 2011). Secondly, the less relationship between companies' profitability and CSR disclosure may be caused due to the motive of the disclosure itself. In most cases, the disclosing of the CSR activity is merely to increase company's image and reputation (Lindgren & Hendeberg, 2009) and treated as a 'cosmetic' purpose (Koestoer, 2007), in which companies tend to gain legitimacy to influence public opinion. As far as the enforcement concerns, the disclosure is still voluntary in nature, which provide a free interpretation and loose appreciation of the critical importance in the developing countries (Jamali & Mirshak, 2007). In addition, according to Carroll's model of CSR responsibility, Indonesia's listed companies may lie into the area of philanthropy, where CSR are considered as social grants and charity issues that may seem obvious fulfil the requirements from stakeholders. Koestoer (2007) argue that the company's objective and motive tend to be pragmatic and considered less methodological.

Table 3 describes the industry-specific statistics, consisting of two major classifications which are kompas100 – non-Kompas100 companies and industry type. In terms of Kompas100 type, the mean for the non-Kompas100 is 46.86 CSR lines with standard deviation of 53.008, whereas the Kompas100 companies have a mean of 150.52 CSR lines, with a standard deviation of 128.826. The number of companies under the Non-Kompas100 is greater than the Kompas100, amounting 378 and 165 companies, respectively (69.61% and 30.39%). The lower rows are the industry-type specifications which consist of eight types of industries, namely Agriculture, Basic Industry & Chemical, Consumer Goods & Pharmaceutical, Infrastructure Utility & Transportation, Mining, Miscellaneous, Trading, Service & Investment, and Property, Real Estate & Constructions.

Under the industry-type classification, mining companies have the highest mean of CSR lines, amounting 208.71 lines and a standard deviation of 141.806, followed by Infrastructure, Utility & Transportation, with a mean of 113 CSR lines and a standard deviation of 106.186. The highest number of companies and the highest CSR lines is produced by Trading, Service & Investment, with 159 companies and 648 lines. On the other hand, Basic Industry & Chemical has the smallest mean in providing CSR, amounting 53.35 lines and a standard deviation of 66.851.

In order to test the second hypothesis, a one-way ANOVA test is performed, to test whether there is a significant difference between the kompas100 companies and the non-Kompas100 in terms of CSR disclosure. The result found that there is a significant different between the two types of industries with 0.000 significant level ($p<0.005$) and F –stat of 176.596. Thus, hypothesis two is accepted.

As described earlier, Kompas100 comprises listed companies with good financial performance, high liquidity and represents 70 to 80 % of market capitalisation. This segment is important as shareholders and investors' concern with these companies, including their financial performance, stock market price and financial reports. In relation to the second hypothesis, the finding supports Godfrey et al. (2009) and Shauki (2011) in that shareholders' are concerned with the CSR activity in a company. It is possible that the Kompas100 companies are striving to maintain good relationship with their shareholders' by providing reasonable disclosure of their CSR activity. These companies are expected to gain a long-

term investment and thus the CSR report are equipped with a well-planned strategy and integrated with the overall performance (Achda, 2006).

To test the third hypothesis, a post-hoc Tukey is performed in order to indicate whether there is a significant different between the mining companies and other industries in terms of number of lines in the CSR report. Based on table 4, the result found a significant different between these groups and the mining companies, with a significant level of 0.000 ($p<0.005$). The mean difference between Mining industry and the others ranges between 95.71 and 155.36 lines. Since the significant level is below 0.05 significant tests, then hypothesis three is accepted.

This finding is supported by Cochran and Wood (1984) and Fauzi and Idris (2012) and is not supported by Mirfazli (2008). One possible explanation is that mining firms tend to disclose more CSR activity as a result of direct impact to the community and society, in which companies oblige a reciprocal action and contribution. Moreover, pressure often derived from the non-government organisations to these companies, to disclose sustainability report as the result of overt exploration of natural resources (Kiroyan, 2006).

5. CONCLUSION

There are number of methods in capturing companies' CSR and profitability. In measuring CSR, some studies prefer to count the number of sentences used to disclose CSR activities in Annual Report, while others prefer distribute surveys to the management to know the companies' perception of CSR. Similarly, there are number of ratios to determine companies' profitability other than net profit margin, ROA and ROE. In this study, company's profitability does not have any relationship with the company's CSR report. On the other hand, the firm size and the Kompas100 companies have close relationship with CSR motivation. It appears that the majority of large size companies have willingness to disclose their CSR activities than those smaller ones. Company's image and reputation are some of the reasons to disclose CSR. The motivation to disclose a comprehensive and sincere report is of importance in order to maintain relationships, not only shareholders or investors, but also stakeholders and the environment.

