Jurnal Ekonomi dan Manajemen E-ISSN: 2614-1345
UMKT

FAMILY BUSINESS AND THEIR CONCERN TO CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE

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ABSTRACT

The purpose of this study is to empirically examine the effect of a family business on the disclosure of Corporate Social Responsibility. The sample in this study is a company that can be identified as a family company in a manufacturing company listed on the Indonesia Stock Exchange in 2017 – 2019. The number of samples in this study is 99 samples. This study divides the family business into two variables: the family as the first largest shareholder and the family as the second-largest shareholder. The variable of family ownership as the first largest shareholder is measured using a dummy variable, given a value of 1 if the family is the first largest shareholder and 0 otherwise. The variable of family ownership as the second-largest shareholder is measured using a dummy variable, given a value of 1 if the family is the second-largest shareholder and 0 if other. CSR disclosure variable is measured using the disclosure index. The first control variable is the firm size measured using the natural logarithm of total assets. The second control variable is the firm age measured using years the firm was found until years of the research. Data were analyzed using multiple regression. The results showed that the family as the first largest shareholder and the family as the second-largest shareholder had no significant effect on corporate social responsibility disclosure.

Keywords: Family Business; CSR Disclosure; Manufacturing Companies
Received: November 24th 2021 Revision: December 1st 2021 Accepted for Publication: December 14th 2021

INTRODUCTION

Indonesia's Central Statistics Agency recorded the number of large and medium-sized industrial companies at 23,370 in 2011 and increased to 26,322 in 2015. Many of these companies go hand in hand with an awareness of social issues such as pollution, waste, resource depletion, product quality and safety, status and safety, workers' rights (Muttakin & Khan, 2014). It has become clear that social policies, procedures, and strategies may not be adequate in recent years. The pressure on companies to disseminate information to stakeholders about the impact of their industrial activities on society is increasing (Muttakin & Khan, 2014). Based on this, CSR disclosure has become an important discussion, especially for public companies (Cabeza-Garcíaa, Sacristán-Navarro, & Gómez-Ansón, 2017). In addition, investments in CSR tend to be long-term (Johnson & Greening, 1999) and are a medium of survival and value creation for the company's sustainability in the future (Oh, Chang, & Martynov, 2011), so that large shareholders tend to support these investments (Cabeza-Garcíaa et al., 2017).

Corporate social responsibility disclosure has been the object of a long academic study. One type of company that attracts academics to research is a family company. In family companies, academics want to know whether company decisions differ between companies controlled by families through share ownership or in key positions in the company, especially in the field of corporate social responsibility, because socioemotional wealth principles can influence the decision-making process (García-Sánchez, Rodríguez-Ariza, & Granada-Abarzuza, 2021; Mariotti, Marzano, & Piscitello, 2021).

On the socioemotional wealth principle, family companies are interested in non-financial aspects such as the sustainability of family companies and family leadership in the company (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). This perspective explains that family businesses tend to create a positive image in society through disclosure of information such as disclosure of social responsibility to pass on the company to the next generation (Kim, Fairclough, & Dibrell, 2017). A survey by PricewaterhouseCoopers PWC (2014) found that more than 95% of businesses in Indonesia are family-owned. This study investigates how the influence of family ownership on the disclosure of Corporate Social Responsibility (CSR). Furthermore, family ownership is seen from the point of view of whether family members as the first largest shareholder in the company and family members as the second-largest shareholder in the company influence CSR disclosure.

A previous study conducted by Block and Wagner (2014) in the United States found a positive effect of family ownership on CSR in environmental and product aspects. In their study in China, Chen, Chen, and Cheng (2008) found that family ownership affects the company's voluntary disclosure. Campopiano and De Massis (2014) found in their study in Italy that family firms issue more CSR reports but do not comply with CSR standards. Barnea and Rubin (2010) found that family-controlled public companies have better environmental concerns. In another study, Dyer and Whetten (2006) in the United States explained that family companies are more socially responsible. This is because family companies want to get a good view and reputation to maintain family assets.

