CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE PRACTICES OF INDONESIA COMPANIES

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Declaration of Originality

I, Mentari Listyani, hereby state and declare that this thesis is true and accurate to be my own work specially written for partial requirement to complete Undergraduate Program of Accounting and has not initially been presented in any other occasion. I bear full responsibility for my undergraduate thesis.

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MOTTO AND DEDICATION

Success is the ability to go from one failure to another with no loss of enthusiasm

– Winston Churcill

Man shabara zhafira – Arabic Quote

This thesis I dedicate for:

My beloved parents

My brother and my families

My partner and all my friends

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ABTRACT

This study aims to obtain the extent of disclosure of companies' CSR activity based on type of disclosure (monetary, quantitative, and narrative) and whether there is a difference by such types of disclosure across industries (sensitive and non-sensitive industry) or not. To measure the extent of CSR disclosure, this study used GRI Index 3.1.

The population of this study was all companies listed in Indonesia Stock Exchange (IDX) in 2012. Sample consists of companies which included in top 100 companies based on market capitalization and disclose annual report and or sustainability report in 2012. Data analysis was performed with the statistics descriptive and independent sample t-test. Statistic program in this study used SPSS 16.

The results of this study indicate that the extent of narrative type is high and it becomes the most used type among Indonesia companies in 2012 to disclose their CSR activity and there is a difference of disclosure in forms between type of industry (sensitive and non-sensitive industry).

Keywords: disclosure type, industry type, CSR, GRI 3.1

ABSTRAK

Penelitian ini bertujuan untuk mengetahui tingkat pengungkapan aktivitas Corporate Social Responsibility (CSR) perusahaan berdasarkan tipe pengungkapan (moneter, kuantitatif, dan naratif) dan apakah pengungkapan berdasarkan tipe tersebut berbeda di antara tipe industry (sensitive dan non-sensitive industry). Pengukuran luas pengungkapan aktivitas CSR perusahaan menggunakan Indeks GRI 3.1.

Populasi dari penelitian ini adalah semua perusahaan yang terdaftar di Bursa Efek Indonesia pada tahun 2012. Sampel penelitian terdiri dari perusahaan-perusahaan yang termasuk top 100 perusahaan berdasarkan kapitalisasi pasar dan mengungkapkan annual report dan atau sustainability report di tahun 2012. Analisis data dilakukan dengan menggunakan statistik deskriptif dan independent sample t-test. Program statistik dalam penelitian ini menggunakan SPSS 16.

Hasil dalam penelitian ini menunjukkan bahwa tingkat pengungkapan tipe naratif adalah tinggi dan naratif merupakan tipe pengungkapan yang paling banyak digunakan oleh perusahaan Indonesia di tahun 2012 untuk mengungkapkan aktivitas CSR-nya dan terdapat perbedaan pengungkapan dalam bentuk naratif di antara tipe industry (sensitive dan non sensitive industry).

Kata kunci: tipe pengungkapan, tipe industri, CSR, GRI 3.1

TABLE OF CONTENTS

LIST OF TABLES

LIST OF APPENDICES

CHAPTER I

INTRODUCTION

1.1 Background

Corporate Social Responsibility (CSR) has been done by most of companies throughout the world including in The Association of Southeast Asian Nations (ASEAN) region. In recent years, those companies which listed on stock exchanges had done many activities that purposed for their social responsibility. McWilliams, Siegel, and Wright (2005) define corporate social responsibility as an action beyond the adherence of the law conducted by the companies. The goal of doing CSR activities is to reach the society trust toward the companies. The higher society trust reached by companies, the higher their companies value. Moreover, they suggest that companies no longer focus on profit maximization for their business to raise their companies value that usually represented by the stock price. The positive impacts from doing CSR activities are the companies can make their business operation give benefits to society and the society's perception toward the companies will increase. Companies implement the CSR activities through many ways such as environment, philanthropy, and ethical labor practices.

Indonesia is one of the members of ASEAN which have great economic growth in recent years. Based on the data of World Bank, Indonesia recorded strong economic growth of 6.2 % in 2012 which is supported by strong growth in domestic consumption and investment. That economic condition indicates that business sector in the scope of domestic market will have bright prospects. There are many factors that affect the economic growth in Indonesia. The first of all is the increasing of the middle class society. McKinsey estimates that Indonesia will become the world's 7th-largest economy in 2030, overtaking Germany and United Kingdom. That condition supported by the amount of 135 million of consuming class population which is bigger than 45 million ones reported in 2012. The consuming class population has a consumptive manner which encourages the purchasing power in economic system. This condition is a chance for people with business minded to fulfill the needs of the society by open a new company. It could be the second factors that upgrade the economic growth. The company will produce the goods and services needed by society. The desire to open new company is not only experienced by domestic businessman or investors but also foreign investors. It is not surprisingly, when there are a lot of investors come to Indonesia. This causes a competitive market in this country. The company will do many ways do attract consumer, stakeholders, and shareholders to increase their sales and expand their business. One of the ways to reach that goal is releasing financial and non-financial report. The financial report shows the financial performance of the company. In other side, non-financial report informs the readers about the social performance of the company.

There are many laws and regulations that control CSR activity in Indonesia companies. One of them is Corporation Law No. 40 of 2007. The Article 1 Number 3 of that Law states that social and environmental responsibility is the commitment from company to participate in the sustainable economic development, in order to increase the quality of life and environment, which will be valuable for the Company itself, the local community, and the society in general. Meanwhile, in Article 74 Number 1 states that the company having its business activities in the field of and/or related to natural resources, shall be obliged to perform its Social and Environmental Responsibility. The company that has business activities is in the field of natural resources is the companies which manage and exploit natural resources in its business core. Whereas, the company that related to natural resources is the company which does not manage and exploit the natural resources but, the business core have impact to the function of the natural resources. This Article also explains the sanctions for the company that does not obey the law.

