The Influence of Regulation and Financial Performance on the Disclosure of Corporate Social Responsibility and Corporate Reputation Moderated By the Ownership Structure

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ABSTRACT

A study by Ernst and Young (2010) found that 84% of public companies believe that CSR is an activity that has a positive impact on the companies. However, only 11% of those companies disclose their CSR in their annual reports. The motivation underlying CSR disclosure in the voluntary situation is performance impression, whereas on the mandatory situation it is due to legitimacy pressure (Meng et al., 2014). CSR activities should be part of companies' activities and operations, which are well planned and have an impact on the companies' budget. The result of researches about the relation of CSR and financial performance are mixed (Huang and Watson, 2015). There is a classic endogeneity problem, whether firms are successful because they are socially responsible or whether CSR is merely something that successful firms do. Diyanty (2014) mentions that the ownership composition structure in Indonesian companies is dominated by family-owned (more than 50%) structure. The influence and impact of CSR is indirectly intended to increase corporate reputation, and in turn, the owners' reputation (Boivie et al., 2016). CSR activities are utilized to develop a reputation and competitive advantage for the company and the owners in the long run. This article reports on a study examining the effect of Corporate Social Responsibility (CSR) regulation and corporate financial performance, measured by corporate liquidity, profitability, leverage and firm's value, on the disclosure level of CSR of public companies in Indonesia. The impact of disclosure was analyzed from the corporate reputation based on the alternative measurement of reputation. Ownership structure consisting of family ownership and foreign ownership were taken as the moderating variables on the correlation between financial performance and the disclosure of CSR.

Keywords: Corporate Social Responsibility, Regulation, Financial Performance, Corporate Reputation.