CHAPTER 2
LITERATURE REVIEW

This chapter provides summarize prior research and other findings related to the topic this study.

2.1 Stakeholder Theory

Theory of stakeholders according to Freeman and Reed in Ulum (2009) is a organization or individuals who identified can affect and influenced by the activities of the company. Ulum (2009) states that managers expected to undertake activities deemed important for their stakeholders and report on such activities, meaning that companies need to apply their responsibilities to their stakeholders and implement good corporate governance.

Companies will opt for disclosure of their environmental, social, and intellectual performance information, beyond and above mandatory requests to meet actual or recognized expectations for stakeholders. The main aim is to help corporate managers to understand stakeholder environment, manage more between corporate relationships, help corporate managers improve the value of impacts of activities, and minimize harm to stakeholders.

2.2 Theoretical Basis of Corporate Social Responsibility Disclosure

According to Grey et al in Yuliana et al (2008), there is several theories behind Company implement corporate social responsibility disclosure (CSRD):

Decision Usefulness Studies, Economic Theory Studies, dan Social and Politic Studies.

2.1.1 Decision Usefulness Studies

Decision Usefulness Studies enter the users of accounting report and investors into the basic criteria of user useful for economic decision making. Some researchers conducted the study and found evidence that social information need by users. The study asks analysts, bankers, and others involved to rank accounting information. The accounting information not only information that has known, however contains other information that is new in the accounting disclosure.

2.2.2 Economic Theory Studies

This study based on economic agency theory. The theory distinguishes between the owner and the manager of the company which implies that manager of the company must provide accountability reports for all resources. The owner of the company has progressed further, extends to other stakeholders elements, including the public, the government and the natural environment. This resulted in the company required to make a complete reporting to meet the information needs for these stakeholders.

2.2.3 Social and Political Studies

The economic sector cannot separated from the political, social and institutional life in which the economy lies. The sociopolitical study includes two main theories:

a) Stakeholders Theory

Which assumes that the existent of the company determined by the stakeholders. The main focus in this theory is how the company monitors and responds to the needs of its stakeholders and stakeholders. Stakeholders are individuals, groups of people, communities or a partial that has relationships and interests of the company. Individuals, groups, and communities and communities can be stakeholders if they have the characteristics of having power, legitimacy, and interests of the company (Ghazali and Chariri, 2007). Retno (2012), states that corporate social disclosure is a viable means for companies to negotiate relationships with their stakeholders.

b) Legitimacy Theory

Which assumes the states that companies must be able to adjust to the value system that implemented by the community. The business of the company is manifest through social disclosure. This is done with the aim that the activities and the existence of the company legitimated in the eyes of the people. According to O'Donovan in Hadi (2011) states that the legitimacy of the organization can be seen as a given to the company or sought from the community.

Legitimacy is a potential strategy for companies to stay a live (Going Concern) and get recognition from the public then the company must be oriented to the interests of society and does not violate system and social norms that exist in the community.

2.3 Corporate Social Responsibility Disclosure Concept

As the companies have a good business ethics, they must give corporate social responsibility (CSR) disclosure with stakeholders such as creditors, directors, employees, government, owners, suppliers, unions, and the community from which the business draws its resources.

The corporate social responsibility (CSR) disclosure is an accounting concept that takes into the transparency of social disclosure on corporate social responsibility. It is not only financial information, but also CSR, including voluntary disclosures regarding the social and environmental impacts life caused by the activities of the company (Restuningdiah, 2010). Meanwhile, Ali et al. (2011) described the benefits of CSR activities as achievement of corporate goals and customer service, loyalty to the organization and overall organisational success.

The company has a social responsibility that should be based not only limited to the financial side only (single bottom line), however should be pay attention at the triple bottom line (3P). Elkington arguing, stated in Lako (2016), a company who wants to survive, then it must pay attention to 3P. In addition to the pursuit of profit (profit), the company must pay attention and be involved in the fulfillment of public welfare (people) and contribute actively to protect the environment (planet). Its aims for stakeholders to get more comprehensive information to assess the performance, risks and business prospects as well as the survival of a corporation.

Based on the explanation, it can be concluded that the corporate social responsibility disclosure is the submission of corporate activities information relating to human resources, products and other social activities published in financial and non-financial reports in order to minimize corporate conflict with stakeholders (Supriyono, 2013).

