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Board Diversity and Corporate Social Responsibility Disclosure in the Property, Real Estate and Construction Sectors

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This study aims to examine the effect of board diversity and foreign ownership on corporate social responsibility disclosure in property, real estate and building construction companies listed on the Indonesia Stock Exchange between 2013 and 2016. The population of research is companies that have met the pollution criteria is as many as 164 companies for four periods (2013–16). Board diversity variables used in this study are gender, nationality and independent commissioners. This research uses profitability (ROA) as the control variable. The analytical technique used is multiple linear regression analysis, processed with SPSS20 software. The results showed that board nationality diversity has a significant positive effect on CSR disclosure, while foreign ownership has a significant negative effect on CSR disclosure. Independent commissioners and gender diversity variables have no effect on CSR disclosure. The article has implications for companies, policy makers and for the professional development needs of board members.

Keywords: *Board diversity, Foreign ownership, CSR disclosure*

Introduction

Corporate governance has become one of the most researched topics (Harymawan et al., 2019; Irawati, Maksum, Sadalia, Muda, 2019; Muda et al., 2018, Lubis et al., 2018; Wardhana, Tjahjadi, & Permatasari, 2017; Haliah, Gagaring, Mediaty, & Mushar, 2017; Tandean & Winnie, 2016). One component of corporate governance is board diversity which is known to be related to the shape and extent of CSR disclosure. Board diversity is the composition of the board and a combination of various characteristics, attributes, knowledge and expertise of each board member that will influence board decision making (Walt and

Ingley, 2003). Although there is consensus in the corporate governance literature that boards can ensure companies meet corporate social responsibility goals (Schwartz et al., 2005, Mackenzie, 2007) research on board composition is still infrequently discussed.

Board diversity has been an interesting problem in recent years (Rao & Tilt, 2016; Harjoto, Laksmana & Lee, 2014). The term board diversity refers to differences in the characteristics of board members of directors and commissioners that are closely related to differences in attitudes and opinions of the board (Ararat et al., 2010). In the past few years, diversity in the boardroom of publicly traded companies around the world has become an urgent problem. The United States and European Union countries now need corporations to improve the diversity practices of the council and the disclosure of these practices. In the US, the SEC adopted a new set of rules requiring publicly-trading companies to disclose whether and how diversity of the board was considered in the process of electing nominated directors (SEC Release 33-9089 issued on December 16, 2009). While these rules recognise the importance of diversity boards, there is limited evidence about the influence of boards that make up a variety of management decisions. In this study, we examine the relationship of proxy board diversity with gender diversity, national diversity and an independent board of commissioners with corporate social responsibility.

In general, the main goal to be achieved by the company is to obtain the maximum profit. In achieving this goal, it is not uncommon for companies to ignore the social and environmental impacts caused by the company's operations. Company activities that bring negative impacts and harm the environment will be criticised by the community and threaten the company's sustainability. The more critical and increasing attention of the world community related to social and environmental issues also requires companies to focus more on carrying out social responsibility activities and disclosure. Corporate social responsibility (CSR) is a concept that states that a company is part of a social system so that its responsibility is not only to shareholders, but to all stakeholders. The existence of CSR can help companies to increase stakeholder involvement and transparency so that it will reduce agency problems and information asymmetry (Prabowo et al., 2017). CSR implementation and disclosure are expected to be able to maintain business sustainability in the long run and have a positive impact on the community and the surrounding environment.

The existence of MEA, an ASEAN free market concept, causes an increase in the flow of foreign capital into the country. This form of multinational business has the potential to provide different experiences, values and knowledge for companies due to international market exposure from foreign owners. Foreign shareholders, especially from developed countries, are generally more sensitive and aware of the socially responsible business expectations of the global community. Therefore, foreign ownership will encourage companies to make CSR disclosure more widely.

