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Empirical Testing of Corporate Social Responsibility Disclosure As A Mechanism to Improve the Earnings Persistence and Stock Return in Indonesia

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Abstract: This study aims to analyze and explain the role of Corporate Social Responsibility (CSR) disclosure as a mechanism to improving the earnings persistence and stock return. The population used in this study are all companies listed in Indonesia Stock Exchange that were selected by using purposive sampling method to generate 125 companies and has gone through the process of testing various assumptions Goodness-of-Fit Model to produce 83 samples tested by using path analysis with the Amos (analysis of Moment Structure) software version 21. The results showed that: CSR disclosure is a positive and significant effect on the earnings persistence, CSR disclosure is no effect on stock returns, earnings persistence is no effect on stock returns. By using the Sobel test, the results of this study indicate that there is no role of mediating the earnings persistence variables between CSR disclosure on stock returns.
Keywords: CSR disclosure, earnings persistence, stock return.

I. INTRODUCTION

Corporate Social Responsibility (CSR) has received significant attention from a number of academic researchers and business practitioners. Research results show that investors tend to invest in socially responsible companies, including: Nuzula and Kato (2011), Liu et al (2013), Deak and Karali (2014). This is in line with the Ghoul et al., (2011) which states that the large institutional investors such as CalPERS (California Public Employees' Retirement System) shows a preference for investing in specific companies that pursue social responsibility.

Along with the advent of globalization, environmental pollution and shortage of resources have become big social problems all over the world (Gao; 2011). Many companies realize the growing importance of implementing CSR programs as part of their business strategy, in which the discourse emerged was the notion that the company's presence is not separate from the environment. Similarly in Indonesia, especially after popping up cases related to social and environmental.

Beltratti (2005) states that socially responsible firms are often also the most respected and profitable. Companies that have a social responsibility to try to maximize earnings but at the same time trying to improve the welfare of others stakeholders.

According to Murray et al. (2010), the concept of CSR covers a variety of matters relating to corporate actions and impacts of these corporate actions. If companies do CSR with good, then the company has fulfilled its responsibilities to stakeholders and managed to do good responsible management. CSR is very closely related to sustainability. With the expected adoption of good CSR those resources available naturally could still maintained continuity and future generations can also benefit from the results of existing resources.

World Business Council for Sustainable Development stated that the GRI report is a standard of sustainability reporting guidelines are widely accepted. In the Sustainability Reporting Guidelines by the Global Reporting Initiative (GRI) sustainability report is stated that the practice of measurement, disclosure and accountability efforts of the organization's performance in achieving the goals of sustainable development to stakeholders both internal and external. 'Sustainability Report' is a general term that is considered to be synonymous with other terms to describe a report on the impact of economic, environmental, and social (eg, triple bottom line, corporate responsibility reporting, etc.).

In contrast to previous studies, Zareian (2012) performed on companies listed on the Tehran Stock Exchange (TSE), the period of 2004 to 2008, could not confirm the existence of a significant relationship between the quality of CSR disclosure and stock returns. Their relationship inconsistency raises the mediating variables.

The question that then arises is whether the variables may mediate the relationship between CSR disclosure to investor reaction. We assess the earnings persistencre as a proxy for earnings quality mediate this relationship. Therefore, the second issue in this study after the CSR disclosure, is earnings persistence which is the financial factor required by investors in decision making. Dechow et al., (2010) stated that many studies evaluating the earnings persistence as a proxy of the earnings quality for the proposition that states that the more persistent earnings more convincing useful for evaluation of equity.

Based on the description in the background that has been presented, the problems will be examined in this study were (1) is the CSR disclosure effect on the persistence of earnings? (2) is CSR effect disclosure on stock returns (3) is the earnings persistence effect on stock returns? (4) is the CSR disclosure effect on stock returns with earnings persistence as a mediating variable.

II. LITERATURE REVIEW

CSR Disclosure

Corporate social disclosure can be defined as the provision of financial and non-financial information relating to an organization's interaction with its physical and social environment, as stated in corporate annual reports or separate social reports (Guthrie and Mathews; 1985). Disclosure recommend providing useful information not only for members of the public relating to the environment, but also for investors who are interested in the assessment and potential future liabilities based on issues and progress was reported.

