DETERMINANTS OF CORPORATE SOCIAL AND ENVIRONMENTAL REPORTING IN INDONESIA: AN ANALYSIS FROM ECONOMIC, SOCIAL, AND POLITICAL PERSPECTIVES

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ABSTRACT

The objectives of this study are to examine the extent of corporate social and environmental reporting among Indonesian companies and to ascertain its determinants from multiple perspectives: economic, social, and political. The multiple-perspective approach offers alternative interpretations of a similar phenomenon. This study attempts to fill both the theoretical and empirical gaps in corporate social and environmental reporting in Indonesia. It focuses on content-quality and uses a combination of the tools of Clarkson's environmental index and Sutantoputra's social index. The sample of this study consisted of 740 observations for five years from 2005 to 2009. Panel data was employed and pooled regression was performed using EViews v.8 to observe the association among the variables of the company characteristics and corporate social and environmental disclosure. Profitability, leverage and size were included as control variables. The results revealed that the level of corporate social and environmental reporting in Indonesia was low. However, the corporate social and environmental disclosure had increased from previous years and was dominated by soft disclosures. The results reported in this study show strong support for the firm's industry sensitivity, government environmental monitoring, media coverage, strategic posture, government shareholding, foreign activity, leverage and size. Conversely, blockholder ownership, award, and profitability were not supported by this study. Hence, this study has shown that company characteristics can be determined by economic, social, and political perspectives. In this respect, a multiple-perspective approach can help one to take advantage of the complementariness of different theories and gain alternative interpretations of the same phenomenon through a more holistic analysis.

Keywords: corporate social and environmental reporting, company's characteristics, multiple-perspectives, Clarkson's environmental index, Sutantoputra's social index

ABSTRAK

Objektif kajian ini adalah untuk mengkaji tahap pelaporan korporat sosial dan alam sekitar di kalangan syarikat di Indonesia, dan juga untuk mengetahui faktor penentunya dari perspektif yang pelbagai: ekonomi, sosial dan politik. Pendekatan perspektif-pelbagai ini menawarkan tafsiran alternatif terhadap fenomena yang sama. Kajian ini cuba untuk mengisi jurang teoritikal dan empirikal dalam pelaporan korporat sosial dan alam sekitar di Indonesia. Tumpuan diberi kepada kualiti kandungan serta penggunaan gabungan indeks alam sekitar Clarkson dan indeks sosial Sutantoputra. Sampel kajian ini terdiri daripada 740 pemerhatian bagi tempoh lima tahun bermula daripada 2005 sehingga 2009. Kajian ini menggunakan EViews V.8 untuk membuat data panel dan regresi terkumpul bagi melihat hubungan pemboleh ubah ciri-ciri syarikat dengan pendedahan korporat sosial dan alam sekitar. Beberapa pemboleh ubah kawalan juga dirmasuk dalam analisis ini, iaitu: keuntungan, leveraj dan saiz. Hasil daripada kajian ini menunjukkan bahawa tahap pelaporan korporat sosial dan alam sekitar di Indonesia adalah rendah. Namun begitu, pendedahan korporat sosial dan alam sekitar telah meningkat daripada tahun-tahun sebelumnya dan didominasi oleh '*soft disclosure".* Hasil yang dilaporkan dalam kajian ini menyokong pemboleh ubah kepekaan industri, pemantauan alam sekitar kerajaan, liputan media, postur strategik, pegangan saham kerajaan, aktiviti luar, leveraj dan saiz. Sebaliknya, kajian ini tidak menyokong pemboleh ubah pemilikan blok, anugerah, dan keuntungan. Oleh itu, kajian ini telah menunjukkan bahawa ciri-ciri syarikat boleh ditentukan oleh perspektif ekonomi, sosial dan politik. Sehubungan itu, pendekatan perspektif-pelbagai boleh membantu seseorang untuk mengambil kesempatan daripada teori yang berbeza dan mendapat tafsiran alternatif bagi fenomena yang sama melalui analisis yang lebih holistik.

Kata kunci: pelaporan korporat sosial dan alam sekitar korporat, ciri-ciri syarikat, perspektif-pelbagai, indeks alam sekitar Clarkson, indeks sosial Sutantoputra

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TABLE OF CONTENTS

LIST OF TABLE

LIST OF FIGURES

LIST OF ABBREVIATIONS

CSER	Corporate Social and Environmental Reporting
CSR	Corporate Social Responsibility
EPA	Environmental Protection Authority
FEM	Fixed Effect Model
GRI	Global Reporting Initiatives
IAI	Ikatan Akuntan Indonesia
IAI KAM	Ikatan Akuntan Indonesia Kompartemen Akuntan Manajemen
IICG	Indonesian Institute For Corporate Governance
IT	Institutional Theory
LT	Legitimacy Theory
PAT	Positive Accounting Theory
PROPER	Program for Pollution Control Evaluation and Rating
REM	Random Effect Model
ST	Stakeholder Theory

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

The demand for Corporate Social and Environmental Reporting (CSER), also commonly known as Corporate Social Responsibility (CSR) (Deegan, 2007), has significantly increased in the last decades. CSER is a company's environmental management strategy for providing communication to their stakeholders. CSER plays a pivotal role in the "greening" of corporate accountability (SustainAbility/UNEP, 2002). As such, CSER has already been conceived as a tool to promote corporate policies as well as strategies and management system to minimize the corporate impact that concerns with social and environmental values (SustainAbility/UNEP, 2002). Most companies are aware of CSER, which has become the public relations tool to assure sustainability. In fact, CSERs have now been considered as part of businesses running by companies all over the world (Milvanovic *et al*., 2009). In the globalization era, CSER becomes a powerful tool to invite investments from foreign investors and government authorities (Scherer & Palazzo, 2008).

Corporate social and environmental disclosures have notably increased since 1970s. Gray *et al.* (1995a) demonstrated that among the UK companies sampled over the period of 1979–1991, CSER was steadily improved in terms of number of companies choosing to report, and the amount of information that they disclosed. In a survey conducted in 2008, almost 80% of 250 world's biggest companies have reported their corporate responsibility actions (KPMG, 2008). Another research by Maguire (2011) describes that CSER reports have been issued by nearly 4,000 companies originating from 123 countries. This figure increased by more than a ten-fold since July 1990s.

In line with the popularity of CSER, numerous theories arise within the area of CSER. Mc Williams *et al*. (2006) indicated several theories on CSER use, *i.e.*: agency theory (Friedman, 1970), stewardship theory (Donaldson & Davis, 1991), institutional theory (Jennings & Zandbergen, 1995), stakeholder theory (Donaldson & Preston, 1995), resource-based view (Hart, 1995), theory of the firm (McWilliams & Siegel, 2001), and strategic leadership theory (Waldman *et al.*, 2004). Orij (2007) stated that some theoretical foundations of corporate social disclosures were also applied in the past such as legitimacy theory (Donaldson & Preston,1975) and positive accounting theory (Watt & Zimmerman, 1986).

CSER has received considerable critical attention, and the application of CSER concept has been the fundamental point of interest for research in academic accounting (Farook & Lanis 2005; Gray, Owen, & Maunders 1987). Although there is a lack of regulation on CSER, many organizations publicly issue reports about their social and environmental accomplishment (Deegan, 2007). Specifically, the frequency and the extent of CSER have significantly increased since the late 1960s and now CSER becomes relatively prevalent (Guthrie & Parker, 1989; Maguire, 2011; Milanovic, 2009). In early and mid-1990s, the disclosure on environmental (and thereafter includes social) policies, practices as well as the effect of the reporting organization was included in annual reports. Such reporting practices are widely dispersed, and the CSER is extensively demanded. Companies have initiated to publish reports in segregated social and environmental reports (Deegan, 2007).

In Indonesia, the implementation and recognition of CSER are relatively new. CSER gets its popularity in the mid of 1990. SWA Magazine arranged a study related to the most prevalent insights into strategic corporations. It is revealed that CSER is the most popular term (Hasibuan, 2006). This popularity has also been fostered by a notorious environmental incident in Indonesia, *e.g*., Sidoarjo's hot mud flood in 2006 that was induced by Lapindo Brantas Inc., a private oil-and-gas company. The incident has sunken eight villages, and 13,000 people were evacuated. The other incidents were environmental destruction in West Papua that was caused by the world's biggest mining company, Freeport-McMoRan, and Buyat case that carried arsenic pollution for people living in Buyat Bay. All these cases have made people aware of the significant benefit of corporate social responsibility.

The Indonesian Regulated Body has ordained Indonesian corporate rules in 2007, which is known as Law no. 40/2007. The bill was issued in July 2007 and became operative in Aug, 2007 (Darwin & Gutensperger, 2007). The bill regulates that all Indonesian companies exploiting natural resources must carry out CSR program by allocating a percentage of the reported earnings for social and environmental activities. Failure to comply with this regulation, the companies will incur sanctions from the government. The expended CSR fund will be considered as operating cost and excluded from taxation (article no.74 section 1). Companies are urged to disclose their CSR application in their annual reports (article no. 66 section 2). The CSR bill, however, does not specifically outline how far the CSR must be carried out. The format and content of the CSR activities to be reported are also left open (Darwin & Guttensperger, 2007). As Indonesian legislation makes an obligation for corporations to have Corporate Social Responsibility (CSR) programs, considerable arguments arise following government's enactment on CSR. Despite strong protests from business community, cynical indifference and although CSR program was modified to cover only companies working in natural resource based sectors, the provision of mandatory involvement in CSR program was retained. Utama (2008) pointed out that unclear CSER reporting guidelines have made the companies reluctant to conduct CSR program. Therefore, the rule itself wills surely tribulate public for comparing and evaluating the CSER application. As a result, the reporting of CSER varies from company to company (Utama, 2008).

Even though CSR has been popular, the level of CSER implementation is still relatively low in Indonesia. Craig and Diga (2009) conducted a study on corporate annual report disclosure practices in five countries: Indonesia, Singapore, Thailand, Malaysia, and the Philippines. It is found that there were only 51% to 61% of CSER disclosures in Indonesia. Hartanti (2007) added that Indonesian companies under investigation were scored only 8.3 point out of 30. Darwin (2006) reported that in 2004, only 10% of public companies provide annual report containing CSER disclosure.

Suratno and Darsono (2006) suggested that Indonesian private companies prefer to disclose only four out of eight articles found in the corporate social and environmental activities developed by Patten (2002). Kusumadilaga *et al*. (2010) investigated the level of Corporate Social Responsibility in Indonesia before and after the enactment of Law N0.40 Year 2007 regarding Limited Liability Company. The result demonstrates that there is an increase in CSR disclosure of 8.44% after the enactment of Law No. 40 Year 2007. Furthermore, Kartadjumena *et al*. (2011) reported an increase in average CSR Index (CSRI) of manufacture companies from 26%, 29% to 33% in 2007, 2008, and 2009, respectively.

Previous CSER studies provide different explanations on the company’s objectives for carrying out CSER practices. Several studies have connected the type and degree of social reporting to various legitimate threatening events (a major social or environmental occurrence, massive media campaign, or glorious environmental prosecutions) to a tangible demand of information from powerful stakeholders, or, to various institutional pressures (Islam & Deegan, 2008). Hence, several perspectives have been talked over social and environmental disclosure literature. Gray, Koghy, and Lavers (1995) provided a useful categorization of theoretical perspectives that relate to management's motivation to make disclosure. They classified theoretical perspectives into decision-usefulness studies; economics-based theories and political economy theories.

Perspective of decision-usefulness is attributed to the usefulness of company's social accounting information (Orij, 2007). Gray, Kouhy, and Lavers (1995) illustrated the decision-usefulness studies by reflecting the related studies. They divided decision-usefulness studies into two types. The first type is the study that relates to decision theory (by ranking the information on its perceived decision-usefulness in a financial community). An example of Decision-Usefulness/Decision Model is the work of Beaver *et al*. (1968), which suggests predictability as a criterion to rectify the decision-making based on accounting information. Eipstein and Freedman (1994) revealed the types of social information to be ranked as well as to be included in the annual report based on the order of importance. The second type is the study that relates to investment theory (by investigating information on effects on share prices). In this perspective, investors are convinced that companies are undervalued, as managers may probably have inside information. Decision-Usefulness perspective also judges whether social responsibility information provides valuable information to financial markets or participants (Gray, Kouhy & Lavers, 1995). Meanwhile, Shane and Spicer (1983) conducted research on changes in a security market returns when the environment performance rating is released to public. Gray, Kouhy and Lavers (1995) explained that decision-usefulness perspective was associated with the usefulness of accounting information. Decision-Usefulness study is thought to have a deficiency in the theoretical background. Incompatibility between corporate non-financial purposes and demand from financial stakeholders is the main problem in this situation.

In response to the unsatisfactory decision-usefulness approach, economic-based theory is then introduced. This theory is within the periphery of agency theory and positive accounting theory research (Orij, 2007). Several studies have employed this approach for explaining the existence (as well as the content) of CSER, such as Belkoui & Karpik, 1989; Cahan, 1992; and Crumbey, 2003 to name a few. The Watts and Zimmerman's positive accounting theory (1986) is based on positive research that provides answers to "what is" question, instead of a normative theory that answers "what should be" question (Deegan, 2007). Belkoui and Karpik (1989) stated that positive accounting theory is a good alternative for CSR reporting. Reverte (2009) viewed the firm as a liaison of contracts among economic agents. This theory can also be used when describing managerial compensation contracts, debt contractual obligations, or political costs.

Political economy theory studies apply the legitimacy theory and stakeholder theory (*e.g.* Gray, Kouhy, & Lavers, 1995; Gray, Owens, & Adams, 1996; Neu, Warsame, & Pedwell, 1998; Orij, 2007; Van der Laan, 2006). The utilization of such theories can be illustrated by an opinion that firms or organizations are parts of a society that may have a legal contract among them (Patten, 1992). Gray, Owens, and Adams (1996) explained that both legitimacy theory and stakeholder theory are adopted from a broader theory, called political economy theory. They also pondered on whether another theory like institutional theory can be linked to political economy theory. legitimacy theory, stakeholder theory and institutional theory are theoretical perspectives that have been used by a number of researchers in recent years. These theories are sometimes called as systems-oriented theories. The systems-oriented theories assume that organization and society permit ones to focus on the role of information and disclosure in relationship with organizations, state, individuals, or groups (Gray, Owens, & Adams, 1996). According to Gray *et al*, (1995), Milne (2002), and O-Dwyer (2003), systems-oriented theories are the most suitable theories for explaining the content of CSER.

Political economy theory takes into account the political and social aspects of environmental disclosure behavior. Corporations also take the social, political, and institutional framework in which economy is taken into consideration in political economy theory (Gray, Kouhy, & Lavers, 1995). The benefit of using this approach is that political economy theory focuses not only on individual but also group and society's interest and wealth.

Several studies have been conducted using political economy theory (Clarkson 1995; Guthrie & Parker, 1989; Suchman, 1995; Solomon, 2005). Political economy theory describes the relationship of organization and society, which includes social disclosure from a different perspective. Pressure from stakeholders and/or from public is often the reason for a corporation to make social disclosures. Therefore, the society may manage, negotiate, or manipulate the stakeholders through these social disclosures (Roberts, 1992). Patten (1992) described that disclosures can be seen as a medium for establishing and protecting the organization’s legitimacy by leveraging public opinion and public policy process. Legitimacy theory accommodates the thought of social agreement between organization and society. In legitimacy theory, the society has control over the organization through social disclosures. Once the contract has been breached, the continuity of the organization may be threatened. This makes social disclosure become a medium of which organization depends on for its continuity (Dowling & Pfeffer, 1975).

Lindbolm (1994) spotted four disclosure strategies that firms may elaborate to achieve legitimacy with their constituents. In order to seek or to maintain legitimacy, an organization may try: (a) educate and inform public about the conditions of the organization, such as changes in organizational performance and activities that lead to closer values social expectation, (b) attempt to change the perceptions of the "relevant publics" without changing the organization's actual behavior; (c) divert perception by deflecting attention from a concerned issue to other related symbol, and (d) change external parties' expectation and communicate that their expectations are not reasonable. Several studies have made use of legitimacy theory framework for assessing possible motivation for CSER disclosures *e.g.*, Adams *et al*., 1998; Asforth & Gibbs, 1990; Brown & Deegan , 1999; Brummer, 1991; Campbell, 2002; Deegan & Rankin, 1996; Dowling & Pfeffer, 1975; Emtairah & Mont, 2008; Gray *et al.*, 1995; Guthrie & Parker, 1989; Jupe, 2005; Milne & Patten, 2002; Patten, 1992; and Willmshurs & Frost, 2000.

Deegan and Rankin (1996), utilize legitimacy theory to describe comprehensive changes in corporate annual report and environmental disclosure policies at the time of proven environmental prosecutions. The research studied environmental disclosures of several firms in Australia that have been successfully prosecuted by the environment protection authorities for violations on environmental cases between 1990 and 1993. They also found that during the year of prosecution, the firms disclosed more information on the reports than any other year. Therefore, they concluded that public disclosure of proven environmental prosecutions affected the disclosure policies of the firms. Jupe (2005) in a different location also conducted similar study and the result supports the use of legitimacy theory.

Another perspective in corporate voluntary disclosure is stakeholder theory. Previous studies have employed this theory to explain corporate social and environmental disclosure (*e.g.* Blomquist & Deegan, 2006; Branco & Rodrigues, 2007; Chan & Kent, 2003; Clarkson, 1995; De Villiers & Van Starlen, 2006; Elijido-Ten, 2004; Freeman, 1998; Wilmshurst, 2006). This theory consists of ethical (normative) and managerial (positive) branches. Ethical (normative) branch describes how organizations should deal with stakeholder and emphasizes organization’s responsibilities (Deegan, 2002; Donaldson & Preston, 1995; Hasnas, 1998). Managerial branch describes how corporations should manage their stakeholder, especially those who have power, to rule company’s resources for operating the organization (Ullman, 1985). Hence, organization has an opportunity to disclose everything related to CSER to powerful stakeholder as an indication that manager confirms stakeholder’s expectation (Deegan, 2002).

Legitimacy theory and stakeholder theory are overlapping at large. The distinction between these two theories lays on the resolution. Stakeholder theory focuses on how interaction with particular stakeholders occurs, while legitimacy theory focuses on interaction with public as a whole (Deegan, 2007). Gray, Koughy, and Lavers (1995) stated that legitimacy theory and stakeholder theory completing each other rather than competing against each other as they have many similarities. Hence, totally separating both theories would be misleading.

Another theory linked to political economy theory and adopted to justify legitimacy to an organization is the institutional theory. Some researchers (*e.g.* Amran, 2006; Amran & Susela, 2004; Carpenter & Feroz, 2001; Delimas *et al*., 2003; Di Maggio & Powell, 1993; Lai & Cheng, 2006; Milne & Patten, 2002; Rowe & Wehrmeyer, 2001) highlighted institutional theory as having an excellent value to describe CSER. Zucker (1987) also stated that institutional theory provides rich information to organizations as it is influenced by several pressures: normative, cohesive and cognitive. Therefore, the way stakeholders influence organization's policies can be captured by this theory.

Institutional theory supports the determinants of legitimacy. This theory assumes that organizations in the same field tend to have similarities in their forms and practices (Deegan, 2007). In creating disclosure policy, companies may have to use either legitimacy theory, stakeholder theory, or institutional theory to build strategies to influence the relationship between an organization and the related parties (Deegan, 2007).

Deegan (2007) stated that there is no universally acceptable theory and no universally agreed perspectives of finance accounting because accounting is a form of human activity. Financial accounting information is influenced by people's behavior and needs. Hence, different companies may have different objectives to disclose CSER, depending on their theoretical arguments. However, it is arguable whether these three theories are overlapping or competing in their explanations. Hackston and Milne (1995) have shown that empirical evidence is sufficient for knowing the superiority among these three theories. Lakatos (1976) stated that there is no way of comparing these theories, so one cannot say that one theory is superior over the other. Furthermore, it is impossible to prove the superiority of one theoretical approach over another, hence no theories have a prerogative for a truth (Hopper & Hoque, 2006).

A theoretical basis of corporate social and environmental disclosures could not simply be recognized (Orij, 2007). Cormier *et al.* (2005) argued that such disclosures are a complicated symptom that cannot be approached using only one theory. Dealing with the complex phenomena of CSER, Horrigan (2010) offered a mainstream of future research agenda on CSER. He stated that in the 21st century, it is important to build a CSER fundamental framework using theories and empirical research that based on cross-disciplinary explanation and justification of corporate governance, responsibility, and sustainability from a global perspective. The main idea of such a study is to reconcile the needs of corporate capitalism, market economics, civil society, and forces of globalization. Moreover, multiple-theories approach offers a richer and wider understanding of accounting practice than a single theory approach (Hopper & Hoque, 2006).

1.2. Problem Statement

In nowadays-dynamic era, the corporate social and environmental concept highlights a need of new approaches and research designs to achieve corporate goals (Kashyap *et al*., 2009). However, not all theories can be employed within one study. To reduce contradictory problems between theories, four criteria of integrative research should be met (Covaleski *et al*. 2003 as cited in Hoque, 2013). First, names and meanings should be consistent across theoretical perspectives. Second, explanations of the underlying causal process of different theoretical perspectives are consistent with each other. Third, the theoretical perspectives should have the same level of analysis.

Fourth, the constraints of theoretical perspectives used in the integrative research should imply upon causal-model forms. A research program should explain the contexts, conditions, and dynamics of an organizational system, such as management accounting becoming taken for granted, stabilized, rendered durable, and the role of human agency in this process should be clarified (Hoque, 2013).

Some researchers employ more than one theory to provide organizational explanation for a particular managerial action (Fiedler & Deegan, 2002), among them are Burrel & Morgan (1979); Clarkson *et al*. (2007); Hibbit (2003); Lu and Abeysekera (2014); Niu (2009); and Orij (2012). By employing multiple theories, the nature and reasoning for CSER are investigated. Each theory offers different options to explore, predict, and explain variation in the volume of CSER (Hibbit, 2003). Burrell and Morgan's (1979) seminal work on sociological paradigms compared and contrasted three theories to analyze the ontological, epistemological, methodological, and human nature aspects. Other accounting researchers (*e.g*. Cooper & Sherer, 1984; Hibbit, 2003; Orij, 2007; Tilt, 1994) have also used this approach extensively.

In Indonesia, major researchers employed one single theory to explain the CSER disclosure (Arli & Tjiptono, 2014; Cahaya *et.al*, 2012; Gunawan, 2010; Mirfazli, 2007; Nuryaman, 2013; Oeyono, 2011; Siregar & Bachtiar, 2010). The lack of research on multiple theories approached opens an opportunity for researchers to examine, to predict, and to make explanations of CSER. This study is dissimilar in many ways from previous studies in corporate social and environmental reporting in Indonesian context. The dissimilarities in this study compared to other studies are listed in Appendix A (Table 1.1 and Table 1.2). Based on Appendix A (Table 1.1), most of the Indonesian‘s previous research in CSER area, employed single theory approaches. Furthermore, the first research gap in this study is the lack of framework for applying multiple theories in CSER disclosure relationships and the underlying factors in Indonesian context. Previous research has measured the level of disclosure by counting, for example, the number of words, sentences, or pages in the annual report. Then, the second research gap in this study is the lack of CSER reporting guidelines in Indonesia that employed a tool that can measure the CSER disclosure's quality. This study focused on content-quality, employed multi-theories, and used a combination of tools of Clarkson's environmental index and Sutantoputra's social index to fill those gaps.

In line with Horrigan (2010) and Kashyap *et al.* (2009) arguments, this study reported investigation of CSER in Indonesian context using four perspectives, *i.e.*: positive accounting theory, stakeholder theory, legitimacy theory, and institutional theory. These perspectives were used to investigate corporate intentions of reporting social and environmental activities. This study has been inspired by Burrell and Morgan's (1979), Cormier *et al*. (2005), Hibbit (2003), Lu and Abeysekera (2014), Niu (2009), Orij (2012), Reverte (2009), Shiddique (2009), and Tagesson (2009) who had used several theoretical perspectives in their research. In this study, CSER is examined using eclectic-theories approach, which covers economic, social, and political theories to develop a descriptive model to explain human behaviors. According to Collin *et al.* (2009), "Eclectic theories are analytical tools that make use of different theories in order to find the factors that can create a satisfactory explanation, without any commitment towards the need of integrating one theory's factors into another theory." This study provides suggestions for corporate management on how Indonesian companies should conduct CSER reporting and building a more holistic analysis. The findings of this study may enable companies, public, as well as policy makers to better interpret, understand and evaluate reports of CSER and direct the company for minimizing the exposure of these reports. Thus, there is a significant research gap in building a framework with applied theories concerning the important factors in CSER reporting, especially from economic, social, and political perspectives.

