Exploring the Landscape of Corporate Social Responsibility Disclosure: A Review of the Literature

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Abstract

Disclosure (CSRD) and its profound impact on companies and society. Charting the shift from profit-centric strategies to the Triple Bottom Line (TBL) framework—prioritizing social justice, environmental quality, and economic welfare—it navigates through pivotal debates on the voluntary versus obligatory nature of CSRD and its potential financial implications. Through an exhaustive literature review, the study investigates influential factors, including effective tax rates, corruption, liquidity ratios, solvency ratios, and activity ratios, shaping CSRD practices. Furthermore, it probes the intricate dynamics between CSR practices, financial performance, and stock market outcomes. Employing theoretical frameworks such as Agency theory, Legitimacy theory, and Stakeholder theory, the study meticulously dissects the motivations and consequences of corporate actions in the realm of CSR (Corporate social responsibility). In addressing the contemporary landscape, the study integrates recent developments, including emerging trends, regulatory shifts, and technological advancements, amplifying its relevance for practitioners, researchers, and policymakers committed to fostering impactful, responsible business practices and sustainable development in the ever-evolving business milieu.

Keywords: Agency Theory, Corporate Social Responsibility Disclosure (CSRD), CSR practices, Economic welfare, Environmental quality, Triple Bottom Line

Introduction

As companies advance in their industrial development, their close integration with the social dynamics of the surrounding community becomes a crucial facet of their operations. Ensuring that a company's actions result in positive and mutually beneficial outcomes for the community it operates within is of paramount importance. In the early 1990s, the primary corporate focus was profit-oriented, often leading to blatant environmental pollution as a means to achieve financial objectives. During this period, John Elkington, an English writer, introduced stakeholders to the concept of the triple bottom line (TBL). This framework highlighted three essential elements: social justice, environmental quality, and economic welfare, emphasizing that a company's responsibilities extend beyond mere business interests to include the well-being of the local community.

Initially, the idea of Corporate Social Responsibility Disclosure (CSRD) sparked debates among companies, questioning whether reporting should be obligatory or voluntary. The implementation of CSRD was viewed as a potential financial burden, utilizing company reserve funds, particularly profits, with the expectation of a yearly decline. Markus J. delved into the theoretical aspects of Corporate Social Responsibility Disclosure (CSRD), recognizing the ongoing deliberations surrounding its execution.

As CSRD evolved, it garnered broader theoretical consideration as a pivotal factor for stakeholders dedicated to ensuring their company's sustainability. Unfortunately, in the pursuit of CSRD, some companies have been implicated in instances of authority abuse, violations, and fraud. An illustrative example is the Sidoarjo mudflow case in Indonesia, impacting social, environmental, and economic responsibilities and placing burdens on both the affected community and the government in addressing the aftermath of the disaster. Acknowledging the indispensable role of Corporate Social Responsibility Disclosure (CSRD) in securing a company's sustainability, prior research delved into various influential factors and considerations. These factors encompass social, economic, environmental, and employee-related aspects. Additionally, elements such as profitability ratios, liquidity ratios, solvency ratios, and activity

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ratios assume a significant role in shaping CSRD and, consequently, influencing stakeholders' decisions regarding investment in a company's shares.

Methodology

The literature review is conducted considering both national and international articles, reflecting a comprehensive perspective on Corporate Social Responsibility Disclosure (CSRD). In this study, authors systematically search and evaluate articles from 31 journals, ensuring a thorough exploration of existing research in the field. The review incorporates diverse sources to capture a broad range of perspectives and findings related to CSRD. The selection criteria for articles and journals in this study are likely based on specific criteria, ensuring relevance and credibility. Here, we gather data from the literature, encompassing insights, methodologies, findings, and theoretical frameworks presented in the reviewed articles.

