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Social and Environment Disclosure in Indonesia: Does the Ownership matter?

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Introduction

Social and environmental problems in companies have been discussed in many studies in recent years. These studies focus a lot on the sensitivity of companies to disclose the social and environmental problems being faced by companies and the efforts they will make to overcome the social and environmental problems they are facing. These studies are mostly carried out in developing countries because of the many environmental problems caused by companies in developing countries such as India and Indonesia.

As a developing country rich in natural resources, the mining sector is the main sector that supports the economy in Indonesia. Unfortunately, the social problems caused by mining companies in Indonesia are enormous. This is evidenced by the statement of the Mining Advocacy Network (JATAM) which claims that there are at least 104 checkpoints (1.6 million hectares) in Indonesia that are prone to natural disasters such as landslides, floods and earthquakes (Jong, 2021). This number is very large but has never been published by mining companies in Indonesia. Apart from being caused by the mining sector, another environmental problem in Indonesia that has also become a public concern is deforestation. According to Global Forest Watch data, deforestation in Indonesia from 2001-2020 reached 27.7 million hectares (ha). Until 2020, Indonesia's deforestation rate is among the five highest in the world.

As a developing country that is currently intensively developing, social-environmental problems also arise in infrastructure development. The Committee for the Acceleration of Providing Priority Infrastructure (KPPPI) revealed that around 31% of national strategic projects are still experiencing land acquisition problems (Yasa, 2020). Not long ago, one of the national strategic projects has received public attention, namely the dam construction project in Wadas village, whose project is handled by PT Pembangunan Perumahan (Persero).

Infrastructure development is never free from social and environmental problems because infrastructure projects are in direct contact with land and landowners. Construction companies should disclose social and environmental information as widely as possible as a form of corporate responsibility to the social and economic environment of the surrounding community. In addition, infrastructure development requires careful planning in order to minimize social and environmental problems that may arise during construction.

Even though many parties report about the many social and environmental problems in Indonesian companies, the company's efforts to report social and environmental problems as a form of company transparency have not been seen much. Social and environmental issues are usually disclosed in a separate report from the company's annual report, namely the Sustainability Report. Until this research was conducted, there was still very little interest from companies to publish a Sustainability Report.

The National Center of Sustainability Reporting (NCSR) is a Non Government Organization (NGO) and also an official organization appointed by GRI as a training partner for Southeast Asia released the results of the Asian Sustainability Reporting Rating (ASRAT) in 2017-2020. The disclosure level of social and environmental in Indonesia is relatively low. There are 31 Indonesian companies that are included in ASRAT and publish Sustainability Reporting from 2017-2020 and are dominated by the banking sector.

The low number of companies issuing sustainability reports in developing countries indicates that social and environmental disclosure (SED) requires new standards besides the index recommended by GRI. The disclosure items that used by GRI has huge coverage. Since, huge coverage means huge money, many companies do not use the GRI as a basis of their reporting. The disclosure standard should be adjusted according to the characteristics of the country of the companies studied (Oh et al., 2011). Each company has different scope and characteristics of disclosure in its report, since each company has a different ownership structure (Ali et al., 2017). SED practices are generally influenced by several external company factors such as social norms, laws and regulations, and disclosure costs. The owner of company will respond to these factors to determine the extent of their SED. In a nutshell, the ownership structure is one of the factors that determine the extent of SED (Acar, 2021).

Sighania & Gandhi (2015) proposed an index of SED that is suitable for developing countries. Research using this index has been conducted in India. Indonesia is a developing country and has almost the same characteristics as India, so we will use Sighania & Gandhi's index as standard of measuring SED in this study.

Research on SED in the annual reports of companies listed on the Indonesia Stock Exchange has so far been dominated by the use of the GRI index. This study tries to use different standard for measuring SED. The purpose of this study is to examine the extent of SED in company's annual report and its factors.

There are numerous enterprises in Indonesia that still use annual report to brief their social and environment information, so they need an index that is relevant to the characteristics of the companies studied. The Social and Environmental Disclosure Index (SEDI), which developed by Sighania & Gandhi, is an alternative index for measuring SED which is still integrated in the annual report. Based on these reasons, we consider that research using SEDI is feasible in Indonesia. In addition, this research also aims to enrich the literature on SED research in Indonesia.

Based on the problems that have been described, the independent variables used in this study are institutional ownership, managerial

ownership, and multiple large shareholder structure (MLSS), while the dependent variable used in this study is SED using the SEDI). MLSS variable on social and environmental disclosure in Indonesia has only been carried out in several countries such as India, China and South Korea. It is hoped that the results of this study can add to the literature regarding the effect of ownership structure on social and environmental disclosure. This research can provide an overview of the effect of ownership structure on SED.