Law No. 27 of 2007 on Investment on Article 15 state that every investor is required to implement the company's social liability. The company's social liability mentioned in that article means the responsibility of every company to create a relationship which harmonious, balanced, and appropriate to the surrounding community's environment, values, norms, and cultures. While, in Article 16 explains that every investor responsible to preserve the environment. The administrative sanctions given to the investor who does not obey that law are written warning, business restriction, suspension of business and/or investment facility, or revocation of business license and/or investment facility. Those sanctions are stated clearly in Article 34 Number 1.

The other law that controls the CSR especially for environment scope is Law No. 32 of 2009 on Environmental Protection and Management. Based on that

Law, as stated in Article 68, everybody who undertakes the business and/or activity shall be obliged to:

a. Provide information related to environmental protection and management truthfully, transparently, and punctually;

b. Preserve the sustainability of environmental functions; and

c. Abide by the provision on the quality standard of environment and/or standard criteria for environmental damage.

Law No. 22/ 2001 which regulate Petroleum and Natural Gas in Article 11 Clause (3) explains that upstream business activity which executed by business entity or permanent establishment on the basis of joint cooperation contracts with executing agency shall contain principal provisions, one of them is the development of surrounding communities and guarantee for right communal society. Beside it, in Article 40 Clause (5) states that business entity or permanent establishments undertaking the petroleum and natural gas-related business activities shall be responsible for the development of the environmental and local communities.

Many previous study of corporate social disclosure has been conducted in Indonesia. Gunawan et al (2009) held the study to examine the extent of corporate social disclosure (CSD) in Indonesian listed companies for the year 2003-2006. They used content analysis to measure CSD. The result shows that the information which most disclosed in annual report is human resources and the information are mostly disclosed in positive and descriptive manner.

Djajadikerta and Trireksani (2012) conducted the study of corporate social and environmental disclosure in Indonesian listed company. They focused on the disclosure which reported in company's web sites. The sample used consists of sensitive and non-sensitive companies and content analysis is used to measure social and environmental disclosure. The findings show that the extent of CSED of Indonesian companies in their corporate web sites is low and descriptive is the mostly nature of disclosure.

This study focuses on non-financial report released by the companies in Indonesia. A company commonly releases annual report that contains financial and non-financial performance. Based on previous studies, those two information are related each other. Financial performance of a company can affect its non-financial performance. Conversely, non-financial performance can also affect the company's financial performance. The non-financial performance is such as Corporate Social Responsibility (CSR) activity. The financial performance of a company can be found in their financial statements. The items of financial performance usually stated in ratio forms such as Return on Assets (ROA), Return on Equity (ROE), Gross Profit Margin (GPM), Net Profit Margin (NPM), etc.

There are items that company must disclose in their non-financial performance. Based on Global Reporting Initiative Index 2012 version 3.1, the items are economic, environmental, social (labor practices and decent work), human rights, society, and product responsibility. A company which discloses their CSR activity using GRI Index releases a specific report which is called as Sustainability Report (SR). The report contains those items and there are a cross index of GRI in the last pages of the report. Some companies do not release a sustainability report to disclose their CSR activity. They use annual report to inform their CSR activity. Of course, those companies try to mention all the GRI items although they don't release the sustainability report and attach a cross index of GRI in their annual report last page.

There are many types of disclosure used by company to disclose the items on GRI Index, they are narrative, monetary, and quantitative (Alnajjar, 2000). Narrative type mainly discloses the items in form of sentences or paragraphs. The monetary type mentions the number in *rupiah* or *dollar* of an item is conducted by company. Then, quantitative type specify the information of items stated in number form, for example, the amount of waste, the percentage of employee, etc.

Therefore, this study is conducted to provide an up-to-date portrait of Indonesia companies' corporate social responsibility disclosure practices. Global Reporting Initiative (GRI) index 2012 version 3.1 is used to measure the extent of CSR activities. This study investigates the disclosure practice of corporate social responsibility in narrative, quantitative, and monetary types of disclosing that activity. The samples used in this study are annual reports or sustainability reports of Indonesia companies in 2012. There are top 100 companies are chose based on their market capitalization. It is assumed that companies which have bigger market capitalization will better disclose their CSR activity in their annual reports or their sustainability report. Disclosure occurrence is used to measure the corporate social disclosure. Based on Joseph and Taplin (2011), CSD is measured by "counts the number of disclosure items in the checklist that have disclosures without taking into account the amount of disclosure for each item". This method applied in this study because this can avoid the occurrence of double counting caused by repetition information of measuring the items. Choosing Indonesia as the scope of this study as there is a scant research in CSR practice and the types of disclosure has been conducted yet. Profitable and competitive business climate and wealth in Indonesia region has urged the companies to initiate CSR practice and disclose it in better way to attract the shareholders.

From the explanation above, this study aims to investigate the extent of corporate social responsibility disclosure of Indonesia companies based on the type of disclosure and whether the amounts of corporate social responsibility disclosure are varied between sensitive and non-sensitive industry.

1.2 Research Questions

Based on the explanation in Introduction Section, the research questions of this study are what is the extent of CSRD by the types of disclosure? and whether the extent of disclosure by the type are varied between sensitive and non-sensitive industry?.