The choice of gender selection, national diversity, an independent commissioner and foreign ownership as independent variables are caused by several reasons. Gender is a difference in characteristics that lead to differences in the social roles of men and women. The presence of women in the composition of the board tends to increase the success of the company compared to the homogeneous composition of the board. Women's collaborative leadership style can increase the intensity of listening to complaints and employee innovation and social support. The nature of women who are more sensitive to social and environmental issues can increase corporate social responsibility which can ultimately increase the company's reputation (Bear et al., 2010).

Nationality diversity is a diversity of citizenship status of the board of directors and commissioners in a company. The existence of globalisation and the enactment of the Asian Economic Community (AEC) at the end of 2015 led to an increasing number of foreign nationals working in Indonesia. Foreign directors and commissioners bring a variety of experiences, knowledge, values and norms from their home countries that are different from Indonesia. These different backgrounds can improve alternative solutions to problems in order to improve the quality of board decision making (Ibrahim and Hanefah, 2016).

The independent board of commissioners is the culmination of the company's internal governance system which has a major role in overseeing (Sudana and Arlindania, 2011). Independent commissioners are generally more objective in evaluating management performance compared to executive directors because they are not directly involved in the company's operations. Therefore, the greater the proportion of independent commissioners, the tighter the level of management supervision and control. Independent commissioners and disclosures are mechanisms that can reduce agency costs due to differences in interests between shareholders and managers (Patelli and Prencipe, 2007).

This research was conducted on property, real estate and building construction companies using financial statement data for the period 2013–16, consisting of 41 different companies. We use the multiple linear regression analysis method by first testing the classical assumptions. The analysis was carried out using SPSS software.

The results of this study found that gender diversity in the board of directors and commissioners is not related to CSR disclosure. National diversity within the board of directors and commissioners is significantly positive related to CSR disclosure. The independent board of commissioners does not deal with CSR disclosures. Foreign ownership is significantly negative related to CSR disclosure. These results can be considered for companies where companies should do more CSR activities and disclosure. Companies also need to consider recruiting foreign boards, as they have proven to be able to increase CSR disclosure. Investors making investment decisions should not only focus on company profits, but also pay attention to the social and environmental aspects of the company.

The structure of this article is as follows: Part 2 is literature review and hypotheses development; Part 3 is sample description and research variable; Part 4 discusses the results; and Part 5 presents conclusions, limitations and suggestions for future research.

Literature Review

Corporate Social Responsibility (CSR) in Indonesia

Previous research shows that voluntary disclosure is one way for companies to manage their reputation and is useful for providing information to stakeholders about the company's commitment to CSR (Barnett, 2007; Kolk, 2003). Several theoretical perspectives have been offered for CSR disclosures including stakeholder theory, where this disclosure arguably fulfils various stakeholder information needs (Freeman, 1984); legitimacy theory, which proposes voluntary disclosure as a means for organisations to legitimise their presence and activities (Lindblom, 1994) and agency theory, where agents or directors tend to express voluntarily if there are adequate incentives (Haniffa and Cooke, 2002). Empirical evidence on CSR disclosure shows that the number of companies that undertake voluntary CSR activities has also increased in recent years (Kolk, 2003).

According to the Law of the Republic of Indonesia No. 40 of 2007 concerning limited liability companies in Article 1, paragraph 3, social and environmental responsibility is the company's commitment to participate in sustainable economic development in order to improve the quality of life and the environment in a way that is beneficial, both for the company itself, the local community, and society in general. Disclosure of CSR in Indonesia is currently an obligation for companies that carry out business activities in fields related to the use of natural resources as stipulated in Law of the Republic of Indonesia No. 40 of 2007 concerning limited liability companies in Article 74, paragraph 1. Companies that have carried out CSR programs are expected to be able to announce the development of the program in an annual report in accordance with Law of the Republic of Indonesia No. 40 of 2007 concerning Limited Liability Companies in Article 66, paragraph 2. However, for companies that are not mentioned in the existing laws and regulations, disclosure of corporate social and environmental responsibility is still voluntary.