The collected data is critically analyzed and appraised by the authors, indicating a thoughtful evaluation of the literature rather than a mere compilation. Moreover, patterns, trends, and recurring themes across the reviewed literature were identified. Based on the analysis, conclusions and key findings were also outlined, involving the synthesis of information obtained from the literature. Furthermore, literature insights were interpreted in the context of our specific study and research objectives. The conclusions are presented in a clear and organized manner, aligning with the specific requirements of our study. This structured and purposeful communication of findings aims to use the conclusions drawn from the study to enhance the author's understanding of CSRD and deepen their knowledge in this field. By underscoring the importance of the literature review, this method aims to contribute valuable insights to larger academic discussions about CSRD.

Results and Discussion

Corporate Social Responsibility Disclosure (CSRD) encompasses the information shared by a company concerning its policies, objectives, and endeavors related to the community, customers, employees, and the environment (Gray et al., 1995). Aligned with ISO 26000, CSRD embodies an organization's responsibility for the societal and environmental consequences resulting from its decisions and activities. This responsibility is fulfilled through transparent and ethical practices, guided by sustainable development principles.

Various factors impacting CSRD are investigated in a study undertaken by Zhihua Lian in 2022, with a specific focus on the dynamic interaction between CSRD disclosure, effective tax rates, corruption, and sustainable company performance across ASEAN countries. According to the study, achieving sustainable business performance necessitates a comprehensive approach that includes CSRD disclosure, competent management of effective tax rates, strategic business administration to combat corruption, an increase in leverage levels, and an increase in company value.

Research conducted by Weny et al. in 2022 within the tourism sector on the Indonesia Stock Exchange reveals that Liquidity does not exert a significant influence on Corporate Social Responsibility Disclosure (CSRD). However, the Activity Ratio exhibits a significant impact on CSRD, while Solvability shows no significant effect on CSRD. Additionally, the study finds that CSRD itself does not have a significant effect on stock prices in this context.

Another study, conducted by Ayu Chairina et al. in 2022, found that CSRD had a considerable beneficial influence on Return on Assets (ROA) and Return on Equity (ROE) for several Indonesian stock exchanges. CSRD, on the other hand, has no discernible effect on Earnings Per Share (EPS). These results demonstrate how important stakeholder management is when making decisions, particularly when it comes to public reputation. Turning to the realm of Islamic banking companies, Ambren et al. (2012) find that the implementation of CSRD in both conventional and Islamic banking shares similarities and differences. Commonalities include a shared commitment to social and environmental responsibility before God. However, differences emerge in the positive valuation of Islamic banking practices, largely tied to Islamic principles such as justice, social accountability, zakat contributions, financial structure, and the incorporation of Islamic ethical values.

Hasan et al. (2020) offer an alternative perspective on the banking industry, suggesting that CSRD has no beneficial impact on a number of financial indicators, such as Return on Equity, Return on Assets, the Margin of Net Profit, Investment Account Holders, Debt, and Financial Ratios. Furthermore, Alia et al. (2019) contributes to the discussion by disclosing that economic and CSRD aspects related to the environment do not have a significant impact on stock returns. These diverse research findings underscore the nuanced relationship between CSR practices, financial performance, and stock market outcomes in different sectors and contexts. Meanwhile, CSRD and social CSRD have a positive and significant effect on stock returns. The positive social impact of Corporate Social Responsibility Disclosure (CSRD) on stock returns is moderated by Return on Assets (ROA). However, ROA

does not exert a moderating effect on the influence of CSRD, specifically in terms of economic and environmental aspects, on stock returns. This implies that higher CSRD disclosure, particularly in the social domain, correlates with elevated stock returns. Furthermore, ROA strengthens the impact of CSRD on the social side in relation to stock returns. Henny Ariani et al. (2021) corroborate these findings in the Sharia mining business, emphasizing a positive and significant influence of CSRD on profitability ratios, contributing to the Good Corporate Governance (GCG) theory.