2.4 Concepts, Constructs and Variables Research

Several variables that are quite often found positively related to the amount information of CSRD in the annual report are profitability, total assets, leverage and the size of the board of commissioners, the proportion of independent commissioners.

2.4.1 Profitability

Profitability summarizes the net result of operating activities business in a given period are expressing in financial terms (Subramanyam and John, 2010). Profitability is the ability of a company to earn profits in its relationship with sales, total assets and own capital (Sartono, 2010). High profitability will encourage managers to provide more detailed information. This is because managers want to convince investors of the profitability of the company and will further encourage management compensation, superior and well-earning companies will disclose more detailed information, including freedom and freedom to show and account for all their social programs (Yuliana et al, 2008) .

2.4.2 Total Assets

Total Assets in Financial Accounting Standards No. 16 year 2011 are all assets owned by a person or company, tangible or intangible, and valuable that will bring benefits to a person or company. Future economic benefits of tangible assets are the potential of these assets to contribute, directly or indirectly, cash flows and cash equivalents to the company.

In the Statement of Financial Accounting Standards applicable in Indonesia, assets are resources controlled by the company as a result of past events that are expected to generate future economic benefits for the company. According to International Financial Reporting Standards (2008), an asset is resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise. Meanwhile, according to Sukmalana (2007) assets are all the things which owned by companies that play a role in the company's operations such as cash, inventory, fixed assets, intangible assets and others. It can be concluded that total assets is the sum of fixed assets and current asset.

By making CSRD the company will get positive feedback from stakeholders in the form of enhancing corporate reputation as well as stakeholder decision making, buying stocks, providing capital loans, and purchasing products, thereby improving company performance including financial performance (Yuliana et al, 2008). According to Rustiarini (2010), the company discloses Corporate Social Responsibility in the hope of improving the reputation and value of the company.

2.4.3 Leverage

According to Raheman and Nasr (2007) Leverage means, funds take from outsider parties' like's banks, capital market, money market and other financial institutions. If a business is leveraged, we can say that firm takes loans to purchase assets. Leverage is the percentage comparison between total debt with total equity. This ratio shows how much of the total assets of the company obtained or funded by the debt.

Leverage is a ratio that describes the relationship between corporate debt to capital, this ratio can see how far the company financed by debt or outsiders with the capabilities of the company described by capital (Harahap, 2013). Meanwhile, according to Fahmi (2012) leverage is a measure used in analyzing financial statements to show the amount of collateral available to creditors.

2.4.4 Independent commissioners

According to Indonesian bank regulation no. 8/14/PBI/ 2006, independent commissioner is a member of the board of commissioners who has no family relationship with other members of the board of commissioners, directors or controlling shareholder or relationship with the bank that may affect his ability to act independently.

Ujiyantho and Bambang (2007) said that independent commissioner is the best position to carry out monitoring function in order to create a good corporate governance company. An independent commissioner may act as a mediator, supervise and advise management.

2.4.5 Independent Audit Committee

Audit committee compatible with kep.29/PM/2004, defines as a committee established by the board of commissioners to carry out the task of supervising the management of the company. committee member who is commissioner only one independent commissioner of the company as well as chairman of the audit committee, other members who is not an independent commissioner must come from an independent external party.

Members of the Audit Committee must have educational background of accounting / business at least one person in accordance with the Decree of the Chairman of BAPEPAM LK Number 29 / PM / 2004. Audit competencies required by the Audit Committee for can provide recommendations to the board of commissioners. The competence of the Audit Committee is manifested by financial expertises which are owned. Related to the competence members of the Audit Committee, that is indicated by financial knowledge.

2.5 Global Reporting Initiative

Corporate social responsibility disclosure is a very important way for companies to communicate with people and to convince people that they meet their social expectations (Branco and Rodrigues, 2008). There are several reasons why this research will use the Global Reporting Initiative's (2006):

1. GRI as an unweight social index because GRI has been used widely in the international world, many companies in the world use GRI, data as of December 15, 2010 amounts to almost 2537 companies in more than 60 countries (GRI Report List, 2010).

2. The social indicators of GRI 2006 will assist this research in testing social disclosure. GRI guidelines focuses on the content of sustainability reporting under the category of economic, environmental and social indicators, at least 40 social indicators are disclosed in the company's annual report. All social issues such as employment of minors, corruption, human rights abuses, customer safety threats to products and other aspects of the world are covered by GRI 2006.