The study of Cabeza-Garcíaa et al. (2017) in his research found that family ownership has a negative effect on company commitment in CSR reporting. Block and Wegner (2014) in the United States found that family ownership and company founders have a lower relationship with CSR. Ghazali (2007), in a study in Malaysia, found that directors (as well as company owners) who have the largest shares tend to disclose less CSR information in their annual reports. Rees and Rodionova (2014) in the United States found a negative relationship between family ownership and three indicators of corporate social responsibility, namely environmental, social, and governance (ESG).

This study investigates the effect of family ownership on CSR disclosure in Indonesia, aiming to understand this issue better. Most previous studies linking family ownership to CSR were conducted in Western countries, and very few were conducted in Southeast Asian countries, especially in Indonesia. Seeing that most companies in Indonesia are family companies and based on a survey from KPMG International in 2017 that more than 78% of companies in the Asia Pacific report CSR, this is important to research for the development of literature in Southeast Asia region. This study looks at family ownership as the first largest shareholder (FFLSH) and family as the second-largest shareholder (FSLSH) on CSR disclosure in Manufacturing Companies listed on the Indonesia Stock Exchange. In addition to this, this study also adds control variables, namely company size, and company age.

LITERATURE REVIEW

Family Business and Corporate Social Responsibility

Family companies have various definitions from various previous studies. Chua, Chrisman, and Sharma (1999) explained three general combinations of definitions of family companies compiled from various researchers. First, family companies are defined as companies owned by families and managed by families. Second, a family company is defined as a family-owned company but not managed by the family. Third, family companies are defined as companies controlled by the family but not owned by the family.

Previous researchers explained the definition of a family company, such as Welsch (1993), which defines a family company as a company with a concentrated ownership nature and the owners or relatives are involved in the company's management process. Donckels and Fröhlich (1991) define a family company as owning at least 60 percent of the total shares. Gallo and Sveen (1991) define a family company as a company where the family is the majority shareholder and fully controls the company.

Caroll (1979) defines CSR as a company's responsibility to society in economics, law, ethics, and discretion of business activities. CSR reporting is regulated in Government Regulation no. 47 of 2012 concerning Social and Environmental Responsibility of Limited Liability Companies; article 6 states, "The implementation of social and environmental responsibility is contained in the Company's annual report and is accountable to the GMS". Dyer and Whetten (2006) stated that CSR reporting is a communication medium between companies and stakeholders. Therefore, CSR disclosure is one of the strategic things for the company.

Previous research suggests that the factors influencing CSR disclosure are share ownership structure (Gamerschlag, Möller, & Verbeeten, 2011; Haniffa & Cooke, 2005). Family is the largest shareholder in the world (Cabeza-Garcíaa et al., 2017), so that family control over the company can be ascertained largely by the strength of its share ownership. Sacristán-Navarro, Gómez-Ansón, and Cabeza-García (2011) divide the most common combination of company ownership by family, namely family or individual as the first largest shareholder and family or individual as the second-largest shareholder.

Family as First-Largest Shareholders

Berrone, Cruz, Gomez-Mejia, and Larraza-Kintana (2010) say that family control and influence (such as being CEO or Chairman) may have a strong corporate ownership status or charisma. Various empirical evidence that shows the relationship between family ownership and CSR disclosure, for example, according to Prado-Lorenzo, Gallego-Alvarez, and Garcia-Sanchez (2009) said that from the shareholders' point of view, especially in the ownership structure which is strengthened by the presence of major shareholders who provide control over the company, there is an impetus to adopt the GRI format as a CSR reporting model. Campopiano and De Massis (2014) found in their study that family firms issue more CSR reports even though they do not comply with CSR standards. Meanwhile, research by Rees and Rodionova (2014) found that family ownership has a negative association. The same thing was also found by Ghazali (2007) that the larger the ownership structure of the board of directors, the less CSR disclosure.