8 Literature Review and Hypotheses Development

Agency Theory

This study uses agency theory as a research basis. Agency theory appears to identify the relationship between principals (shareholders) and agents (management). Jensen & Meckling (1976) explained that the agency relationship is a contractual relationship between shareholders (principal) and management (agent). Agents are required to carry out the company's operational activities on behalf of the principal and obtain delegation of authority to make decisions related to the company's operational activities.

The relationship between principal and agent in agency theory has different interests which is called the agency problem. This problem arises because of the information asymmetry between the principal and the agent. Information asymmetry is a condition in which the agent as the manager of the company's operational activities has broader information about internal conditions than the principal, in this case the shareholder. Given the importance of information and the existence of information asymmetries between principals and agents that can lead to conflicts of interest, supervision is needed to align this. However, the existence of a supervisory mechanism raises agency costs (Liu et al., 2016).

According to Healy & Palepu (2001) one way to minimize agency costs caused by information asymmetry is to improve manager communication through disclosure, especially voluntary disclosure. With disclosure, investors can understand the manager's strategy in managing the company and also measure the level of risk that will occur. So that investors will be more accommodative to managers because they assess the information risk problem has been resolved (Sutedja, 2006).

Agency Issues, Ownership Structure, and SED

SED has become a major concern in many studies over the last few years. This is because several studies have proven that SED have a positive effect on company performance and provide a good image for investors and consumers (Cherian et al., 2019; Cheng et al., 2016; Dai et al., 2019; Gallardo-Vazquez et al., 2019). In addition, the extent of disclosure also indicates that the agency problems faced by companies are relatively low (Wang & Pan, 2020).

Agency problems have a close relationship with the corporate governance structure. The corporate governance structure can be used as a determinant that affects the level of disclosure,

including SED. A good corporate governance structure will also provide better supervision, thereby minimizing the possibility of agents taking operative actions (Wang & Pan, 2020). Based on these arguments, a good corporate governance structure is expected to be able to resolve agency problems within the company.

One of the corporate governance structures that has received the attention of researchers in recent years is the ownership structure. A good ownership structure can help overcome agency problems that exist in Attig et al. (2013), on the contrary, a bad governance structure will actually cause agency problems to become more clouded, so that companies cannot disclose information widely. This argument reinforces that ownership structure could be the determinant of the SED.

Some of the studies above have provided arguments that are strong enough to provide an overview of the connection between agency problems, ownership structure and extent of corporate information disclosure. The phenomenon of low corporate interest in Indonesia is thought to be influenced by the company's ownership structure, so this research is designed to provide empirical facts regarding the impact of ownership structure on SED.

Hypothesis

Institutional Ownership and SEDI

Institutional Ownership is share ownership by bodies (institutions) such as financial institutions, banks, insurance companies, and other companies (Singal & Putra, 2019). Institutional investors are seen as a group of shareholders with relatively large shareholdings (Qa'dan & Suwaidan, 2019). So that institutional investors pay more attention to the company's long-term performance which can be improved by good management practices such as CSR actions. Therefore, institutional investors tend to support CSR initiatives carried out by their investees (Mahoney & Roberts, 2007).

H1: Institutional ownership has a positive impact on SEDI

Managerial Ownership and SEDI

Managerial ownership is the proportion of share ownership owned by managerial parties (commissioners and directors) who actively take part (Singal & Putra, 2019). The greater the share ownership by the managerial party, the managerial party will pay more attention to the interests of the shareholders who are also themselves so that it will increase the trust and performance of the company (Topowijono & Sulasmiyati, 2016). In agency theory, there is a conflict of interest between the owner and the agent where the agent may act contrary to the interests of the principal and trigger agency costs (Paek et al., 2013). High managerial share ownership will encourage management to carry out its functions properly in accordance with the interests of principals, including disclosure of social and environmental responsibility (Made & Dewi, 2018).

H2: Managerial ownership has a positive impact on SEDI

MLSS and SEDI

MLSS is ownership of several or more than one majority share (Attig et al., 2009b). Multiple majority share ownership in the company shows two advantages, namely forming efficient manager supervision and mutual supervision between shareholders so that no party has the absolute right to use company resources for their personal interests (Jeong & Piao, 2019). Companies with many or more than one majority shareholder can reduce agency costs compared to companies with one majority shareholder (Jiang et al., 2017).