3. The Global Reporting Initiative (GRI) is available as an internal tool to evaluate the consistency of company's sustainability policies and strategies used, as well as other actual activities. This encourages companies to set targets and then report or not . If the company does not find its target, then they should give the reason. In this way, stakeholders have parameters that can guide the company (Setyawanti, 2010).

Setyawanti (2010) describes GRI aims to help governments, investors, companies and communities better understand the process of sustainability improvement. This mission is to continue to improve the report to the same level as the financial statements through the development of an acceptable general reporting Framework The GRI Guidelines are intended for environmental, economic and social reporting.

According to Coy in Supriyono (2013), the Disclosure Index is a qualitative-based tool designed to measure a series of items when collected (summed), resulting in a substitute score indicating the level of disclosure in a given context for the planned index.

There are 4 types of social disclosures: firstly the index gives the same weight to each environmental item on the same index in calculating the index numbers. If a company discloses each item in the list, it will be assigned one (1) and zero (0) if otherwise. No sanctions are granted to companies that disclose irrelevant information. The purpose of using a pure dichotomy index is to reduce subjectivity in determining the weights. The variant of this first type is a dichotomy system with a differential weight (the second type). A weighted system weighs a social item that depends on how important the item is (Suhardjanto, 2008). The third index of disclosure is the scope range with all items that share the same weight. Coy (1993) in supriyono (2013) used a three-point quality scale to capture the differences on each item. They use '1' scores for less criteria, scores (2) for satisfactory criteria and '3' scores for good criteria. Systems that use scores with more ranges may be more valid, but experience a much higher degree of subjectivity (Suhardjanto, 2008). The variant of this method is the fourth type. In a range of scores with differential weights (different), stakeholders are permitted to weigh each index item eg from '0' to '3'.

This study uses the first index method, because this method is more objective as is commonly used by researchers. This refers to the opinion of Suhardjanto (2008) the first method, a system of dichotomies of equal weight, is the most commonly used in previous disclosure studies.

2.6 Previous Research

Based on previously done research on Corporate Social Responsibility Disclosure using GRI 2006 approach, several findings are described as follows:

Supriyono (2013) conducted a research on "Social disclosure practice: comprative studies in Southeast Asia" to examine the effect of corporate governance on the corporate social disclosure in the South East Asia companies as well as to test the difference of the level of corporate social disclosure (CSD) between three countries: Indonesia, Malaysia, and Thailand. Variables in the research are: the number of commissioners, board competence, the proportion of independent commissioners, audit committee size, the proportion of independent audit committees, and ownership of managerial.

Global Reporting Initiative 2006 is used to measurement CSD. Sample in this study were drawn from the company's annual report on Indonesia Stock Exchange, Kuala Lumpur Stock Exchange, and Thailand Stock Exchange in 2009. There are a significant predictors namely the competency of the board of director, numbers of audit committee and proportion independent audit committees on corporate social disclosure. The number of commissioners, the proportion of independent commissioners, and ownership of managerial are not as determinant significant that only firms size and industry type. There are different corporate social disclosure practice in Indonesia, Malaysia and Thailand. Level of disclosure in Indonesia over an average of 40,14%, 58,52% in Malaysia, and 54,12% in Thailand. This is caused by differences in corporate governance practices in those countries.

Furthermore, Setyawanti (2010) conduct a research on "Social disclosure practice: comparative studies Indonesia-Malaysia" to know: 1) the corporate measure influences toward social disclosure in Indonesia and Malaysia, 2) the corporate leverage influences toward social disclosure in Indonesia and Malaysia, 3) the corporate probability influences toward social disclosure in Indonesia and Malaysia, 4) the corporate scope influences toward social disclosure in Indonesia and Malaysia, 5) the revalidations practices differentiate and social disclosure in Indonesia and Malaysia.

This research is done at Financial Report which published in Indonesia and Malaysia by used 150 corporate as sample from both of them. The sample of taking method is done proportional allocation row randomly. The technique of collecting

date are collected from annual report in Indonesia and Malaysia, meanwhile the techniques of analyzing data are used descriptive statistics and hypothesis test which consist of linier regression, classic assumption test consist of multicollinearity test, heteroscedastisity test, autocorrelation test and normality test. The result of the shows that 1) there are exist the corporate influences toward social disclosure in Indonesia and Malaysia 2) there aren't exist the corporate leverage influences probability corporate scope and industrial type toward social in Indonesia and Malaysia., 3) from the result of the differentiate t-test, actually there are not differentiate social disclosure in Indonesia and Malaysia.