Another study by Ajeng Tita et al. (2022) explores the relationship between CSRD, Profitability Ratios, and Tax Avoidance in Islamic Jakarta. The results indicate a negative and insignificant effect of CSRD on Tax Avoidance. Additionally, Profitability Ratios exhibit a negative and significant influence on Tax Avoidance. CSRD and Profitability jointly affect Tax Avoidance. This research suggests the need to consider additional variables beyond Profitability Ratios for understanding tax avoidance in companies.

Riska Rumaningsih et al. (2021) introduced the theory of Corporate Financing Performance (CFP), highlighting its analysis of financial statements over a specific period. The study underscores the efficiency in generating corporate income, emphasizing the strong influence of environmental performance on CFP. The environment has been observed to have an impact on CSRD, which in turn has a significant impact on CFP. In addition, environmental performance affects CFP directly and does not always go through CSRD.

Amid the COVID-19 pandemic, the financial performance of companies has been affected, influencing the societal outlook and investor perceptions of risk. Desra Tulhasanah et al. (2017) investigated the influence of CSRD and Good Corporate Governance (GCG) adoption in post-pandemic financial performance. The study revealed that CSRD, an independent board of commissioners, audit committees, and company size significantly affect financial performance, whereas institutional ownership and board of directors do not demonstrate significant effects. These findings underscore the importance of strategic corporate actions during challenging economic times.

Mitria et al. (2018) demonstrates a significant positive effect of CSRD on Return on Assets (ROA) and Return on Equity (ROE) when evaluating the impact of Corporate Social Responsibility Disclosure (CSRD) through yearly reports on the ratios of profitability and Earning Response Coefficient (ERC). However, CSRD has no effect on Net Profit Margin (NPM) or ERC. The study goes on to look at the association between CSRD and profitability ratios and ERC, as well as size and leverage as control factors. Stakeholders view CSRD as a valuable asset, which boosts investor confidence and increases a company's ROE. While CSRD has no effect on NPM, control variables, which are indicators of financial reporting in the statements, have no effect on NPM. Additionally, CSRD has no influence on the income response coefficient (ERC). Examining CSRD's impact on various company aspects, Fitria et al. (2018) assert that company ownership and leverage do not affect CSRD, while company size and return on assets significantly and positively influence CSRD. Size of the business, ownership, and return on assets all have no bearing on firm value. The impact of leverage (DAR) on company value is considerable and negative, while the impact of CSRD on firm value is positive and significant. The impact of company ownership, return on assets, and leverage (DAR) on firm value is noteworthy as CSRD does not act as a mediator in this regard. In Kenya, Robert A Kingwara (2020) investigates CSRD disclosures using a stakeholder approach and financial reports. The findings suggest no significant impact of CSRD on a company's financial performance, prompting a suggestion for enhanced internal control within companies amid growing competition.

In Jordan, CSRD within the industry sector is found to provide a competitive advantage, contributing to strong financial performance. A way to present detailed reports that are closely related to an organization's social and economic environment and include a mix of financial and non-financial aspects is called Corporate Social Responsibility Disclosure, or CSRD. This presentation is delineated in the company's financial statements and a separate sustainability report (Guthrie & Mathew, 1985). The Global Reporting Initiative (GRI) defines six indicators covering economic, environmental, labor practices, social, product, and human rights performance.

Within a company, CSRD management adheres to principles outlined in ISO 26000, guiding the reporting on Social and Environmental Responsibility. These principles include accountability, transparency, stakeholder respect, ethical behavior, legal compliance, respect for human rights, and adherence to international norms. ISO 26000 emphasizes that Corporate Social Responsibility (CSR) extends beyond companies and can also be embraced by institutions or other agencies.

In the corporate CSRD reporting domain, a connection is observed between heightened debt and equity ratios and an increased likelihood of agreement violations. This correlation leads stakeholders to automatically report higher profits. To enhance reported profits, companies may opt to reduce the numerical content of their reports, thereby diminishing the scope of their CSRD reporting.