1.3 Purposes and Usefulness

1.3.1 Purposes of the Study

According to the problem formulation as stated above, the purpose of this study is to analyze the extent of CSRD by the types of disclosure and to find whether a difference of disclosure type across industries or not.

1.3.2 Usefulness of the Study

This study is expected to give advantages as follows:

1. For Investors

The result of this study can be used by the investors to make business decisions, especially financing decisions and general operation decisions. Investor can assess the social performance of companies in better way. They will get adequate information to predict the future cash flow of the firm they involved in because of the decreasing of asymmetry information between managers and investors.

2. For Management

The result of this study can be used by management to make a better disclosure of CSR activity so that it can increase the willingness of investor to invest their money to the companies. Better disclosure also can keep the trust of the stakeholder. Enhanced disclosure can reduce the asymmetry information between management and investors.

3. For Accountant

The result of this study can be used by accountant to arrange financial report considering the environmental, employment, investment and procurement practices, communities, consumer and product issue which can used by the stakeholders and the shareholders to make the right business decisions.

4. For Researcher

The result of the study can be used as a consideration for the next researcher to carry on the extent work in type of disclosure and corporate social responsibility issue which have the contribution for the literature.

1.4 Structure of Thesis

This thesis structure is divided into five chapters as follows:

CHAPTER I : INTRODUCTION

In this chapter the readers will get the explanation about the background of this study practiced, problem statement, the purposes and advantages of the study, and research systematic.

CHAPTER II : LITERATURE REVIEW

In this chapter the readers will get the explanation about the literatures used for the study as the theoretical basis, the previous study, framework and the hypothesis.

CHAPTER III : RESEARCH METHOD

In this chapter, the readers will get the explanation about variables used in the study, sampling and data, analysis method, data processing, and hypothesis testing.

CHAPTER IV : RESULTS AND DISCUSSIONS

In this chapter, the readers will get the description about the research objects which consists of overview of sample, the results of data processing, and the results and implications of study.

CHAPTER V : CONCLUSIONS AND THE FUTURE RESEARCH

In this chapter, the readers will get the explanation about conclusion and restrictions of the study and suggestions for the next researchers.

CHAPTER II

LITERATURE REVIEW

2.1 Theory

The practice of corporate social responsibility and its disclosure are different among countries. The country and the institution inside where the corporate lies in become the factors that influence those activities. Thus, this study uses institutional theory as the underlying theory.

2.1.1 Institutional Theory

The word ‘institution’ is defined by Huntington as “stable, valued, recurring pattern of behavior” (1968 p.12). The institutional theory states that firms are embedded in a broad set of social structure which consists of different types of institutions such as political and economical institution that affect the firm’s behavior (Ioannou and Serafem, 2012; Campbell 2007). Institutional theory is used to compare the good governance among countries (Aguilera and Jackson, 2003). Good governance is affected by company’s stakeholders. In institutional perspective, the corporate are responsive towards the interest of social actors (Scott, 2003:346). The perspective also explains that the corporation will treat their stakeholders depends on the institutions they operate in. Here are the institutional factors that mediate the relationship between CSR activity and economic conditions: public and private regulation, the presence of nongovernmental and other independent organizations that monitor the corporate behavior, institutionalized norms regarding appropriate corporate behavior, associative behavior among corporations themselves, and organized dialogues among corporations and their stakeholders (Campbell, 2007).

A corporate do its CSR activities is adjusted to its corporate strategy which is enacted for product-market activity (Husted and Allen, 2006). There is a need to make suitable CSR way according to the country where the corporation lies in. It because of different societies have developed different system of markets, which reflecting their institutions, their customary ethics, and their social relations (Matten, 2008). CSR activity varies among countries because there are historically grown institutional frameworks which forms national business system (Whitley, 1997). That national business system (NBS) is vary among countries. The definition of NBS is "distinctive patterns of economic organization that vary in their degree and mode of authoritative coordination of economic activities, and in the organization of, and interconnections between, owners, managers, experts, and other employees" (Whitley, 1999. p.33).

Based on study conducted by Ioannou and Serafeim (2012), NBS categories of institution that mostly give impact to corporate social performance (CSP) are political system, labor and education system, and the cultural system. CSP is the social performance outcome of a company that undertakes the CSR activity. Political system becomes important because it refers to the power of a state to dominate the economy system and share risk so that the business depends to the state policies and actions (Whitley, 1999). The law and regulations have an important part to ease the relationship between corporation and government as like the relationship to their stakeholders (Campbell, 2007; Aguilera & Jackson, 2003; Roe, 2003). The law and regulations are enacted to encourage the business competition among countries. The business competition faced by corporate can affect their social performance. The corporations which involve in high market competition tend to cut their thin profit margin to survive. This condition led to the decreasing of corporate social performance in two reasons. The first, the firm with minimum or zero profit will have lower fund intended to do the activities that increase the CSP. The second, in any conditions within the high market competition, the firm endeavor to save their money. Therefore, the country which the law and regulation encourage the competition, the corporation are likely to have the low score of CSP index. Political system also includes the extent of corruption of a country. A country which has lower level of corruption will have higher level of CSP index. The reasons are, first, the corporations which operate in high corruption level tend to do unethical activity to cut down their costs or to expand their market share. Second, the benefit obtained by the corporations which do socially responsible activity in a corrupt country is less than the corporations lies in non-corrupt country. It because the corrupt country is less likely to give incentive to them which do socially responsible in form of tax exemptions, financial support and improved infrastructure. Third, the corporations which use CSR as their core strategy are more likely to resists and oppose the unethical activity. This condition impacts the corruption itself. The other component of political system is ideological system of values and beliefs of state officials and of ruling parties or coalitions. CSR is more likely enclosed in formal institutional structure rather than in voluntary and explicit ways in the countries with more leftist political ideology.