H3: MLSS has a positive impact on SEDI

Based on our literature review and hypothesis development that we explain before, the research design of this study is described in Figure 1.1. below. We put institutional ownership, MLSS, and managerial ownership as independent variable that affect the SEDI.

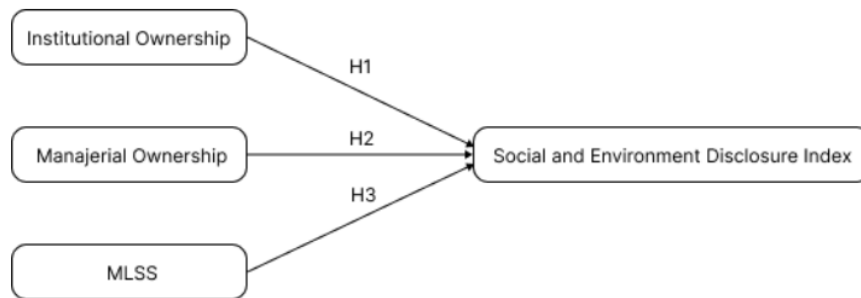


Figure 1.1. Research Design

Research Method

The population in this study were all companies in the construction, mining, agriculture and real estate sectors from 2017 to 2020. The sampling technique from the population used a purposive sampling method, namely a sampling technique based on certain criteria. The criteria used in the sampling process are as follows:

1. Companies in the real estate sector of mining, agriculture and building construction that are listed consecutively on the Indonesia Stock Exchange and are not delisted or exit the Indonesia Stock Exchange during the 2017-2020 period.
2. The company has submitted an annual report as of December 31 2017-2020 and has been audited.
3. The company provides the information needed related to research.

Data and Data Sources

The data in this study uses secondary data taken from annual reports of mining, agricultural and building construction real estate companies listed on the Indonesia Stock Exchange. The data in this study were obtained using documentation techniques on the official website of the Indonesia Stock Exchange (www.idx.co.id).

Research variable

Social and Environmental Disclosures

Social and environmental disclosure is defined as the extent to which social and environmental disclosures are made by companies through their annual reports. In this study the proxy used to measure the level of social and environmental disclosure is the Social and Environmental Disclosure Index (SEDI) developed by Singhania & Gandhi (2015). SEDI consists of 16 indicators with the theme of SED, so there are a total of 16 items that must be disclosed. The indicators used in the assessment using SEDI are as follows:

Table 1. SEDI indicators

Item	Deskripsi
Certification	Certifications received by the company, such as ISO, and other awards.
Corporate Social Responsibility	Activities carried out by the company to improve the environment and the welfare of society.
Labor disclosure	Disclosure of the workforce along with a complete list of salaries.
Disclosure of employee education level	Disclosure of the list of educational qualifications of employees working in the company.
Occupational health and safety	Disclosure of existing safety systems

disclosure	within the company in order to create work safety.
Development and research costs	Disclosure of development and research costs (Research and development)
Labor training	Disclosure regarding workforce training that has been carried out by the company.
Fee Audit	Disclosure of the amount of audit fees paid.
Company prospects	Disclosure of the vision and mission of the company in the future.
Disclosure of salary and compensation	Salary details and comparison between the highest and lowest salaries.
Products and technology	Disclosure regarding the product and the technology used to manufacture the product.
Award	Awards received by the company.
Corporate Governance	Disclosure regarding corporate governance and commitment to creating good corporate governance.
Subsidiary	Disclosures regarding subsidiaries and their social activities.
Facilities and benefits other than salary provided to employees	Disclosure of facilities and benefits received by employees other than salary.
Environmental concern	Disclosure regarding activities or programs carried out by related companies.

Source: Singhania & Gandhi (2015)

The SEDI calculation formula is as follows:

$$\text{SEDI} = (\sum \text{disclosure items}) / (\text{total disclosure score})$$

Institutional Ownership

Institutional ownership is defined as the proportion of shares owned by an institution or body (Huafang & Jianguo, 2007). Institutional ownership is measured by dividing the shares owned by an institution or agency and the outstanding shares of enterprise. Then the formula for calculating institutional ownership is as follows:

$$\text{Institutional Ownership} = (\sum \text{shares owned by the institution}) / (\text{total outstanding shares}) \times 100$$

Managerial ownership

Managerial ownership is described as the percentage of enterprise shares that owned by management who play an active role in making company decisions (Huafang & Jianguo, 2007). The formula used to calculate managerial ownership is as follows:

$$\text{Managerial ownership} = (\sum \text{managerial share ownership}) / (\text{total outstanding shares}) \times 100\%$$

MLSS

MLSS are defined as ownership structures with several or more than one majority share. Share ownership is considered as majority ownership if the investor owns more than 20% of the total outstanding shares (Indonesian Institute of Accountants, 2009).