Agency theory

It elucidates the intricate relationship between stakeholders and shareholders. According to this theory, Corporate Social Responsibility Disclosure (CSRD) serves as a mechanism for companies to establish a positive corporate reputation within society. By implementing CSRD, companies aim to reduce monitoring and contracting costs, enhance political visibility, and ultimately achieve improved performance across social, economic, and political dimensions. Notably, a negative correlation is observed between CSRD and regulatory and agency costs, reflecting the theory's emphasis on addressing conflicts of interest between principals and agents.

CSRD frequently employs agency theory as its conceptual framework, highlighting the inherent conflicts of interest between principals (investors) and agents (managers or stakeholders). The theory contends that agency conflicts may arise when stakeholders, entrusted with reporting on company activities, provide information that diverges from the actual conditions.

Legitimacy Theory

Legitimacy theory serves as an initial framework for understanding the social contract between companies operating in the economic sector and society. Unlike agency theory, legitimacy theory extends beyond investor interests, focusing on gaining legitimacy from both social and environmental perspectives. Companies seek to enhance their legitimacy by incorporating CSRD into sustainability reports, aiming to align their operational activities with societal values and build public trust.

Stakeholder Theory

Stakeholder theory delves into the impact of organizational decisions on individuals or entities and vice versa. The term "stake" implies ownership, encompassing not only shareholders but also the government and other stakeholders. According to Banham (1990), three crucial arguments within stakeholder theory emphasize the diverse array of stakeholders and their significant influence on organizational dynamics.

I. Descriptive Argument

In this scenario, it is crucial for the company to prioritize specific elements to ensure smooth operations. The primary emphasis should be on meticulous attention to regular financial reporting, underscoring the agents' significance in adhering to established reporting practices. This approach aims to enhance operational efficiency and foster transparency in financial matters.

II. Instrumental Argument

The instrumental argument asserts that cultivating positive relationships with diverse stakeholder groups significantly impacts the company's financial performance. By fostering strong connections with various entities, the company can experience notable improvements in financial outcomes. This argument highlights the instrumental role of stakeholder relationships in contributing to the overall success of the organization.

III. Normative Argument

In the normative argument, the company's considerable influence on decision-making processes is emphasized. Additionally, the company holds substantial sway over other resource factors. This argument underscores the normative role of the company in guiding actions and shaping decisions, emphasizing its responsibility not only in internal operations but also in broader resource considerations.

In summary, these three theories-Agency theory, Legitimacy theory, and Stakeholder theory provide distinct perspectives on the motivations and consequences of corporate actions, shedding light on the complex interplay between companies and their various stakeholders.

Conclusion

Numerous studies have used a variety of parameters to measure corporate social responsibility disclosure in general, given the concept of corporate social responsibility disclosure (CSRD) and its rapid rise. The testing phase makes use of a wide range of variables, including capital, assets, business size, and stock prices. Investors also consider a company's transparency and CSRD adoption when determining whether or not to invest in it. Hotels, conventional banking, sharia banking, and the mining industry are just a few examples of the types of businesses where CSRD is significant as a substantial consideration for investors buying shares of the company. If more money is allocated to CSR reporting, that should lead to better financial results. In contrast to businesses that publish less CSR information, a decline in the financial performance of a company will be a significant deterrent to potential shareholders. The signal theory lends support to CSRD by suggesting that if a company's CSRD reporting is superior to its competitors', the company will enjoy greater success

than its competitors and have a more positive effect on society as a whole. The fact that this study only offers a high-level summary of corporate social responsibility disclosure (CSRD) indicates that more research on the subject should be done. The concept of CSRD development has advanced significantly in a number of publications that have been examined; it is also connected to the SDGs and environmental, social, and governance (ESG) concerns. The Sustainable Development Goals (SDGs) are an international initiative with the goal to improve people's lives everywhere. More than 193 countries have agreed to implement this program, which is a sustainable development program with 17 goals and 169 targets.

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