After political system, there is education and labor system that can give influence toward CSP. Whitley (1999) explained that education is one of the systems that develops and certifies competences and skills. Meanwhile, he defined labor system is one of the institutions that control how the owners of those skills sell them in the market labor and how those market are organized. Corporations tend to have higher CSP level in the country which has big labor union. A big labor union has a power to give the pressure toward corporations to do socially responsible activity, especially toward them. They also prosecute their right such as benefit for employees, health and safety provisions, progressive labor relations policies, workplace amenities, and may push for involvement in any community engagements. The regulation and production of human resources such as education also give an effect on CSP. The corporation will compete in the labor market to get skilled human capital. In order to attract skilled labor to work in their company, they used CSP as the strategies. Labor is more likely interested in work in a corporate which has good in reputation CSP. Therefore, corporation should improve their CSP in order to recruit skilled labor. The relationship between CSP with skilled labor is inverted. Based on Siegel (1999), the corporate are active to do CSR activity when the condition of market is limited for the availability of the skilled labor.

Financial system gives an effect against CSP in two indicators. They are the types of financial system and the presence of a socially responsible stock market index. Whitley (1999) mentioned that the types of financial system are market based and credit-based financial system. He defined market based financial system as the actor "mobilize and distribute capital largely through large and liquid markets which trade and price financial claims through the usual commodity-market processes" (Whitley 1999, p.49). Meanwhile, the credit-based financial systems "typically have weak and fairly illiquid or thin capital markets, which play only a minor role in mobilizing and pricing investment funds" (Whitley, 1999, p.49). In market based financial system, the financing decision is based on short-term profitability consequently the corporation strives to maximize their profit (Teoh, Welch and Wong, 1998a; Teoh, Welch and Wong, 1998b). This condition encourages the firm to limit the investments in CSR activity. Hence, the corporation which involving in market based system is likely suffers the low CSP index. In the other side, credit-based financial system allocates the capital based on administrative processes and encounters the capital-constraint which can lead to the lower CSP Index (Ioannou and Serafeim, 2012). Thus, the market-based system is better structured capital allocation and lesser facing capital constraint than credit-based financial system. Therefore, the corporations which lie in or closer to the market-based systems are likely more high score in CSP Index.

The last, cultural system brings impact to the CSP. Based on Porter & Kramer (2006) the country which have more individualistic culture, the corporations are likely have higher CSP index score than in country with low level of individualism. The corporation's managers in that culture tend to focus their attention against choosing the explicit decision and actions in CSP or more broadly. The society in individualistic cultures is likely to hold explicit CSR activities as the response of the perceived expectation of stakeholders (Ioannou and Serafeim, 2012).

2.1.2 Corporate Social Responsibility

Corporate in doing their business involves the internal and external environment. Corporations should act socially responsible towards them in order to support the going concern of their business. The definition of act socially responsible is when the corporate social behavior is appropriate and can be accepted by the stakeholders who have the interest in the corporate or those who give pressure the corporate to do that action, for instance, the non-governmental organizations, consumers, or group of community. For example, the sociable responsibility behavior toward the internal environment is treating the employees by giving to them the decent work environment, safety guarantee, and feasible wages. Meanwhile, the sociable behaviors against external environment such as customer are attaching the product's manual book, give the right information of the product, respect of the product quality, etc. Toward the suppliers, company gives their commitments to hold the contract, to the government, company complying all the laws and regulations and against to the community, and against to the community, company give their role or contribution to help and develop them (Campbell, 2007).

What conditions can encourage a firm to do socially behavior responsibility? Here are the answer and the explanation of that question. The first of all is the economic condition. Previous study shows that the company which has powerless financial performance, they are likely limit their social behavior toward the environment or even they do not have that behavior (Orlitzky et al., 2003). It happens because the firms that experience decreasing financial performance or its profitability, they have less resource to do socially responsible activity then they do not (Waddock & Graves 1997). Economic condition also can be reflected by the condition of business competition. A firm which faces little business competition likely has less socially responsible behavior then the firm which faces strict competition business. In the strict market, if a company does irresponsible activity, it will affect their sales or profitability. It happens because their customer will move from their product to the other product.

Beside the economic condition, socially responsible behavior also affected by institutional condition such as regulations or laws released by government, emerging the self-regulation, the presence of non-governmental organization, the involvement in trade or employer associations, and their involvement in institutionalized dialogue with unions, employees, community groups, investors, and other stakeholders. Corporations will likely act in social responsible way if there are regulations and good monitoring by the government to ensure the enforcement of it. The government also should have the capacity to engage the society in order to monitor the corporation's behavior.

Business industry in a nation usually has its own regulation. Corporation which included in an industry which has regulation besides the state regulation enacted by government, are likely has socially responsibility behavior than the one that does not. Not only the presence of industry regulation or self-regulation that can encourage a corporate to socially responsible, but there must have a well-organized system and effective self-regulation. The behavior of corporation not only monitored by government, but there are also an independent organization that monitor them and pressure them to behave socially responsible. The organization called as non-governmental organizations or NGO exists whether in international or domestic scope. For instance, the international NGO are the International Labor Organization (ILO), the Word Wildlife Federation, and the World Health Organization (WHO) (Boli & Thomas, 1997).