This research employed eight determinants (*i.e*., industry environmental sensitivity, governmental environmental monitoring, media coverage, blockholder ownership, strategic posture, government shareholding, ISRA's criteria and foreign activities) to explain the extent of corporate social and environmental reporting using multi-theories approach. Each variable is tested under more than one theory.

The determinants used in this study are as follows: Firstly, the industry environmental sensitivity. In previous research, industry sensitivity and industry size are the most common variable for explaining the content and the extent of social and environmental disclosures (Adams *et a*l., 1998; Cowen et al., 1987; Gray et al., 1995). Watts and Zimmerman (1978) argued that certain industries are seen being more vulnerable than others in relation to the lobbying activities of voters. Similarly, the institutional investors are aware of the increased economic risk to their investment in companies that is prone to environmental problems. From the legitimacy theory, firms that operate in a more environmentally sensitive industries are seen to be exposed to pressure from social activist and campaign groups that seek socially responsible behavior (Hibbit,2003). Patten (1991) used the industry classification as a proxy of public pressure variable. He found that there is a strong correlation between CSER disclosure and public pressure.

Secondly, governmental environmental monitoring. The creation of public perception will only be successful if the relevant public actually monitors the reported information. Thus, all the firms that have been selected to participate in the environmental assessment of government programs (*e.g.*PROPER) will be more visible than the firms that were not selected. Based on Tilt (1994) research, a company that follows the government's environmental monitoring program (i.e., PROPER program in Indonesia) is expected to disclose environmental information on an ongoing basis in their annual reports. Moreover, the firms under the supervision of the government will undertake a wider CSER disclosure in their annual reports than companies that do not follow the government's environmental assessment program (Sarumpaet, 2005).

Thirdly, the media coverage. From the institutional theory and stakeholder theory point of views, print media coverage in Indonesia can be seen as a coercive pressure. Many companies, therefore, employed coercive isomorphism by undertaking institutional practices (e.g. CSER disclosure practices) due to such pressures from the media as their influential stakeholders (DiMaggio & Powell,1983). De Silva (2008) used the legitimacy theory by investigating the role of media coverage in publishing news about a particular company. The results show that the higher the level of media coverage related to social and environmental activities, the higher the stress level of public policy and public attention to the company. Hence, the media is able to influence public community perception on issues like the environment.

Fourthly, blockholder ownership. According to Ullman (1995), an increase in pressure of CSER, disclosures can becaused by the spread of ownership to many investors. Elijido-Ten (2004) argued that the level of ownership concentration (blockholder) is measured by the percentage of shareholders who own 5% or more of the total share. The opportunistic management behavior and conflict of interest between the agent and the principal tend to occur in firms with more dispersed ownership. In large enterprises, voluntary disclosure can act as a tool for monitoring the connection and for decreasing the agency conflict between managers and shareholders (Jensen and Meckling, 1976).

Fifthly, strategic posture. Companies employing an active posture will start to carry out social responsibility programs as well as disclosing their commitment in their annual reports. They continue to monitor their status and position by initiating the social responsibility to influence the stakeholders (Elijido-Ten, 2004). Chan and Kent (2003) claimed that although some companies may disclose CSER in their mission or vision statements in their annual reports, some companies might not be willing to do so. Based on institutional theory point of view, Amran and Susela (2008) argued that normative isomorphism pressures might occur when a firm has a stated goal related to its CSR activities in annual report; as such, a goal reflects the way the company should behave. Thus, the managers may think that they should be socially responsible and consequently disclose this responsibility in the annual report.

Sixthly, the government shareholding. From the stakeholder theory, the power of the government as a stakeholder is expressed in its enforcement mechanisms. Then the firm’s use of socially responsible action was to decrease the government interventions that may affect the firm value. According to Eng and Mak (2003), firms that associated with the government will tend to have a higher voluntary disclosure. Watts and Zimmerman (1978) claimed that the firm’s use of socially responsible action was to decrease the government interventions that may affect. Firms use corporate social and environmental disclosure as a strategic tool to fulfill the demand of this powerful stakeholder (i.e. the government). Based on the positive accounting theory argument, firm's use of socially responsible action is to decrease the government interventions that may affect the firm's value. Government ownership and disclosure are significantly related. Thus, by developing CSER disclosures it will reduce moral hazard and agency problems that are caused by the government ownership in the company. Based on institutional theory, the association between government shareholding and CSER disclosure can also be seen from coercive isomorphism argument. Coercive isomorphism, similar to the managerial stakeholder theory, refers to a situation in which organizations undertake institutional practices (*e.g.* CSER disclosure) because of pressures from stakeholders who are considered important and influential to the organization (Deegan, 2007). Seventhly, the company's award. One obvious strategy for assuring the continuance of a company's image is by winning awards. Awards give recognition to the winners and to prove their compliance with the criteria of the awards. This factor motivates companies to develop better CSER disclosures (Amran & Susela, 2004).

The Indonesia Sustainability Reporting Awards (ISRA) is an award given to companies that have made reporting on activities covering environmental and socio-economic aspects in addition to maintaining sustainability of the company itself. The Indonesia Sustainability Reporting Awar (ISRA) has been available since 2008 by referring to the Global Reporting Initiative. Sustainability Reporting Guidelines version 3.0. Therefore, by disclosing the social and environmental activities according to ISRA criteria will help the disclosing companies enhancing their stakeholder image.

Eighthly, foreign activities. An organization will imitate other organizations when faced with a symbolic uncertainty. Such an uncertainty leads the organizations to perform imitation. Such an uncertainty may occur when technology is poorly understood, when there is an ambiguous goal, or when the environment creates a symbolic uncertainty. Thus, organizations may do imitations on other organizations. (DiMaggio & Powell, 1983). Haveman (1993) argued that mimetic isomorphism is related to companies' benchmarks in which the best practice of others is followed in the industries. In Indonesian context, to compete and obtain legitimacy globally, an internationally operating IDX listed company will imitate a particular CSER practice commonly undertaken overseas in its annual report (Cahaya et al, 2008).

This thesis attempts to fill this research gap by developing multi-theories framework of the important factors affecting the CSER disclosure. As the CSER disclosures are getting more popular, firms must recognize the essential factors from economics,social and political perspectives that influence the CSER disclosure. In order to tackle the research problem, the following research question and sub questions were developed for this study.

1.3. Research Questions

The present research is carried out based on two primary questions:

1. What is the extent of CSER disclosure among Indonesian companies?
2. What are the determining factors of CSER disclosure among Indonesian companies?

The following research questions have been set so that it leads to answering the second primary research questions:

1. Is there an association between industry environmental sensitivity and the levels of CSER disclosure among Indonesian companies?
2. Is there an association between government environmental monitoring and the levels of CSER disclosure among Indonesian companies?
3. Is there an association between print media coverage and the levels of CSER disclosure among Indonesian companies?
4. Is there an association between blockholder ownership and the levels of CSER disclosure among Indonesian companies?
5. Is there an association between strategic posture and the levels of CSER disclosure among Indonesian companies?
6. Is there an association between government shareholding and the levels of CSER disclosure among Indonesian companies?
7. Is there an association between social and environmental disclosure in line with ISRA's criterion and the levels of CSER disclosure among Indonesian companies?
8. Is there an association between foreign activity and the levels of CSER disclosure among Indonesian companies?

1.4. Research Objectives

Previous CSER programs tend to use only particular theories, but current CSER program had been seeking supports from a multi-theoretical approach. Overall objectives of this study are to determine empirical inputs of different theoretical perspectives used in CSER programs, that possibly be a better multi-theoretical approach. This can later be used to adequately explain and predict CSER behavior to establish ways of building a better CSER. Therefore, the objectives of the present study are as follows:

(a) to examine the extent of CSER disclosure among Indonesian companies, and
(b) to ascertain determining factors of CSER disclosure among Indonesian companies.

A more detailed objectives of the second primary objectives are as follows:

1. To analyze the association between industry sensitivity and the levels of CSER disclosure among Indonesian companies.
2. To analyze the association between government environmental monitoring program and the levels of CSER disclosure among Indonesian companies.
3. To analyze the association between print media coverage and the levels of CSER disclosure among Indonesian companies.
4. To analyze the association between blockholder ownership and the levels of CSER disclosure among Indonesian companies.
5. To analyze the association between strategic posture and the levels of CSER disclosure among Indonesian companies.
6. To analyze the association between government shareholding and the levels of CSER disclosure among Indonesian companies.
7. To analyze the association between social and environmental disclosure in line with ISRA's criterion and the levels of CSER disclosure among Indonesian companies.
8. To analyze the association between foreign activity and the levels of CSER disclosure among Indonesian companies.

1.5. Significance of the Study

This study offers a number of contributions as the followings: This study uses the compound of Clarkson's environmental index (Clarkson, 2007) and Sutantoputra's social index. These two indices were developed based on the Global Reporting Initiative (GRI) reporting guidelines. The GRI reporting guidelines provides better reporting commitment than other indices engaged by used by previous studies (*e.g.* using word count). The combination of indices used in this study provides basic elements of CSER reporting which is divided into five areas, *i.e.*: environment, labor practice, human rights, product responsibility, and society. According to Willis (2003), GRI can be used by all types of companies as a tool (*e.g.* allowing the use of similar coding structure for different industries) in a rigorous, comparable, auditable, and a generally acceptable manner. In relation to public policy, Indonesian government as a policy maker may consider using this tool to fairly and properly manage the process of global economic and social change. GRI can be utilized as a tool to build and institutionalize measures to ensure the usefulness of social and environmental reports, and to reform corporate law, regulation and practice to become more CSR-sensitive. When there are no recommended CSER reporting tools, this tool offers an alternative reference for companies to prepare CSER.

Secondly, by using a multi-theories approach, this study offers a more holistic understanding of how management of an accounting system operates within the corporate social and environmental context. This approach can also be used as a corporate strategy for CSER in order to maintain the sustainability of their business. This approach was prompted by perceived inadequacies of a single theory or research method for tapping wider aspects of management accounting practice. By employing four different theories, government as the policy maker can utilize the model to set a social and environmental reporting framework for companies, and can enforce regulations with regard to minimum activities that must be reported. In other words, government can determine how companies should report the activities. For stakeholders, this can be an argument for firms to achieve their competitive advantage from social and environmentally friendly activities in the face of global business challenges.

1.6. Scope of the Study

This study mainly focuses on answering the extent of CSER in Indonesia by using content analysis approach, as well as to ascertain the determining factors of CSER by using the multi-theoretical approach. This study is limited to CSER disclosures from companies listed in the Indonesian Stock Exchange (IDX). The data examined were taken from the company's report in the year from 2005 to 2009.

1.7. Organization of the Thesis

This thesis is organized into six chapters. Chapter I explains the philosophical background and the importance of this study. Chapter II is devoted to reviewing and discussing the nature of CSER, as well as theoretical perspectives of CSER disclosures. This chapter also describes disclosure, disclosure in accounting. A review on positive accounting theory, legitimacy theory, stakeholder theory, and institutional theory are also presented. Chapter III describes the conceptual framework and hypothesis's development of CSER based on literature review. This chapter also proposes a theoretical framework to describe and explain the nature of corporate reporting and the perspective of CSER disclosure.

Chapter IV presents a detailed discussion on various facets of research design and methodology adopted in this study. This chapter focuses on methods and strategies for data collection, sampling procedures, and specific activities carried out during the fieldwork. Chapter V offers an in-depth discussion on how the research objectives are met, and other findings are described. Chapter VI summarizes the key findings, and outlines the implication for research and practice, and qualifies the results within the frame of theoretical and statistical limitation. For a clearer idea, Figure 1.1 below is provided, showing the organization of the thesis.

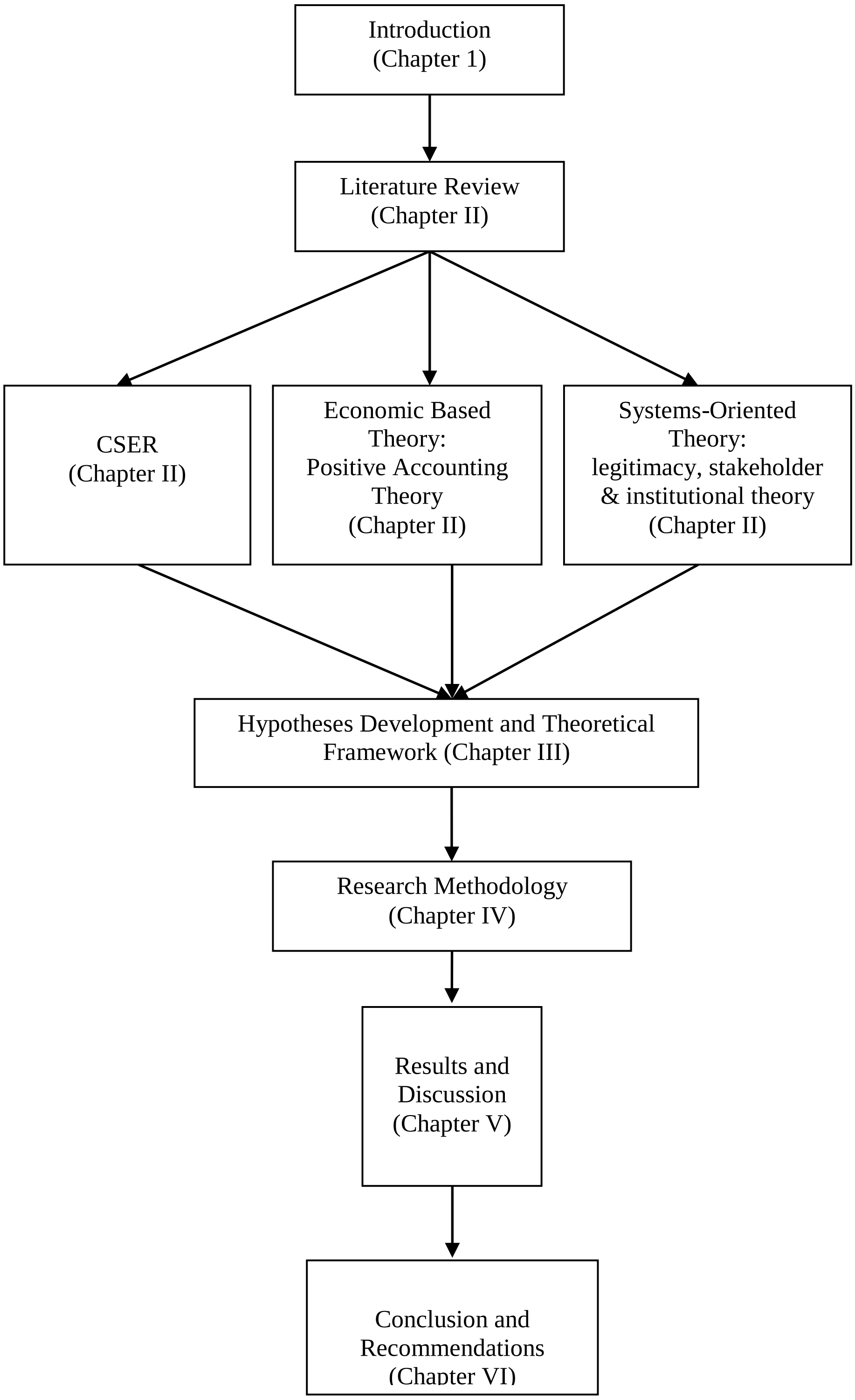


Figure 1.1.
Organization of the Thesis

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

The main objective of this chapter is to give a foundation for the development of the theoretical framework in order to understand Corporate Social and Environmental Responsibility (CSER). This chapter introduces the stages and guidelines of CSER and discusses the theoretical perspective of social and environmental reporting, such as Positive Accounting Theory (PAT), Legitimacy Theory (LT), Stakeholder Theory (ST), and Institutional Theory (IT).

2.2. Corporate Social and Environmental Reporting (CSER)

2.2.1. Corporate Disclosure and Social Accounting Research

The term disclosure has relation to whether information contained in the financial statements or supplementary communication has accommodated several points: *e.g.*, footnote, information after reporting date, management analysis for future company operation, financial prediction an operation, and other information related to corporate activities. Corporate disclosures can be classified into several categories. Firstly, financial statements disclosure, which points to any quantifiable information written in the financial statements, is including notes to the accounts. Secondly, quantifiable non-financial statements disclosure, which refers to contents of annual report relating to social issues presented in a quantifiable form, but not forming part of the financial statements. Third, descriptive social disclosure, that deals with narrative information that usually available in the body of the annual report. Fourth, negative news disclosure, which deals with social disclosure reflecting potentially damaging news to the company's reputation from a CSR perspective or true and accurate news that may have downgraded the company's reputation. Fifth, neutral news disclosure, which refers to social disclosure showing a neutral information. Sixth, good news disclosure, which refers to the representation of news that could increase the company's reputation. Seventh, total social disclosure, which refers to the overall six categories mentioned above. The amount of information in every category will be aggregated (Gray *et al*., 1995b).

Research in social disclosure (*e.g.* CSER) is related to social accounting research. The development of social accounting research itself, starts after financial accounting research which largely abandons normative for hypothetico-deductive approaches. Many social accounting research follows a hypiothetico-deductive approach. Belkaoui (2004) stated that social accounting is a multi-paradigm science and employed more than one theory, which is a pluralist view. Social accounting research, as a branch of financial accounting research, fits within the pluralist view on accounting. Moreover, inline to Belkoui (2004), Gray (2004) point out that social accounting is a broader concept than its mainstream (financial accounting), as it covers a whole universal set of relationships within society and the environment. Social accounting agenda is led by other issues *i.e*. society as a whole, and social accounting research covers a broad set of theories and methodology is applied. Hence, social accounting research contains large tensions between practice, theory, and methodology. CSER has risen progressively since the early 1990s and is growing dramatically in the last three years such that it has now entered the mainstream in industrialized countries (O'Dawyer & Owen, 2005). The method of showing the CSR disclosure is within the company's annual report. The contents may include the environmental (and maybe also social) policies, practices and may include an impact of the reporting organization.

The CSR disclosure can be categorized into two: mandatory disclosure and voluntary disclosure. Usually, mandatory disclosure must conform to stock market regulation. Organizations have ethical responsibility to minimize their environmental interaction (Rodewald, 1987) as well as the ethical behavior required of environmental reporting that "comes from a sense of moral obligation towards others" (Lawrence *et al*., 2006, p. 252). Mandatory reporting can also promote organizations to decrease their ethical capacity (Lawrence *et al*., 2006), that is, by establishing their reputation to have high corporate integrity (Guerrette, 1986). In conclusion, the mandatory reporting is unimportant when organizations are willing and gladly responding the stakeholder's needs (Maltby, 1997). Voluntary disclosure, in contrast, is voluntary information disclosed by companies. It is like a supplemental information that companies might put it in the annual report. An example of voluntary disclosure is the company's social responsibility disclosure (often called social disclosure, social accounting, corporate social reporting, or CSR). Thus, the CSR disclosure can be viewed as a way for the organization to communicate the social and environment effects that are caused by operating companies toward a specific group and toward public society. Harte and Owen (1991) pointed out that public cannot expect a direct connection between the disclosed social information and the actual performance. Similarly, Wiseman (1982) concluded that the voluntary environmental disclosure might falsely represent the company's performance. Conversely, Gray *et al*. (2001), and Robert (1992) stated that social and environmental disclosure is generally seen as an important tool for companies to manage their relationship with society, and its stakeholders. Moreover, by developing its social aspect, a firm can decrease its market-based risk profile (Orlitzky & Benjamin, 2001). Hitt, *et al*., (2002) showed that companies that deal with social activities would obtain a competitive advantage in the new global marketplace. In general, disclosure's targets present the information deemed necessary to reach financial reporting targets and to serve various parties with different interests. The special target is as follows (Suwardjono, 2005 cited in Mirfazli, 2008):

1. Protection target, protection target is based on the idea that not all users are sophisticated enough to enter the required information, so that naive users need protection by laying open information which they could not possibly obtain or process information to catch economic substances based on a post of financial statement. In other words, disclosure is intended to make sure that the management treats their stakeholders justly and fairly.

2. Informative target, informative target is based on the thought that a user has a certain sophistication level to get the information. The disclosure itself is designated to assist users for making decisions effectively.

3. Special requirement target, this target merges the protection of both the informative target and public target.

2.2.2. Definition of Corporate Social and Environmental Reporting (CSER)

CSER arises from many sources. It is an evidence that CSER is an important and prevalent information source of organization's financial reports. The CSER however has no entities/bodies to regulate or control the format and it thus tend to what Gray (1995) said, to be ad-hoc. Several previous nomenclatures have been introduced for dealing with something that is open to the CSER arranger such as: social and environmental accounting/accountability (Gray, Owen, & Maunders, 1987); socially responsible accounting (Matthews, 1993); corporate social responsibility (Gray, Owen, & Adams, 1996); triple-bottom-line (Elkington, 1997); mega-accounting (Matthews, 1997), and sustainable development (Bebbington, 1997). Deegan (2007) also introduces similar definition to social and environmental reporting as corporate social responsibility reporting. The term corporate social responsibility itself, in reality, has several definitions. Word Business Council for Sustainable Development (WBCSD, 1999) defines CSER as the continuing commitment by business to behave ethically and to contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and of society. Parker (1986) defined it as the reporting by corporations on the social impact of corporate activities, and the effectiveness of corporate social programs, as a way corporation is discharging of its social responsibilities, and the stewardship of its social resources. Similarly, Gray *et al*., (1987) defined CSER as the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large. Furthermore, Van Marrewijk (2003) defined it as "company activities-voluntary by definition-demonstrating the inclusion of social and environmental concerns in business operation and in interactions with stakeholders" (p.102).

2.2.3. Stages of Corporate Social and Environmental Reporting (CSER)

The four-stages of corporate social and environmental reporting as introduced by Deegan (2007) consist of four questions as follows:

1. Why would an organization want to disclose its social and environmental performance?

The management's motivation to report is the clue for the first stage that is derived from behavioral theories. The reason behind the urgency or reporting environmental information is the relationship between organization and society. The society awareness of environmental interaction extends such a relationship (De Silva, 2008). Clarkson (1995) said that for years, the organization-society boundaries had focused on the proper use of financial capital to maximize values on the shareholders' side. Therefore, for prolonging the running of the organization, the company's boundaries should be developed and maintained (Ince, 1997). According to Deegan (2007), views can be different among researchers about the reason behind the company adopting specific operating and reporting strategies.

a. Associating with the thought of social contract from legitimacy theory, Deegan (2007) argued that an entity would undertake certain social activities (and provide an account thereof) if management perceives that the activities are expected by the communities in which it operates. Hence, it is assumed that the society allows an organization to continue operations to the extent that it generally meets the society's expectations. As demanded by the society and the concept of a social contract, organizations must therefore discharge accountability (Gray *et al*., 1988), operate with a corporate conscience (Goodpaster, 2006), demonstrate good corporate citizenship (Goodard, 2005), and obtain the approval of society to operate (Maltby, 1997). Hence, organizations can no longer operate if they are somehow separate from the social and cultural values of those communities in which a license to operate (Birch, 2003).

b. Considering stakeholder theory, Deegan (2007) asserted that one version of stakeholder theory (*i.e.* the managerial/positive theory version and not the ethical/normative version) predicts that management is more likely to focus on meeting the expectations of powerful stakeholders. Stakeholders supplied resources to enable organizations to operate effectively and efficiently (Verschoor, 2005) and any abuse harms the organization's access to vital resources–reducing profitability (and subsequently shareholder value), and increasing uncertainty about the organization's long-term success and sustainability (Ballou *et al*., 2006; Cannon, 1994). Powerful stakeholders are those who control the resources that are both scarce and essential to achievement of the manager's objective. Hence, powerful stakeholders are those who have the most potential to influence a firm's ability to generate a maximum financial return (or profit). Within this managerial stakeholder perspective, managements are expected to embrace those economic, social and environment activities expected by the powerful stakeholders, and to provide an account of those activities to these stakeholders.

c. According to the accountability model (normative model), organizations possess responsibilities that they come a set of right for stakeholders, e.g., the right for being informed from the organization demonstrating its accountability in relation to the stakeholder's expectation. Organizations have an obligation to act in a socially responsible manner and be accountable for all resource providers, and in particular, to those who supply "the more critical and scarce resources" (Milne & Patten, 2002). Thus, the organizations must take responsibility for their actions, including those that affect the natural environment (Solomon & Lewis, 2002), and create a moral business environment to which they can hold their people accountable (Weiss, 1986).

d. With regard to institutional theory, Deegan (2007) stated that this perspective assumes if a manager of an organization would like to develop new practices for

CSER because of various institutional pressures. Delmas and Toffel (2003) pointed out that even if the institutional pressures are applied similarly on two firms, and each firm may respond differently to such pressures as the firm use different organizational and strategic approaches. Hoffman (2001) argued that the interpretation of legal departments for such pressures is in terms of risk and liability, a public affair interprets it as company reputation, an environmental affair will translate it into ecosystem damage and regulatory violations, and sales departments may interpret it as potential lost revenues. Therefore, the pressure must be managed align to the cultural frame and taking the main issue of regulatory compliance, operational efficiency, human resource management, market demand, risk management, or social responsibility.

e. Positive accounting theory assumes that everybody is driven by self-interest. The social and environmental activities will be conducted if they had benefited of increasing wealth for the management involved. Positive accounting theory justifies the urgency of accounting theory by referring several interest groups that make use external accounting report (Watts & Zimmerman, 1986). Previous studies (*e.g.*, Belkaoui & Karpik 1989; Ness & Mirza, 1991) have attempted to associate social responsibility to company's political exposure.