Family as Second-Largest Shareholders

Oh et al. (2011) say that different owners have different impacts on involvement in corporate CSR. Common ownership variations are families, including families as the first largest shareholder and families as the second-largest shareholders, banks, non-financial companies (Sacristán-Navarro et al., 2011), and governments (Ghazali, 2007).). Because the interests of each owner are different, it is possible that each owner does not have the same goals in the company. In particular, we refer to the family as the second-largest shareholder according to the general state of the study results of Sacristán-Navarro et al. (2011). It is hoped that the second-largest shareholder from a family can positively impact CSR disclosure. The study results by Block and Wagner (2014) show a positive effect of family ownership on CSR.

METHODS

Population and Sample

The population in this study is manufacturing companies listed on the Indonesia Stock Exchange. The research sample is a family manufacturing company listed on the Indonesia Stock Exchange in 2017 – 2019 as many as 99 samples. Information regarding company ownership and CSR disclosure is obtained from the company's annual report on the Indonesia Stock Exchange (IDX) website and the company's official website.

Variable Measurement

Dependent Variable

The primary variable in this research is CSR disclosure. To assess the level of CSR disclosure, see from checking the list of disclosures based on 22 items that have been made. This study follows the contract made by Haniffa and Cooke (2005) and Ghazali (2007). A score of 1 will be given from the checklist if it is disclosed, and a score of 0 will be given if it is not disclosed. To calculate the disclosure index is calculated using the formula:

$$CSRD_j = \frac{\sum^{nj} Xij}{nj}$$

Information:

CSRDj	:	CSR disclosure index j
nj	:	Number of Items for company j
Xij	:	dummy variable, 1 = if the item is disclosed and 0 = if the item is not disclosed

Table 1

CSR Disclosure Items

No	Disclosure Items
1	Breakdown of employees by line of business
2	Breakdown of employees by level of qualification/exac vs. non
3	Breakdown of employees by ethnic origin
4	Employees appreciation
5	Policy on training
6	Amount spent on training
7	Number of employees trained
8	Discussion of employees welfare
9	Safety policy
10	Information on accidents at workplace
11	Statement of Internal Control
12	Value-added statement
13	Product safety
14	Environmental policy
15	Charitable donations/sponsorship
16	Participating in government social campaign
17	Community programs (health and education)
18	Discussion of major types of products/services/projects
19	Improvement in product quality
20	Improvement in customer service
21	Distribution of marketing network for finished products
22	Customer awards/ratings received

Source: Hanifa and Cooke (2005) and Ghazali (2007)

Independent Variable

The first independent variable is the family as the first largest shareholder (FLSH). The measurement is carried out with a dummy variable, given a value of 1 if there is a family as the first largest shareholder. Given a value of 0 if there is no family as the first largest shareholder. The next variable is the family as the second-largest shareholder (SLSH). It is given a value of 1 if there is a family as the second-largest shareholder and 0 if no family as the second-largest shareholder. The variables are the same as those used by Cabeza-Garcíaa et al. (2017).

Control Variable

The first control variable is company size, measured using the natural logarithm of total assets. The second control variable is the age of the company which is measured from the year the company was founded to the year of research.

Data Analysis

The regression model of this research is:

CSRD = α + β1(FLSH) + β2(SLSH) + β3(SIZE) + β4(AGE) + e

Where:

A : Constant
CSRD : CSR Disclosure
FLSH : Family as the first largest shareholder
SLSH : Family as the second-largest shareholder
SIZE : Firm Size
AGE : Firm Age
E : error