Theoretical Framework

Stakeholder theory explains that a company operates not only in the interests of the company but also must pay attention to the interests of stakeholders. The company's operations or activities must also provide value for stakeholders. According to this theory, the company's sustainability and success depend on its ability to balance the interests of diverse stakeholders. When the company is able to meet the interests of stakeholders, it will receive support for the company's sustainability. From the point of view of stakeholder theory, CSR disclosure is considered to be a way of meeting the diverse information needs of stakeholders (Freeman, 1984 in Muttakin and Subramaniam, 2015).

According to Resource Dependent Theory, the company will face a changing external environment. On the other hand, the company has a dependency on external resources, so the company needs to consider ways to meet those needs. According to Pfeffer and Salancik (1978) the board of directors and commissioners plays a role in providing these resources by becoming a mediator between the external environment and the company. The existence of the board of directors and commissioners can reflect environmental needs in order to reduce environmental uncertainty.

Development of Hypotheses

Board Diversity and CSR Disclosure

Previous research has identified several important differences in research related to the relationship between board diversity with CSR performance, CSR decisions, and CSR reporting (Khan, 2010, Haniffa and Cooke, 2005, Barako and Brown, 2008, Fernandez-Feijoo et al., 2012, Lorenzo et al., 2009, Said et al., 2009). The results of the study showed mixed results. Haniffa and Cooke (2005) found that ethnic Malays in the board had a positive relationship with CSR disclosure in which the majority of respondents identified ethnic background as a determinant of CSR disclosure in Malaysia. Furthermore, Post et al. (2011) examined the relationship between the composition of the directors' board and environmental corporate social responsibility (ECSR) and obtained the result that the proportion of the board of directors from outside the company was higher, a board consisting of three or more female directors, the board of directors whose directors were average the average is approaching 56 years old, and those who have a higher proportion of directors from Western Europe are positively related to the ECSR.

Based on the perspective of agency theory, directors as corporate agents might be motivated to voluntarily disclose more company activities to reduce information asymmetry (Gul and Leung, 2004). While based on resource dependence theory, the board of directors and commissioners has a role in providing company resources by becoming a mediator between the external environment and the company. Board diversity is an important strategy that can bring diverse perspectives and enhance the creativity and innovation of the company. The diverse composition of the board will lead to better understanding and resolution of problems, so that the board can adapt to the business environment and encourage the level of CSR disclosure (Bear et al., 2010). Ibrahim and Hanefah (2016) found that the greater the proportion of board diversity, the wider the disclosure of CSR. Diversity in the board tends to improve the quality of decision making and improve the process of discussion with more ideas and perspectives, but diversity in the board can also negatively affect group dynamics (Erhardt et al., 2003).

H1: Board diversity is related to CSR disclosure

Gender Diversity and CSR Disclosure

Women have different characteristics and perspectives from men. The presence of women on the board is believed to increase understanding and fulfilment of diverse stakeholder interests compared to men (Konrad and Krammer, 2006 in Bernardi and Threadgill, 2010). Wang and Coffey (1992) stated that women directors and commissioners tend to be more sensitive to social and environmental issues, that women are usually less business oriented, and they are more focused on achieving the welfare of all stakeholders. In addition, the philanthropic nature of women who have a concern for social aspects will encourage social and environmental activities and decision makers, such as the implementation of CSR and disclosure. Previous research found that gender diversity had a significant positive effect on CSR disclosure (Ibrahim and Hanefah, 2016; Mufraini et al, 2017; Paramita and Marsono, 2014).

H1a: Gender diversity in the board of directors and commissioners is related to CSR disclosure

National Security and CSR Disclosure

The presence of foreign boards in companies increases the diversity of ideas, opinions and perspectives, ultimately improving the decision-making process (Ruigrok et al., 2007). The presence of a foreign board in a company signals an increase in a company's commitment to supervision and transparency, which in turn can enhance the company's reputation (Oxelheim and Randey, 2003). Foreign councils, especially from developed countries, have high views, knowledge and concern on environmental and social issues. Because of their international knowledge and exposure, foreign boards of directors and commissioners tend to be more aware of the importance of transparency in the social impacts of companies, thus encouraging the implementation of CSR activities and disclosures (Muttakin et al., 2015). Research conducted by Ibrahim and Hanefah (2016), Muttakin et al. (2015), and Sudana and Arlindania (2011) found that diversity in the board influences the disclosure of CSR.