Hence, the above various theoretical perspectives can be explained why a firm or corporation/institution might engage in voluntary social and environmental reporting practices. This study searches to answer the determinants behind CSER practices in Indonesia. After the first stage has been answered, a second stage is pursued below.

2. Who are the stakeholders to which the social and environmental disclosures will be directed?

According to Deegan (2007), stakeholders whose needs and expectations are accommodated by the organization directly affect the policies and practices adopted in the compilation of company's social and environmental reports. Such stakeholders might be restricted to the powerful stakeholders. McMurtrie (2005) supported the suggestion that managers individually tailor CSER for specific stakeholders. This means that they may need to publish company's social and environmental disclosure in media other than annual reports to ensure that stakeholders who may not read annual reports are still informed of relevant corporate activities. Furthermore, McMurtrie (2005) and Williams and Ho (1999) have shown that firms do not only provide their corporate social and environmental activities in their annual reports on the website but also use it to provide access to other documents that contain CSER, and many of these documents are targeted at specific audiences.

In contrast, Deegan (2007) explained the limited focus on powerful stakeholder supplied by managerial branch of stakeholder theory. However, if the ethical branch of the stakeholder theory is employed, a wider range of stakeholders will be accounted. When motivation comes from ethical rather than managerial reasoning, the organization must identify who might be affected by their operations.

3. What types of social and environmental disclosures shall be made?

Minimum knowledge of what environmental information to be written as well as various environmental reporting practices (Lober et al., 1997) lead to issues in determining the comprehensiveness of the report (Wiseman, 1982). This causes lower comparability and credibility among social and environmental reports (Beets & Souther, 1999; Marshall & Brown, 2003), and promotes concerns on the performance of the reports (GRI, 2000, as cited in Marshall & Brown, 2003). Atkinson (2000) suggested a consensus to address this issue and that "coverage must be complete and the reporting honest" (Filios, 1984).

Having addressed issues related to the identification of stakeholders to whom an organization's social and environmental reporting will be aimed at, Deegan (2007) explored several theoretical perspectives related to the mechanism that an organization can use for identifying the information demanded by the stakeholders or for addressing issues these stakeholders believe in the organization's responsibility and accountability to public. Firstly, he draws on several studies demonstrating that stakeholders are believed to make use of the social and environmental disclosures and concludes that stakeholders demand information on social and environmental performance. He then analyzes theoretical perspectives by opening dialogs with stakeholders, so this in turn can be used for developing knowledge of what information on social and environmental disclosure to be demanded by stakeholders.

4. What/how, should be the format of the disclosure?

In this stage, Deegan (2007) reviewed some processes involved in the production of social and environmental reports that relate to theoretical perspectives. He also examines the conventional financial reporting drawbacks for recording the impacts of organization's policies and practices. The type of communication media is therefore, a significant decision in deciding how organization should provide accountable reports (De Silva, 2008). Regardless of the communication media chosen, successful corporate social and environmental activities demand a reasonable report in money to spend, time to finish and resources to use. The communication media used must "permit easy and unbiased communication between a company and its many different stakeholders [and should] provide for transparency in communication (and thus debate) between stakeholders" (Unerman & Bennett, 2004). With regard to the characteristic of the report, Laufer (2003) said that the environmental information needed its inclusiveness, completeness, relevance, and auditability. The report should also be publicly accessible, credible, and verifiable (*i.e.* auditable) (Ballou *et al*., 2006; Cerin, 2002; Kolk, 1999) to keep away from amounting to little more than a public relations tool (Hooks *et al.,* 2002).

2.2.4. Guidelines for Social and Environmental Reporting

Several bodies have been actively working on developing the social and environmental reporting guidelines. A guideline itself can be seen as a non-binding document to guide managers to prepare the report. Standards are often applied to the report guideline. Such standards may be developed by standardization organizations and often become the basis for certification procedures. Therefore, core aspects, procedures, and indicators are clearly defined for harmonized assessment, disclosure and comparison of CSER performance (Herzig & Schaltegger, 2006). The available international examples of the guidelines are from Global Reporting Initiative, World Business Council for Sustainable Development, and the standard ISO for environmental communication. Deegan (2007) stated that the guideline from Global Reporting Initiative has taken a dominant position in the social and environmental reporting. The Sustainability Reporting Guidelines (that is commonly known as the GRI Guidelines) are generally acceptable because it represents current best practices. The first GRI Guidelines was released in 2000, the second version (G2) was released in 2002 and the third version (G3) was released in a draft form in 2006. The G3 version has been equipped with 47 core indicators and 32 additional indicators. Both core and additional indicators are organized under the categories of economic, environment and social. The disclosure is then followed by indicators. Because of the limitation of traditional financial reporting to get a snapshot and reflect the impact of organizational activities both socially and environmentally, many organizations have developed various practices, which seek to create a report on the broader impact. The inclusion of specific items to disclose tends to be based on the perception of particular managers on the information needs of particular stakeholder groups (Solomon & Lewis, 2002).

2.2.5. Corporate Social and Environmental Reporting in Indonesia

Indonesia, the world's largest archipelago, comprises 17,508 islands. About 60% of its population lives on Java Island, a densely populated island (IFRC, 2009). Indonesia possesses a rich and natural environment blessed with one of the world's largest rain forests and reef systems. It is a major world producer of coal, tin, and copper, having extraordinary reserves of iron sands, phosphates, and bauxite. Indonesia's main revenue earner is gold. The forests are plenteous with hardwoods and cabinet timbers, such as teak (Kemp, 2001). Nevertheless, the nation faces abundant environmental problems such as air and water pollution, river basin damage, dangerous waste, and damages on natural resources because of over exploitation and destruction. (WWF, 2007).

The destruction reaches its high in 2006 as forest's fires occur in Riau and Kalimantan causing preserved animals are in danger: tigers, orangutans, elephants, gibbons and rare birds. There have been an issue that raises controversy on the impact of mining tailings and illegal logging. As a result, the rain forest of Kalimantan that rich in living things shrinks dramatically. Hot mudflow disaster that caused by an oil-and-gas company-Lapindo Brantas is vastly expanding, sinking about four villages. Now, as the situation has gone bad, Indonesia is ranked third in the world for greenhouse emission. It is indeed a shocking position from the previous 21st rank. The emission may highly to continue in the future as commercial logging and plantations are rising (Titus, 2006).

Society in the past believed that business world is in the opposing pole to the social world. Business is assumed to contradict social matters and is judged that social matters will harm business operations. Now days, this assumption has change. Countries have started to balance and harmonize both business and social worlds by promoting social tolerance in business practices and increasing the social side of business. CSER has been of escalating interest for many entities: businesses, government leaders, and non-government organizations. The government wants corporations to apply corporate social and environmental programs that empower poor communities throughout the country, rather than simply contributing to the charities. Indonesia, like other countries, has stated to seek a point of equilibrium for business and social matters (Lubis, 2005) by implementing CSER to justify the public and the government about their social and environmental activities. Therefore, a specific mandatory reporting guideline by the government is necessary.

2.2.5.1. Regulation and Codes

Corporate social responsibility or better known as Corporate Social Responsibility is the company's commitment to make a positive contribution to society and the environment. The Indonesian’s Institute of Accountant (Ikatan Akuntan Indonesia) which is responsible for the accounting system in Indonesia, releases the Indonesian Statements of Financial Accounting Standards No. 1 paragraph 9 Revision of year 2013. This statement provides an explanation of the disclosure of the environmental impact report stating that the company presents additional information about the environment (or values added), especially for industries with primary resources related to the environment (or employees and other stakeholders as important users of financial statements).

The Indonesian House of Representatives passed a controversial corporations' bill (Corporate Law no. 40 year 2007 article 74 Limited Liability Companies) into law at a plenary meeting and made Corporate Social Responsibility (CSR) mandatory for almost all companies outside the financial sector. The bill was passed on 20 July 2007 and became operative on Aug. 16, 2007 (Darwin & Gutensperger, 2007). The article no. 74 demands that: (1) Companies exploiting natural resources must admit social and environmental responsibilities; (2) It is mandatory for companies to engage in social and environmental responsibilities and included in the company's cost. The disclosure must follow the available standard accordingly; (3) If companies fail to comply with the responsibilities, punishment will be applied punished under the relevant laws; (4) Details on regulations on social and environmental responsibilities will be stipulated in a governmental decree.

Article 74 of the law requests companies related to natural resources are required to establish social and environmental responsibility programs. Sanction will be applied if companies do not conform to it. The article imposes to not only companies having business related to natural resources (e.g., mining, oil and gas, and plantations), but also ones that do not exploit natural resources but affect the environment. In other words, any businesses out from financial sector must have CSR programs (Haswidi, 2007). Unfortunately, the understanding of CSR in Indonesia is a little far from expectation. Only a number of companies have built CSR into their strategies, but many still consider that it is merely a charitable activity (Hasibuan, 2005). The revised law signs the disclosure of activities in the annual reports. The National Center for Sustainability Reporting (NCSR) and several business groups have successfully influenced for the adoption of such practices by Indonesian companies. Only one sustainability report was issued by one listed company in 2004. In 2005, the companies that submitted the CSR reports increase to four companies. In 2006, 12 companies submitted the CSR report in addition to their annual financial report. Besides the mentioned article, companies need a set of regulations to clarify the Law No. 40/2007 so it can be implemented consistently and transparently. With regard to the implementation, Darwin and Gutensperger (2007) said that the ancillary regulations would complicate the law itself. Companies find more challenge to satisfy the ancillary regulations than fulfilling what mentioned in the Law. This is due to the law conveying comprehensive principles and formulating a noble goal must be implemented in practice, and this needs to be clarified further. Conversely, the ancillary regulations contain a compilation and harmonization of the existing laws related to issues such as: water resources, environment, forestry, general mining, oil and gas, bio diversity, labor, social and national-security systems, state-owned enterprises. The list continues, covering issues in human rights, foreign investment, and capital markets. Darwin and Gutenspergers (2007) suggested that for establishing such regulations, a special task force must be built for following several key approaches:

1. The ancillary regulations focus only on social and environmental issues.
2. Special Task Force invites stakeholders for giving input on developing the ancillary regulations.
3. The ancillary regulation is maintained to conform existing laws and standards

Even though Indonesia has a big number of legislations concerning in environmental and social issues, such legislations are unconnected and scattered as every department administered their laws. Even worse, there is some redundancy and even contradictory between laws.

The Government of Indonesia has set some standards for environmental issues, such as PROPER that stands for The Program for Pollution-Control Evaluation and Rating, and the ISO 14001 certificates dedicated for organizations having environmental concern. In the meantime, some institutions try to index the organizations based on social and environmental issues, such as the Indonesian Institute for Corporate Governance (IICG) that released the Indonesian Corporate Governance Index. The IICG gives awards and recognition to the 10 best companies (Hasibuan 2005).

Indonesia's Ministry of Environment releases PROPER as an integrated strategy to implement Law No. 23/1997 regarding environmental management. The four main activities defined in PROPER include company's compliance monitoring, the application of environmental management transparency, community involvement, and company obligation in submitting environmental management information. As the availability of resources is limited, not all companies meet all the strategies through PROPER. Therefore, PROPER remains for selected companies only.

The companies participating in PROPER strategies in general follow several criteria:

1. Businesses run by companies will have a significant impact to the environment;
2. Businesses produce side effects: heavy pollution and environmental destruction;
3. The companies are listed in domestic and/or foreign stock exchanges;
4. The companies are categorized as export oriented companies.

Other companies that do not implement PROPER strategies will be monitored by regular compliance monitoring activities. However, Government has been promoting PROPER to be widely accepted by more organizations. In 2002-2003, there were only 85 companies participated in PROPER strategies. A year later, the companies that follow reached to 251 and the next year, there were 466 companies participated. In 2011-2012, around 1,317 companies established the social and environmental reporting using PROPER program and in the next year, the number increased to 1,812 companies. The figure is relatively small compared to the available companies (no less than 8,000 companies), but it is expected that the participating companies can expand so that it reaches the critical mass in controlling environmental pollution (PROPER, 2009).

2.2.5.2. Awards and Guidance

Today, business and environmental communities admit the existing new law. Corporations must follow the mandatory CSR program that has been established as law. They must consider on programs that are most fit to their circumstances as well as most fruitful to the community.

To support this law, the environment ministry, and the Indonesian Institute of Accountants-Management Accountants Compartment (IAI-KAM) has launched a competition for an Award on Sustainable Reporting. The award consists of six categories such as:

1. Best Sustainability Report;
2. Best Environmental and Social Reporting;
3. Best Environmental Reporting;

4. Best Social Reporting;

5. Best CSR Reporting in Annual Report;

6. Best Website.

The category of award 1 until 4 is assessed based on the company’s sustainability report in line with GRI G3 Sustainability Guidelines; award 5 is assessed based on the annual report arranged by The Law of Limited Company No. 40 year 2007 article 66 point 2 and security's exchange commission. Moreover, the last award is assessed based on the corporate sustainability disclosure on the website. The Indonesian Institute of Management Accountants (IAI-KAM) is the largest and fastest growing management accountant body in Indonesia that has existed since 1987, and is a part of the Indonesian Institute of Accountants (IAI). IAI-KAM is the certification body for professional accountant management in business called "Certified Professional Management Accountant (CPMA)." In Sustainability/CSR area, IAI-KAM has a rich intensive program to promote Sustainability/CSR. The Institute is an awarding body of the yearly event called "Indonesian Sustainability Reporting Awards" (ISRA) since 2005, in order for promoting the implementation of sustainability reporting in Indonesia and to give recognition and appreciation to companies that disclose and report issues on CSR in their annual report or/and sustainability report. IAI-KAM is a founder of National Center for Sustainability Reporting (NCSR), an independent institution aimed to promote sustainability reporting as a media for communicating CSR practices in Indonesia (IAI KAM, 2008).

2.3. Corporate Social and Environmental Reporting under Economic Based Theory Perspective

2.3.1. Positive Accounting Theory

Positive research is where the goal of the research is to predict and to explain a particular phenomenon and therefore, the associated theories are called positive theories (Deegan, 2007). In positive research, preliminary assumptions are established and through logical deduction, predictions are made. If the predictions are considered as accurate compared to the observations of reality, the story is then regarded as having an explanation of why things are as they are (Henderson, Peirson, & Harris, 2004). Positive accounting theory is one of the several positive theories of accounting such like legitimacy theory and a certain branch of stakeholder theory. The basis of positive accounting theory is the concept of individual self-interest and wealth maximization that underlie economic theory (Gray, Koughy, & Lavers, 1995b).

Watts and Zimmerman (1986) said that positive accounting theory is "concerned with explaining accounting practice. It is designed to explain and predict which firms will and which firms will not use a particular method… but it says nothing as to which method a firm should use" (p.7). Positive accounting theory has the basis of central economic-based assumption that every individual action is driven by self-interest for taking the opportunity to increase one's wealth (Deegan, 2007).

Graffikin (2007) confronted that positive accounting theory is a type of neo-classical economic theory that, in essence, it is a conviction in rational choice theory. A material self-interest (opportunistic behavior) grounds all the economic activities. Therefore, the opportunistic behavior will drive the selection of accounting methods and technique as well as policy judgments.

2.3.2. The Origin of Positive Accounting Theory

The name of positive accounting theory is derived from economics, in particular, from two economists – John Neville Keynes and Milton Friedman, who referred to it as positive science, not positive theory. Keynes restated a sentiment, which is popular in 19^{th} century reading of positive statement that contributed to positivist science. Then, Friedman in turn brought up the idea of positive science being concerned with “what is." However, Friedman’s idea is best stated as instrumentalism, that it is useful only as instruments for developing successful predictions about observables (Graffikin, 2007). In 1970s and 1980s, PAT has become a dominant research paradigm. The work on efficient market hypothesis (EMH) and agency theory contribute much on the development of positive accounting theory itself. The EMF gives evidence that new information drives capital market, but it has little explanation for reasons why managers choose a particular accounting method (Deegan, 2007). Two sets of empirical studies were attempted. For one set of studies have been done by, for example, Ball and Brown (1968), Beaver (1980), Foster (1977), Grant (1980), and McNichols and Manegold (1983) investigated the relation between stock prices and accounting earnings numbers, and the result signs that the earning numbers reflect factors which are relevant to stock valuation. The second set of studies, for example, Kaplan and Roll (1972), Ricks (1982), Sunder (1973) (1975), and Biddle and Lindahl (1982) have tried to separate between two competing hypotheses: the no-effects hypothesis and the mechanistic hypothesis. Deegan (2007) also said that when agency theory is applied, positive accounting theory focuses on the principals and the agents ‘relationship. Positive accounting theory suggests incentives must be attributed to agents to enter various contracts and companies are thought as a nexus of contracts between many self-interested individuals.

Contracts are necessary in order to get self-seeking individuals to agree to cooperate. For examples, there is a contract with managers, suppliers of capital and employees (including managers). The contracts are necessary to get individual parties to act to maximize the wealth of the owner (shareholders). However, there will be contracting costs related to contracting, for example, cost of negotiating with, maintaining, and monitoring performance of the parties involved. Positive accounting theory holds that firms will seek to minimize the contracting costs, and this will affect the policies adopted, including the accounting policies (Graffikin, 2007).

Deegan (2007) described that initial contractual arrangement must be put in place for the sake of efficiency with a contracted overall agency cost may arise. Agents are suggested to use the most efficient accounting methods. Unnecessary cost to the contractual arrangements may arise because of regulations. Graffikin (2007) defied that there is a difference between positivist and positive. However, positive theories, by no doubt, are a form of positivist theorizing. Therefore, it holds true that positive accounting theory is more likely close to positivism. Therefore, the goal of theorizing is examination, description, explanation, and prediction (control). Three hypotheses from Watts and Zimmerman (1990) are where prior work within positive accounting theory depended upon. Those are the bonus plan hypothesis, the debt covenant hypothesis, and the political cost hypothesis. Several researchers have made use PAT to clarify both the content and the existence of social and environmental accounting (Belkaoui &Karpik, 1989; Ness & Mirza, 1991).

2.3.3. Bonus Plan Hypothesis

According to Watts and Zimmerman (1990), the bonus plan hypothesis discusses that managers having bonus plans tend to use accounting methods that increases the current period of the reported income. With this, the managers assume for an increase of bonuses. The bonus plan hypothesis forecasts that many companies elect to give the manager bonuses tied to the companies' performance. The performance-based rewarding mechanism will motivate the self-interested managers to work close to what the owner of the companies expects. However, positive accounting theory predicts that once bonus schemes are in place, the managers will control the performance indicators in such a way that it will return higher individual rewards (Deegan, 2007). The bonus plan hypothesis enables the managers to select accounting procedures that shift reported earnings from a future period to the current period.

To understand the need for this hypothesis, knowledge on agency theory from Jensen and Meckling as the underlying positive accounting research must be looked back (Graffikin, 2007).

Jensen and Meckling (1976) are recognized as key players in the building of agency theory so that Watts and Zimmerman when developing positive accounting theory heavily relied on a paper written by them. They define agency relationship as "a contract under which one or more (principals) engage another person (the agent) to perform some service on their behalf, involves delegating some socio-making authority the agent" (p.308). Graffikin (2007) stated that agency theory was a beneficial part of positive accounting theory as it has the origin in the information economic literature in which information leads to better decisions. However, agency theory spots that several forces at play affect the operation of the organization.

Information discrepancy arises when some managers have more information than other parties do. Agency theorists believe the managers must be given incentives to voluntarily disclose the information. Further, Graffikin (2007) said that there exists an agency relationship between parties when one delegates some decision-making authority. The agent and the principal will go into an agreement that recognizes the relationship between the two parties. Both parties, according to positive accounting theory, will act on their own self-interest, which will not be overlapping. An example for this is when shareholders as a party will be interested in increasing their wealth, and the manager as another party will also want to maximize the reward. The principal incurs agency cost for monitoring the behavior of the agent ensuring the agent works best according to the principal's needs (monitoring cost). Conversely, the agent will also bear costs to conform to the principal's needs (bonding cost). The third type of cost is called as residual loss as the interest of both the agent and the principal may not be fully aligned (Graffikin, 2007).

2.3.4. The Debt Covenant Hypothesis

Watts and Zimmerman (1986, 1990) introduce the debt covenant hypothesis. It states that the debt/equity hypothesis predicts that a higher debt/equity ratio will affect companies to get closer to the constraints in the debt covenants. An income increasing accounting method will relax these debt constraints and reduce the cost of technical default.

To understand the second hypothesis of positive accounting theory, firstly, it is important to understand the meaning of a debt covenant. In a contract between a company and its debt providers, the company agrees to avoid activities that spur the risk of debt providers. However, there are many other instances where their activities do not relate to the interest of the debt providers. Therefore, there would be an agreed debt covenant (Graffikin, 2007). The debt covenant hypothesis points out that other things being equal, when a company violates an accounting-based debt covenant, the manager is more likely to choose accounting procedures that shift future period reported income to the present period. This will reduce a technical covenant default.

Therefore, the debt covenant hypothesis predicts that the company can attempt a reduction on cost of attracting debt by entering a contractual agreement with lenders who reduce the probability that the managers can take over the debt holders' wealth. The arrangement of the agreements before seeking debt financing is considered as an efficient way to drag lower cost of funds. Nevertheless, the opportunistic perspective of positive accounting theory predicts that companies will adopt accounting methods that act to minimize the effect of debt constrains, once a debt contract is in place (Deegan, 2007).

2.3.5. Political Cost Hypothesis

The third hypothesis of positive accounting theory is the political cost hypothesis. This hypothesis proposes that, other things being equal, when political costs increases, the managers will tend to select accounting procedures that defer reported income from the current period to the future. This hypothesis introduces the idea of political implications into accounting policy selection (Graffikin, 2007).

Political cost hypothesis may also explain social and environmental disclosures. Ness and Mirza (1991), using an Agency Theory framework, found a positive correlation between environmental disclosures in annual reports of large British oil-and-gas companies. In line to the work of Watts and Zimmerman, it can be concluded that a reduction on the possibility of adverse political attention and its associated cost can be undertaken by politically sensitive companies with the adoption of accounting method that lead to a reduction on the reported profit (Deegan, 2007).

According to Watts and Zimmerman (1986, 1990), large companies tend to use accounting choice that reduces reported profit. The reason behind this hypothesis lays under the assumption that it will create cost if individuals would like to be kept informed about whether accounting profit really represents monopoly profits and to contract with other in the political process to enact laws and regulation that enhance their welfare. Therefore, it is common if individuals are not being kept informed. The political process does the same in that respect. When information and monitoring cost is given, managers have incentives to exercise policy over accounting profits and the parties in the political process. Therefore, the political cost hypothesis deeply digs the connections between a company and various external parties, which may not have any direct contracts, can impose wealth transfer away from the company. A high-profit company can attract costly attention to the company. The managers of a politically vulnerable company will seek ways for reducing the adverse political impact. Such managers may adopt accounting methods that can reduce the reported profit. The size of the company is usually be used as a proxy for the existence of the political scrutiny for testing the political cost hypothesis (Deegan, 2007).

2.3.6. Social and Environmental Research in Positive Accounting Theory

Belkaoui and Karpik (1989) conducted a study to test arguments from Watts and Zimmerman in a comprehensive way by examining social disclosures in annual reports. They examined debt covenant hypothesis and political cost hypothesis, but omitting the bonus plan hypothesis. Index disclosure survey from Ernst and Ernst released in 1970s was used to test Fortune 500 companies' annual reports. The results prove that size, beta, and leverage are being significant variables.

Panchapakesan and McKinnon (1992) investigated the literature, which supports seven proxies for political visibility. They said that the significant affecting proxies that are used in the economic-based literature are market share, industry membership, capital intensity, number of shareholders, and number of employees. They use a general proxy from specific sources of political visibility (e.g. the level of media coverage) for a company's political visibility. Panchapakesan and McKinnon (1992) then recommended the use of social disclosure as a proxy for investigating a political visibility.

Blacconiere and Patten (1994) have investigated the use of positive accounting theory in the environmental disclosures in the chemical industry. They researched on "regulative costs" that may increase as an effect of India's Union Carbide Bhopal Disaster. They suggest to investors for anticipating increased regulative costs incurred by the disaster. Consequently, opposite market reaction and a drop in company's value are expected. The disclosure tells the lower environmental risks, the more likely the company releases positive environmental news.