The corporation involvement in a trade or employer association also gives an impact toward their socially responsible behavior. The business associations give their contributions to the members in educating them about the long-term advantages to have the better industrial system, better employee compensation program, etc. The corporate which involves in trade or employer association is likely has socially responsible behavior than the others which do not.

The corporations which are engaged in institutionalized dialogue with unions, employees, community groups, investors, and the other stakeholders are likely have a socially responsible behavior. It can happens because, that engagement give the corporation long-term advantages such as higher competitiveness. Holding dialogue with the employees can help the corporate to solve their problem, for example, they can solve the market demand changing and the new production technologies. This because of the presence of sharing process between corporate with their worker to make a decision.

2.1.3 Global Reporting Initiative Index (GRI Index)

Global Reporting Initiative Index is a non-profit organization which encourages economic sustainability of organizations. This organization makes the sustainability reporting standards which have been followed by more than 4000 organizations from 60 countries. The kinds of organizations that followed the standards are corporate business, public agencies, smaller enterprises, non-governmental organizations (NGOs), industry groups, etc. Sustainability reporting is a report that informs the economic, environmental, social and governance performance of organization. The other names of sustainability reporting are ecological footprint reporting, environmental social governance (ESG) reporting, triple bottom line (TBL) reporting, and corporate social responsibility (CSR) reporting.

Based on Sustainability Reporting Guidelines (2011), here are the GRI's indicator explanation and all of each its items or indicator performance:

a. Economic

The economic indicator shows the impacts toward the economic condition of its stakeholders and its economic system at local, national, and global levels.

Table 2.1
Economic Indicator

Sub-Indicator	Code	Explanations
Economic Performance	EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained

		earnings, and payments to capital providers and governments.
	EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.
	EC3	Coverage of the organization's defined benefit obligations.
	EC4	Significant financial assistance received from government.
Market Presence	EC5	Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.
	EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.
	EC7	Procedure of local hiring and proportion of senior management hired from the local community at locations of significant operation.
Indirect Economic Impacts	EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.
	EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.

b. Environmental

Environmental indicator exhibits the organization's impact against living and non-living natural system, including ecosystems, land, air, and water.

Table 2.2
Environmental Indicator

Sub-Indicator	Code	Explanations
Materials	EN1	Material used by weight or volume.
	EN2	Percentages of material used that are recycled input materials.
Energy	EN3	Direct energy consumption by primary energy source.

	EN4	Indirect energy consumption by primary source.
	EN5	Energy saved due to conservation and efficiency improvements.
	EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.
	EN7	Initiatives to reduce indirect energy consumption and reductions achieved.
Water	EN8	Total water withdrawal by source.
	EN9	Water sources significantly affected by withdrawal of water.
	EN10	Percentage and total volume of water recycled and reused.
Biodiversity	EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.
	EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.
	EN13	Habitats protected or restored.
	EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.
	EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.
Emissions, Effluents, and Waste	EN16	Total direct and indirect greenhouse gas emissions by weight.
	EN17	Other relevant indirect greenhouse gas emissions by weight.
	EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.
	EN19	Emissions of ozone-depleting substances by weight.
	EN20	NO, SO, and other significant air emissions by type and weight.
	EN21	Total water discharge by quality and destination.
	EN22	Total weight of waste by type and disposal method.

	EN23	Total number and volume of significant spills.
	EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.
	EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.
Products and Services	EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.
	EN27	Percentage of products sold and their packaging materials that are reclaimed by category.
Compliance	EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.
Transport	EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.
	EN30	Total environmental protection expenditures and investments by type.

c. Labor Practices and Decent Work

This category is based on internationally recognized universal standards, such as:

- United Nations Universal Declaration of Human Rights;
- United Nations Convention: International Covenant on Civil and Political Rights;

- United Nations Convention: International Covenant on Economic, Social, and Cultural Rights;
- Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW);
- ILO Declaration on Fundamental Principles and Right at Work (in particular the eight core Conventions of the ILO consisting of Conventions 100, 111, 87, 98, 138, 182, 29, 105); and
- The Vienna Declaration and Programme of Action.

Table 2.3
Labor and Decent Work Indicator

Sub-Category	Code	Explanations
Employment	LA1	Total workforce by employment type, employment contract, and region, broken down by gender.
	LA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region.
	LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant location of operation.
	LA4	Percentage of employees covered by collective bargaining agreements.
	LA5	Minimum notices period(s) regarding operational changes, including whether it is specified in collective agreements.
Occupational Health and Safety	LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.
	LA7	Rates of injury, occupational disease, lost days, and absenteeism, and total number of work-related fatalities, by region and by

		gender.
	LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious disease.
	LA9	Health and safety topics covered in formal agreements with trade unions.
Training and Education	LA10	Average hours of training per year per employee by gender, and by employee category.
	LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career ending.
	LA12	Percentage of employees receiving regular performance and career development reviews, by gender.
Diversity and Equal Opportunity	LA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.
Equal Remuneration for Women and Men	LA14	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.
	LA15	Return to work and retention rates after parental leave, by gender.

d. Human Rights

Human rights indicator assesses the extent of the process have been implemented, on incidents of human rights violations and on changes in the stakeholders' ability to enjoy and exercise their human rights, occurring during the reporting period of organization.