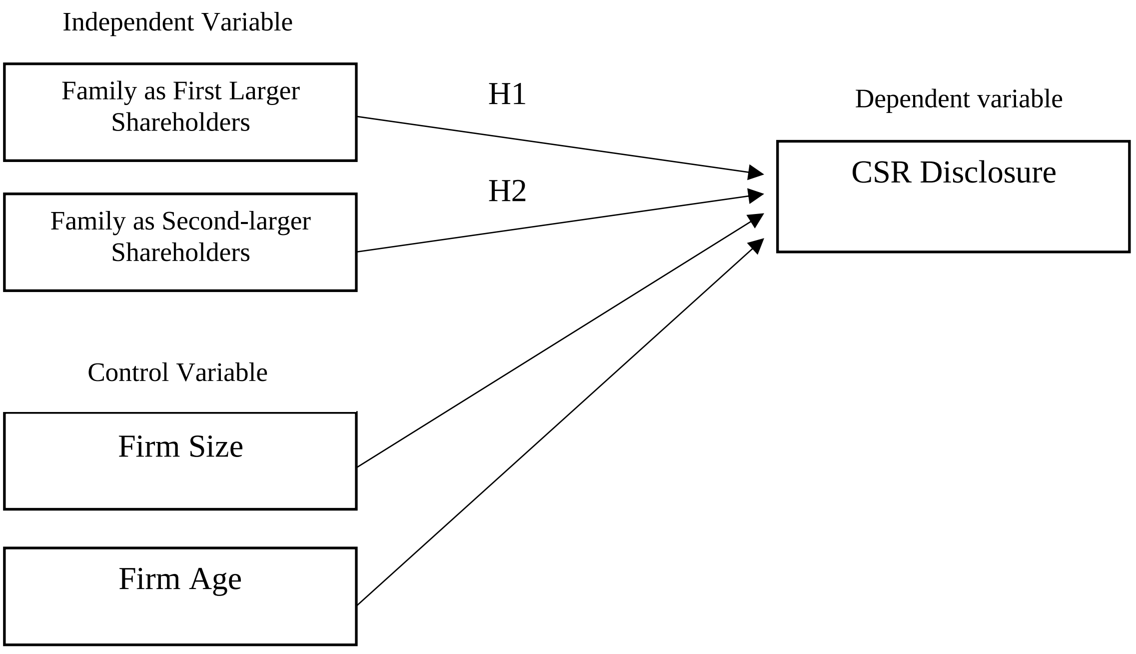

Figure 1
Research Model

RESULTS

The variable used in this study as the dependent variable is CSR disclosure (CSRD). The independent variables were divided into two: the family as the first largest shareholder (FFLSH and the family as the second largest shareholder (FSLSH). The control variables used in this study were company size (SIZE) and company age (AGE). The study was conducted on manufactures companies listed on the 2017-2019 stock exchange identified as family companies.

Statistic Descriptive

Table 2

Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
CSRD	99	23.00	86.00	52.7475	15.23981
SIZE	99	22.00	32.00	28.2424	2.08048
AGE	99	8.00	49.00	36.0606	11.35226
Valid N (listwise)	99				

Table 3
Frequency of the family as the first largest shareholder

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	12	12.1	12.1	12.1
	Yes	87	87.9	87.9	100.0
	Total	99	100.0	100.0	

Table 4

Frequency of the family as the second-largest shareholder

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	46	46.5	46.5	46.5
	Yes	53	53.5	53.5	100.0
	Total	99	100.0	100.0	

Based on table 2, it can be explained that the minimum CSR disclosure percentage is 23 percent and the maximum disclosure percentage is 86 percent. The average corporate CSR disclosure is 52.75 percent based on the construct used. The minimum firm size is 22,00 and the maximum is 32,00. The average firm size is 28,24. The minimum firm age is 8 years and the maximum is 49 years. The average firm age is 36,06 years. In tables 3 and 4, it can be explained that there are 87 companies whose first largest shareholders are families and 53 companies whose second-largest shareholders are families.

Multicollinearity Test

Table 5

Multicollinearity Test

Model		Collinearity Statistics Tolerance	VIF
1	(Constant)		
	FLSH	.981	1.020
	SLSH	.993	1.007
	SIZE	.992	1.008
	AGE	.980	1.020

a. Dependent Variable: CSRD

Based on table 5, the tolerance value for all variables is > 0.1 and the VIF value for all variables is <10.00. So based on this it can be concluded that in the research model there are no symptoms of multicollinearity.

Table 6
F-Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3919.973	4	979.993	4.889	.001[b]
	Residual	18840.713	94	200.433		
	Total	22760.687	98			

a. Dependent Variable: CSRD
b. Predictors: (Constant), AGE, SLSH, SIZE, FLSH

Simultaneous test between independent variables and dependent variables was carried out using the F-test. If the significant value is F <0.05, then the independent variable has a significant effect on the dependent variable. However, if the value of F> 0.05 then simultaneously does not have a significant effect.