According to Ness and Mirza (1991), voluntary social disclosures can be seen as a way to decrease the political cost of the disclosing companies. A number of companies in the UK were studied for their environmental disclosure practices. They found that the oil industry companies had developed insignificant reputations for their environmental practices where the transfer of wealth from the companies away was unavoidable. If the companies eager to provide environmental disclosure voluntarily, this may reduce, the amount of wealth transferred away in the future.

Collin *et al*., (2009) saw that positive accounting theory provides a set of expectations regarding accounting choices that influence the stakeholders' wealth and highlights on the advent of agency problems. They deliberate positive accounting theory as a suitable theory in enlightening accounting choices of companies having agency problems. Several studies (e.g. Cahan, 1992; Cahan *et al*., 1997; Crumbley, 2003) have studied the existence and the contents of social and environmental accounting using this perspective.

2.3. Systems-Oriented Theory

In systems-oriented theory, the role of information and disclosure is seen related to organization, individuals and groups, as well as the state (Gray, Owen, & Adam, 1996). The perspective has also been known as open-system theories. The open-system theories have been re-conceptualized in the organizational environment, originating not from technological or material imperatives, but rather from cultural norms, symbols, beliefs and rituals (Suchman, 1995). Corporate disclosure policies are considered to represent one important means by which management can influence external perception about their organizations. William (1999) stated that Systems-Oriented Theories offered individuals; organizations and institutions look for preserving their own self-interest by trying to operate and interact with others. The social and political environment in which they interact will moderate these rights to self-interest (Roberts 1992; Williams 1999). Accounting disclosure policies, within the system-oriented theories, constitute a strategy to affect the relationship between organizations and other parties (Deegan, 2007).

2.4.1. **Political Economy Theory**

Stakeholder theory and legitimacy theory are derived from political economy theory (Gray, Owen, & Adam, 1996). Both focus on the relationship between the organization and its operating environment (Neu *et al*., 1998). Deegan (2007) stated that political economy theory as the social, political, and economic framework where business activities take place. It emphasizes on the very basic relationship between political and economic forces in society (Miller, 1994). The distribution of income, power, and wealth can also be affected by such accounting reports (Cooper & Sherer, 1984). This perspective considers that society; economics as well as politics are not separable and cannot be seen in isolation from social and environmental issues (Blomquist & Deegan, 2000). Consideration on the political economy makes a broader societal issue that affects the operation of the organization and what kind of information to disclose (Deegan, 2007).

Political economy theory has the benefits of recognizing reactions from the existing demand of stakeholders in the corporate disclosure and the way it perceives accounting report as a social, political and economic document. Political economy theories, therefore, try to explain the correlation between corporate’s responses to the government or public pressures (Guthrie & Parker, 1990). Guthrie and Parker also stated that political economy theory might identify the use of social and environmental disclosures as a strategic tool to achieve the organization’s goal and in manipulating the attitudes of external stakeholders. Therefore, the annual reports are not neutral, and are highly likely affected by the exchange of interest between companies and its environment for a compromised (Guthrie & Parker, 1990).

In fact, political economy falls into two broad streams: classical political economy theory (PET) and bourgeois political economy perspective (Gray, Owen, and Adams, 1996). In classical political economy theory, the perception of accounting report and disclosures are used as a means of keeping the favored position of those controlling scarce resources as well as a means of undermining the position of those without scarce capital (Deegan, 2000). Simply stated, Classical Political Economy Theory focuses on the structural conflicts within society. Tinker and Neimark (1987) used the classical political economy approach for examining annual reports within a capitalist society. They stated that annual reports are not objective, but they can play a role in making the world-view or social ideology that supports the reports that implicitly influencing the distribution of income and wealth.

On the contrary, bourgeois political economy theory tends to focus on the interaction between groups in various ways for their self-interest, where organizations are formed by the society and environment (Gray, Owen, & Adam,1996). Bourgeois political economy itself has two sub-theories such as stakeholder theory and legitimacy theory. Both theories, however, overlap but they may offer different levels of explanation rather than competing ones. Legitimacy theory focuses primarily on social motivations of the corporation disclosing information whereas stakeholder theory focuses on economic motivations (Gray, Koughy, & Lavers, 1995). However, institutional theory can be used either within a classical political economy theory or bourgeois political economy theory (Deegan, 2007).

2.4.1.1. Legitimacy Theory

2.4.1.1.1 Definition

Several studies using legitimacy theory framework have been available to date (*e.g.* Brummer, 1991; Deegan & Rankin, 1996; Guthrie & Parker, 1989; Jupe, 2005; Lindbolm, 1994; O'Donovan, 2002). Legitimacy theory considers organizations are always trying to seek assurance that they are operating within the bounds and norms of their respective societies (Deegan, 2004). Similarly, O'Donovan (2002) described that organizations must act in a manner that society deems socially acceptable for a continuous and successful operation. Suchman (1995) defined legitimacy as an assumption or generalized perception that the responses of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definition. According to Lindbolm (1994), legitimacy is "…a condition or status which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part of it. And when disparity, actual potential, exists between the value systems, there is a threat to the entity's legitimacy" (p.2).

Hence, legitimacy theory views that the companies are bound by a social contract for a socially desired action for an approval of their existence, rewards, and goals from their activities (Guthrie & Parker, 1989).

2.4.1.1.2. Legitimacy, Expectation, and Social Contract

Deegan (2007) stated that social contract is not a new term and has already been discussed by Thomas Hobbes (1588-1679), John Locke (1632-1704), and Jean-Jacques Rosseau (1712-1778) to name a few. Legitimacy theory views that society gives permission to organizations for their operations so that the society's expectations are met and they comply with social contract. Legitimacy theory emphasizes that the organizations must show that they consider the right of the public at large. Therefore, legitimacy is important to organization and can be considered as a resource for the life of an organization (Dowling & Pfeffer, 1979).

Scocker and Sethi (1974) as cited in Deegan (2007) provide a good overview of the social contract. They view that any institution operates in society through a social contract either it is expressed or implied. The survival and growth of the organization are then based on: (1) the delivery of some socially desirable ends to society, and (2) the distribution of economic, social or political benefits to groups from which it derives power. In a dynamic society, both the sources of institutional power and the needs for its services are not permanent. Therefore, institutions must always meet the legitimacy and relevance of their social contract by showing they provide society's needs for and the group benefiting from its rewards has the society's approval.

According to Mathews (1993), social contracts exist between organizations and individual members of a society. The society allows the organizations with their legal standing for owning and using natural resources and hiring employees. The organizations draw on community resources and produce waste products to the environment. However, they have no inherent rights to such benefits to allow their existence. The society asks for compensation exceeding the cost of society.

In legitimacy theory, a legitimate company's performance is when the company is socially accepted. Similar to what Dowling and Pfeffer (1975) have argued, legitimacy gaps will arise when the company's societal expectations differ from societal perception of its behavior. This situation may lead the society withdraws the organization's contract for its operation (Ayuso, 2003). Therefore, misinterpretation of the social contract may lead to an adverse impact on the survival of the (Deegan, 2007).

2.4.1.1.3. Corporate Reporting as a Strategy for Changing Expectation

When a society considers that the company breaches its social contract, the company's legitimacy is under threat (Jupe, 2005). Several strategies are available for maintaining legitimacy. Lindbolm (1994) spots four actions for seeking organization's legitimation:

1. To educate and to inform its "relevant publics" about changes in organization's performance as well as activities so that both performance and activities are more in line with values and expectations of the society;
2. To change the perception of the "relevant publics" but not its actual behavior;
3. To manipulate a perception by diverting attention from the concerned issue to other related symbols (e.g., emotive symbols); and
4. To change external expectation of its performance.

Suchman (1995) has similarity in his argument with Lindbolm's (1994) that several generic processes related to challenges on addressing legitimacy: (1) conformance, (2) selection, and (3) manipulation. Dowling and Pfeffer (1975), and Lindbolm (1994) have a similar opinion that annual report disclosures can be used by organizations to implement every strategy mentioned above. Most researchers of social responsibility reporting adopt such a perspective (Deegan, 2007). For example, if company's legitimacy is under threat after causing pollution, it can utilize CSR disclosures in its annual report that shows an increased expenditure on pollution-control equipment. Alternatively, the company may discuss its goal on pollution reduction in the future, or it could divert society's attention to projects that support community and its devotion to recycling activities (Jupe, 2005).

Figure 2.1 below illustrates a model that links Legitimate Theory with corporate disclosure policies. Fundamentally, social contract clauses are derived from the political, social, economic, and environmental context. For gaining the 'license to operate' (Deegan, 2007), organizations must focus on the economic viability, the political-legal dimension, and socio-cultural expectations. Khor (2004) said that organizations communicate to the stakeholders through corporate disclosures that they are conforming to the clauses of the social contract and they deserve legitimacy to continue their operation.

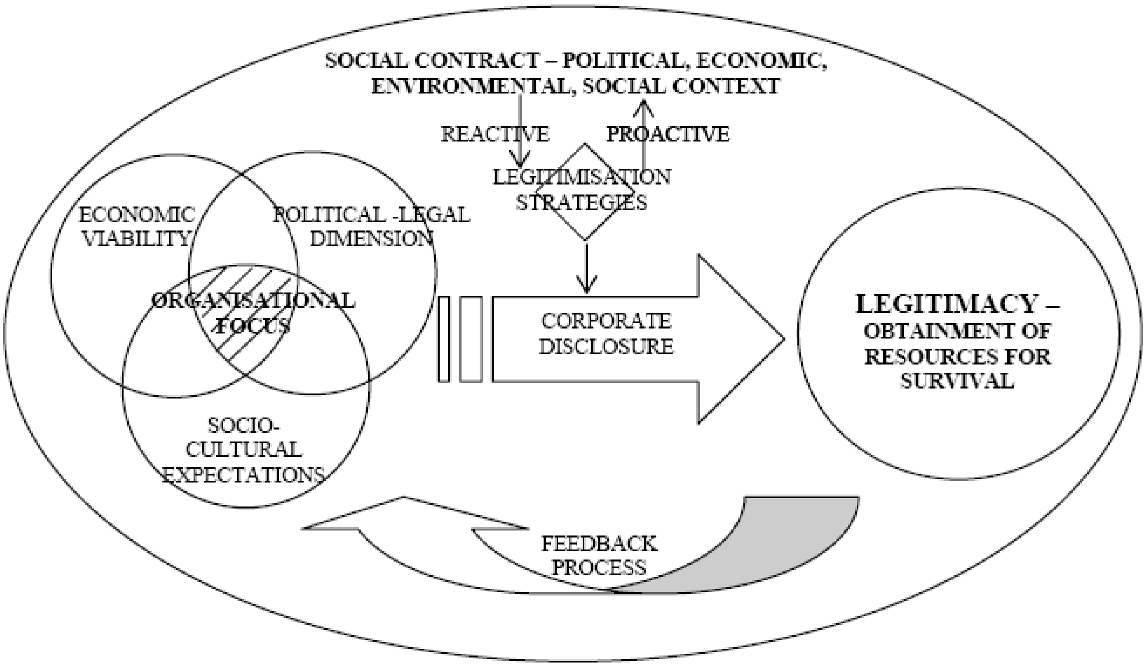


Figure 2.1
The link between legitimacy theory and corporate disclosure policies
Source: Khor, 2004, adapted from Dowling & Pfeffer's (1975) work

The legitimization strategies dictate corporate disclosure policies. A shown in Figure 2.2, legitimization strategies are affected by, and/or influence the clauses of the social contract. Legitimization strategies can be thought as a catalyst for corporate disclosure actions. An organization will maintain its legitimacy and always assess feedback for a prompt action dealing with community concerns and their priorities. Nevertheless, information can be delayed or even distorted. These situations must be addressed for the sake of organizational legitimacy.

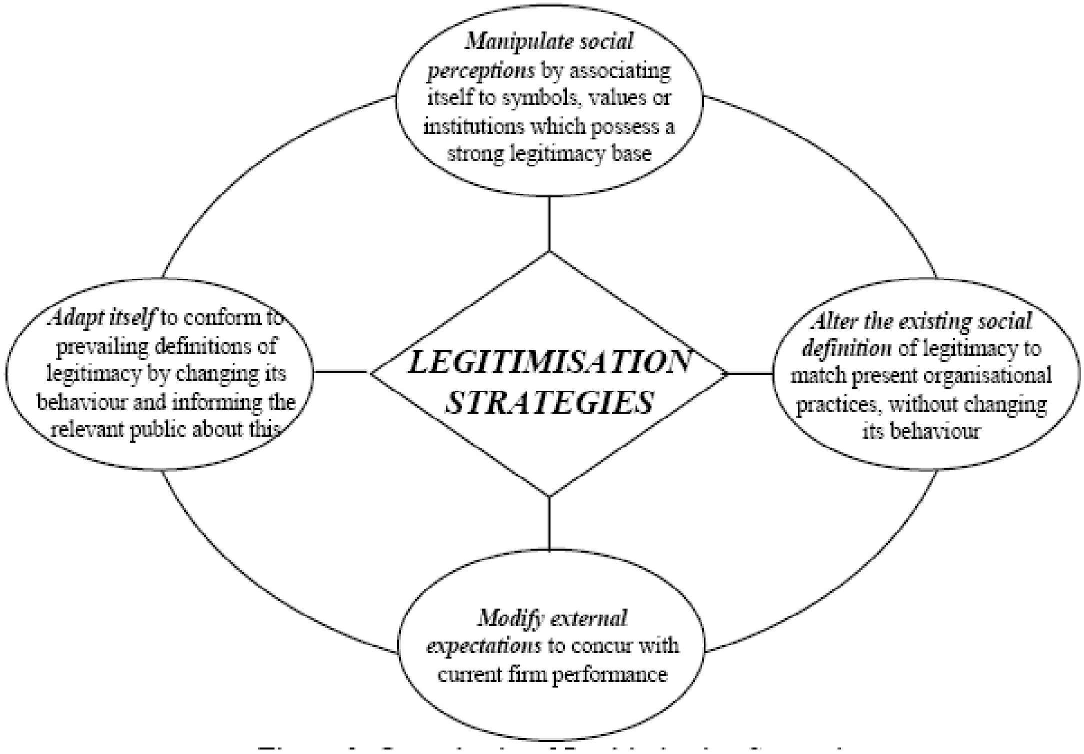


Figure 2.2
Organizational legitimization strategies
Source: Khor (2004, adapted from the works of Dowling & Pfeffer (1975) and Lindbolm (1994)

Dowling and Pfeffer (1975) and Lindblom (1994) formulated several communication strategies for legitimacy-seeking organizations. Figure 2.2 depicts an organization that implements strategies: individually implement each of the strategies or in combination through the information of public disclosure. They underlined how CSR activities may contribute to different types of legitimation strategies. CSR activities can then be positioned in terms of conformance strategies, manipulation strategies, and selection strategies. However, the selection of a strategy is not meant for excluding the others.

Companies investing in a whole range of CSR activities may not be deliberately modeled to fit into a particular strategy (Emtairah & Mont, 2008).

2.4.1.1.4. Empirical Research of Legitimacy Theory

O'Donovan (2002) stated that legitimacy can be viewed as a benefit to organizations. Investigation on Corporate Social and Environmental disclosure practices has been studied within the legitimacy theory framework. Freedman and Jaggi (1998) studied the relationship between pollution disclosures and economic performance of companies having four highly polluting industries. The results say that there is a negative significant correlation between pollution disclosures and economic performance. It is also found that large companies with poor economic performance are likely to disclose a detailed pollution information. Deegan and Rankin (1996) examined the environmental disclosures from companies that were prosecuted by The Australian Environmental Protection Authority (EPA) with the use of legitimacy theory framework. It is concluded that there is significant information in the year of prosecution than any other years from the prosecuted companies.

Brown and Deegan (1998) had selected the legitimacy theory and media agenda setting theory as the research perspectives when analyzing the public disclosure of environmental performance. At that time, nine industries were examined in the period of 1981-1994. They found that a higher level of media attention signifies the higher level of environmental disclosure. This confirms the role of legitimacy theory for predicting the environmental disclosure available in annual reports. O'Donovan (2002) said similarly, media plays a role in shaping community expectations. He interviewed senior executives from three large Australian companies and found support for legitimacy theory as an explanatory factor for environmental disclosures.

He also found that legitimizing tactics used were dependent on whether the purpose of the response is to gain, maintain, or repair legitimacy.

Milne and Patten (2002) researched on the contribution of environmental disclosures in building a legitimating influence on shareholders within the American chemical industry. The study revealed that fewer investment funds were distributed to the inferior social performer on the long-term scenario. Here, environmental concerns significantly affect the decision for the majority of the participants. Whilst under the short-term scenario, the participants interpreted higher environmental exposure as a signal of greater risk, therefore, allocating more funds to the better performer. This indicates that the utilization of legitimizing disclosures is a beneficial strategy for companies with other exposures for long-term investment settings.

The studies related CSER conducted by Hibbit (2003) has been categorized into five distinct classes. First, event studies, in which reporting behavior are changed around the time or during the course, of major global or local social and environmental events (*e.g.* oil spills and chemical pollutions), for example, Exxon Valdez and Kirki oil spills, and the Union Carbide chemical disaster in Bhopal, India (Blacconiere & Patten, 1994; Deegan *et al*., 2000; Patten, 2002). Second, print media studies, in which it can be seen as particulary influential in terms of a community's concern about corporate social and environmental initiatives (Brown & Deegan, 1999; Neu *et al*., 1998; O'Donovan, 1999). Third, political visibility, by changing social values seen as giving rise to pressures which impact on the companies differently, affecting those which are more politically visible to a greater extent (Dowling & Pfeffer, 1975; Hackston & Milne, 1996; O'Dwyer, 2000; Patten, 1991). Fourth, social pressures, social and environmental activists and various other groups within society are seen as an indicator of the degree of social legitimacy granted to business organizations, as any dissatisfaction with business performance gives rise to social pressures from these groups on business to improve their performance Deegan & Gordon, 1996; Patten, 1992). And the last, negative/poor environmental performance of environmental regulations, which can be seen as an indication of a failure of the companies concerned to meet society's expectation and thus increase the potential threat to their legitimacy (Deegan & Rankin, 1996; Jupe, 2005; Wiseman, 1982).

Jupe (2005) examined separate corporate environmental reports from the largest 200 UK companies. A cross-sectional analysis of environmental disclosures was employed to test the predictive power of legitimacy theory. The results indicated some support for legitimacy theory as an explanatory factor for the disclosures in corporate environmental reports.

De Villiers and Van Standen (2006) took Africa as a research target to analyze corporate environmental disclosure within the legitimacy framework. They concluded that firms would lessen specific disclosures when they considered them potentially more damaging than helpful. Previous studies conducted by Brown and Deegan (1998), Deegan and Rankin (1996), and Patten (1992) have positively linked corporate social disclosures (CSD) with legitimizing motives.

2.4.1.2. Stakeholder Theory

2.4.1.2.1. Definition

Contributions toward the development of stakeholder theory are from the works of Donaldson and Preston (1995), Freeman (1984), and Jones and Wicks (1999). Stakeholder theory has become a core topic in management science and practice over last decade. Freeman's seminal book *Strategic Management: A Stakeholder*

Approach, published in 1984 has inspired the use of stakeholder theory(Elijido-Ten, 2004). According to Freeman (1998), stakeholders are groups and individuals who get benefits from or that are harmed by, and whose right are violated or respected by, corporate actions. The notion of stakeholders includes shareholders, creditors, customers, employees, supplier, government, and the communities at large. Matten *et al*. (2003) considered stakeholder theory as a necessary process in the operationalization of corporate social responsibility, as a complementary rather than a conflicting body of literature. Then, stakeholder theory was developed to remedy a lack of theory explaining why organizations undertake socially responsible activities (Robert, 1992).

Stakeholder theory considers that there are several agents beyond the shareholders that have interests in the company's decisions/actions. It asserts that companies have a social responsibility that requires them to consider the interests of all parties affected by their actions. Hence, management should not only consider shareholders in the decision process, but also anyone who is affected by business decisions (Branco & Rodriges, 2007).

Clarkson (1995), among other researchers have studied the typology of stakeholders (known as Clarkson's typology) and he distinguishes them as primary and secondary stakeholders. Primary stakeholders are those without whose continuing participation the corporation cannot survive. Secondary stakeholders, in contrast, are those influence or effect, or influenced or affected by, the corporation, but they are not engaged in transaction with the corporation and are not essential for its survival. Deegan (2007) divides stakeholder theory into two branches, *i.e.* ethical or normative branch (also considered as prescriptive) and managerial branch (considered as positive perspective). Likewise, Jones and Wicks (1999) proposed what they called a 'Convergent Stakeholder Theory'. This theory has an instrumental (managerial) component, a normative (ethical) foundation and seeks to offer an approach to the unification of the social science (managerial) approach and the normative (ethical) approach to stakeholder theory.

Wilmshurst (2006) addressed the nature of the firm-stakeholder interaction by identifying the motivation that conducted (managerial perspectives) and/or should (normative perspectives) underlie the interaction that takes place between the management within the firm and the stakeholder. He explained the managerial view as being concerned with responding to stakeholders who have the power, or ability to influence the survival of the firm. These approaches attempt to explain what happens in a current practice. While the normative view is concerned with what should be done, often associated with moral/ethical viewpoints arguing that stakeholders have a right to information, whatever their potential influence on the firm's survival. Furthermore, Jones and Wicks (1999) argue that the instrumental (managerial) approaches to stakeholder theory accommodates issues such as mutual trust and co-operation, a position that is morally defensible. That is, the managerial approaches do recognize a normative (ethical) foundation. Thus, it demonstrates how managers can create ways of doing businesses that are both moral and workable (Wilmshurst, 2006). However, Hasnas (1998) argued that stakeholder theory is somewhat of a troublesome label because it refers to both an empirical theory of management and a normative theory of business ethics, often without a clear distinction between the two. Deegan (2007), nonetheless, summarizes that perhaps the term stakeholder theory can be seen as an umbrella term that actually represents a number of alternative theories that address various issues associated with relationship with stakeholders, including consideration to the right of stakeholders, the power of stakeholders, and the effective management of stakeholders. A summary of various perspectives is shown in Figure 2.3 below, including managerial, normative and approaches to theory that are argued to embrace elements of both perspectives.

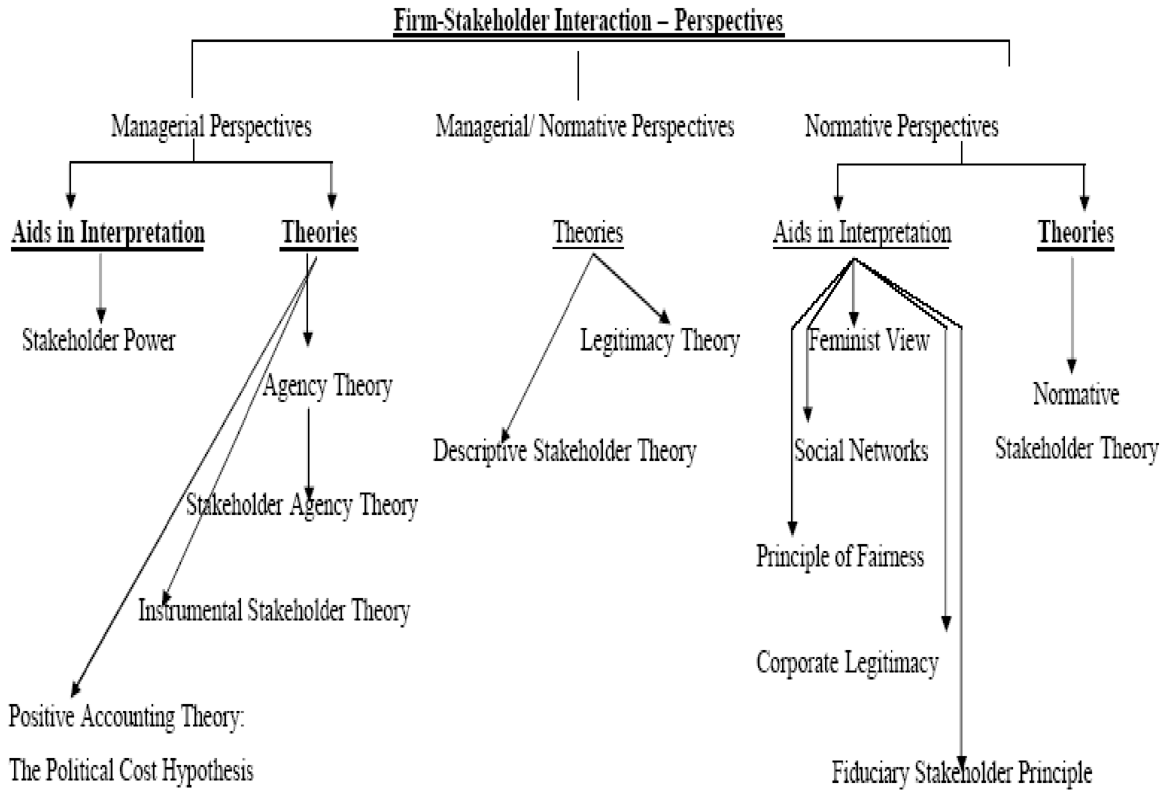


Figure 2.3
Firm stakeholder interaction-perspective
Source: Wilmshurst (2006)

2.4.1.2.2. Normative Branch of Stakeholder Theory

In stakeholder theory, management must provide equal considerations to the interests of all stakeholders and must be able to manage conflicts among stakeholders to attain the optimal balance among them. This implies that there will be times when management is obliged to at least, partially sacrifice the interests of the stockholders to those of the other stakeholders. Hence, in its normative form, stakeholder theory does imply that businesses have true social responsibilities (Hasnas, 1998). Lantos 2001(as cited in Branco & Rodrigues, 2007) argued that ethical responsibilities are regarded morally mandatory. They involve preventing or rectifying harm or social injuries, even if the company might not appear to have benefitted from such endeavors. From this point of view, companies are considered morally responsible to any individuals or groups, which might be inflicted with potential injury from a particular course or action.