Table 2.4
Human Rights Indicator

Sub-Indicator	**Code**	**Explanations**
Investment and Procurement Practices	HR1	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human right concerns, or that have undergone human right screening.
	HR2	Percentage of significant suppliers, contractors, and other business partner that have undergone human rights screening, and actions taken.
	HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.
Non-Discrimination	HR4	Total number of incidents of discrimination and corrective actions taken.
Freedom of Association and Collective Bargaining	HR5	Operation and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.
Child Labor	HR6	Operation and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor.
Forced and Compulsory Labor	HR7	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.
Security Practices	HR8	Percentage of security personnel trained in the organization’s policies or procedures concerning aspects of human rights that are relevant to operations.
Indigenous Rights	HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.
Assessment	HR10	Percentage and total number of operations

		that have been subject to human rights reviews and/ or impact assessments.
Remediation	HR11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.

e. Society

The society category shows the impact of organizations toward the local communities in which they operate and how they disclose the way of managing and mediating the risk that may appear from interactions with other social institutions.

Table 2.5
Society Indicator

Sub-Category	Code	Explanations
Local Communities	SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs.
	SO9	Operations with significant potential or actual negative impacts on local communities.
	SO10	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.
Corruption	SO2	Percentage and total number of business unit analyzed for risks related to corruption.
	SO3	Percentage of employees trained in organization’s anti-corruption policies and procedures.
	SO4	Actions taken in response to incidents of corruption.
Public Policy	SO5	Public Policy positions and participation in public policy development and lobbying.
	SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.

Anti-Competitive Behavior	SO7	Total number of illegal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.
Compliance	SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with law and regulations.

f. Product Responsibility

Product responsibility indicator assess the disclosure of organization's products and services that directly affect customers, namely, health and safety, information and labeling, marketing, and privacy.

Table 2.6
Product Responsibility Indicator

Sub-Category	Code	Explanations
Customer Health and Safety	PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.
	PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.
Product and Service Labeling	PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.
	PR4	Total number of incidents of non-compliance with regulation and voluntary codes concerning product and service information and labeling, by type of outcomes.
	PR5	Practices to related customer satisfaction, including results of surveys measuring customer satisfaction.
Marketing Communication	PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing

		communications, including advertising, promotion, and sponsorship.
	PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.
Customer Privacy	PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.
Compliance	PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.

2.2 Hypotheses Development

2.2.1 Disclosure Types

There are three types of disclosure to examined the annual reports that commonly used by the previous researchers (Beresford and Cowen, 1979; Ingram and Frazier, 1980; Wiseman, 1982; Ahmed and Zeghal, 1987; Cowen et al., 1987; Freedman & Wasley, 1990; Guthrie & Parker, 1990; Gray et al., 1995b; and Alnajjar, 2000). They are monetary, quantitative, and narrative. Among of those types of disclosure, narrative type is the most used to disclosed CSR activities in annual report or sustainability report of companies. Companies choose that type in order to give influence toward public opinion. Ingram & Frazier's (1980) have conducted an observation that the result is SRD (Social Responsibility Dislosure) is especially provided in narrative term.

Based on Alnajjar (2000) who organized his study using content analysis, here are the explanations of three types of disclosure:

a. Monetary

“The monetary type disclosure specifies the number with which dollar amounts were presented in the report about the measured item (e.g. money contributed to charity). It is a statement expressing factual information concerning firm’s SRDs expressed in monetary terms”.

b. Quantitative

“The quantitative type disclosure specifies the number of non-monetary figures given in the report about the measured item (e.g. percentages, numerical values). It is a statement expressing factual information concerning a firm’s SRDs in quantitative terms”.

c. Narrative

“The narrative type disclosure represents the number of lines in the report pertaining to the item. It is a statement expressing factual information concerning a firm’s SRDs expressed in narrative terms. Every line was calculated to consist of approximately ten words”

There are some methods to measure the disclosure in annual report. They are disclosure abundance (also known as content analysis and disclosure volume in the literature) and disclosure occurrence (also known as disclosure index) (Joseph and Taplin, 2011). Disclosure abundance or content analysis measure the disclosure of CSR of sustainability reporting in annual report by counting the amount of words, sentence, etc. Meanwhile, the disclosure occurrence counts the number of items which stated in disclosure index or checklist. For example, the items of labor turnover will scored by 1 if disclosed and scored by 0 if it is not disclosed. Disclosure occurrence has two types, such as weighted and un-weighted indices (Cooke, 1991). The un-weighted index treats all the items equally important, it means that the items have the same score when they are disclosed. In the other side, the weighted index measure the disclosure items by giving higher score to the items disclosed than the other based on their perceived importance (Cooke, 1991). The un-weighted index is the most used by the researcher because of its less subjectivity and equal relevance to all organizations (Cooke, 1991; Craig & Diga, 1998; Marston & Shrives, 1991).

The content analysis and disclosure occurrence disclosure have advantages and disadvantages. The advantages is it is likely disclose an information clearly and comprehensive. But, it tends to overstate disclosing the information and repetition is something that can be found in the report (Purushothaman, Tower, Hancock, and Taplin, 2000). This type also needs subjectivity to determine the conversion of tables and figure to an equivalent number of sentences (Unerman, 2000). In the occurrence disclosure, there is no double counting caused by repetition information of measuring the items. If an item has disclosed in a current page of reports it will be scored by 1 although, that item is disclosed again in the other page. However, the content of disclosure in this type is less complete than in the content analysis. The occurrence disclosure also uses subjectivity in the separation of similar disclosures into separate items (Joseph and Taplin, 2011).