Data Analysis Technique

This study uses a total of 208 panel data from 52 companies in Indonesia, consisting of 3 sectors, namely the mining, agriculture and real estate sectors. The research data is described in table 2.

Table 2. Sample Selection

No	Sector	Amount
1	Mining sector	20
2	Agricultural and plantation sector	9
3	Real estate and construction sector	23
Total sample		52
Total data (total sample x4)		208

Source: Indonesian Stock Exchange

The equation of regression in this study is described as follows:

$$SEDI = \alpha + \beta_1 KIns + \beta_2 KM + \beta_3 MLSS + \epsilon$$

Information:

SEDI = CSR disclosure

A = Constant

β_1 – β_3 = Regression Coefficient

KIns = Institutional Ownership

KM = Managerial Ownership

MLSS = Multiple Large Shareholder Structures

E = Error (disturbing factor)

Result and Discussion

Descriptive Statistics

Table 3. Statistik Deskriptif

Variabel	N	Min	Max	Mean	Median	Std. Dev
KI	208	0	0,927	0,583356	0,6365	0,204971
KM	208	0	0,767	0,108553	0,022	0,155656
MLSS	208	0	1	0,610577	1	0,488796
ROA	208	22,54045	32,25922	29,084350	29,28367	1,657414
SIZE	208	-2,30465	0,493031	0,029879	0,028419	0,190277
SEDI	208	7	15	12,418270	13	1,750929

KI = Institutional Ownership, KM = Managerial Ownership, MLSS = Multiple Large Shareholder Structure, ROA = Return on Assets, SIZE = Company Size, SEDI = Social and Environment Disclosure Index

Table 3 shows the results of the statistical test of the dependent variable on the proportion of institutional ownership (IC) in this study from 208 observations of companies in the mining, building construction and agricultural real estate sectors listed on the IDX in 2017-2020. The proportion of institutional ownership of at least 0 is the proportion of institutional ownership of PT. Alfa Energi Investama in 2017 and the maximum value of 0.927 is the proportion of institutional ownership of PT Baramurti Suksessarana in 2018. The low proportion of ownership of PT. Alfa Energi Investama in 2017 due to share ownership dominated by management and the absence of institutional share ownership. Institutional ownership in this study has an average value of 0.583356 and a standard deviation of 0.204971.

The results of the descriptive table of the dependent variable on the proportion of managerial ownership (KM) in this study show a minimum value of 0, namely at PT. Salim Ivomas Pratama, PT. Central Proteina Prima, PT Harum Energy, PT Bukit Asam, PT. Agung Podomoroland, PT. Green Wood Sejahtera, and PT. Pakuwon Teak 2017-2020. The low proportion of managerial ownership in the seven companies is because management does not own company shares. While the maximum value is 0.767, namely at PT. Alfa Energi Investama 2017. Managerial ownership in this study has an average value of 0.108553 and a standard deviation of 0.155656, meaning that the managerial ownership variable has a high level of data variation.

The results of the descriptive table of the Multiple Large Shareholder Structure (MLSS) variable in this study indicate a minimum value of 0. Total of 79 samples of the 208 samples in this

study did not have investors with more than one majority shareholder with a share value of more than 20% of the total outstanding shares. MLSS in this study has an average value of 0.610577 and a standard deviation of 0.488796. The average value of institutional ownership is above the standard deviation, which means that the institutional ownership variable has a low level of data variation.

Results of Ownership Structure Testing on Social and Environmental Disclosures

Table 4. Ownership Structure Test Results for Social and Environmental Disclosures

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6,017060	1,999966	3,008582	0,0030
KI	1,608905	0,602837	2,668888	0,0082*
KM	-3,553446	0,860755	-4,128289	0,0001*
MLSS	0,202404	0,243093	0,832622	0,4060
ROA	0,196449	0,067228	2,922114	0,0039*
SIZE	0,375012	0,601910	0,623037	0,5340
Adjusted R-squared			0,242426	
F-statistic			14,24816	
Prob (F-statistic)			0,000000	
Total panel (balanced) observations: 208				

KI = Institutional Ownership, KM = Managerial Ownership, MLSS = Multiple Large Shareholder Structure, ROA = Return on Assets, SIZE = Company Size, SEDI = Social and Environment Disclosure Index. *5% Significance Level

Table 4 shows that the coefficient of determination (R^2) describes the proportion of the dependent variable that is explained by the explanatory variable (Gujarati and Poter, 2013). The magnitude of the R^2 value is known as the coefficient of determination which is a general measure to see how big the proportion of the independent variable influences the dependent variable. The adjusted R^2 value shows the number 0.242426 which means that 24% of the variation in the independent variable can explain the dependent variable and 76% is explained by other variables outside the research model.