Donaldson and Preston (1995) argued the normative way of stakeholder theory occurs when it is used to interpret the function of companies and identify moral or philosophical guidelines that should be followed with regard to their operation and management. Figure 2.4 below depicts groups of interests a business may have an impact of the firm. This figure was developed by Donaldson and Preston (1995), who suggested that the theory can be justified upon the basis of three aspects: descriptive accuracy, instrumental power, and normative validity. It is considered descriptive as it can correctly describe and predict how companies behave; instrumental as it can be used to improve a company’s performance; and normative because it raises the issue of what is ethical, or moral and how the distribution of wealth should be considered (Cooper, 2004).

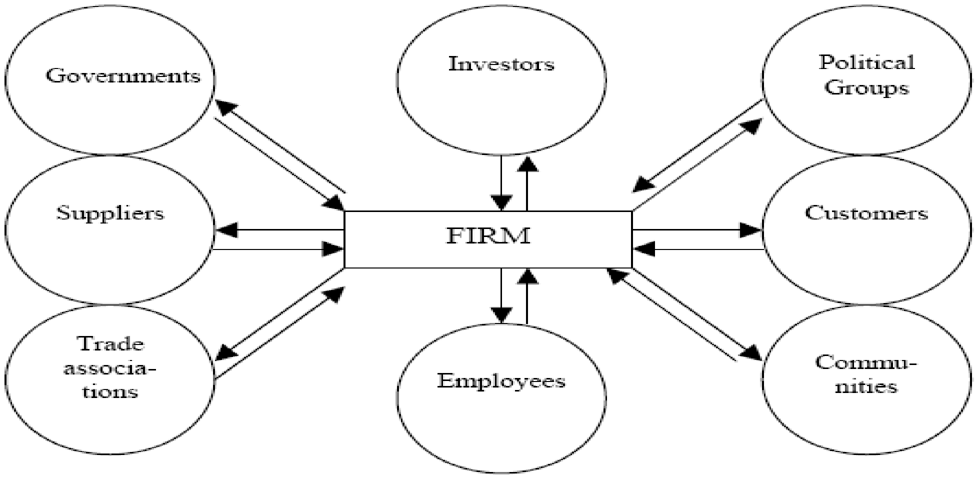


Figure 2.4
The Stakeholder model
Source: Donaldson and Preston (1995)

Figure 2.4 reveals the relationship between a firm and its stakeholders. The two direction lines are to show the managerial (positive) branch and ethical (normative) branch. Deegan (2007) suggested that minimum rights belong to all stakeholders must not be violated for ethical/normative perspective, and this can be extended to information that can be disclosed among stakeholders on how the organization is affecting them (perhaps through community sponsorship, provision of employment safety initiatives, *etc*.).

Related to the rights to information, Gray, Owen, and Adams (1996) suggested that there are two responsibilities, which are involved in accountability: (1) the responsibility to perform specific actions, and (2) the responsibility to supply an account of such actions. These perspectives relate to how the respective researchers believe organization should act, which is not necessarily going to be the same as how they actually act (Deegan, 2007).

2.4.1.2.3. Managerial Branch of Stakeholder Theory

In stakeholder theory perspective, organization is considered to be part of a wider social system. However, it specifically considers the different stakeholder groups and how they should best be managed if the organization is to survive. The managerial branch is also in line with the instrumental approach of Donaldson and Preston (1995). Therefore, stakeholder theory sees stakeholders' interests as a factor that must be taken into account and managed while the company is engaged in maximizing the shareholder's wealth. The underlying argument is that stakeholder's interests are considered as means for higher-level goal, such as profit maximization, survival, and growth.

In relation to stakeholder management's importance, Mitchell *et al*. (1997) proposed a theory of stakeholder identification and salience. The theory states that managers' perception of the key stakeholder's attributes (such as power to influence the company, legitimacy of the relationship to the company and urgency of the claim against the company) influences the degree of which managers give priority to competing stakeholder claim. A stakeholder may have the legitimate claim against the company, but unless it has either power to enforce its will in the relationship or a perception that its claim is urgent, it will not achieve salience from the company's manager.

Branco & Rodrigues (2007) stated that power was an attribute that stakeholders have, and it has been used to identify and prioritize them. Nasi *et al*. (1997) revealed that forestry companies in Sweden and Canada concentrated on issues that were relevant to the most powerful stakeholders rather than on those issues that were relevant to the ethical or socially responsible point of view. This situation shows that prioritization occurs over stakeholders in terms of power they have.

The power to influence managers is viewed as a function of the stakeholder's degree of control over resources required by the organization (Ulmann, 1985). Power in itself will be stakeholder-organization specific, but it may be related to such things as the command of limited sources (finance and labor), ability to legislate against the company, access to influential media, or influence the consumption of the organization's goods and services. However, the behavior of various groups is considered as a constraint on the strategy that is developed by management to match corporate resources as best it can with its environment (Deegan, 2007).

Of the stakeholder theory's point of view, information is an important element for managing the stakeholders in order for obtaining their support and approval, or to divert their opposition and disapproval (Gray, Owen, & Adams, 1996). Figure 2.5 below simplifies the explanation. This figure explains the interacting influences in decision making in the stakeholder perspective. The top section describes that a decision maker might be located at any point on the spectrum between the managerial influences and the normative influences depending on how various factors (motivators) interacts as decision makers within the firm consider how the best interests of the firm be served. In the lower part of the model, various motivations identified from the various stakeholder theories are added to demonstrate the types of influence that might interact in the decision-making process.

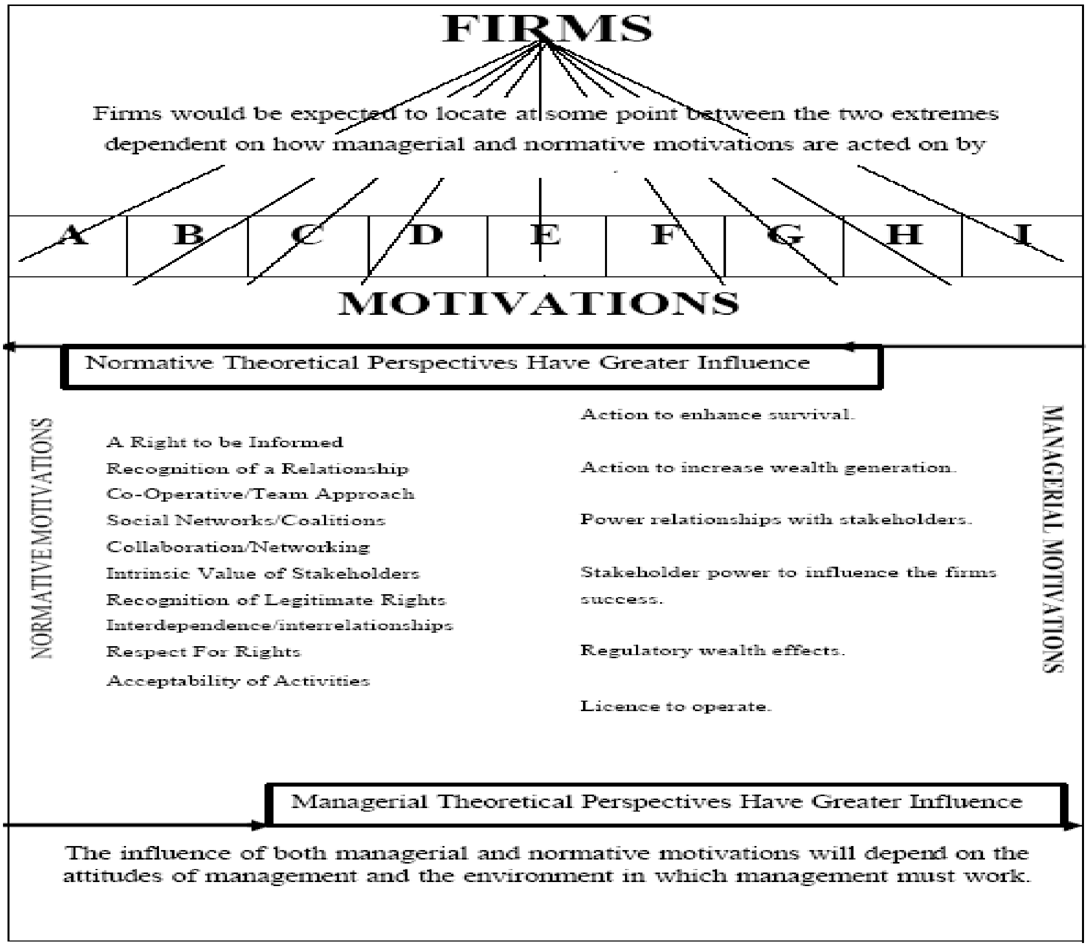


Figure 2.5
Influences in the firm-stakeholders interaction
Source: Wilmshurst (2006)

2.4.1.2.4. Empirical Research in Corporate Social and Environmental Reporting Based on Stakeholder Theory

Stakeholder theory is based on the notion that beyond the shareholders, there are several agents with an interest in the action and decisions of companies. Many research works in social and environmental disclosures area have applied stakeholder theory (*e.g.* Branco & Rodigues, 2007; Clarkson, 1995; Ullmann, 1985; Munilla & Miles, 2005; Robert, 1992). Ullmann (1985) pointed out that lacking of theory in previous research contributed for the inconsistent findings. He proposed that firms use social disclosures as a mean to manage their relationship with their stakeholders and the external environment. He developed a three-dimensional strategic framework which includes stakeholder power, strategic posture, and economic performance to explain why the socially responsible activities must be carried out by organizations. Therefore, information (including financial accounting and information about the organization's social performance) is a major element that organizations can manage or manipulate the stakeholders for gaining their support and approval, or for distracting their opposition and disapproval (Gray *et al*., 1996).

Over the last decades, stakeholder theory has become a hot topic in management research and practice. Robert (1992) adopted Ullmann's framework in corporate social responsibility disclosure in his research that using a sample of 80 companies drawn from a population of 130 major companies investigated in between 1984 until 1986 by Council of Economic Priorities. He found that measures of stakeholder power, strategic posture, and economic performance are significantly related to the level of corporate social disclosure.

Nasi *et al*., (1997) revealed that forestry companies in Canada and Sweden focused on issues that were relevant to the most powerful stakeholders rather than on issues that were relevant to an ethical or socially responsible point of view. Chan and Kent (2003) examined environmental disclosure in annual reports from Australia's top 110 listed companies under the framework of Ullmann. Their findings contributed to the knowledge on how Australian companies manage their stakeholders using environmental disclosures. Elijido-Ten (2004) analyzed corporate environmental behavior by top 100 Australian listed companies in 2002. He adopted Ullman's three-dimensional framework and found that the level of ownership dispersion the industry sensitivity characterized by the increased regulatory sanctions as well as the top management's conviction on environmental issues is the main significant factors influencing the decision to incorporate superior activities in corporate strategic plans. Previous studies in corporate social and environmental area have used stakeholder theory to explain corporate social and environmental disclosure (*e.g.* Blomquist & Deegan, 2006; Branco & Rodrigues, 2007; Chan & Kent, 2003; Clarkson, 1995; De Villiers & Van Starlen, 2006; Elijido-Ten, 2004; Freeman, 1998; Wilmshurst, 2006).

2.4.1.3. Institutional Theory

2.4.1.3.1. Definition

Institutional theory's perspective emphasizes the role of social and cultural pressures imposed on organizations that influence organizational practices and structures (Scott, 1992). Institutional theory views organizations as operating within a social framework of norms, values, and taken-for-granted assumptions about what constitutes appropriate or acceptable economic behavior (Oliver, 1991). Institutions have been defined by institutional theorists since the early 20th century, to mean rules–the predetermined patterns of conduct--that are generally accepted by individuals in a society (Rutherford, 1996). There are informal rules, such as norms, habits and customs, and there are formal rules, such as written laws, regulations, and standards. Participants in organizations act in accordance with the rules set out in institutions by devising strategies to survive or win in the society (North, 1992).

Institutional theory as part of the systems-oriented perspective supports the determinant of legitimacy theory and stakeholder theory. Within this theory, institutional pressures affect the organizations and as a result, they tend to become similar in their forms and practices (Deegan, 2007). Organizations in specific environments try to promote their legitimacy through the adoption of similar institutionalized processes, or three varieties of isomorphic tendencies, referred to as coercive isomorphism-seeking legitimacy through alignment with externally codified rules, norms, or laws. Mimetic isomorphism–seeking legitimacy through alignment with best practices or managerial fads/fashions. Finally, normative isomorphism-seeking legitimacy through alignment with espoused standards set by educational and professional authorities (Lai *et al*., 2006).

Milne and Patten (2002), and Suchman (1995) suggested that the process of legitimization itself is not only strategic but also institutional in nature. The proponents of institutionalism explain legitimacy as the result of congruency between an organization and its cultural environment, but they tend to concentrate more on the cognitive rather than the evaluative side (Amran & Susela, 2008). Therefore, institutionalists believed that legitimacy is not as an operational resource but a set of constitutive beliefs (Suchman, 1995). Dimaggio and Powell (1983) stated that the strength of institutional theory provides the reasoning for the phenomenon of the alarming homogeneity of organizational forms and practices in one particular environment. Therefore, institutional theory suggests that companies embrace institutionally accepted practices to ultimately achieve prestige stability, access to resources and social acceptance as a symbol of legitimacy (ISO 14000 certifications; Meyer & Rowan, 1977; Oliver, 1991, cited in Rowe, 2007).

Furthermore, a key reason why institutional theory is relevant to researchers who investigate voluntary corporate reporting practices is that it provides a complementary perspective, to both stakeholder theory and legitimacy theory, in understanding how organizations understand and respond to change social and institutional pressures and expectations. Among other factors, Institutional theory links organizational practices (such as accounting and corporate reporting) to the values within the society in which an organization operates, and to a need to maintain organizational legitimacy (Deegan, 2007). According to Deegan (2007); Dillard, Rigsby, and Goodman (2004), there are two main branches of Institutional theory, which are decoupling and isomorphism. Both branches can be a basis for explaining voluntary corporate reporting.

2.4.1.3.2. Decoupling

Decoupling implies that while managers might perceive a need for their organization to be seen to be adopting certain institutional practices, and might even Institute formal processes aimed at implementing these practices, actual organizational practices can be very different from these formally sanctioned and publicly pronounced processes and practices. Thus, the actual practices can be decoupled from the institutionalized practices (Deegan, 2007).

DiMaggio and Powell (1983) and Meyer and Rowan (1991) proposed decoupling particular structural features of the organization from its primary activities can be executed by the organizations. They can also demonstrate compliance with norms and values in society by having structures and practices that are (partly) ceremonial, while the actual ways of working are not greatly affected. Decoupling also carries stronger intellectual and affective baggage, striking many critics as connoting deception, duplicity, and merely "ceremonial" conformity (Perrow 1985). DiMaggio and Powell (1983) believed that decoupling lets the organization to adhere to various institutional demands, while organizing its primary processes more efficiently than would be possible if it were to adhere to all institutional requirements. Furthermore, according to Curruthers, 1996 (as cited in Dillard, Rigsby, & Goodman, 2004), decoupling refers to a situation in which the formal organizational structure or practice is separate and distinct from the actual organization practice. In other words, the practice is not integrated into the organization's managerial and operational processes.

2.4.1.3.3. Isomorphism

Institutional isomorphism occurs when companies compete with other firms for economic, social, and political power and institutional legitimacy (Shepard *et al*., 1997). DiMaggio and Powell (1983) defined isomorphism as a process through which organizations in the same line of business become homogeneous. They explained that the isomorphism process involves three mechanisms, namely, cohesive, mimetic, and normative pressures. Cohesive pressure refers to both formal and informal coercions exerted by other organizations on which a particular organization is dependent on. Mimetic pressure comes from uncertainties, while normative pressure stems from professionalization and socialization. Figure 2.6 below summarizes the proposed model illustrating the institutionalization of CSR.

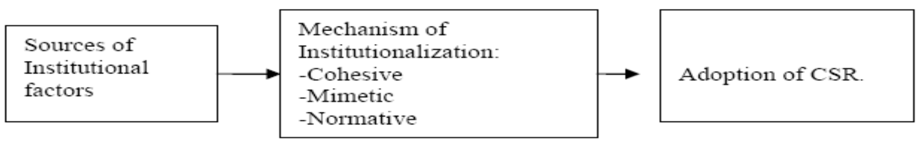


Figure 2.6
Institutionalization process of CSR phenomenon
Source: Amran and Susela (2004)

Isomorphism also refers to the adaptation of an institutional practice by an organization (Dillard, Rigsby, & Goodman, 2004). Meyer and Rowan (1977) argued that organizations integrate socially legitimated rational elements in their formal structure in order to maximize their resources and survival capabilities. They asserted that, “Independent of their productive efficiency, organizations, which exist in highly elaborated institutional environments and succeed in becoming isomorphic with these environments gain the legitimacy and resources needed to survive” (p.352). Figure 2.7 below summarizes Meyer and Rowan’s (1977) argument.

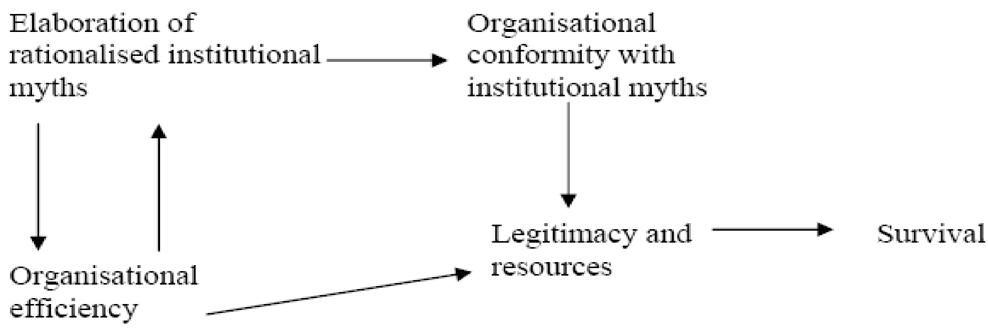


Figure 2.7
Organizational survival
Source: Meyer and Rowan (1977)

DiMaggio and Powell (1983) split the isomorphic process into three parts, *i.e.* coercive isomorphism, mimetic isomorphism, and normative isomorphism. They stated that coercive isomorphism is resulted from both formal and informal pressures exerted on the organizations by other organizations upon which they are dependent by cultural expectation in the society within which the organizations function. Coercive isomorphism relates to the formal and informal pressures that result from coercive authority, which comes from the organization’s dependency on other organizations and the cultural expectations in the society in which the organization functions (DiMaggio & Powell, 1983). Likewise, coercive isomorphism relates to the managerial branch of stakeholder theory, whereby a company will, for example, use voluntary corporate reporting disclosure to address the economic, social, and environmental and ethical values and concerns of those stakeholders who have the most power over the company. The company is therefore coerced by its influential stakeholders into adopting particular voluntary reporting practices (Deegan, 2007).

Environment uncertainties generate mimetic isomorphism. The organization sets imitation up to a behavioral heuristics when facing the ambiguity of objectives and of the means to reach them, by seeking its model in the organizations that it perceives to be legitimate and successful (DiMaggio & Powell, 1983). Likewise, mimetic isomorphism involves organizations seeking to copy or improve upon the institutional practices of other organizations, often for the reasons of competitive advantage in terms of legitimacy (Deegan, 2007).

Normative isomorphism is caused by the increasing professionalization of the environment (DiMaggio & Powell, 1983). Its pressure could arise from a formal or informal group influences to which managers belong such as the culture and working practices developed within their workplace. This may produce collective managerial views in favor of or against certain types of reporting practices, such as collective managerial views on the desirability or necessity of providing a range of stakeholders with social and environmental information through the medium of corporate reports.

2.4.1.3.4. Research Under Institutional Theory in Social and Environmental Area

Research on institutional analysis provides valuable insights into the causes of changes in the features of organizations and the processes by which they secure legitimacy endorsement through conformity with norms and expectations of the institutional environment (DiMaggio & Powell 1983). Pfarrer *et al*., (2005) investigated both formal and informal institutional influences on an organization's decision to voluntarily disclose deviant behavior. They found that firms were likely to voluntarily restate their earnings when informal industry pressure increased.

Carpenter and Feroz (2001) implemented coercive isomorphism to government selection on accounting procedures. They stated that other organizations that can provide resources, such as the credit market, could exercise power over government entities. This power can be used to dictate certain institutional rules. Companies, which have significant government investments normally, have government-appointed directors sitting on the board. These directors have some influence on certain decisions to align the companies with the aspirations of the government. Through their actions, the dynamics of field coercion come into play.

Rowe (2007) analyzed and explores normative assumption underpinning corporate environmental reporting in China. She revealed that the data appeared to reverberate well with the institutional theoretical approach within the Chinese cultural norms (informal institutional rules) in understanding the embryonic progress of corporate environmental reporting in China. Several studies (*e.g.* Christman & Taylor, 2001; Neumayer & Perkins, 2004 (as cited in King &Toffel, 2007) have found that coercive pressure (from local wealthy stakeholders, civil society, and customers) influences the organization to adopt the voluntary regulation program such as ISO 14001 related environmental standard.

Cahaya *et al*., (2008) investigated the level of voluntary Labour Practices and Decent Work Disclosures (LPDWD) within annual reports of a sample of Indonesia Stock Exchange (IDX) listed companies over the period of 2007. Predictive variables from an institutional theory view are explored. The regression analysis reveals that international operation is a positive and significant predictor of voluntary LPDWD practices. This finding suggests that institutional theory, in particular, the mimetic isomorphism variant, partially explains the variability of these disclosure practices. The implications of these findings are Indonesian companies do not really see labor responsibility issues as a key precondition of CSR, and they might be obfuscating some information to protect their image and reputation.

2.5. Summary

This chapter has explained the nature of CSER followed by a discussion on the theoretical perspective based on positive accounting theory and also systems-oriented theory (such as legitimacy theory, stakeholder theory and institutional theory. This chapter has suggested that all theories could be used as a strategy to achieve the organization' goals when engaging in social and environmental reporting area by influencing the organization's relationship to other parties with which it interacts. Next chapter will propose the methodology employed for this research. Specifically, it explains theoretical framework, hypothesis development, research design, population and sample, instrumentation, data collection and procedures, and technique of data analysis.

CHAPTER THREE

HYPOTHESES DEVELOPMENT AND THEORETICAL FRAMEWORK

3.1. Introduction

The previous chapter outlines and discusses the background of Corporate Social and Environmental Responsibility (CSER) and the four positive theoretical perspectives underpinning this research (*i.e.* positive accounting theory, legitimacy theory, stakeholder theory, and institutional theory). This chapter discusses about hypothesis development and theoretical framework.

3.2. Hypothesis Development and Theoretical Framework

3.2.1. A Multi-Theoretical Framework for CSER

The empirical researches of CSER practices have produced a very different form of academic literature (Wangombe, 2013). It employs diverse theoretical perspectives in support of CSER, such as agency theory (or PAT), legitimacy theory (LT), stakeholder theory (ST), and institutional theory (IT) among others. Even though the four theoretical perspectives discussed in Chapter 2 have been attainable as dissimilar and competing, they have several theoretical overlaps. Numerous CSER researchers have reinforced for a theoretical lens that involves many perspectives (Cormier *et al.,* 2005; Hibbit, 2003; Hoque, 2013; Islam & Deegan, 2008; Lu & Abeysekera, 2014; Reverte, 2009; Wangombe, 2013). Therefore, CSER is multidimensional that no particular perspective can individually unravel it in its wholeness.