This study offers two implications. Firstly, the findings suggest that the quality of CSR disclosure in the Indonesian listed companies has little correlation to company's financial performance, especially profitability analysis. This indicates that the motivation of Indonesian CSR disclosure is merely to maintain good reputation to shareholders, rather than a consequence of allocating surplus funds. Secondly, the lack of government supervision to implement a good CSR reporting has caused the report not in accordance with the applicable international standards. As Shauki (2011) and Waagstein (2011) suggest, CSR disclosures have a greater consequence on investment decision, a company's means to maintain its reputation, and as an obligatory 'potluck' reporting to fulfil government's requirements. Thus, the study addresses policy makers to pay more attention and oversee the regulation of CSR in Indonesia.

As with all empirical studies, this study has limitation that may result some inconsistencies. The first limitation is the subjective measurement of CSR. It assumes no standardized font types and sizes, resulting in different total CSR lines, which inevitably

generate bias in the counting procedure. Secondly, the length of data collection can be considered short-term (below 5 years). This may indicate greater relationship between financial performance and CSR activity, which is believed to provide robustness in a longer study (McWilliams & Siegel, 2000, 2001). Nonetheless, the enforcement of government regulation has only started in 2007, thus more length of company-years might be robust to future research. Lastly, the economic crisis in 2008 may affect some financial performance, in that some companies may not reflect their CSR plans.

For further research, this study suggests more variables embedded in the research such as cultural context of disclosing CSR, government interventions, political and social pressures and other non-monetary company's disclosure. It is suggested that since there has been little or even no relationship to financial performance, the study of Indonesian CSR reports can be investigated in a qualitative manner, rather than quantitative one. Thus, CSR research in qualitative approach enables to explain the development, as well as characteristics, of CSR activity in Indonesia.

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APPENDIX

Table 1: Descriptive Statistic

Variable	Minimum	Maximum	Mean	Std. Deviation
CSR_{t1}	0	648	78.36	96.195
NPM	-78.6045	11.6475	-.0969	3.4556
ROE	-2.3076	6.8237	.1103	.5120
ROA	-9.8777	4.7249	.0408	.4987
LnTA	11.0591	32.2115	26.2303	4.0089
Industry	1	8	5.14	2.205
kompas100	0	1	.30	.460
N = 543; Cronbach α = 71.3%				

Table 2: Regression Result

Variable	Coeff	t-statistic	p-value
Model 1: NPM			
CSR_{t1}		3.9690	.0001
NPM	-.0008	-.0231	.9816
LnTA	.3227	8.5515	.0000
Kompas 100	.3807	10.0470	.0000
Industry	.0288	.8170	.4143
Adj R	.332		
F-stat	68.332		
p-value	.000		
Model 2: ROA			
CSR_{t1}		3.8802	.0001
ROA	.0438	1.2443	.2139
LnTA	.3229	8.5704	.0000
Kompas 100	.3779	9.9735	.0000
Industry	.0315	.8933	.3721
Adj R	.334		
F-stat	68.916		
p-value	.000		
Model 3: ROE			
CSR_{t1}		3.7450	.0002
ROE	.3755	9.9190	.0613*
LnTA	.0327	.9274	.0000
Kompas 100	.3238	8.6083	.0000
Industry	.0659	1.8751	.3541
Adj R	0.336		
F-stat	69.658		
p-value	.000		

*Significance level at *p < 0.1, **p < 0.05*

Table 3: Industry Specific Statistics

Industry	Mean	Std. Deviation	N	%	Minimum	Maximum
Non-Kompas100	46.86	53.008	378	69.6133	0	407
Kompas100	150.52	128.826	165	30.3867	0	648
Agriculture	93.14	81.702	21	3.8674	0	283
Basic Industry & Chemical	53.35	66.851	81	14.9171	0	355
Consumer Goods & Pharmaceutical	64.31	74.329	66	12.1547	0	310
Infrastructure, Utility & Transportation	113.00	106.186	42	7.7348	0	409
Mining	208.71	141.806	39	7.1823	0	552
Miscellaneous	66.08	86.133	72	13.2597	0	369
Trading, Service & Investment	65.44	94.299	159	29.2818	0	648
Property, Real Estate & Constructions	63.21	52.956	63	11.6022	0	221
Total	78.36	96.195	543	100.0000	0	648

Table 4: Post Hoc Tukey on Industry Specific

(I) Industry	(J) Industry	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval Lower Bound	Upper Bound
Mining	Agriculture	115.56[*]	23.931	.000	42.74	188.38
	Basic Industry & Chemical	155.36[*]	17.232	.000	102.92	207.80
	Consumer Goods & Pharmaceutical	144.39[*]	17.857	.000	90.06	198.73
	Infrastructure, Utility & Transportation	95.71[*]	19.661	.000	35.88	155.53
	Miscellaneous	142.63[*]	17.579	.000	89.14	196.12
	Trading, Service & Investment	143.27[*]	15.799	.000	95.19	191.34
	Property, Real Estate & Constructions	145.50[*]	18.014	.000	90.68	200.32

* The mean difference is significant at the 0.05 level