The social impact of the company depends on its operating characteristics. Companies operating characteristics that generate high social impact will demand a higher CSR fulfillment. One of the differences in the characteristics of concern is the industry's high profile and low profile industry. Robert (1992) defines a high-profile companies as companies that have consumer visibility, the level of political risk and a high level of competition. Hakston and Milne (1996) suggest that the industry is high profile believed perform CSR disclosure more than the industry's low profile, which included companies that high profile among other oil companies and other mining, chemical, forest, paper, automotive, aviation, agribusiness, tobacco and cigarettes, food and beverage, media and communications, energy (electricity), engineering, health, and transport and tourism. While low-profile group of companies consists of the building, finance and banking, medical equipment suppliers, property, retail, textile and textile products, personal products, and household products.

Earnings Persistence

Based on the research results, including Chan et al. (2006) and Sare et al. (2013), Udhaya (2014), that the accounting earnings still attract the attention of investors in making an investment decision. Therefore, earnings need to be considered by investors or prospective investors not only higher profits, but profits were persistent.

Pennman and Zang (2002) defines the earnings persistence as revisions in accounting earnings is expected future earnings caused by innovations current earnings. Earnings persistence focuses on regression coefficients current earnings against future earnings. The relationship can be seen from the slope coefficient between current earnings with future earnings. The higher (closer number1) coefficient indicates the persistence of high earnings generated, otherwise if the coefficient value is close to zero, the persistence of low earnings. If the value of the coefficient is negative, reverse sense, ie a higher coefficient indicates less persistent, and a lower coefficient values indicate more persistent. Research persistence of earnings by using this model have been carried them by Lev (1983) and Francis et al., (2004).

Stock Return

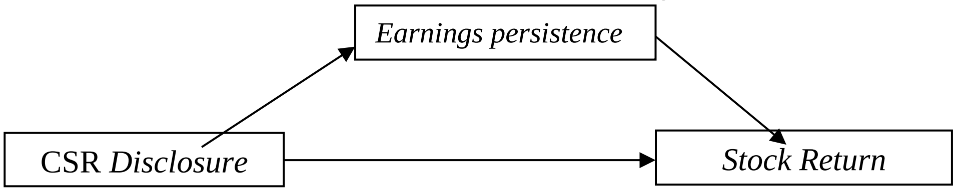
Return of an investment is the main objective person in performing investment activities. Definition Return according Jogiyanto (2007) is the result from investments. Stock returns is one of the factors that motivate investors to invest and also a reward for the courage of investors underwrite the investment risk undertaken (Tandelin; 2010).

Jogiyanto (2007) states that returns can be return realization has already happened or return expectations that has not happened yet but is expected to occur in the future. In this study, which used stock return is the return realization.

III. THEORETICAL FRAMEWORK AND HYPOTHESES

Conceptual framework model as a whole, as in Figure 1, consists of two stages, as follows: (1) Test the direct effect of CSR disclosure and earnings persistence on stock returns. (2) Test the indirect effect or the effect of mediation, which consists of testing the effect of CSR disclosure on stock returns with earnings persistence as a mediating variable.

Figure 1
Conceptual framework model of CSR disclosure on the earnings persistence and stock returns



Hypothesis

The Effect of CSR Disclosure on the Earnings Persistence

The effect of CSR disclosure on the earnings persistence is based on stakeholder theory, in which the existence of an organization (in this case) that is strongly influenced by support groups that have a relationship with the organization. One strategy for maintaining relationships with stakeholders is to disclose CSR, as well as to protect the interests of its stakeholders, the companies tend to report earnings quality is reflected in the persistent earnings.

Lassaad research results and Khamoussi (2012)), found evidence to find that the CSR disclosure is positive and significant effect on earnings persistence. The hypothesis of this study are as follows:

Hypothesis 1: CSR Disclosure is a significant effect on the earnings persistence.

The Effect of CSR Disclosure on Stock Return

Beltratti (2005) states that socially responsible firms are often also the most respected and profitable. Companies that have a social responsibility to try to maximize profits but at the same time trying to improve the welfare of others stakeholders. The effect of CSR disclosure on investors' reaction is based on signaling theory that explains that the management gave the signal for reducing information asymmetry. Hopefully, by the express CSR in the company's annual report, the market will respond to such information as a signal that can be goodnews or badnews to their events that may affect the value of certain companies that reflected changes in stock prices.