All the four of perspective theories (positive accounting theory, legitimacy theory, stakeholder theory, and institutional theory) claim that there are 'pressures' that impact the organization. The way in which such 'pressures' are recognized, managed or satisfied differs from one perspective of theory to the other (Wangombe, 2013). Economic agency theory (or PAT) turns out to be an exciting proposition as a basis for CSER disclosure (Belkaoui & Karpik, 1989). Agency Theory outlooks the firm as a nexus of contracts between numerous economic agents who act opportunistically within efficient markets. In this circumstance, CSER disclosure possibly corroborates worthwhile in defining debt contractual obligations, managerial compensation contracts, or implicit political costs (Watts & Zimmerman, 1996). Cormier *et al.,* (2005), claimed that agency theory emphasizes on monetary or wealth deliberations among agents who trade in the efficient markets and limits the scope of relevant CSER from its intended purpose. So far, in such markets, this many potential users (*e.g*., force groups) of this material may not act (Reverte, 2009).

Legitimacy theory gives a broad perspective on CSER disclosure. This perspective can explain that the business is guaranteed by a social contract with the society they create. In this case, the company decides to perform various socially desired actions in return for civil society's approval over company's activities, and they will get other benefits and ultimately ensure their existence (Brown & Deegan, 1999; Deegan, 2002; Guthrie & Parker, 1989). Gray *et al*., (1995) argued that most of CSER disclosure perspectives come from the use of legitimacy theory perspective. This means the perspective of CSER disclosure can be seen as a way to legitimize the continuing existence of a company to the public.

Stakeholder theory perspective can provide a clear picture of the expectation's effects of diverse stakeholder groups in society over CSER disclosure policy. From the managerial branch of stakeholder theory, the increase in the company's disclosure can be viewed as a management tool to administer the information needs of the various influential stakeholder groups (shareholders, employees, investors, public authorities, and NGOs, consumers, *etc*.). Managers use this CSER disclosure to reach or manipulate the most powerful stakeholders to gain their support, to the survival of the company (Gray *et al*., 1996). Thus, the stakeholder theory can explain external pressures as the pressures of the affected stakeholders, or stakeholders who influence the organization (Freeman, 1984). This can be done if the stakeholders have had the power, legitimacy, urgency, and importance of the company or organization (Mitchell *et al*., 1997).

Institutional theory shows how an organization reacts to institutional processes, and how the performance of the non-selection organization can arise and persist through the implementation of custom, convention, convenience, or social obligations. Thus, this theory reveals a different view on the relationship of the organization with its environment (Oliver, 1991). According to Oliver (1991), organizations can do five strategies, which may be different (*i.e.* compromise, avoidance, challenging, approval and manipulation) in response to pressure on the conformity with the institutional environment. Thus, institutional theory considers the 'external pressure' as the pressure to equalize steps and be aligned with institutional organizations (DiMaggio & Powell, 1983).

The various aspects from several theories in analyzing corporate social and environmental behavior make the theory important. However, only theory with a similar viewpoint can be jointly used in a study. For instance, even though the industry can be explained by the political theories (*e.g.* legitimacy theory, stakeholder theory and institutional theory). They can also connect to various levels of information usefulness across industries and countries to clarify the terms of the contract (Cormier *et al*., 2005). It is reasonable to agree with that claimed by Cormier *et al*., (2005), the understanding of the drivers of CSER disclosure can be enriched by looking at the subject of research through a multi-theoretical perspective or multi-paradigm. According to Hibbit (2003), multi-paradigm research refers to research which employs multiple theories belonging more than one sociological paradigms. In multi-paradigm research, researchers do not just use different lenses to view the similar world; instead, they view the same phenomena from different paradigms.

Gray *et al*. (1995a) used multi-paradigm approach by employing system-oriented framework that combined the political economy theory, stakeholder theory and legitimacy theory in their research. They concluded that the size of the company and industry profits have relationship with CSER and can be explained by those theories. The combination of the theory is probably the best framework to describe the determinants of CSER (Gray *et al*., 2001). Orij (2012) investigated whether the disclosure of corporate social level is determined by society. The theoretical framework of this study consists of a combination of stakeholder theory, legitimacy theory and institutional theory. The sample of this study covers 600 large companies from 22 countries. Moreover, the systems-oriented framework in this study is found to be applicable in explaining the relationships between the levels of corporate social disclosure and the company characteristics. Gray *et al.* (1995a) pointed out that if the aim of the study is to explain an empirical phenomenon, it could be a problem when theories are looked upon as competitive instead of complementary. Hence, there are no conceptual frameworks that are individually able to explain thoroughly the driver of CSER.

Moreover, some theoretical considerations can be employed jointly within one study to provide a richer rationale for receiving and clarify the reporting behavior of companies compared to the consideration of only using one theory (Islam & Deegan, 2008). The use of multi-theoretical perspective allows the reconciliation of various inconsistent or intermittent empirical findings becoming a more comprehensive finding in predicting CSER (Wangombe 2013).

3.2.2. Determinants of CSER disclosure: development of hypotheses

Earlier studies have shown that CSER disclosure practices vary among firms, industries, and time (Gray *et al*, 2001; Hackston & Milne, 1996). This behavior clearly and scientifically determined by various companies and industry characteristics in affecting the relative costs and benefits of such disclosure (Belkaoui & Karpik, 1989; Cormier & Magnan, 2003; Cormier *et al*, 2005; Hackston & Milne, 1996). This thesis discusses each of the explanatory factors that were analyzed.

3.2.2.1. Industry Sensitivity

Numerous empirical studies proof that industry influences their CSER disclosures (*e.g*. Adams, *et al.,* 1998; Belkaoui & Karpik 1989; Cowen, *et al.,* 1987; Gray, *et al., 1995;* Raverte, 2009; Tagesson, *et al.,* 2009; and Williams, 1999). According to Watts and Zimmerman (1978), certain industries are seen being more vulnerable than others in relation to the lobbying activities of voters. Thus, the threat of wealth transfers from political intrusion is not uniform across industry of the economy. Corporate annual reports are seen as providing an opportunity for managers to be seen to be acting in such a manner, such reports being primary means by which manager provide information to shareholders (Ness & Mirza, 1991; Watts & Zimmerman,1978).

Logical development of political visibility in legitimacy theory context can also be seen from industry sectors. Some industry sectors are seen as susceptible to higher level of environmental impact and criticism from a pressure group. Hackston and Milne (1996) argued that in the case of natural environment, the sensitive industries such as chemicals, oil and gas, and pulp and paper are more politically visible than fewer environmentally sensitive sectors such as retail and leisure, banking, and insurance. Previous studies (*e.g.* Adam *et al.,* 1998; Hackston & Milne, 1996; Jupe, 2005) suggest that companies, which contribute negative impact to the environment, are more likely to make CSER disclosures than those in more environmentally friendly industries.

Deegan and Gordon (1996) developed a guideline to measure environmental sensitivity based on the concerns of environmental groups in a particular industry. They argue that for firm's industry that damaging their environment, they should provide an incentive to reveal positive information concerning the environmental conditions surrounding the companies. Similarly, Jupe (2005) argued companies in environmentally sensitive industries pursue strategies that are consistent with legitimacy strategy, as they enable them to focus on activities, which influence the environment. Hence, the higher the environment sensitivity of an industry, the more likely its stakeholders are concerned about environmental information, thus the more significant the CSER decision is (Banarjee, 2002; Frost & Wilmshurst, 2000). From institutional theory view point, DiMaggio and Powell (1983) argued that in uncertainty, companies within a similar industry tend to model themselves on similar companies that are more successful in securing legitimacy due to the adoption of a particular practice. For example, companies in more sensitive industries may disclose more information on social and environmental issues as the companies have a greater risk during operations than companies in fewer sensitive industries. This leads to the hypothesis below:

H1: Firm's industry sensitivity is positively associated with its CSER disclosure level

3.2.2.2 Government Environmental Monitoring Program (PROPER)

Organizations are obliged to act in a way that is socially responsible. This shows that they react to the changes in societal expectations. This is done to ensure that they have a good reputation and social legitimacy to the society. Thus, it will secure their right to operate the company (Yongvanich & Guthrie, 2006, p. 310). Patten (1991) put to test the relationship between CSER disclosure and corporate motives, whether the motive is related to political pressure or profitability. He used the industry classification as a proxy of public pressure variable. Patten (1991) found that there is a strong correlation between CSER disclosure and public pressure. Similar to Patten (1991), Aerts and Cormier (2009) argued that companies, which operate in sensitive-industries, would be seen (in the media), thus they will release more detailed CSER disclosures. Moreover, according to Walden and Schwartz (1997), there are several factors that may lead to social pressure, *i.e.* public discontent, which indicated by lobbying their consumer, shareholder activism in the form of ethical investment, new or proposed policy and differences in regulatory negligence.

Stakeholder theory lengthens legitimacy arguments to consider not only society as a whole but certain stakeholder groups (Deegan, 2002). Based on stakeholder theory, a company is not an entity that only operates for its own sake. Instead, it must also must also provide benefits for the stakeholders (Ghozali and Chariri, 2007). This is the reason for a company implementing various strategies such as to follow government environmental program, labor assurance, increasing product quality and safety, *etc*. Tilt (1994) investigated the potential effect of such pressure sources (*i.e.* lobby groups, governments, *etc*.) over the CSER disclosure of the company. Her findings indicate that the lobby groups tend to support companies to fairly and comprehensively practice CSER disclosure.

Tilt concluded that the greatest influence of public pressure on the company's social and environmental activities are derived from government, community, consumers, insurers, shareholders, lobby groups, banks, suppliers, and the media. Campbell (2001); Deegan and Gordon (1996) conducted studies to test the relationship between changes to the membership of social and environmental activist groups and company’s social and environmental responsibility (SER) over time. Their results support legitimacy theory viewpoint, by managing, shaping, or manipulating the perception of relevant public through CSER disclosures. The creation of public perception will only be successful if the relevant public actually monitors the reported information. Thus, all the firms that have chosen to participate in the environmental assessment of government programs (*e.g.* PROPER) will be more visible than firms that are not selected. Based on Tilt (1994) research, a company that follows the government's environmental monitoring program (*i.e*. PROPER program in Indonesia) is expected to disclose environmental information on an ongoing basis in their annual reports. In Indonesian literature, Almilia and Wijayanto (2007), Sarumpaet (2005), Suratno and Darsono (2006) examined the relationship between government environmental monitoring program (PROPER) and CSER disclosure. Therefore, the following hypothesis is offered:

H2: Firm which follow government environmental monitoring program is positively associated with its CSER disclosure level

3.2.2.3. Print Media Coverage

Companies use CSER disclosures as a means for overcoming the negative impact of public policy (Lindbolm, 1994; Patten, 1992; Hacston & Milne, 1996). Numerous stakeholders that influence the adoption of CSER practice by the developing countries companies are as the following: government, trade unions, customers associations, international buyers, media, employees, investors, multinational companies, competitors, CSR frameworks & networks, NGOs, CSR standard setting institutions, and academic institutions (Ali & Rizwan, 2013). These stakeholders vary in their power and influence the companies accordingly (Ullmann, 1985). According to Ali and Rizwan (2013) institutional theory categorizes these stakeholders based on their power into three groups: coercive (government, trade unions, customers associations, international buyers, media, employees, and investors), mimetic (multinational companies, competitors), and normative groups (CSR frameworks & networks, NGOs, CSR standard setting institutions, and academic institutions). Thus from institutional theory viewpoint, print media coverage can be seen as a coercive pressure. According to DiMaggio and Powell (1983), coercive isomorphism refers to a situation in which organizations undertake institutional practices *(e.g.* CSER disclosure practices) due to pressures from influential stakeholders (*e.g.* the media).

The changes in public policy pressures faced by companies can systematically occur due to differences in the level of CSER disclosure. Social or community pressure can also be seen from media coverage, thus, having more attention from the media on companies (that leads to a more attention from society), the social pressure increases.

Thus, the media plays a very important role in organizing social activities such as environmental-based interest groups. Finally, the media becomes a part of the institution-building process in shaping the norms of CSER disclosure practices in an acceptable and legitimate manner (Reverte, 2009).

Adler and Milne (1997) studied the effect of social pressure on CSER disclosure in a large company in New Zealand. In this case, the media coverage is a proxy for social pressure. The results indicate a positive relationship between CSER disclosure and media coverage. Brown and Deegan (1998) performed similar study. They investigated the influence of media coverage as a proxy of social concern to the company's corporate environmental reporting in Australia. The results show that the higher the level of media attention (as measured by reviewing a number of print newspapers and journals), the higher the CSER disclosure in the company's annual report.

Media coverage has a strong influence on CSER disclosure because of the ability of mass communication for mentally order and organizes the world of individuals. Even though, the fact that the media does not always work to tell people what to think, they are only successful in influencing public to think about a condition (Cohen, 1963, as cited in De Silva, 2008; McCombs & Shaw, 1972). The ability of media to influence the cognitive change and to structure the thinking of individuals is known as the agenda-setting function of mass communication (McCombs & Shaw, 1972). Media agenda-setting function outlines the relationship between the media agenda, the public agenda, and policy agenda (De Silva, 2008). There are three parts of media agenda-setting function linear process, *i.e.*: first is the priority issue to be discussed in the media, or the media agenda to be set. Second, the media agenda in some way affect or interact with what people think, or the public agenda; and third, the effect of the public agenda or interact in some way with what policy makers consider important, or policy agenda (Littlejohn, 2002).

De Silva (2008) used legitimacy theory by investigating the role of media coverage in publishing news about a particular company. The results show that the higher the level of media coverage related to social and environmental activities, the higher the stress level of public policy and public attention to the company. Hence, the media is able to influence public community perception on issues like the environment. Prior studies have shown that media is powerful and can influence the public agenda (Adler, 1995; Adler & Milne, 1997; Brown & Deegan, 1998; De Silva, 2008; McCombs & Shaw, 1972; O'Donovan, 1999). In Indonesian literature, Basuki and Patrioty (2011); Maksum (2010); and Sari (2012) investigated the relationship between mass media pressure and CSER disclosure. The result revealed that mass media pressure has a significant relationship to CSER disclosure. Thus, it can be hypothesized that:

H3: Firm's print media coverage is positively associated with its CSER disclosure level

3.2.2.4. Blockholder Ownership

Previous researchers that use stakeholder theory's perspective have also tested their hypothesis using Ullman model (*e.g.* Robert, 1992; Chan & Kent, 2003; Elijido-Ten, 2004). Robert (1992) stated that the measure of stakeholder power and their related information needs could provide some explanation of the levels and type of disclosures required in CSER. Chan and Kent (2003) examined the CSER disclosure of top 110 Australian listed companies by analyzing the content of their annual report in 1995. They regressed the quality and quantity of CSER disclosure against the selected variables using Ulmann's three-dimensional framework. The results indicate that stakeholder power, strategic posture except eonomic performance have significant association.

Chan and Kent (2003), Elijido-Ten (2004), and Robert (1992) have classified the company's stakeholders into three groups: (1) shareholders, who are the substantial group of stakeholders or primary providers of capital; (2) creditors who provide money as a source of economic strength; and (3) the government through laws and regulations to intervene against the company. According to Ullmann (1995), the company will be more motivated to perform well revealing performance to stakeholders only if the company believes that the stakeholders will be concerned with social and environmental issues. Thus, the stakeholder's power can be seen as an effective management strategy for the company (Orij, 2007).

The opportunistic management behavior and conflict of interest between the agent and the principal tend to occur in firms with more dispersed ownership. In large enterprises, voluntary disclosure can act as a tool for monitoring the connection and for decreasing the agency conflict between managers and shareholders (Jensen and Meckling, 1976). Frost (1999) and Malone, Fries, & Jones (1993) found that the widespread dispersion of shareholders of the company would determine how wide the CSER disclosures would be done as a strategic plan to attract their investors.

According to Ullman (1995), an increase in pressure of CSER disclosures can be caused by the spread of ownership to many investors. Elijido-Ten (2004) argued that the level of ownership concentration (blockholder) is measured by the percentage of shareholders who own 5% or more of the total share. Blockholder ownership is a percentage of ordinary shares held by substantial shareholders *i.e.,* shareholding of 5% or more (Eng and Mak, 2003). Furthermore, if the corporate share is dispersed, more monitoring effort is needed. Conversely, if the shares are only in the hands of a few large shareholders, then the public accountability will be reduced. It can be concluded that the blockholder ownership is negatively associated to CSER disclosure (Banwarie 2010). When the manager begins to give more disclosure of CSER, fewer monitoring is needed, so that the agency problem decreases. Eng and Mak (2003) also found a negative relationship between blockholder ownership and the disclosure of CSER. In Indonesian literature, Prayogi (2003) and Sembiring (2003) found that blockholder ownership has a negative relationship towards CSER disclosure. Hence, the following hypothesis is offered:

H4: Firm's blockholder ownership is negatively associated with its CSER disclosure level

3.2.2.5. Strategic Posture

The second dimension from Ullmann's (1985) framework is the strategic posture. This framework illustrates the mode of the company to respond their stakeholders to the demands of CSER disclosure. Companies that employ active posture will begin to carry out of social responsibility programs as well as disclosing their commitment in annual report. They continue monitoring their status and their position by initiating social responsibility to influence the stakeholders (Elijido-Ten, 2004). According to Ullman (1985 as cited in Chan and Kent, 2003), active posture implies that the company continues to monitor relationships with key stakeholders and seek to manage that relationship to attain an optimum level of interdependence with its stakeholders.

Chan and Kent (2003) used two proxies to measure strategic posture: (1) recognition of social and environmental responsibility in the mission/vision statement; and (2) the presence/absence of the social committee and/or the environment committee. Chan and Kent (2003) claimed that although some companies may disclose CSER in their mission or vision statements in their annual reports, some companies might not be willing to do so. On the other hand, several companies may disclose the existence of the environmental committee while other companies may not. Thus, it can be concluded that a better measure to identify the social and environmental concerns is from the disclosure of social and environmental responsibility in the mission statement/vision in the annual report. Based on institutional theory point of view, Amran and Susela (2008) argued that normative isomorphism pressures might occur when a firm has a stated goal related to its CSR activities in annual report as such a goal reflects the way the company should behave. Then, the managers may think that they should be socially responsible and consequently disclose this responsibility in the annual report. In Indonesian literature, Suharni *et al.* (2014) investigated the stakeholder power, strategic posture, and environmental performance toward CSER disclosure. In addition, this leads to the following hypothesis:

H5: Firm that disclose their strategic posture is positively associated with its CSER disclosure level

3.2.2.6. Government Shareholding

Government can be perceived as a powerful stakeholder whom the management needs to satisfy. Moreover, from stakeholder theory, the power of the government as a stakeholder is expressed in its enforcement mechanisms. Then firm’s usage socially responsible action was to decrease the government interventions that may affect the firm value. According to Eng and Mak (2003), firms that associated with the government will tend to have a higher voluntary disclosure. Watts and Zimmerman (1978) claim that firm's usage socially responsible action was to decrease the government interventions that may affect the firm's value. Government ownership and disclosure are significantly related. Thus, by developing CSER disclosures it will reduce moral hazard and agency problems that caused by government ownership in the company.

From institutional theory approach, organizations are faced with institutional pressures and as a result, organizations within a similar field tend to become similar in their form and practices (Deegan, 2007). Organizations experience pressures so that they lead to adopt rules and structures to enhance legitimacy (Deephouse, 1996; DiMaggio & Powell, 1983). Thus, organizations become isomorphic with their environment and companies that have a similar position in the same industry will adopt similar rules and structures (coercive isomorphism). Coercive isomorphism also has a relationship with the managerial branch of stakeholder theory. Based on the managerial branch of stakeholder theory point of view, a company will use voluntary disclosure to keep the economic, social, environmental and ethical values as well as concerns of the stakeholders who have great power over the company. Usually strong influential stakeholders will force the companies (informally) in order to adopt the voluntary reporting practices (Deegan, 2007). Carpenter & Feroz (2001) apply coercive isomorphism to government selection on accounting procedures. Certain institutional rules are determined by the power of government. Then, the companies, which have government ownership, would be easier to get resources, for example, credit markets. Companies that have significant government investments normally have a government representative appointed as a director. Under government control, the directors have some influence to make certain decisions such as align the company's aspirations. With the representatives of these directors in similar industries and with the connections to the government, it would be more politically visible. Consequently, companies will be exposed to scrutiny not only by governments but also by other interested parties. Therefore, with the imposition of government ownership, the dynamics of field coercion comes into play (Amran & Susela, 2004). CSER practices in Indonesia experienced significant changes after the issuance of Law no. 40 in 2007.

Powerful stakeholders might also have similar expectations on other organizations to adopt CSER disclosure practices. Thus, institutional practices will tend to form of uniformity (Deegan, 2007). In Indonesian context, state-owned companies are significantly influenced by the government’s decisions due to government funding, this situation places managers of these companies in a weak position mainly to discard ‘‘instruction’’ from the government (Adnan & Nankervis, 2003). Government regulation is emerging as one form of political pressure. A great political pressure will highly influence company's activities. Therefore, to reduce the impact of political pressures, companies use incentives to undertake a strategy, i.e. CSER disclosures. To align the expectations and demands of the powerful stakeholders, the company should adopt the practice of CSER disclosures. Sefrilia and Saftiana (2012) investigated the influence of government ownership and profitability toward CSER disclosure in Indonesia. The result reveals that government ownership has a significant influence toward CSER disclosure. Hence, it can be hypothesized:

H6: Firm’s government shareholding is positively associated with its CSER disclosure level

3.2.2.7. Award

Related to reporting practices, the normative isomorphic pressure can arise through formal or less formal groups that influences manager’s policy, such as culture and working practices developed within their workplace (Deegan, 2007). Moreover, according to Dacin (1997), the normative isomorphic pressure relates to professionalization of the norms. DiMaggio and Powell (1983) stated that normative isomorphic pressure indicated that, “The professionalization of management tends to proceed in tandem with the structure of organizational fields. The exchange of information among professionals helps contribute to a recognized hierarchy of status, of center and periphery, that becomes a matrix for information flows and personnel movement across organizations” (p.155).

Mizruchi & Fein (1999) claimed that normative isomorphism occurs when norms are internalized within the company along with external coercive social pressure. In this condition, companies sometimes are pressured to follow best practices for normative or guidelines, such as the Global Reporting Initiative (GRI) guidelines (Dacin, 1997). There is evidence that an increasing number of companies are recognized for following the GRI guidelines. As this process gathers momentum, CSER reporting gets higher in similarity (De Villiers & Alexander, 2008).

The Global Reporting Initiative (GRI) G3 guidelines promulgate both the principles of good social and environmental reporting and certain types of reporting. The normative nature is revealed, for example, the first sentence in the executive summary of the G3 guidelines of "The Sustainability Reporting Guidelines to help organizations determine what they should report and how they should report it" (GRI, 2009a, p. 1). One strategy that is really obvious for the continuance of a company's image is by winning awards. Award gives recognition to the winners and to prove their compliance with the criteria of the award. This factor motivates companies to develop better CSER disclosures (Amran & Susela, 2004). The Indonesia Sustainability Reporting Awards (ISRA) is an award given to companies that have made reporting on activities covering environmental and socio-economic aspects in addition to maintaining sustainability of the company itself. ISRA has been available since 2008 by referring to the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines version 3.0. Therefore, by disclosing social and environmental activities according to ISRA criteria will help the disclosing companies to enhance their stakeholder image. Based on the above argument this study proposes the following hypothesis.

H7: Firm's social and environmental disclosure that in line with ISRA criteria is positively associated with its CSER disclosure level

3.2.2.8. Foreign Activities (FORACT)

Base on institutional theory perspective, a mimetic process is resulted from an uncertainty in the environment. An organization will imitate other organizations when faced with a symbolic uncertainty. Uncertainty will encourage organizations to perform imitation. Uncertainty can occur when technology is poorly understood, when there is an ambiguous goal, or when the environment creates symbolic uncertainty. Thus if they faced the uncertainty, organizations may do imitations on other organizations. (DiMaggio & Powell, 1983). Haveman (1993) argues that mimetic isomorphism is related to companies' benchmark in which the best practice of others is followed in the industry. Thus large multinational companies become a benchmark against their peers. For example, Rio Tinto is a mining company, which uses BHP Billiton as its benchmark. In this case, the smaller companies with national scale will use companies as they regard as leaders in their industry. Another example is the case of a national scale mining company in South Africa, which is listed on the Johannesburg Stock Exchange, is benchmarked against BHP Billiton because this company is an international company that became a leader in national scale in South Africa and listed on the Johannesburg Stock Exchange. Similar thing happens on a national scale mining company listed on the Australian Stock Exchange, makes BHP Billiton as their company's benchmark because of this company listed on the Australian Stock Exchange.

