The role of foreign ownership in the CSR performance of agriculture listed firms in Indonesia

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Abstract. This study aims to examine the effect of ownership structure on the disclosure of corporate social responsibility of agricultural firms in Indonesia. Specifically, this focuses on the effect of foreign ownership on CSR disclosure. The sample consisted of agricultural firms listed on the Indonesia Stock Exchange from 2017 to 2019; and the data were analyzed using multiple linear regression analysis. The results showed that foreign ownership has a significant positive effect and can increase the disclosure of corporate social responsibility, especially in agricultural industry firms.

1. Introduction
In the last decade, global issues related to environmental preservation have attracted more attention. Besides the environment, this phenomenon also occurs in various fields, one of the highlighted areas is economics. Meanwhile, environmental conservation awareness in the economic field gave rise to a new slogan that the industry should implement the 3Ps, namely profit, people, planet. This enables firms to pursue profit and prioritize the interests of the community and environmental sustainability. Xie et al. [1] furthermore, firms that conduct environmental conservation are more attractive to the public and shareholders.

Firms attract shareholders and society to environmental conservation issues by contributing to social responsibility (corporate social responsibility). This increases transparency regarding information disclosure to meet shareholder expectations [2]. In line with this statement, socially responsible firms should be able to protect profits and increase shareholder value [3–5].

Shareholders that are responsible for making decisions with the board composition and ownership structure are the determinants in the disclosure of corporate social responsibility [6]. In determining the best decision, it is not uncommon for firms to use foreign sources of expertise as an alternative [7]. Furthermore, the involvement of foreign members in managing the firm becomes a motivation in developing and increasing the value to disclose social responsibility. The composition of foreigners in the ownership structure can be a signal for stakeholders in assessing the accountability and trust of the firm [8]. In contrast, disclosure of corporate social responsibility is used as a strategy to attract investors from the international market [6].

According to Barnett and Salomon [9], stakeholder theory implies that the better the company manages its relationships with stakeholders, the more successful it will be over time. Furthermore, this theory describes the 'specialization' of social interests in different industries. Different stakeholders in different industries have an impact on the objectives of corporate social responsibility interests [10].
Based on this perspective, the characteristics or industry categories of the firm affect the way social responsibility practices are reported. In addition, previous literature tried to analyze the disclosure of social responsibility on foreign ownership structures in different industry categories such as the manufacturing industry [1,2,11], hospitality and tourism [12], technology [2]. However, there is still little literature related to the disclosure of corporate social responsibility on foreign ownership structures in the agricultural industry sector.

Furthermore, Indonesia is known as an agrarian country with an agricultural sector including agriculture and plantations, which play an important role in the country’s economy. This role includes one of the contributors to economic growth, the creator of foreign exchange, the fulfillment of food requirements, and the absorption of labor. It can be seen from the growth in the agricultural sector in the range of three to four percent, Minister of Finance of Indonesia [13]. In 2017, Indonesia was ranked twenty-first with the value of 50.77 in the top twenty-five countries that have implemented agricultural development according to the planned target. These results were obtained under Brazil but were able to surpass big countries such as the United Arab Emirates, Egypt, Saudi Arabia, and India. In terms of sustainability in the agricultural industry, the country is ranked sixteenth, with a value of 53.87 after Argentina and above China, Ethiopia, the USA, Nigeria, Saudi Arabia, South Africa, Egypt, United Arab Emirates, and India [14].

In 2018, the agricultural industry sector became the second largest GDP contributor to the Indonesian economy [15]. This sector, especially food crops, is important because more than half of GDP is based on them. In contrast, the agricultural sector has a major contribution to employment, which is around 35% of the total workforce (Central Bureau of Statistics). The Indonesia Stock Exchange (IDX) explains that this sector includes sub-sectors such as food crops, plantations, livestock, fisheries, and forestry (Indonesian Stock Exchange).

The academic literature relating to foreign ownership and corporate social responsibility was examined in the last decade with mixed conclusions. The results which state that foreign ownership affects corporate social responsibility were put forward by: McGuinness et al. [3], Rustam et al. [4], Oh et al. [16], Cahyani and Suryaningsih [17], Lee et al. [18], and Dinhi et al. [19]. Meanwhile, the conclusion that this ownership does not affect corporate social responsibility was put forward by Garanina [10], Kim et al. [20] and Barako and Brown [21].

This study has contributed to the development of science in the field of economics, especially in the relationship between corporate social responsibility and foreign ownership in the agricultural industry. The agricultural industry is an important part of developing the country’s economy. Furthermore, it is an interesting concern in study as one of the largest contributors to GDP.