The study results of Liu et.al. (2013), shows that by comparing the volatility before and after the company released its CSR report, researchers found a significant volatility decline after the disclosure of CSR, initially decreased and then increased. The finding confirms that CSR disclosure can play the same role as financial disclosure in promoting the transparency of the stock market and influence the behavior of investors.

Based on the research results presented earlier, the hypothesis proposed in this study are as follows:

Hypothesis 2: CSR disclosure is a significant effect on stock returns.

The Effect of Earnings Persistence on Stock Return

The effect of earnings persistence to stock return is based on signaling theory that explains that the management gave the signal for reducing information asymmetry. Hopefully, by the persistent earnings, the market will respond to such information as a signal that can be goodnews or badnews to their events that may affect the value of certain companies that reflected changes in stock prices.

Chan et al. (2006), which examines the quality of earnings and stock returns found that the quality of earnings has the power to predict the stock price. The hypothesis is as follows:

Hypothesis 3: Earnings persistence is a significant effect on stock returns.

The Effect of CSR Disclosure on Return Stocks with Earnings Persistence as a mediating variable.

Internal capabilities of the company will enable companies do CSR. The effect of CSR disclosure on the earnings persistence is based on stakeholder theory, where one of the strategies to maintain relationships with stakeholders is to disclose CSR, as well as to protect the interests of its stakeholders, the company reported earnings that tend to be persistent. The efffect of earnings persistence on stock return are based on the signaling theory that explains that the management gave the signal for reducing information asymmetry. Hopefully, by the persistent earnings may boost the share price.

There is empirical support that supports the effect of CSR disclosure on earnings persistence, including Lassaad and Khamoussi (2012) and the earnings quality to the stock return, including Chan et al. (2006). From previous research shows that there is empirical support for the effect of CSR disclosure on the earnings persistence and effect of earnings persistence on stock returns. This study uses earnings persistence as a mediating variable in examining the effect of CSR disclosure on stock returns. Based on the research results presented earlier, the hypothesis proposed in this study are as follows:

Hypothesis 4: CSR disclosure is a significant effect on stock returns with earnings persistence as a mediating variable.

IV. RESEARCH METHODS

Population of this research is all companies listed on the Indonesia Stock Exchange (IDX) in 2013. Based on IDX fact book which is accessed through the www.idx.co.id, the number of companies listed at the IDX in 2013 as many as 492 companies. Companies sampled in this study is a company chosen by purposive sampling method of determining the sample on the basis of suitability, characteristics and specific criteria. Criteria for selection of the sample as follows: (1) Companies are included in the category of high profile listed on the Indonesia stock exchange for the period of 2013; (2) Companies have published financial statements as of December 31 in full for the years 2012 and 2013; (3) Companies disclose CSR information in annual reports and / or sustainability report listed in IDX to 2013 period; (4) Companies consistently use rupiah (Rp.) in presenting the financial statements.

Data was collected using content analysis method, a method of research data collection through observation techniques and analysis of the issue or message of a document. The documents referred to in this study are annual reports and / or sustainability reports on the Stock Exchange from IDX website is www.idx.co.id.

CSR disclosure is the degree of realization of how extensive and exhaustive disclosure of economic, environmental and social undertaken by companies that make CSR reports are listed in the Indonesia Stock Exchange (IDX). To calculate the total disclosure index (TI), the ratio of which disclosed the company actually divided by the number of items that are expected to be disclosed, as follows (Aljifri 2008; Touf 2011; Popova, 2013):

$$TI = \frac{TD}{M} = \frac{\sum_1^m d_i}{\sum_1^n d_i}$$

Where:
TI = Total index disclosure
TD = Total score disclosure
M = Maximum Score disclosure of each company.
di = Item disclosure i, with a score of one or zero.
m = The actual number of disclosure items that are relevant ($m \leq n$)
n = number of items that are expected to be disclosed.

List of disclosure used is the list of items CSR based on sustainability report guidelines set by GRI, which consists of the performance of the economic, social and environmental.