Based on table 6, the results of the F-test, the value of sig α < (0.001 <0.05). These results indicate that the independent variable simultaneously has a significant effect on the dependent variable.

Table 7
T-Tes

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	21.122	20.076		1.052	.295
	FLSH	-1.382	4.402	-.030	-.314	.754
	SLSH	-3.897	2.863	-.128	-1.361	.177
	SIZE	1.787	.690	.244	2.589	.011
	AGE	-.431	.127	-.321	-3.386	.001

a. Dependent Variable: CSRD

Based on table 7, it can be explained that the significance value for FFLSH is 0.754 (p>0.05), so the first hypothesis is rejected. As the first largest shareholder, the family variable has no significant effect on CSR disclosure. Then, the significance value of FFLSH is 0.117 (p>0.05), so the second hypothesis is rejected. The family variable as the second-largest shareholder has no significant effect on CSR disclosure. The first control variable, firm size, has a significance value of 0.011 (p <0.05). The second control variable, company age, has a significance value of 0.001 (p<0.05). Based on this, the control variables in this study have a significant effect on CSR disclosure.

DISCUSSION

The purpose of this study is to empirically examine the effect of the family business on the extent of corporate social responsibility disclosure. This research contributes to the study of family businesses in Indonesia which has not been done much, especially in the division of the first and second-largest ownership structures and the concern of family companies on the disclosure of social responsibility information.

From the results of multiple regression analysis, it can be seen that the family variable as the first largest shareholder and the family as the second-largest shareholder have no significant effect on CSR disclosure. This shows that the majority and controlling shareholders tend not to disclose much about CSR due to a lack of supervision. In companies owned by families, share ownership tends to be concentrated so that the distribution of shareholders tends to be small. The small shareholder distribution shows the small shareholder supervision of the company.

These results are in line with research (Cabeza-Garcíaa et al., 2017; Ho & Wong, 2001; Muttakin & Khan, 2014) which explains that control mechanisms, such as voluntary disclosure of information (e.g., CSR information), are not required. In a family company. In family companies, information asymmetry is low, so companies do not need to show their commitment to the market regarding CSR practices. It also implies that family companies are less concerned about public accountability. The greater the share ownership by the family in the company, the narrower the CSR disclosure will be. Cabeza-Garcíaa et al. (2017) also explained that the disclosure of CSR information exceeds the mandatory requirements because disclosure requests from the public are relatively weak in family companies compared to other types of companies. Then, also in line with Block and Wagner (2014) research in the United States found that family ownership and company founders have a lower relationship with Corporate Social Responsibility. However, this study divides family ownership into two variables: the first and second-largest shareholders. However, empirical evidence shows things that are in line with previous research.

This study illustrates that family-controlled companies tend not to be open to social responsibility information. Seeing the number of companies controlled by families in Indonesia, regulators such as the government need to make policies that regulate public companies to report their social responsibility activities. There needs to be regulations that require such reporting, so that social responsibility reports are not only voluntary but also mandatory. It is also useful for investors to assess its concern for its social responsibility. Currently the company's sustainability can be seen from how the company maintains its good name. One of the efforts to maintain a good name is to contribute to the community through social responsibility programs published.

CONCLUSION

This study aims to empirically examine the effect of family ownership by dividing the ownership structure into families as the first largest shareholder and the second-largest shareholder. This study enriches the results of empirical research on the effect of family ownership on its attention to CSR disclosure. The study results show that companies with concentrated ownership tend to maintain information and not disclose much to the public. The limitation of this study is that not all companies explain information about their largest shareholdings in the annual report. Thus, families may own companies but do not include clear ownership information in the annual report, so they are not included in the research sample. The limitation of this research is identifying whether a company can be classified as a family company or not. Because there may be a part of the population that can be classified as a family company, but is not included due to limited information. For further researchers can use a different definition of a family company. Further researchers can also identify the relationship between the majority shareholder and the company's management as a manager, so that comprehensive results will be obtained about how the motivation of family companies and their attention to disclosure of social responsibility will be obtained.

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