2.2.2 Industry Type

There are previous studies that correlate the type of industry with corporate social and environment disclosure (CSED). The result are also various, many of them are significant, and the others are insignificant. The result which is significant are the study conducted by Adam et al., 1998; Brown and Deegan, 1998; Choi, 1999; Cowen et al., 1987; Deegan and Gordon, 1996; Hackston and Milne, 1996; Williams, 1999). Meanwhile, the study which provide insignificant result are Gray et al., 1995, Gunawan et al., 2009; and Djajadikerta and Trireksani, 2012. Cowen *et al.* (1987) explains that type of industry in which a company categorized in is one of the factors to influence CSED. Deegan and Gordon (1996) held a study towards Australian firms and find that the companies which the operation is potentially impact to environment tend to have higher disclosure level than those which are less impact to environment. Roberts (1992. p. 605) states that the industries which pertain to consumer visibility, a high level of political risk, and concentrated, intense competition. Below is the table of industries classified as high-profile and low profile industries based on previous studies :

Table 2.7
Type of Industry

High-Profile		Low-Profile	
Patten (1991)	Petroleum	Roberts (1992)	Food
	Chemical		Health

	Forest and Paper		Personal products
Dierkes and Preston (1977)	Extractive		Hotel
Roberts (1992)	Agriculture		Appliance and Household products
	Liquor & Tobacco		
	Media and Communication		

Meanwhile, Gunawan et. al. (2009) categorized the industry based on their impact toward environment into sensitive and non-sensitive industry. His study conducted in Indonesia and he used the list of industry types declared by IDX (Indonesia Stock Exchange) to categorize into sensitive and non-sensitive industry. This study followed the method of categorizing type of industries stated by Gunawan et. al (2009) because the type of industry used in this study is same with used in the previous study.

Table 2.8
Type of Industry in This Study

Sensitive Industries	
1	Agriculture, including crops, plantation, animal husbandry, fishery, and forestry.
2	Mining, including coal mining, crude petroleum & natural gas production, metal & mineral mining, and land/stone quarrying.
3	Basic industry and chemicals, including cement, ceramics, glass, porcelain, metal and allied products, chemicals, plastics & packaging, animal feed, wood industries, and pulp & paper.
4	Miscellaneous industries, including machinery and heavy equipment, automotive and components, textile, garment, footwear, cable and electronics.
5	Consumer goods industries, including food and beverages, tobacco manufacturers, pharmaceuticals, cosmetics and house hold, and house ware.
6	Property, real estate, and building constructions.
7	Infrastructure, utilities, and transportation, including energy, toll road, airport, harbor & allied products, telecommunications, transportation, and non building construction.
8	Trade, services, and investment, including wholesale, retail trade, restaurant, hotel & tourism.

Non-Sensitive Industries	
1	Finance companies, including banks, financial institutions, securities companies, insurance, and investment funds.
2	Trade, services, and investment including advertising, printing & media, health care, computer and services, and investment companies.

Source: Djajadikerta and Trireksani (2012)

The differentiation of industry based on their impact toward the environment into sensitive and non-sensitive industry is likely affect the way of corporate to disclose their CSR activity. Thus, the hypothesis is formulated as follow:

H_1: The disclosures by the types are varies between sensitive and non-sensitive industry.

Corporate Social Responsibility Disclosures (CSRDs) is the process of measuring and communicating information concerning the impact of a firm toward community, customers, employee welfare, product safety, pollution and the environment (Alnajjar, 2000). Another definition of CSRDs is defined as the convention of financial and non-financial information that relates to an organization’s interaction with its physical and social environment, which is disclosed in corporate annual reports or separate social reports (Guthrie and Mathews, 1985). Some corporate release annual report and sustainability report annually. Annual report is a media used by companies to inform stakeholders about their one period/ year activity and their financial performance. The contents of annual report at least consist of income statement, balance sheet, statement of cash flows, and related footnotes. It also contains management comments, an audit report, good governances, corporate social responsibility, and etc. Meanwhile, sustainability report is a report that conveys economic, environmental, social and governance performance of a company. The report is disclosed by following standards which released by Global Reporting Initiatives Index (GRI Index).

Based on study organized by Maignan and Ralston (200) toward each 100 firms in France, The Netherlands, the United Kingdom, and the United Stated give the result that there are three motivations to do CSR activity, they are (1) managers valued such behavior in its own right, (2) managers believed that this behavior enhanced the financial performance of their firms, and (3) stakeholders, which are community groups, customers, and regulators that most commonly give a pressure toward companies to responsible socially. There are some goals that pursued by companies through releasing a report that explain their corporate social responsibility.

There are four categories of CSR, they consists of economic, legal, ethical and philanthropic (Caroll, 1991). The first of all categories, economic responsibility means that a corporate has a motive to reach profit maximization as long as the corporation is operating. Basically, business entity is formed to provide services and goods toward the society who need and want it. Corporation also tries to reach profit in the process of serving their products to the consumer or society. The second is legal responsibility. This responsibility means that corporation comply the prevailing law when they operate their business. Legal responsibility shows the extent of fair operation conducted by the corporation. The third, ethical responsibilities, it embodies the standards, norms, or expectations that show the conditions for what consumers, employees, shareholders, and the community presume to be fair or in line with the respect or protection of stakeholders' moral rights. The last categories, philanthropic responsibility is including the program that intended to promote the human welfare or goodwill. The example of philanthropy actions are corporate contribution to the educations, the communities, or the arts. The contribution can be financial or non financial resources.

CHAPTER III

RESEARCH METHOD

This chapter will explains how the research is conducted. The variable definition, the choosing of population, sample and data, the method of data collecting, and the analysis method will be defined clearly in this part.

3. 1 Operational Variable Definition and Measurement

3. 1. 1 Dependent Variable

Dependent variable is the variable primary interest to the researcher (Sekaran, 2006). This study use corporate social disclosure as the dependent variable. The measurement of this variable is explained briefly in the next section.