H1b: National diversity in the board of directors and commissioners is related to CSR disclosure

Independent Commissioner and CSR Disclosure

Previous research has proven a positive relationship between the presence of non-executive/independent board members and disclosure in general, including CSR disclosures (Barako and Brown, 2008, Prado-Lorenzo et al., 2009). The research shows that independent directors have high monitoring capabilities, impartiality, concern for their reputation and experience and expertise, and therefore tend to have the potential to positively influence CSR decisions at the board level specifically on CSR disclosure.

As explained by agency theory, the presence of independent commissioners in the board increases supervisory activities and ensures that the interests of all shareholders are met (Petra, 2005). The existence of an independent board of commissioners tends to make a voluntary disclosure of the company to maintain its reputation and independence, where the disclosure is able to reduce the problem of information asymmetry between shareholders and management and is able to reduce the risk of corporate litigation (Lim et al., 2007). Research conducted by Ibrahim and Hanefah (2016) and Muttakin and Subramaniam (2015) found that the existence of an independent board of commissioners was able to increase CSR disclosure.

H1c: Independent board of commissioners dealing with CSR disclosures

Foreign Ownership and CSR Disclosure

According to Jensen and Meckling (1976) on agency theory, the concept of separation of ownership and control in the spread of share ownership can lead to agency problems. Companies with a high proportion of foreign ownership tend to experience information asymmetry problems, due to geographical differences between owners and company management. These geographical differences encourage companies to disclose information about their activities and performance (Schipper, 1981) both financial information and the impact of company operations on the environment and social. Research by Muttakin and Subramaniam (2015) and Khan et al. (2013) found that the proportion of foreign ownership positively influenced CSR disclosure.

H2: Foreign ownership is related to CSR disclosure

Research Design

Sample and Source of Data

The population in this study were all property, real estate and building construction companies listed on the Indonesia Stock Exchange during the period 2013 to 2016, comprising of 41 companies. The total observations used were 164. The data used in this study are secondary data, namely the company's annual report. The company's annual report is obtained from the Indonesia Stock Exchange website at www.idx.co.id.

Operational Definition and Variable Measurement

The dependent variable in this study is the disclosure of corporate social responsibility (CSR). Disclosure of corporate social responsibility is the disclosure of financial and non-financial information related to company activities related to the community, the environment and the physical environment (Hackston and Milne, 1996). Implementation of CSR disclosure on an ongoing basis can bring many positive impacts for all parties. CSR disclosure can increase company value, financial performance, and ease of access to obtain capital, enhance company reputation, create a good work environment and reduce operating costs (Said et al., 2009). CSR disclosure is measured using a dummy variable with a score of 1 if the company's annual report is contained or discloses CSR disclosure items and gives a value of 0 if the disclosure item is not listed in the annual report.

The independent variables in this study consisted of gender diversity, national diversity, independent commissioners and foreign ownership. Gender diversity refers to differences in characteristics and roles between men and women in society. Women's boards of directors and commissioners expand the company's knowledge and understanding of the market and consumers, thereby leading to an increase in the company's reputation and value (Brammer et al, 2007). Gender diversity is measured by using a proportion of the number of female commissioners to the total number of commissioners and directors. National diversity is measured using a proportion of the number of foreign directors and directors to the total number of commissioners and directors. Independent commissioners are measured using the proportion of the number of independent commissioners to the total number of commissioners. Furthermore, foreign ownership is measured using a percentage of the number of shares held by foreigners over the total number of shares outstanding. This study adds return on assets (ROA) as a control variable.