Theoretical framework and hypotheses development:

1.1. Corporate social responsibility in the perspective of stakeholder theory (stakeholders)

Rustam [4] stated that based on stakeholder theory, firm decision-making should consider the expectations and claims of shareholders and all relevant stakeholders. This theory implements that corporate social responsibility positively affects the firm’s welfare. Therefore, it positively affects the firm value for various stakeholders, such as shareholders, creditors, employees, customers, regulators, and society. In particular, it proposes that corporate social responsibility enables firms to have a competitive advantage through trusting relationships with stakeholders.

Furthermore, the theory describes the company’s actions to integrate its activities with "stakeholder expectations" in disclosing social responsibilities [22]. Disclosure of this information provides an opportunity to build strong relationships by proving the firm's loyalty to responsible business activities [23]. In addition, this theory considers the disclosure of social responsibility as a source of reaction to criticism by external stakeholders of the firm [24,25]. Good corporate governance can improve the relationship between companies and stakeholders in the process of social responsibility [26,27]. Therefore it is relevant when this theory becomes a means of communication between companies and stakeholders concerning economic, social, and environmental issues [28–30].
1.2. The effect of foreign ownership on corporate social responsibility.

The ownership structure is a governance mechanism that influences the firm's behavior, strategic decisions, performance, and value [10,31,32]. Meanwhile, competition in the global market promotes the development of firm ownership structures. In the context of developing and improving ownership structure competencies, it is common for firms to involve foreign expert resources. Furthermore, foreign ownership structures influence the internal practices [17,20,21] and create a positive impact on performance [5,11,12,33]. The western-style approach can influence the trend of implementing corporate social responsibility disclosure [6].

The presence of foreign investors has an impact on the establishment of transparent firm governance, which encourages firms to engage in corporate social responsibility activities [16]. Furthermore, Chapple and Moon [34] identify an increase in corporate social responsibility in Asian countries due to globalization and foreign ownership. Huafang and Jianguo [35] support this finding because investors from the US and Europe tend to pressure international companies to deal with social responsibility practices using their experience and knowledge of social responsibility in the field.

On the contrary, investing in firms from foreign countries, especially developing countries can be very risky. Therefore, investors seek to reduce uncertainty in various ways. One option is to invest in firms that “want to maintain credibility and legitimacy as responsible community actors in a shared environment” [4]. Meanwhile, foreign investors tend to choose firms that voluntarily disclose more information, including non-financial on social responsibility [20]. Therefore, firms from emerging markets seek a match between organizational actions and institutional strength by recognizing legitimacy gaps and increasing disclosure to ensure accountability for foreign shareholders [6]. Finally, the foreign ownership structure encourages accountable behavior and increases transparency as well as trust through disclosure of corporate social responsibility. The following hypothesis was concluded according to this statement:

**H1**: Foreign Ownership has a positive effect on corporate social responsibility.

![Diagram](image)

**Figure 1. Framework**

2. Research methods

2.1. Research sample

This study uses secondary data in the form of annual financial statements obtained from the official websites of the relevant firm and the Indonesia Stock Exchange (IDX). The population was all public agricultural industry firms listed on the IDX in the period of 2017 to 2019, with total observations of 60 firms. However, only 55 firms were used in the study (Table 1).

| No | Criteria | Amount |
|----|----------|--------|
| 1. | Number of the agricultural industry | 20 |
| 2. | Number of research observations based on samples with a period of 2017 to 2019 = 20*3 | 60 |
|    | Data outlier | (5) |
| 3. | The number of final observations used in the research | 55 |

Table 1. Data sample
2.2. Research models and variables

Research model:

\[ \text{CSR} = a + \beta_1 \text{FO} + \beta_2 \text{ROA} + \beta_3 \text{LEV} + \beta_4 \text{SIZE} + \beta_5 \text{AGE} + \epsilon \]

Description:
- CSR = Corporate Social Responsibility
- FO = Foreign Ownership
- ROA = Return On Asset (Financial performance proxy)
- LEV = Firm Debt Level
- SIZE = Firm size
- AGE = Firm Age

3. Results and discussion

Descriptive statistical testing shows that the dependent variable used is the management of corporate social responsibility, and the disclosure of its value in the results ranges from 33 to 58. This value implies that the observations of agricultural firms all disclose corporate social responsibility, with the lowest ratio value being 33 and the highest being 58. In addition, firms disclosing corporate social responsibility increase transparency to gain trust which has an impact on increasing investment.