To calculate earnings persistence, using an estimate of each company:

$E_{i,t} = \mu_{0,i} + \mu_{1,i} E_{i,t-1} + v_{i,t}$

Where:

$E_{i,t}$: Net Income before Extraordinary items firm i in year t divided by the weighted average number of outstanding shares during year t.

Based on the equation, then measure earnings persistence of the estimated regression slope coefficient.

$PERS_i = \mu_{1,i}$

Higher value of PERS indicates a higher level of earnings persistence. Persistent earnings is seen as earnings quality is higher because of sustained.

Stock returns is earnings per share earned by investors on an investment made. Stock return is calculated by the following formula:

$$R_{i,t} = \frac{P_{i,t} - P_{i,t-1}}{}$$

Where:

R*i, t* : Daily Return to the company i on day t

Pi, t : individual stock price index of firm i at time t

Pi, t-1 : Index of individual stock price of firm i at time t-1

Window period that is used to calculate the AR is for 3 days, one day before the date of publication of the annual report, at the time of publication and one day after the date of publication of the annual report period 2013.

To determine the magnitude of the role earnings persistence as the mediating of CSR disclosure on stock returns used path analysis with the software Amos (Analysis of Moment Structure) version 21.

V. RESULTS AND DISCUSSION

The population of this research is all companies listed on the Stock Exchange in 2013. Based on IDX fact book are accessible through www.idx.co.id, the number of companies listed on the Stock Exchange in 2013 as many as 492 companies. Companies were selected by purposive sampling method to generate 125 companies and has gone through the process of testing various assumptions conformance test model (Goodness-of-Fit Model) to produce 83 samples were tested using path analysis.

One of which must be proven or tested in this study was to test the normality of the data to be processed. There are two tests for normality, the normality of univariate and multivariate normality. A data distribution can be considered normal if the value C.R. skewnes and value C.R. kurtosis < critical value tables + 1.96 with a 0.05 significance level (p-value 5%). Univariate and multivariate normality test on this study, using AMOS program version 21, can be seen in Table 1.

Table 1 Results of Testing Normality

Variable	Min	max	skew	c.r.	kurtosis	c.r.
CSR_Disc	0,381	3,239	0,545	2,027	-0,076	-0,141
Earnings_Pers	-0,087	0,156	0,818	3,041	0,763	1,419
Stock Return	-0,710	1,004	0,509	1,894	0,537	0,998
Multivariate					1,183	0,984

Source: Based on author calculation (2015)

Based on Table 1, note that there is a variable that has a value C.R. skewnes> + 1.96, but the value C.R. kurtosis <+ 1,96 on all variables. It can be concluded that the distribution of the data to univariate is likely normal at the 0.05 significance level (p-value 5%). Furthermore, multivariate testing, note that the value C.R. kurtosis <critical value tables + 1.96, so it can be concluded that the distribution of multivariate data is normal. Thus the assumption of normality in this study have been fullfilled.

After testing the suitability of the model, which can be done on the hypothesis testing using a regression model in path analysis to predict the relationship between exogenous and endogenous variables. Based on path analysis, presented the following structural equation standardized path coefficient of this research.

Table 2 Path Coefficient Standardized Value

Variables			Estimate	S.E.	C.R.	P	Description
Earnings_Pers	<---	CSR_Disc	0,018	0,008	2,348	0,019	Significant
Stock_Return	<---	CSR_Disc	0,063	0,056	1,112	0,266	Insignificant
Stock_Return	<---	Earnings_Pers	0,991	0,772	1,284	0,199	Insignificant

Source: Based on author calculation (2015)

Significance Value Calculation of Mediating Effect (Sobel Test)

To determine the value of the significance of the role of mediating variables or indirect effect, is done by Sobel test. Table 3 is the result of the calculation of the role of mediating variables of this peneilitian models. Table 3 results of Value Significance calculation Indirect Testing (Sobel Test).