Table 1: Variable definition

Variables	**Definition**
Dependent:	
CSRD	Dummy variable, coded 1 if the company discloses CSR in its annual report and coded 0 if it does not disclose
Independent:	
WOM	Number of women commissioners divided by total number of commissioner and director
NAT	Number of foreign commissioners and director divided by total number of commissioner and director
INDCOM	Number of independent commissioners divided by total number of commissioner and director
FOROWN	Number of percentage of stocks owned by foreigner divided by total outstanding stocks
Control	
ROA	Earnings after tax divided by total assets

Methodology

This study uses the F test and T test to determine the relationship between the independent variable and the dependent variable. To measure the value of independent or independent variables that affect the dependent variable, the coefficient of determination (R2) test is used. The analytical method used in this study is the method of multiple linear regression analysis by first conducting a classic assumption test. The multiple regression analysis model in this study was formulated in the following mathematical equation.

$$CSRD = \alpha + \beta_1 WOM + \beta_2 NAT + \beta_3 INCOM + \beta_4 FOROWN + \beta_5 ROA + e$$

Results and Discussion

Descriptive Statistics

Table 2: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. deviation
CSRD	164	.119	.524	.31270	.077159
WOM	164	.000	.857	.16473	.165443
NAT	164	.000	.286	.05202	.073337
INDCOM	164	.167	.833	.38855	.096612
FOROWN	164	.000	97.860	21.33667	24.753908
ROA	164	-.249	.359	.06413	.068584

From Table 2 it is known that CSR disclosures have an average of 0.31270 with a standard deviation of 0.077159 which means that property companies, real estate and building construction on the Stock Exchange on average reveal 26 items from 84 disclosure indices in the annual report. This number shows the low level of CSR disclosure by the company in the annual report.

Gender Diversity and CSR Disclosure

Table 3 shows the adjusted R2 value of 0.112. This shows that the independent variables consisting of gender diversity, national diversity, independent board of commissioners and foreign ownership and profitability control variables are able to explain variations in CSR disclosures by 11.2% and the remaining 88.8% are explained by other variables outside this study.

The results in Table 4 show that gender diversity is not significantly related to CSR disclosure with a significance level of 0.117 and B of - 0.059 so H1 is rejected. The results of this study are not as old as the resource dependence theory in which according to this theory the board of directors and commissioners are able to be a liaison between the company and its external environment. There are several factors that can explain this, first the results of the research data show that women on the council are a minority so that it may not be able to influence decision making. Second, the majority of Indonesian people adhere to a patrilineal kinship system where the father holds the control over all decisions made in the family. This allows the opinions and views of female boards of directors and commissioners to be considered unimportant or lack of attention in a decision making (Quisumbing and Maluccio, 2000). This research is in accordance with research conducted by Sudana and Arlindania (2011). This study is not in accordance with the research of Ibrahim and Hanefah (2016) which found that the existence of female directors had a significant positive effect on the level of CSR disclosure.

Table 3: Determination coefficient test results

Model	Adjusted R^2
1	.112

Table 4: Multiple Linear Regression Test Results

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std. Error	Beta		
Constant	.313	.025		12.364	.000
WOM	-.059	.037	-.126	-1.575	.117
NAT	.271	.084	.258	3.245	.001*
INDCOM	.047	.060	.059	.783	.435
FOROWN	-.0004	.000	-.127	-1.685	.094**
ROA	-.219	.084	-.194	-2.610	.010*

* = Significance level 5%
** = Significance level 10%

National Diversity and CSR Disclosure

The results of the study with the statistical tests in Table 4 show that national diversity is significantly positively related to CSR disclosure with a significance level of 0.001 and a value of B 0.271 so H2 is accepted. These results are consistent with resource dependence theory where foreign board of directors and commissioners provide more input and resources, thereby increasing the effectiveness of the board's process, which in turn can improve decision making and strategy setting, such as CSR disclosure strategies.

Branco and Rodrigues (2008) state that the existence of foreign directors and commissioners can raise the issue of disclosure clauses. This is because foreign directors and commissioners carry international knowledge and exposure so they tend to be more concerned with the interests of the community (social) and can influence CSR disclosure decisions. The results of this study are in accordance with research conducted by Ibrahim and Hanefah (2016) and Muttakin et al. (2015) who found that the greater the proportion of foreign councils, the more CSR items were disclosed in the annual report.