The whole chain of events suggests that the CSER disclosure of a smaller company may be affected by the disclosure of CSER by a larger company that became the benchmark of their company. This practice is known as mimetic isomorphism (DeVilliers & Alexander, 2008). Hence, the mimetic and the modeling concepts are again applicable in describing the relationship between companies that are involved in international trade and the practices of foreign MNCs (Amran & Susela, 2004). A company, which also runs overseas, competes on at least two fronts. For competitive advantage reasons, in terms of legitimacy and consistent with mimetic isomorphism tenets, the internationally operating company will tend to follow successful competitors by copying specific practices. Such a copying behavior is more likely to occur when the regulatory environment is not certain (DiMaggio and Powell 1983). In Indonesian context, to compete and obtain legitimacy globally, an internationally operating IDX listed company will imitate a particular CSER practice commonly undertaken overseas in its annual report (Cahaya *et al*, 2008). Thus, the following hypothesis is developed:

H8: Company's foreign activity is positively associated with its CSER disclosure level.

3.2.3. Control Variables

A control variable is a variable that is held constant in research analysis. This study employed profitability, leverage and size as control variables.

3.2.3.1. Profitability

Tagesson (2009) stated that the relationship between profitability and CSER disclosure has different explanations from diverse theoretical viewpoints, and this relationship remains uncertain. Previous research, which is stakeholder theory in the context of CSER, showed a positive relationship between profitability and CSER disclosure (Belkaoui & Karpik, 1989; Cowen *et al*, 1987; Roberts, 1992; Ullmann, 1985). The essential cause of the positive relationship between CSER disclosure policy and profitability is management's knowledge. Management's knowledge is management that has information and attention of social responsibility to make their business more profitable, which is indicated by the increase of their CSER disclosure (Belkaoui & Karpik, 1989).

Ng and Koh (1994) argued that companies that have a high profit are more visible to political pressure and public scrutiny from the perspective of agency theory and political cost theory. As a result, these companies require additional self-regulating mechanisms (for instance, CSER disclosure) in order to avoid the regulation. Thus, the empirical result under positive accounting theory has showed that the firms' characteristic of firm's profitability is positively associated with CSER disclosure. As more CSR disclosure may lead to better firm performance, the managers will be more rewarded (Banwarie, 2011).

It can be concluded that, if companies get profits, they will do CSER disclosure. However, for those who appreciate the environment, they will provide verification that they have not earned profit if they have to sacrifice the environment. In the area of CSER, some researchers have found a positive relationship between profitability and CSER. For example, Robert (1992) found that the CSER disclosures were positively related with corporate profitability. Similarly, the association between ROE and CSER disclosure investigated by Chan (1996), and the result is positive. In Indonesian literature, Anggraini (2006); Sari (2012); Suryono and Prastiwi (2011) found a positive relationship between profitability and CSER disclosure from stakeholder theory point of view. As a proxy of profitability, other examiners (Barako *et al.*, 2006; Haniffa & Cooke, 2005; Reverte, 2009; Tagesson, 2009; Willekens *et al.*, 2005) have commonly used ROA in their research.

3.2.3.2. Leverage

Previous research has shown that companies having a very high leverage will disclose more information than companies with low leverage According to Brammer and Pavelin (2008), firms with low leverage will be monitored by creditor stakeholders. Creditors will put pressure on the manager's discretion to limit the activities related to CSE, which are only indirectly linked to the financial success to the firm. According to Indonesia’s Code of Good Corporate Governance, creditors are regarded as an important stakeholder group to whom the companies must transparently provide information. Thus, creditors are therefore able to press companies to perform certain actions including the level of CSER information (Cahaya *et al*, 2008).

Furthermore, a negative association between leverage and CSER disclosure level was found by Belkoui and Karpik (1989). Companies with a high leverage must adhere to strict debt covenants (Belkaoui & Karpik, 1989). This decreases their capability to use capitals on CSE activities and to release evidence about CSER. The authors, therefore, argued that there is a negative relation between the two variables. Prior research conducted by Purushothaman *et al*. (2000) also showed a negative relationship between leverage and CSER disclosure. This is because firms with high leverage have a closer relationship with the creditor, and use other means to express their social and environmental activities. Previous investigators (*e.g,* Cormier & Magnan, 2009; Dhaliwal *et al*., 1982; Hagerman & Zmijewski, 1979) also reported negative relationship.

3.2.3.3. Size

Firm size is a proxy of the variables that have been widely used in previous research to explain CSER disclosure (*e.g*. Adams *et al.*, 1998; Belkaoui & Karpik, 1989; Cowen *et al.*,1987; Gray, Meek & Roberts,1995; Hackston & Milne, 1996; Haniffa & Cooke, 2005; Neu *et al*., 1998; Reverte, 2009;Tagesson, 2009). Political cost hypothesis argues that the more a company is subject to potential wealth transfers in the political process, the more its management is likely to adopt accounting policies that reduce such a transfer. In this context, it is costly for individuals to become informed whether accounting profits really represent monopoly profits and to contract with others in the political process to enact laws and regulation that enhance their welfare. Thus, ceteris paribus, large firms are more politically sensitive than small firms and face differential incentives in their choice of accounting procedures that lead them to defer reported earnings from current to future periods (Watts &

Zimmerman, 1986). Hence, under political cost hypothesis, managers consider that as they are under a great deal of political scrutiny and public pressure, this could motivate them to disclose social reporting.

Social and environmental disclosures in the annual report can be used in a strategic manner to manage firm's relation to the community in which it operates that would enhance its wealth (Banwarie, 2011). Based on political cost hypothesis, Belkoui and Karpik (1989) found a positive and significant association between social disclosure and political visibility, as measured by size and systematic risk points to the tendency of managers to choose an accounting procedure to reduce reported earnings and political cost. Similar to the work of Belkoui and Karpik (1989), Ness and Mirza (1991) examined the environmental disclosure practice in the UK companies. They demonstrated that a particular voluntary social disclosure in the firm's annual report can be explained in an effort to reduce the political cost of the disclosing entities. In line with Belkoui and Karpik's (1989) and Ness and Mirza's (1991) works, Cowen *et al.*, (1987) argued that the larger the firm the more chance it is to disclose CSER.

Stakeholder theory views the social disclosures as a response to significant pressures from a firm's external environment. Thus, they are under greater pressure to show social responsibility and disclose information on their activities not only from the investment community but also from socially sensitive interest groups, government regulatory agencies, and other stakeholders that have an interest in a company (Tilt, 1994; Roberts, 1992). Moreover, with increased size more stakeholders may demand increased CSER. Hence, as proposed by Ullman (1985) the company should strive to manage the most important stakeholders, which control scarce resources.

Tagesson *et al*., (2009) in their study found a positive relationship between firm's size and CSER disclosure in the company's website. Research conducted by Cormier and Magnan (2003) also supports this view. Their results showed similarities with the work from Cowen *et al*., (1987). Whilst, Reverte (2009) analyzed the factors affecting the CSER disclosure by Spanish listed companies. He found that there is a positive relationship between firm size and the disclosure of CSER. It can be concluded that companies that are larger in size will be more likely to publish their CSER with higher level.

Dowling and Pfeffer (1975) argue that firms with larger size will be more politically visible than companies with smaller size, so they are expected to engage in more legitimate behaviors. The level of political visibility under legitimacy theory emphasis on a broader social outlook between business and society. Political visibility under legitimacy theory reflects a wider socio-perspective on the relationship between business and society as well as certain business organizations, especially for large firms or firms that operate in socially-sensitive industry areas, are deemed as more susceptible to social pressures from various stakeholder groups (Hibbit, 2003).

The politically visible companies are perceived as responding to such external pressure and criticism by using a variety of legitimation strategies (Dowling & Pfeffer, 1975; Guthrie & Paker, 1990; Lindbolm, 1994). One of the legitimation strategies involves the use of CSER disclosure to change a new image of being socially responsible to reduce public criticism. Hence, firm size is the most widely used proxy associated with the visibility of the company (Clarkson, 2007; Deegan & Gordon, 1996; Guthrie & Parker, 1989; Hughes *et al.,* 2001; Walden, 1993).

3.3. Theoretical Framework

The analytical model developed in this study was based on the variables described in the previous section. The theoretical framework of this research uses a multi-theoretical approach to explain the determinants of CSER disclosure among Indonesian companies. Thus, the analytical model used in this study is denoted by:

CSER = f (SENTV, PROPER, PRESSURE, SHARE, POSTURE, GOVERN, AWRD, FORACT, ROA, LEV, SIZE)

The schematic diagram showing the relationship between the company's characteristics and CSER disclosure level is depicted in Figure 3.1 below.

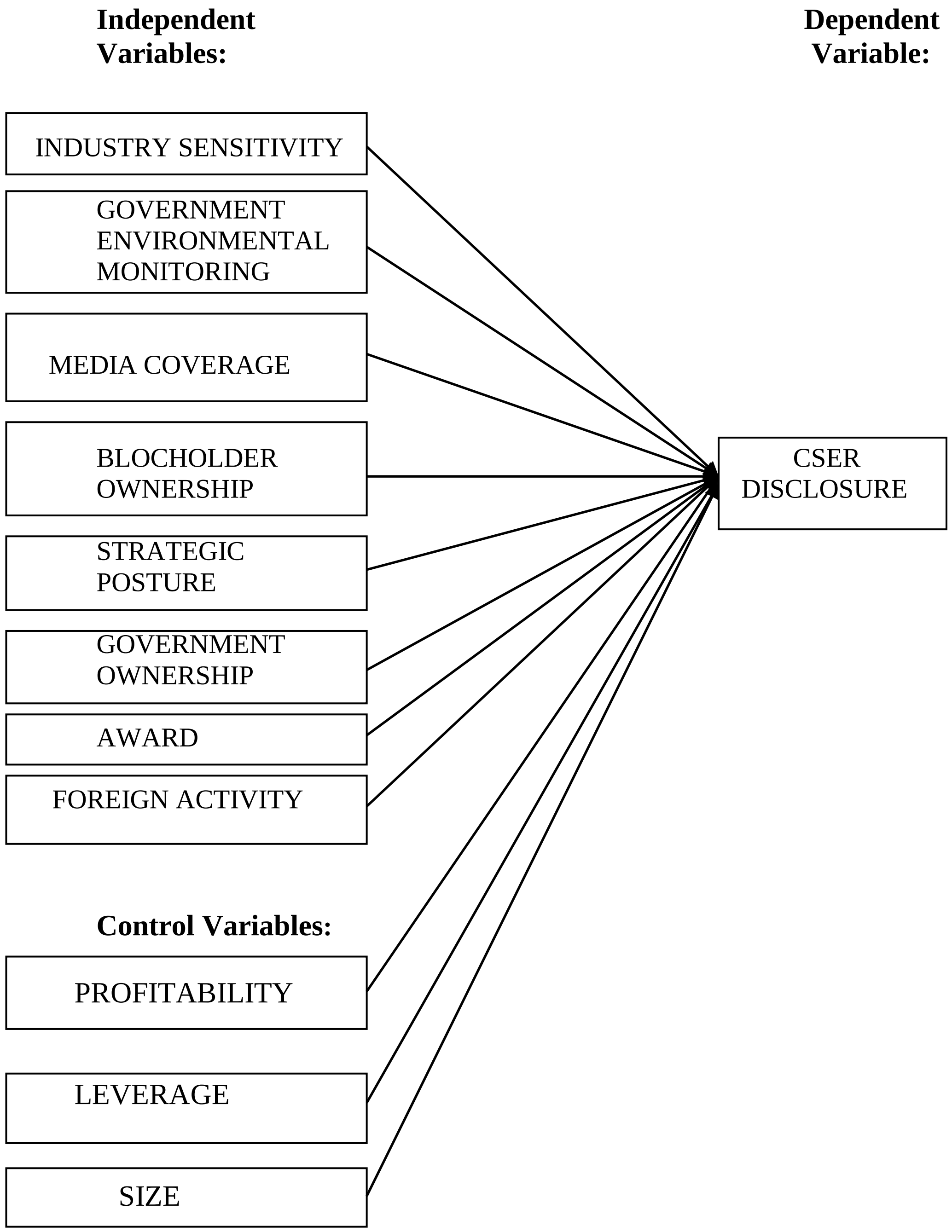


Figure 3.1
Research Framework

The theoretical framework developed in this chapter suggests that positive accounting theory, legitimacy theory, stakeholder theory, and institutional theory can be related to economic, social, and political perspectives. Table 3.1 depicts a summary of the developed variables and their underpinning theories that employed in this study. Based on table 3.1., the similarity aspects of the four theories should be considered to be used together in investigating CSER. This view is in line with the argument from Cormier *et al.* (2005) that the determinant of CSER disclosure can be explained by using a multi-theoretical perspective, thus a more holistic understanding can be obtained (Wangombe,2013).

Table 3.1.
Summary of Variables and Their Underpinning Theory

Theory / Variable	POSITIVE ACCOUNTING THEORY	LEGITIMACY THEORY	STAKEHOLDER THEORY	INSTITUTIONAL THEORY
SENTV	/	/	-	/
PROPER	-	/	/	-
PRESSURE	-	/	/	/
SHARE	/	-	/	-
POSTURE	-	-	/	/
GOVERN	/	-	/	/
AWARD	-	-	/	/
FORACT	-	/	-	/

3.4. Summary

This chapter has discussed about theories and previous research that underlies 8 (eight) hypotheses used in this study. CSER in this study is examined using eclectic-theories approach or multi-paradigm, which covers economic, social, and political theories to develop a descriptive model to explain human behaviors. By using eclectic-theories approach, this study can find the factors that can create a satisfactory explanation. The next chapter four, discusses about research methodology used in this study.

CHAPTER FOUR

METHODOLOGY

4.1. Introduction

This chapter describes the methodology developed in this study. This part emphasizes on the philosophy of this research and research design used for this study, including data collection, sampling frame, measurement of variable, method of data analysis, and pretests.

4. 2. Method and Techniques

4.2.1. Research Philosophy

Before a researcher conducts an inquiry, he/she must consider the research philosophy adopted in the research. Research philosophy is related to the researcher’s views on knowledge. An understanding of research philosophy is important because it is fundamental to decide the approach in the researcher’s inquiry applied (Wilson, 2010). Easterby-Smith *et al.*, (2000) stated that there are three reasons why an understanding of the philosophical issues is very useful: Firstly, the research design will become more apparent; thus, the research may need to consider the type of evidence required and how it will be collected and interpreted. Secondly, the best research design will be obtained. Thirdly, researchers could identify and adopt a research design that can overcome the constraints of various research subjects or knowledge structures. According to Bryman (2004), there are several factors that must be taken into account when conducting research in the social field. These factors are the relationship between theory and research, epistemological, ontological, practical considerations and values (axiology) of researchers. Figure 4.1 shows the factors considered when conducting a social research.

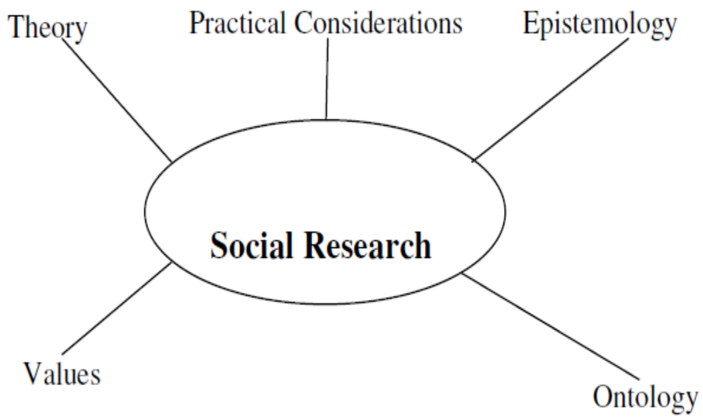


Figure 4.1
Factors to consider when conducting a social research
Source: Bryman (2004)

4.2.1.1. Epistemological Considerations

Epistemology refers to the nature of knowledge, which means how we conceive our surroundings (Wilson, 2010). The fundamentally philosophical theory of knowledge is referred to as epistemology. It deals with the question of what can be known, how we know that this truth is the truth, and whether objective knowledge even exists (Easterby-Smith, 2000; Saunders *et al*., 2007). There are two different perspectives on epistemological considerations: natural science epistemology-positivism and interpretivism (Bryman, 2004). A positivist researcher views that reality is stable and can be observed and described from an objective standpoint (Levin, 1988). If a researcher assumes a positive approach, then the researcher believes that she/he is independent of her/his research, and the research can be truly objective. Independence means that the researcher maintains minimal interaction with her/his research participants. Furthermore, the positivists believe that the research needs to be carried out in a scientific nature (Wilson, 2010).

On the other hand, Bryman (2004) states that the interpretivists have advised to fashioning out from the procedure of positivist research context. Where this procedure is not always followed the model of the natural sciences but relevant to the study of social phenomena. Therefore, there are interactions between interpretivists with their participants. Therefore, their researches were totally subjective (Wilson, 2010). Table 4.1 below shows the differences between positivist and interpretive approaches.

Table 4.1
Differences between Positivist and Intrepretivist Approaches

Aspect	Positivist approach	Interpretive approach
Researcher	Independent	Involved
Samples	Large	Small
Theories/data	Testing hypotheses	Generating data/telling stories
Nature of the work	Quasi-experimental design	Field work – the study of real organizations or social settings
Preferred methodology	Hypothetico-deductive verificationism (logical positivism)	Multiple methods to establish different views of phenomena, including naturalistic enquiry, hermeneutics, ethnography, phenomenology and case studies

Source: Hibbit (2003)

4.2.1.2. Ontological Considerations

A researcher must consider issues of ontology while doing research. Ontology is the consideration of the nature of reality (Wilson, 2010). Ontological considerations become very important in the research. Thus, a researcher must understand the reality before doing a social research. Objectivism and subjectivism are two sides of ontology. Objectivism means that social phenomena may confront as external facts that are beyond our reach or influence. While subjectivism is based on realism, which suggests that social phenomena can be handled and conducted by social actors so that individuals can create their own reality (Bryman, 2004). Hence, subjectivism is clearly linked to interpretivism in that the researcher examines the motivation and social interactions of respondents (Wilson, 2010).

Figure 4.2 below shows the subjective-objective horizontal continuum, according to Burrel and Morgan (1979). The figure represents the meta-theoretical assumption underlying the different approaches to social science. Burrell and Morgan (1979) state that there are four interrelated sets of assumptions, namely ontology, epistemology, human nature, and methodology, while each set of assumptions containing a range of different perspectives along a continuum, the extremes of which represent diametrically opposed positions. Meta-theoretical assumption used here refers to general background of philosophical assumptions (*i.e*. belief systems) which provides the rules for construction of theories and the use of particular research methods (Abercrombie *et al*., 1994).

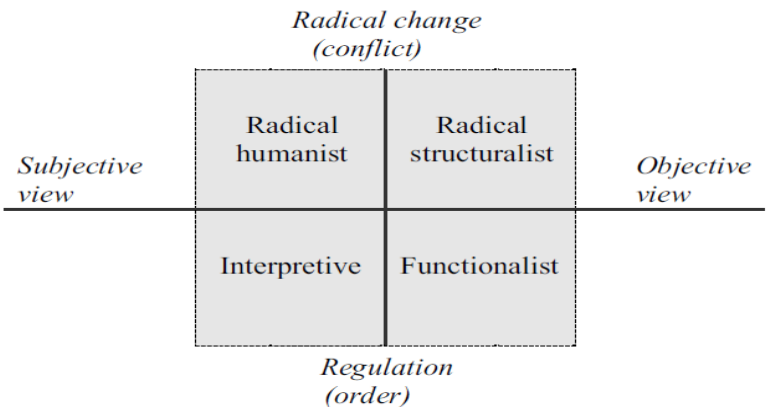


Figure.4.2
Ontological views of social research
Source: Burrel and Morgan (1979)

4.2.1.3. Role of Values Considerations (Axiology)

Thus, interpretivists need to work hard to ensure the production of a credible set of results. The branch of philosophy that studies judgments of value is axiology (Saunders et al., 2007). The role of perception in the research is very important. Thus, axiology should be considered in the study (Wilson, 2010). Hence, in doing research in social science area should consider the values of "personal beliefs" or impressions of the researcher (Bryman, 2004). Positivists consider the process of research as the value free. One reason for this is that they are independent of their research. On the other hand, interpretivists consider that they are interdependent of their research result.

4.2.1.4. Theoretical Considerations

By using an inductive approach, the researcher is no longer using the hypothesis. Researchers must conduct their own observations, and then at the end of the study; he will formulate a theory based on his observations. In other words, the theory is very important depending on what is in the minds of researchers as well as the use of appropriate research strategy (Bryman, 2004). Deductive approach is a "process logic inference derived from a known premise or something known to be true" (Zikmund, 2000, p.43). If the deductive approach used by researchers, he/she has to build hypotheses, or examinable statement about reality, based on established theories.

Figure 4.3 below shows the relationship among consideration's factors.

Epistemologies	Research Approach	Ontology	Axiology	Research Strategy
Positivism →	Deductive →	Objective →	Value-free →	Quantitative
Interpretivism →	Inductive →	Subjective →	Biased →	Qualitative

Figure 4.3
Relationship among epistemologies
Source: Wilson (2010)

4.2.1.5. Practical Considerations

When researchers conduct social research, they should consider the existence of practical issues (Bryman, 2004, p.23). Researchers also have to take responsibility of the topics that will be used, the people involved, or the social phenomenon under study. The availability of data or information on the topic will determine what types of research methods that is relevant for use. Furthermore, and if there is no previous study has ever done in this particular topic, then researchers can use quantitative and qualitative research, although it is very tedious to use quantitative research in such cases (Bryman, 2004, p. 23).

4.2.1.6. Factors that Influenced the Choice of Research Strategy

Based upon the research questions formulated, this study is conducted using quantitative research, with the use of heavy statistical methods and analyses. Furthermore, this research is deductive in nature since conclusions could be drawn from the general assumption. By using deduction, the researcher gathers enough knowledge from established theories in a certain area to be able to create one or more hypotheses, which are then undergone an empirical examination to see how well these hypotheses hold in the real world. Through deduction, conclusions are drawn by logical reasoning. This research has taken the epistemological view of positivism research as value-free. Thus, research needs to be carried out in a scientific nature. On the ontological stance, the assumption of this research is independent and outside the influence of social actors (objectivism position).

4.2.2. Research Design

Research design refers to its overall design, including the method by which data and evidence are gathered, from where, and how such data and evidence are interpreted (Hibbit, 2003). According to Kerlinger (1989), to answer the research questions, researchers are necessary to plan and structure their investigations, which were included in the research design. The plan is an overall scheme or program of the research. In this study, hypothetico-deductive approach is chosen as a tradition of logical positivist. According to Abercrombie *et al*. (1994), hypothetico-deductive research refers to a research method, which involves the verification of a theory by empirically testing that theory using hypotheses developed from it. By using hypothetico–deductive research methodology, this study has developed using four chosen theories.

This research conducts an empirical research design, which employs a cross-sectional study and a longitudinal analysis. To describe the characteristics of a particular group or individual can be done through descriptive studies (Kothari, 2006). This research is mainly grounded in the content analysis of the firm's annual reports and standalone corporate social and environmental reports or sustainability reports in the company's website. This research uses content analysis method which has been widely used in previous studies (*e.g.* Clarkson, Li, & Richardson, 2007; Jupe, 2005; Milne & Adler, 1999; Roberts, 1992) in CSER area to measure the extent of company disclosure.

Content analysis technique has been widely known as the measurement technique adopted in accounting, and research studies related to disclosure. Content analysis is a form of textual analysis that using the words of a media article or transcript of the interview (Milne & Adler, 2006). This technique uses measurements such as the encoding of the information such as social and environmental information reported in the company's annual report or independent social and environmental reports, or from media articles and interview transcripts (De Silva, 2008). This method is not only concerned with the meaning of the message in isolation, but also the processes involved in analyzing the data as symbolic communication (Krippendorff, 1980). This method not only provides a cheap form of analysis, but its data can also be measured objectively, reliably and systematically.

4.2.2.1. Population and Sample

The population of this study is all Indonesian listed companies (except financial and trading companies) since they are required to publish their annual reports yearly in the Indonesian Stock Exchange (refer to Appendix B). This study applies purposive sampling method on the sectors of the listed companies in the Indonesian Stock Exchange. The study conducts pool regression and consequently, uses balanced panel data. Furthermore, this study examined all companies listed in the Indonesia Stock Exchange and identified 148 companies had (refer to Appendix C) practiced CSER over the past five years and disclosed their practices in the annual reports. Therefore, the population consists of all companies listed on the Indonesia Stock Exchange (IDX) which is 1,857 observations for five years. The number of listed companies from 2005-2009 varies between 336-398 companies. The final sample consisted of 740 observations (firm-years). Several observations cannot be included because of the limitation of data availability (refer to Appendix B).