Table 3 Results of Value Significance calculation Indirect Testing (Sobel Test)

Variables			Estimate Value	*Standard Error*	*P value of Sobel Test*
Stock Return_ *via* Earnings_Pers	<---	CSR_Disc	0,018; 0,991	0,008;0,772	0.265

Source: Calculations with the help of statistics calculator program ver. 3.0 BETA, http://www.danielsoper.com/statcalc3/calc.aspx?id=31

Based on calculations Sobel test in Table 3, show the following: The indirect effect of CSR disclosure on stock returns have a p-value (two-tailed probability) Sobel Test amounted to 0.265> 0.05 alpha. Based on the above calculation, it can be concluded that the CSR disclosure variables does not have indirect effect on stock returns. Or in this case, the variable persistence earnings failed to function as a mediating variable in mediating the relationship between CSR disclosure on stock returns.

Hypothesis Testing

The Effect of CSR Disclosure on Earnings Persistence

Based on the results of path analysis in Table 2, the value of standardized beta coefficient direct effect CSR disclosure on earnings persistence amounted to 0.018 with a p-value of 0.019 <alpha of 0.05. This shows that CSR disclosure is a positive and significant impact on earnings persistence. Thus Hypothesis 1 stated that the disclosure of CSR significant effect on earnings persistence, accepted.

The results of this study are consistent with Kim et al., (2012) which found that companies that implement CSR more transparent in providing financial information to investors, in which CSR activities to motivate managers to be honest, trustworthy and ethical. This indicates that more and more activities CSR and disclose in the annual report and / or sustainability report, the tendency of the profit generated more persistent.

The Effect of CSR Disclosure on Stock Return

Based on the results of path analysis in Table 2, the value of standardized beta coefficient direct influence of CSR disclosure to stock return is at 0.063 with a p-value of 0.266> 0.05 alpha. This suggests that CSR is no a significant effect on stock returns. Thus Hypothesis 2 stated that the disclosure of CSR is a significant effect on stock returns, rejected.

The results of this study are consistent with Zareian (2012) performed on companies listed on the Tehran Stock Exchange (TSE), the period of 2004 to 2008, where the results of his research could not confirm the existence of a significant relationship between the quality of CSR disclosure and stock returns. This indicates that stock investors are not yet using CSR information in making investment decisions in BEI.

The Effect of Earnings persistence on Stock Return

Based on the results of path analysis in Table 2, the value of standardized beta coefficient of earnings persistence effect on stock returns is equal to 0.991 with a p-value 0.199> 0.05 alpha. This shows that the persistence of earnings is no a significant effect on stock returns. Thus Hypothesis 3 which states that earnings persistence significant effect on investor reaction, rejected.

The results of this study are not in line with Chan et al., (2016) who found that the quality of earnings has the power to predict the stock price. The results of this study indicate that investors do not use the earnings persistence information when analyzing earnings quality in investment decision.

Mediation Role of Earnings Persistence on Stock Return

Analysis of indirect effect in table 3 and the calculation of significant value Sobel test in Table 3, the value of the coefficient of the indirect effect of CSR disclosure on stock returns through persistence earnings amounted to 0,018 with Sobel test p-value of 0.265> 0.05 alpha. This suggests that CSR is no a indirect effect on stock returns. In this case the earnings persistence failed to mediate the effects of CSR on stock returns. Thus Hypothesis 4 stated that the disclosure of CSR have a significant effect on stock returns with earnings persistence as a mediating variable, rejected.

VI. CONCLUDING REMARKS

There are several conclusions in this study, as follows: (1) CSR Disclosure is a positive and significant effect on earnings persistence; (2) CSR disclosure is no effect on stock returns; (3) earnings persistence is no effect on stock returns; (4) The results of this study indicate that there is no role of mediating earnings persistence variables in mediating the relationship between exogenous variables, in this case CSR disclosure with an endogenous variable, in this case the stock return.

The results support the studies that tested a significant relationship between CSR with earnings persistence, including research conducted by Lassaad and Khamoussi (2012) who found that CSR disclosure is positive and significant effect on earnings persistence. This study supports the stakeholder theory, in which the activities of CSR and disclose in the annual report and / or sustainability report it will improve the quality of earnings is reflected in the presence of persistent earnings. This study has limitations that can be used as a reference for further research in order to obtain better results. The limitations of this study are as follows: (1) The sample is limited; (2) This study still use the annual report to see CSR disclosure besides sustainability report because of limited companies that make CSR a separate report with the annual report on the sample companies.

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