Independent Commissioner and CSR Disclosure

The results in Table 4 show that the independent board of commissioners is not significantly related to CSR disclosure with a significance level of 0.435 and a value of B 0.047, so H3 is rejected. This result is not in accordance with agency theory where the size of the proportion of independent commissioners has no effect on CSR disclosure. This may be because independent commissioners are not able to influence decision making, because they are not directly involved with the day-to-day operations of the company. In addition, according to Siregar and Priantinah (2017) other reasons that might cause the existence of an independent board of commissioners do not significantly influence the disclosure of CSR, namely the minimum limit of independent commissioners in a company according to POJK Number 33 / POJK.04 / 2014 regarding Directors and Board of Commissioners of an Issuer only by 30%. This seems to make the influence given by the independent board of commissioners insufficient to influence the decision-making of the board. The results of this study are consistent with research conducted by Paramita and Marsono (2014), but not in accordance with research by Ibrahim and Hanefah (2016) and Jizi et al. (2014).

Foreign Ownership on CSR Disclosure

The statistical test in Table 4 shows that foreign ownership is significantly negatively related to CSR disclosures so H4 is accepted. This result does not support agency theory which states that companies with a high proportion of foreign ownership tend to disclose more information. That is because foreign ownership of companies in Indonesia has not paid much attention to social and environmental issues (Rohmah, 2015), which means foreign ownership is more focused on financial performance, which is profit which can directly impact the return to be obtained. Therefore, the greater the foreign ownership, the company will be motivated to generate greater profits by means of efficiency of various costs, including costs for CSR activities and disclosure. The results of this study are consistent with Edison's (2017) study which found that foreign ownership has a significant negative effect on CSR disclosure. However, it is not in accordance with the research of Khan et al. (2013) and Muttakin and Subramaniam (2015).

Board Diversity and CSR Disclosure

The statistical F test results in Table 5 show a significance value of 0.003 meaning that together board diversity is proxied by gender diversity, national diversity and the independent board of commissioners influences CSR disclosure so H1 is accepted. The results of this study support the resource dependence theory which explains that the board directors and commissioners have a role in providing important company resources by becoming a mediator between the external environment and the company. This result is also consistent with agency theory where the diversity of the board can increase the independence of the board so that the more diverse the composition of the board the better the level of supervision of management. Therefore, companies will tend to disclose more information to reduce information asymmetry and protect their reputation (Lim et al., 2007). The results of this study support the work of Ibrahim and Hanefah (2016), who found that diverse board compositions were a major factor influencing the extent of CSR disclosure.

Table 5: F-Test results

Model	Sum of squares	df	Mean square	F	Sig.
Regression	.136	5	.027	5.130	.000
Residual	.835	158	.005		
Total	.970	163			

Conclusion

This study aims to examine the relationship between board diversity and CSR disclosure. Analysis and discussion have been carried out on the hypotheses using board diversity which is proxied by gender diversity, national diversity and independent commissioners jointly influence the disclosure of CSR in the period 2013–16. This study found that gender diversity in the board of directors and commissioners was not related to CSR disclosure. National diversity within the board of directors and commissioners is significantly positive related to CSR disclosure. The independent board of commissioners does not deal with CSR disclosures. Foreign ownership is significantly negative related to CSR disclosure.

This study has limitations, namely that this study only uses one sector of the company so that the results of this study cannot be generalized to all sectors. In addition, this research was conducted in the transition year of the GRI reporting standard so that there are companies that refer to GRI G3.1 and some have referred to GRI G4. Although the difference is not significant, this can affect the extent of CSR disclosure.

This study provides results that can be used as a consideration for companies where companies should do more CSR activities and disclosure. Companies also need to consider recruiting foreign boards, as they have proven to be able to increase CSR disclosure. In making investment decisions, investors should not only focus on company profits, but also pay attention to the social and environmental aspects of the company. We suggest future research to select the year of research after the latest GRI G4 reporting standards are required to be able to find out how extensive the company's CSR disclosure is with the new guidelines. In addition, further research is recommended to use the object of research by involving companies in other sectors or involving all sectors of the company.

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