The significance test shows that the calculated F value is 14.24816 with a significance level of 0.000000, meaning that this significance level is less than 5%. This shows that the regression model can be used to estimate the dependent variable. These results indicate that the independent variable, namely ownership structure, can reliably predict SEDI. The significance value of hypothesis testing in this study is 5%, meaning that there is a significant influence of the independent variable on the dependent variable.

Table 4 shows the independent variables (KI and KM) have an effect on the dependent variable SEDI. Based on table 4 shows that institutional ownership has a positive effect on SED. Managerial ownership has a negative effect on SED. The multiple of the large shareholder structures has no effect on SED.

Positive Impact of Institutional Ownership on SEDI

The first hypothesis in this study states that institutional ownership affects SED with a significant value of institutional ownership variable of 0.0082, this value is less than 0.05. Thus, it can be concluded that in this study institutional ownership influences SED in a positive direction. The results of this study are in line with the research by Nugroho & Yulianto (2015), Edison (2017), Qa'dan & Suwaidan (2019) that institutional ownership has a positive effect on SED. The results of this study support the agency theory that institutional ownership is one way to reduce agency problems, so that institutional ownership has a positive effect on SED. This is because institutional investors have better resources than individual investors so they can optimize monitoring of company management performance (Kalima, 2014). So companies with high institutional ownership structures have better SED.

Negative Impact of Managerial Ownership on SEDI

Based on the regression result, the second variable has negative coefficient with 0.0001 alpha value. Thus it can be concluded that in this study managerial ownership has negative impact on SEDI. This outcome are reciprocal with Oh et al. (2011), Rivandi (2020), and Maulindra (2015) that managerial ownership has a negative effect on SED. The smaller the level of managerial share ownership, the more companies disclose information about CSR so that the results of this study do not support agency theory. This is because shares in a company can cause different interests between shareholders (as principals) and management as agents. Conflicts and tug-of-war of interests between principals and agents can lead to problems which in Agency Theory are known as Asymmetric Information, namely information that is not balanced due to the uneven distribution of information between principals and agents (Rivandi, 2020).

Insignificant Impact of Multiple Large Shareholder Structure (MLSS) on SEDI

The third hypothesis in this study states that MLSS has an effect on SED with a significance value of the MLSS variable of 0.4060, this value is greater than 0.05. Thus, it can be concluded that in this study MLSS has no effect on SED. The results of this study are in line with the research of Puspitaningsih & Pohan (2016) and Wang et al. (2021) that MLSS has no effect on SED. This is because MLSS does not always have a positive impact. MLSS will have a negative impact if the majority shareholders compromise each other within the company, so that MLSS cannot offset the power of the majority shareholders. Based on the data, around 60 percent of the companies in this study have MLSS in their structure, but do not have a better SEDI than the enterprises that have lower. In a nutshell, MLSS have insignificant impact on SEDI.

7 Conclusion

The results of the study show that institutional ownership has a positive effect on SED. This proves that institutional ownership is able to have a positive influence on solving agency problems in companies, so that it can encourage companies to disclose extensive information. Institutional investors provide positive stimulus to the company and encourage companies to have good performance and value, because if the company has poor performance or value, investors can withdraw to no longer be shareholders in the company. This research suggests that more institutions should be involved in investment activities in Indonesia, because the presence of institutional investors can provide a positive stimulus to both performance and information disclosure within companies.

The results of the study show that managerial ownership has a negative effect on SED. Managerial ownership indicates a dual role in the company, namely as an agent as well as a principal, so that it can exacerbate agency problems within the company. Managerial ownership in the company must be reduced to a minimum to minimize the occurrence of opportunistic actions within the company, so as to improve performance and the extent of corporate information disclosure.

The results of the study show that multiple majority ownership (MLSS) has insignificant impact on SED. This indicates that the majority shareholder still plays an important role in the company's decision-making, as well as the other majority voter share (non-controlling) does not have a role. Based on these facts, this study shows that non-controlling shareholders can play a more active role in decision-making within the company, including in encouraging companies to disclose more extensive information.

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