| Variable | N  | Minimum | Maximum | Median | Mean  | Std. deviation |
|----------|----|---------|---------|--------|-------|---------------|
| CSR      | 55 | 33      | 58      | 44     | 44    | 5.9035        |
| FO       | 55 | 0       | 81.0500 | 6.2321 | 21.0366 | 27.3335      |
| ROA      | 55 | -0.5727 | 0.3482  | 0.0301 | 0.0272 | 0.1234        |
| LEV      | 55 | 0.1128  | 1.6483  | 0.5721 | 0.5520 | 0.2666        |
| SIZE     | 55 | 17.1102 | 21.6392 | 20.2195 | 19.7161 | 1.3079        |
| AGE      | 55 | 10      | 57      | 34     | 31.1272 | 11.6952      |

Valid N (listwise) 55

The next variable to be studied is the structure of foreign ownership as an independent variable. Based on the descriptive statistics table data (Table 2), the highest and the lowest value is 81.05 and 0 respectively. The lowest value of 0 implies that several observation firms do not have a foreign ownership structure. Also, this study adds four control variables, namely the firm's financial performance as a proxy for ROA, then leverage, firm size, and age.

| Variable | Coefficient | t-count | Probability |
|----------|-------------|---------|-------------|
| C        | 47.1575     | 29.5247 | 0.0000      |
| FO       | 0.0253      | 2.2343  | 0.0301**    |
| ROA      | -1.2191     | -2.4199 | 0.0193**    |
| LEV      | -1.7657     | -6.0950 | 0.0000*     |
| SIZE     | -0.3461     | -7.7532 | 0.0000*     |
| AGE      | 0.1556      | 4.9910  | 0.0000*     |

Adjusted R² 0.1207
F-stat 2.4829
Probability 0.0441

Description: * = 0.01 Significance, ** = 0.05 Significance, *** 0.1. Significance

Based on hypothesis testing in this study (Table 3), conclusion that we can say there are foreign ownership has a significant effect on corporate social responsibility in a positive direction. Therefore, firms tend to disclose corporate social responsibility better when this structure is available. These results are in line with the conclusion that foreign ownership encourages firms to disclose their social responsibilities to create transparency, accountability, and trust, which is expected to have an impact on increasing firm value [3–5,16–19].
Table 4. Variable correlation

| Correlation Probability | CSR  | FO   | LEV  | ROA  | SIZE | AGE  |
|-------------------------|------|------|------|------|------|------|
| CSR                     | 1.0000 |      |      |      |      |      |
|                         | ----- |      |      |      |      |      |
| FO                      | 0.2080 | 1.0000 |      |      |      |      |
|                         | 0.1312 |      |      |      |      |      |
| LEV                     | -0.1247 | -0.2494 | 1.0000 |      |      |      |
|                         | 0.3688 | 0.0688 |      |      |      |      |
| ROA                     | -0.0317 | 0.0200 | -0.6885 | 1.0000 |      |      |
|                         | 0.8195 | 0.8856 | 0.0000 |      |      |      |
| SIZE                    | 0.0082 | 0.2242 | 0.0197 | -0.0342 | 1.0000 |      |
|                         | 0.9526 | 0.1030 | 0.8875 | 0.8056 |      |      |
| AGE                     | 0.0661 | -0.0951 | -0.1101 | 0.3010 | -0.0464 | 1.0000 |
|                         | 0.6346 | 0.4937 | 0.4277 | 0.0270 | 0.7388 |      |

This study also examines several control variables such as the firm's financial performance as a proxy for ROA, leverage, size, and age. The results of testing (Table 4) on the control variables show that ROA, leverage, and firm size have a significant negative effect on the disclosure of corporate responsibility. Therefore, the disclosure reduces the value of ROA, leverage, and firm size. On the contrary, the firm age has a significant effect in a positive direction on the disclosure of corporate responsibility. Therefore, an increasingly mature firm age has an impact on improving the disclosure of corporate social responsibility.

4. Conclusion

This study aims to determine the effect of foreign ownership on corporate social responsibility in agricultural firms listed on the Indonesia Stock Exchange for the 2017–2019 period. Based on the results, it can be concluded as follows: Foreign ownership has a significant effect on corporate social responsibility in a positive direction. Therefore, firms tend to disclose corporate social responsibility better when this structure is available. These results are in line with the conclusion that foreign ownership encourages firms to disclose their social responsibilities to create transparency, accountability, and trust, which is expected to have an impact on increasing firm value. Furthermore, agricultural firms strive to continuously improve their performance, one of which is by adding foreign expertise through a foreign ownership structure. This addition has an impact on good disclosure of social responsibility. Besides profits, this firm should always care about the environment as one of the pillars of the nation's economy.

This study is limited by the high subjectivity to calculate corporate social responsibility proxies using the GRI Index. In future studies, the use of GRI Index should be conducted by one person to avoid the level of subjectivity. Furthermore, this limitation is that not all firms have foreign ownership structures.

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