3. 1. 2 Measurement of the Quantity and Nature of Corporate Social Disclosure

The quantity of corporate social disclosure is measured using disclosure occurrence method. This method has been used by previous research on social-disclosure based. Joseph and Taplin (2011) states that disclosure occurrence measure the CSR disclosure by "counts the number of disclosure items in the checklist that have disclosures without taking into account the amount of disclosure for each item"

This study use GRI G3.1 index to cross check the availability of item disclosed in corporation's annual report or sustainability report. GRI G3.1 index has six indicators comprises (1) economic; (2) environmental; (3) labor practices and decent work; (4) human rights; (5) society; and (6) product responsibility. However, this study only uses five indicators excluding economic indicator. This study exclude economic indicator because this study focused on the social and environment disclosure such as the relationship toward labor or society and the impact toward the sustainability of environment. Below is the GRI 3.1 Index used in this study.

Table 3.1
Indicator of GRI 3.1 Index Used in This Study

Indicator	Amount of Items
Environment	30
Labor and Decent Work	15
Human Rights	11
Society	10
Product Responsibility	9

Consistent with the other studies, the measurement of CSR disclosure uses disclosure occurrence by giving score 1 if the item in G3.1 index is disclosed, and 0 if not disclosed in annual report or sustainability report. Then, to analyze the nature of item disclosed, it must be classified into one of three categories: (1) monetary; (2) quantitative; and (3) narrative. The method to analyze the nature of item disclosed is consistent with the previous studies such as Guthrie and Parker, 1990; Zeghal and Ahmed, 1990; Walden and Schwartz, 1997, Williams and Pei, 1999; and Alnajjar, 2000). Based on Alnajjar (2000), if an item disclosed specifies number of how much of dollars or rupiahs the spent to conduct is, then it categorize as monetary disclosure. If an item disclosed using specifies the number of non-monetary figures about the measured item such as percentages, numerical values, etc. then, that item categorized as quantitative type. If an item disclosed only using the sentences then, it categorized as narrative type.

The final of this study is aimed to relate the item disclosed against the type of disclosure. Each of the five categories of corporate social disclosure used in this study then subdivided into many items. Annual reports or sustainability reports are classified by the categories then by items.

3. 1. 3 Industry Classification

This study classified industry used as the sample into two types, sensitive industry and non-sensitive industry. Industry which categorized as sensitive industry are those which have higher political visibility, are perceived as more environmentally damaging, and have a greater encouragement to project a positive image to ward off undue pressure and criticism from society than non-sensitive industry (Deegan and Gordon, 1996; Patten, 1991). The method to classify them is according to the study conducted by Gunawan et al.(2009). Industry which categorized as sensitive industry are (1) agriculture; (2) mining; (3) basic industry and chemicals; (4) miscellaneous industry; (5) consumer goods industry; (6) property, real estate and building construction, (7) infrastructure, utilities, and transportation; (8) trade, services, and investment including wholesale; and (9) retail trade, restaurant, hotel & tourism. Meanwhile, industry which are categorized as non-sensitive industry consists of (1) finance companies; and (2) trade, services and investment including advertising, printing media, health care, computer and services, and investment companies.

3. 2 Population and Sample

Data source used in this study is secondary data which comprise companies listed in Indonesia Stock Exchange (IDX) for period of 2012. This study used year 2012 as the time setting because the year is the beginning of implementation of GRI 3.1 .Below are the criteria of the companies which are used as the sample:

1. The company is listed in Indonesia Stock Exchange (IDX) in 2012.
2. The company categorized as top 100 companies based on market capitalization.
3. The company released annual report or sustainability report in 2012.

3. 3 Data Source

This study uses secondary data that are derived from Indonesian Stock Exchange in year 2012 and company's website.

3. 4 Data Collecting Method

The data used in this research is secondary data that are derived by applied documentary method. The data is come from Indonesian Stock Exchange (IDX) website (www.idx.com) and each company's website in 2012. Data collecting method of this study is non random because this research uses all population which fulfilled the research criteria.

3. 5 Analysis Method

3.5.1 Descriptive Statistics

To measure the extent of corporate social disclosure by the type of disclosure, this study used descriptive statistics. The statistics used are mean, minimum and maximum.

- Mean

Mean is defined as the sum of all the sampled values divided by the total number of sampled values.

$$\text{Sample Mean} = \frac{\text{Sum all of the values in the sample}}{\text{Number of values in the sample}}$$

- Maximum

  Maximum is defined as the highest amount of sampled values.

- Minimum

  Minimum is defined as the lowest amount of sampled values.

3.5.2 Independent Sample t-test

Independent sample t-test is used to determine whether two samples which are unrelated each other have the different value of mean or not. The aim of this testing is to compare the mean value of two groups which are unrelated each other. There are two analysis stages, first, testing the assumption whether population's variance of the both samples are equal (equal variance assumed) or not (equal variances not assumed) by using the value of Levene's Test. Below is the decision making of Levene's Test:

1. If significance value of Levene's Test > 0.05, then H_0 is accepted. Acceptance of H_0 shows that the variance is equal.

2. If significance value of Levene's Test < 0.05, then H_0 is rejected. Rejection of H_0 shows that the variance is different.

Second, do analyzing the t-test value. Testing is done by significance level at 0.05 ($\alpha = 5\%$). The decision making of t-test value as follows:

1. If the value of .sig t value > 0.05, then H_0 is accepted. It means that there is no difference of mean value between two groups.
2. If the value of .sig t value < 0.05, then H_0 is rejected. It means that there is difference of mean value between two groups.