4.2.2.2. Data Collection and Procedures

The company's annual report is the main data source of this study. This annual report is the most important document in the organization, because through the annual report, the company gives an overview of its operations to stakeholders (Hines, 1988). Other sources such as standalone sustainability reporting, and social and environmental reporting and a separate report or a web-based environment is also used in this study. This is consistent with previous studies conducted by Clarkson *et al*., (2007), and Cormier *et al*., (2005) to name a few. IDX Fact Book for a year 2006 to 2010, and corporate annual reports for a year 2006 to 2010 employed in this study were obtained from the Indonesian Stock Exchange website. A number of companies make standalone CSER disclosures and published it on the company’s website. The second data source is the website of the Ministry of Environment of Indonesia. This website contains information about listed companies and government monitoring programs, PROPER (Program for Pollution Control, Evaluation and Assessment). The third data source is the Indonesian Capital Market Directory. This directory provides a summary of data from all companies listed on the Indonesia Stock Exchange. The fourth source of data in this research is the top five newspaper websites in Indonesia (*e.g.* Jakarta Globe, Koran Tempo, The Jakarta Post, Suara Merdeka and Kontan) to measure social pressure.

4.2.3. Techniques of Data Analysis

To measure the level of CSER disclosure, this study uses content analysis. Content analysis is a method of codifying the text into different groups according to the criteria used (Weber, 1988). This method was chosen because of its ability to analyze various types of communication tools, including in the written mode. Thus, content analysis can be replicated and have a valid conclusion from the context of the selected criteria. According to Hall (2002), content analysis allows a company to undertake CSER disclosure more systematically, can be classified and compared as well as useful in determining trends.

4.2.3.1. Method of Content Analysis

This study measures the level of CSER disclosure in terms of Global Reporting Initiative (GRI) based on a combination of Clarkson's environmental index (2007) and Sutantoputra's social index (2009). The relationship between firm characteristics and the level of CSER disclosure will be tested in this study. A U.S. non-governmental organization and the Environment Program of the United Nations have formed a joint initiative of the Coalition for a Sustainable Economy by launched the GRI in 1997. This initiative is structured to develop a reporting framework that is accepted globally to improve the quality, accuracy, and usefulness of sustainability reporting (Global Reporting Initiative, 2002). Transparency, inclusiveness, auditing capabilities, completeness, relevance, sustainability context, accuracy, neutrality, comparability, clarity and timeliness are key principles of GRI. The principles can be used to ensure that the sustainability report presents a fair and balanced picture of the performance of the economic, environmental and social. This principle can also facilitate the comparisons between company's disclosures over time, and is believed to address social and environmental issues to their key stakeholders (Clarkson *et al*., 2007).

The index used in this research consists of 74 disclosure items with 178 items score where 146 scores are related to hard disclosure, and 32 score of soft disclosures. The information that can be verified by the user and the company reporting false information will lead to litigation, are characteristics of hard disclosure. While the soft disclosure is a qualitative claim related CSER disclosure performance among companies (Clarkson *et al*., 2007). According to Deegan (2007), poor social and environmental performers easily copy or mimic the soft social and environmental disclosure of good performers, and they (poor performers) hope to be seen more apparent than real condition. The disclosure index consists of 11 categories, from A1 to A11 (refer to Appendix D). Hard environmental disclosures are represented in A1-A6. The soft social and environmental disclosures are represented in A7-A11.

4.2.3.2. Location of Corporate Social and Environmental Reporting

To build their social image toward the stakeholders (*i.e.* investors, creditors, employees, pressure groups and government), organizations can use their annual reports. Many previous researchers use company's annual report in their studies (Amran & Susela, 2004; Hackston & Milne, 1996; Haron et al, 2006; Mirfazli, 2004; Shireenjit & Zuaini, 1998). The reasons why annual reports are used in several CSER studies are: the practical matter of classifying the full range of other disclosures is not irrelevant. The annual report is a central corporate document which speaks of the organization as a whole, and much of the interest in social and environmental reporting lies in the construction of accounts of the organization’s social and environmental activities (Gray *et al*., 2001). Thus, the report is seen as an important medium, most effective, legitimate and image development company. It is now widely recognized by stakeholders such as investors, creditors, employees, pressure groups, and government (Deegan & Rankin, 1997; De Silva, 2008; Hibbit, 2003; O'Dwyer, 2000). As the primary document, the annual report is preferred as it is accessible and is created every year, and is considered as the main form of company's communication (Haron *et al*., 2006; Zeghal & Ahmed, 1990).

Lindbolm (1994) argues that in legitimation strategies, an annual report is not the only vehicle for the disclosure to relevant public. Several researchers argued and conducted research using both company's annual reports and company's standalone reports (*e.g.* De Silva, 2008; Harte & Owen, 1991; O'Dwyer, 2000; Unerman, 2000). Generally, there are various ways companies communicate corporate social and environmental activities to society. For example, they do so through annual reports, in other parts of the statutory annual reports such as president's or chairman's letters to shareholders, other formal reports as standalone social and environmental reports, and other forms of self-reporting through brochures, educational material, advertising, Internet websites, conferences (Hibbit, 2003). By using, other forms of media may delineate a comprehensive portrait of CSE activities of an organization (Zeghal & Ahmed, 1990). Based on arguments put forth by some scholars (*e.g.* De Silva, 2008; Harte & Owen, 1991; Hibbit, 2003; O'Dwyer, 2000; Orij, 2009; Unerman, 2000; Zeghal & Ahmed, 1990), the documents used in this study consist of:(a) Annual Reports; (b) Separate Social and Environmental Reports. The reports used in this study are issued by listed companies in the Indonesian Stock Exchange in the period of 2005 to 2009.

4.2.3.3. Testable Dimensions of Social and Environmental Reporting Disclosure

To capture the extent of CSER in an objective manner using the combination of Clarkson's environmental index (2007) and Sutantoputra's social index (2009) (refer to Appendix D), five testable dimensions of research are conducted. The five dimensions consist of theme, location of social and environmental reporting, amount, evidence, and time frame (refer to Table 4.2).

Table 4.2

Dimensions and content categories of CSER disclosure

Testable Dimensions	Content categories
1. Theme	a. Governance Structure and Management System
	b. Credibility
	c. Environmental Performance
	d. Environmental Spending
	e. Vision and Strategy Claims
	f. Social performance indicators
	g. Labor practices and decent work
	h. Human rights
	i. Society
	j. Product responsibility
	k. Social spending
	l. Vision and Strategy Claims
	m. Environmental Profile
	n. Social Profile
	o. Environmental Initiatives
	p. Social Initiatives
2. Location of social and environmental reporting	a. Annual report
	b. Standalone corporate social and environmental report
3. Amount of score items index	Index of 178 items score
4. Evidence	a. Presented
	b. Presented relative to peers industry
	c. Presented relative to previous
	d. Presented relative to targets
	e. Presented both in absolute and normalized form
	f. Presented at disaggregate level
Time Frame	a. Future
	b. Present
	c. Past

Linked to the use of environmental themes, classifying and scoring aspects of the environmental information has identified as dimensions, and it contributes to the capturing content quality of company's disclosure (Hall, 2002). Several researchers in CSER (*e.g.* De Silva, 2008; Freedman & Stagliano, 1992; Freedman & Wasey, 1990; Hall, 2002; Hibbit, 2003; Ingram & Frazier, 1980; Walden & Swartz, 1997; Wiseman, 1982) choose to analyze the nature of CSER according to themes. Content analysis can be capturing the picture of social and environmental activities. Therefore, the reliability of the instruments and/or the data collected needs to be demonstrated to have replicable and valid inferences (Milne & Adler, 1998).

There are two kinds of reliability issues that must be considered in the use of content analysis. Firstly, content analyst can assure the reliability of the data set. Commonly, it is indicated by employing multiple coders and either reporting that the differences between the coders are few. If there are large differences in results between the coders, then the differences should be re-analyzed. Otherwise, to minimize these exposure researchers can use a trained coder who has a long experience. Secondly, the issue related to coding instrument (Milne and Adler, 1996), if the instrument used is quite reliable, then, can reduce the need to use multiple coders, or at least significantly reduce the amount of the difference to be re-analyzed by multiple coders. Similarly, Ingram and Frazier (1980) found that the company had to describe precisely and determine the category in accordance with the rules then it can be tested in several different coders, to assure that similar result would be found from different coders (Ingram & Frazier, 1980). Thus, the reliability can be achieved through the use of a trained coder, and well-defined categories (Hackston & Milne, 1996; Ingram & Frazier, 1980).

There are three types of reliability classified by Krippendorff (1980) namely: (a) stability, (b) reproducibility, and (c) accuracy. Stability or intra-observer reliability contains a test-retest method to evaluate the degree of consistency within a coder for the same data set over time. The discrepancies between the two coders are measured and explained to reflect the inconsistency of the observer. Research conducted by Guthrie and Mathew (1985) employed a test-retest procedure base on four annual reports. The annual reports were selected, and the interrogation tool was applied by the same coders twice at a two-week interval. According to Beattie *et al*. (2004), stability is the lowest method of reliability and infrequent standards. Furthermore, inter-coder reliability is widely used to measure of reliability.

Reproducibility, or inter-coder reliability, denotes to the level to which processes can be reproduced based on dissimilar situations, at dissimilar locations and by using dissimilar coders (Hibbit, 2003). Related to reproducibility, the degree of consistency between coders for the similar set of data can be assed by involving a test-retest procedure (De Silva, 2008). Hence, the purpose of reproducibility is to measure the level of coding that can produce similar results when text is encoded by multiple coders (Weber, 1988). Cohen's kappa, weighted kappa, Fleiss kappa ', Holsti's CR, Scott pi, and Krippendorff's alpha are some examples of reliability indexes of that can be used to measure the level of coder (Raffle, 2006). The difference between the coders ’perceptions of the content of the sentences, level of disagreements between coders and differences in the relative proportions of the agreement need to be considered in assessing the reliability because it will lead to the low value of inter-coder reliability (Milne & Adler, 1999).

Accuracy or test-standard refers to assessment of coder performance against pre-determined standard, and arranged by a panel of professionals or base on prior experiment and inquiries (Guthrie & Mathews, 1985). An example for establishing accuracy in the content analysis is by comparing the results of one coder with the measure, which is already known as the truth. There are discrepancies between the two ways of coding (*i.e.* between intra-observer inconsistencies and inter-observer disagreements), and reflect the systematic deviations from the pre-determined standards. Hence, accuracy is the strongest reliability test (Krippendorf, 1980).

4.2.3.4. Reliability of Content Analysis

4.2.3.4.1. Reliability Test of This Study

To test the reliability of the information in the company's report, the following stages were conducted. Sentences as the unit of analysis are used in this study. Similarly, with prior researchers (Guthrie & Abeysekera, 2006; Ingram & Frazier, 1980; Walden & Schwartz, 1997), sentences are the most common in the content analysis based studies. Words or page proportion as units of analysis is less reliable than using sentences (Hackston & Milne, 1996; Milne & Adler, 1999) since sentences offer an accurate measurement (Unerman, 2000). A comprehensive content analysis of the pre-tests was conducted in this study using Cohen's Kappa to examine the inter-coder reliability (as shown below). This procedure is done to measure the proportion of coding errors between multiple coders and helps resolve the discrepancies by re-examination of the appropriate coding instrument (Milne & Adler, 1999). This method is also referred to as inter-rater reliability (Milne & Adler, 1999; Weber, 1988).

After the pre-test, similar to De Silva (2008), this study only uses one experience coder. The use of one experience coder who are familiar with social and environmental reporting helps make sure the coding consistency (stability) across the whole samples to reduce the disagreements that may arise from the usage of numerous coders regardless of the inter-coder reliability's examination. Furthermore, it may be cost-effective and more reliable to use one experienced coder (Milne & Adler, 1999).

4.2.3.4.2. Pre-tests and Inter-coder Reliability

To ensure the reliability of the measurements in this study, content analysis pre-tests were conducted on both the annual report and standalone report. To achieve these objectives, the pre-test conducted on four selected annual reports to maximize the reliability of the instrument by examining the inter-coder reliability. Inter-coder reliability is the level of agreement among coders, and it can be measured by using different approaches like Cohen's Kappa method (Sim & Wright, 2005). This method measures inter-coder reliability when the number of coder is two as recommended by Tinsley and Weiss (1975). This technique is a common and extensively useful measure of reliability (Jones *et al*., 1983; Rust & Cooil, 1994). This method is also commonly thought to be good quality and an accurate measure because it consists of both percent agreement calculation and agreement occurring by chance. The Kappa value has a range from zero to one; a higher value indicates a lesser level of discrepancies among coders and greater level of agreement, and thus higher inter-coder reliability. Commonly, the Kappa value of more than 0.70 is measured assuredly and shows the instrument's users generally appear to rate the similar items in the similar manner (Sim & Wright, 2005). Consistent with Hacston and Milne's (1996) recommendation, pre-tests in this study also are performed by two coders. The coders were the researchers, which are familiar with social and environmental reporting and had a coding experience, and another research assistant who is also familiar with social and environmental issues and coding. Pre-test in this study was conducted using four annual reports and separate company reports. This is done to minimize the discrepancies of the two coders used in the pre-test (see Table 4.3 below).

Table 4.3
Published Reports Used in Pre-Test

Report	**Sector**	**Company (Code)**	**Location of Report**
A	Plantation	Astra Agro Lestari,Tbk (AALI)	a.Annual Report b.Sustainability Report
B	Plantation	London Sumatera Plantation, Tbk (LSIP)	Annual report
C	Coal Mining	Bumi Resources, Tbk (BUMI)	Annual Report
D	Coal Mining	Petrosea,Tbk (PTRO)	a. Annual Report b.Sustainability Report

Source: IDX fact book

The inter-coder reliability was measured by the actual use of the instrument by two coders, who then evaluated four companies' reports. Seventy-four items were used in this pre-test. The result of this pre-test is shown in Table 4.4 below.

Table 4.4
Result of the Inter-Coder Reliability Test with Cohen's Kappa for Two Coders

Companies Reports	**Items**	**Cohen's Kappa Value**	**Significance (p value)**
AALI	74	0.909	0.000
LSIP	74	0.813	0.000
BUMI	74	0.811	0.000
PTRO	74	0.803	0.000

As it can be observed, the values of Cohen's Kappa in this reliability test range from 0.803 to 0.909. Furthermore, based on the value, this reliability test validates the instrument to a significant extent. The general academic consensus states that 0.70 is the minimum level of agreement for a reliable instrument (Sim & Wright, 2005). Hence, the instrument conducted in this study meets the minimum reliability standard for use. No additional modifications to the dimensions, except a few adjustments of the wording to improve consistency, were instituted.

4.2.4. Measurement of Variables

4.2.4.1. Measurement of Independent Variables

4.2.4.1.1. Industry Sensitivity

In developing a proxy variable for industry sensitivity, more environmentally, industries are referred to high-profile industries, and fewer environmentally sensitive industries are referred to low-profile industries. Energy, mining and resources, building and forest / paper products, steel and heavy metals, transportation / logistics, and the chemical industry are firms that belong to more sensitive industries while other industries are considered fewer sensitive to the environment (refer to Table 4.5). This study categorizes companies based on its sensitivity. A dummy variable is used to designate companies from these industries, with the following criteria, one (1) if the company's industry is more sensitive to the environment, and zero (0) if the industry is less sensitive to the environment. This practices also done by previous studies in CSER area (*e.g.* Clarkson *et al*., 2004; De Silva, 2008; Hughes, 2000; Jupe, 2005; Patten, 1992; Kent et al., 1997; Raverte, 2009).

Table 4.5
Industry Sensitivity Classification

More Environmentally Sensitive Industries	Fewer Environmentally Sensitive Industries
1. Mining 2. Plantation (Agriculture) 3. Industrial Products (consist of: basic . industry and chemical, miscellaneous Industry) 4. Property 5. Infrastructure, Utilities and Transportation	1. Consumption

4.2.4.1.2. Government Environmental Monitoring Program (PROPER)

PROPER, is an alternative policy instrument to encourage companies to comply, so PROPER is considered as a measure of the level of performance of the company. Under the umbrella of the Environmental Impact Indonesian Government Agency or BAPEDAL, Program Pollution Control, Evaluation and Rating (PROPER) seeks to reduce the problems associated with pollution with innovative programs (PROPER 2009). The entire company under government environmental monitoring is expected to report on their environmental activities in their annual reports. The CSER reporting will increase the pressure as the public policy and regulatory issues in the environment context. This argument is in line with previous studies in CSER area (*e.g.*, Freedman & Stagliano, 2002; Patten, 1992; Walden, 1993). To measure the variable, this study uses a dummy variable, in which one (1) for companies under PROPER Program, and zero (0) otherwise.

4.2.4.1.3. Print Media Coverage

Newspapers, television, radio, and Internet sites are media sources that can influence the way most people think about public issues (Brown & Deegan, 1998). This study uses print media articles related to environment related to measuring the degree of media pressure, such as research conducted by De Silva (2008) and Raverte (2009). In order to measure companies' pressure, the number of social and environmental articles in the top five Indonesia business newspapers (such as Jakarta Globe, Koran Tempo, The Jakarta Post, Suara Merdeka, Kontan) was counted. To obtain the data of media coverage, this study uses the search service present on the web page of those newspapers for each year of five-year observation.

4.2.4.1.4. Blockholder Ownership

In this study, the level of blockholder ownership is measured by the percentage of shareholders who own 5% or more of the total shareholding. This method is similar to the method used by Elijido-Ten (2004) in the measure blockholder ownership. Previous studies (*e.g.,* Chan & Kent, 2003; Christopher & Hassan, 1996) suggests that the broad dispersion of shareholders, the greater the pressure from their stakeholders group, and consequently, the greater the probability to disclose social and environmental information. Blockholder ownership is measured by looking at the percentage of shareholders who own 5% or more of total shareholding from 2005 to 2009 annual reports of sample firms.

4.2.4.1.5. Strategic Posture

Corporate response to social demands can be seen from the company's strategic posture. Strategic posture is a form of business that is done by a company to achieve the level of interdependence of optimal stakeholders (Ullmann, 1985). Social and environmental reporting activities can be used as an active strategy to manage their stakeholders. Consistent with Chan and Kent (2003), and Elijido-ten (2004), this study uses a dummy variable as a proxy for the strategic posture, which is one for companies that disclose their social and environmental activities and commitment to the company and / or include social and environmental concerns in their mission or vision statements in their annual reports, and zero if otherwise.

4.2.4.1.6. Government Shareholding

According to DiMaggio and Powell (1991) coercive isomorphism can be generated due to the pressure of formal and informal given to organizations by other organizations upon which they are dependent and by cultural expectations in the society in which the organization is function. Thus, government as a formal pressure can force organizations into adopting certain procedures or have government-appointed directors sitting on the board to align the companies with government' aspiration (Amran & Susela, 2004). To measure the government shareholding, the researcher used dummy variable (as used by Amran and Susela, 2004), in which one if the government ownership exists, and zero, if otherwise.

4.2.4.1.7. Award

The normative isomorphism highlights how the prescriptive, evaluative, and compulsory dimensions influence the adoption of CSER (Amran & Susela, 2004). The awards are appreciation to the leaders and proof to their obedience to the award benchmarks; hence, this factor encourages companies to create better reporting. To measure the normative isomorphism proxy, the researcher used a dummy variable, in which one (1) if the firm's CSER disclosure follows ISRA criteria, and zero, if otherwise.

4.2.4.1.8. Foreign Activities

A corporation be apt to follow another successful company when the environment is uncertain (Di Maggio and Powell, 1983). If a company operating in countries that lacks law regarding CSER, it will tend to follow the practice of other MNCs (Amran & Susela, 2004). Thus, to measure the mimetic isomorphism proxy, the following was used: one if the company has foreign activities, and zero, if otherwise. In this study, foreign activities can be seen in the company's segmental reporting, in the geographic area sub-section.

4.2.4.2. Measurement of Control Variables

4.2.4.2.1. Profitability

Profitability is measured by implementing an accounting-based variable in this study, such as return on assets (ROA) (Belkaoui and Karpik, 1989; Brammer and Pavelin, 2008; Reverte, 2009; Tagesson, 2009). Accounting-based measurement is more suitable to be used as intended for higher management manipulation compared with other market-based measures. In addition, market-based measurement does not influence by past performance, thus ignoring other important stakeholder groups. Hence, ROA considers many stakeholders and consequently, it is more representative to be used as a proxy of the profitability variable (Reverte, 2009).

4.2.4.2.2. Leverage

Firm's leverage is measured as long-term debt/book value of equity at the end of fiscal year, consistent with Cormier *et al*. (2005), and Raverte (2008). Jensen and Meckling (1976) stated that in order to reduce the rising of monitoring cost due to its high leverage, companies tended to increase their CSER disclosure.

4.2.4.2.3. Size

Following prior research (*e.g.* Belkaoui & Karpik, 1989; Patten, 1990; Wright & Ferris, 1997), company size is measured as the natural logarithm of market capitalization. Market capitalization is measured by multiplying the stock price with shares outstanding of a public company.

4.2.4.3. Measurement of Dependent Variable

4.2.4.3.1. Level of CSER Disclosure

By counting the presence of the social and environmental information in the annual reports under a certain category, the level of Corporate Social and Environmental Reporting(CSER) is measured. CSER is measured using hard, and soft categories developed from the combination of Clarkson's environmental index (2007) and Sutantoputra's social index (2009) (refer to Appendix D). This Social and Environmental Disclosure Index is a revised version of the Wiseman's (1983) index that has been employed with slight modification in many prior studies. In detail, firm's disclosure-related governance structure and management systems regarding social and environmental protection was focused on the category A1 (consists of six items with a maximum score of 12). Firm's credibility of social and environmental disclosures was reflected on the category A2 (consists of 10 items with a maximum score of 20), the disclosure of specific environmental performance indicators and carries the most weighted of all categories was linked to category A3 (consists of 10 items with a maximum score of 60) relates to. The A3 criteria were included in the category of hard disclosure. Through this hard disclosure, the companies can influence the stakeholders about their environmental performance associated with their polluting emission's conditions, as well as their conservation and recycling activities. The firm's environmental spending activity was reflected on the category A4 (consists of three items with a maximum score of 3). This category emphasizes the company's savings disclosure that might arise from existing environmental initiatives and discretionary spending for the environment or the implementation of new technology related R & D. The disclosure of social performance indicators such as the firm's labour practces and decent work, human rights, social and product responsibility was focused on category A5 (consists of 16 items with a maximum score of 48). The last category of hard disclosure is the category A6 (consists of three items with a maximum score of 3), this category focusing the firm's social spending. This category emphasizes on firm's saving from social initiatives or amount spent on community, or spent on fines related social litigation. The categories of A7 to A11 in this study are represented as soft disclosure. Category A7 (consists of six items with a maximum score of 12) refers to disclosures on a firm's social and environmental vision and strategy. For example, many companies show their social and environmental policies in the companies' vision and mission. Moreover, it has reviewed regularly, and they make claims for the prominence of environmental values. The disclosure of a firm's environmental profile in terms of the impact of its industry, and any environmental regulations was reflected on the category A8 (consists of four items with a maximum score of 4). Category A9 (consists of four items with a maximum score of 4) refers to disclosures on compliance with social standards, and social impact of the society, employee, and industry peers. The disclosure of environmental initiatives focused on the category A10 (consist of six items with a maximum score of 6). The last category of soft disclosure, category A11 (6 items with a maximum score of 6), focuses on the disclosure of social initiatives such as training, social incidents, awards, certification of employee programs and corporate donations related to society. Even though these items may denote he true commitments of the companies for social and environmental activities, sometimes they do not necessarily represent real pictures of companies' environmental performances.

This combination index is appropriate for a similar study in Indonesia for a number of reasons. Firstly, it accommodates social and environmental issues in Indonesian context (*i.e.* Indonesian PROPER, AMDAL, and CSR Program), and secondly, due to the voluntary nature of environmental disclosure in Indonesia (Sarumpaet, 2005). For the years 2005 to 2009, the scores comprise voluntary environmental disclosures in standalone and annual reports. Annual report data were obtained from the ICMD, IDX websites, and company websites. Standalone social and environmental reports were obtained from the company websites.

4.2.5. Data Analysis

Numerous research in the field of accounting related CSER disclosure has been using descriptive statistics and correlation matrix, in explaining the effects of the independent variables on the dependent variable. However, there are many studies that provide further statistical analysis mostly choose to use OLS regression (*e.g.* Deegan & Gordon, 1996). This study extends the level of analysis that is applied in most previous studies in CSER disclosure area using a panel data approach. The data analysis techniques used in this study include descriptive statistics, correlation matrix, pooled (OLS) regression analysis with additional analysis (hard and soft disclosure regression and year-specific regression), which has been used by previous researchers in this area (*e.g.* Cormier *et al*, 2005; Hassan, 2010).

4.2.5.1. Univariate and Bivariate Analysis

Univariate test involves a single variable. A major purpose of univariate analysis in this study is to describe mean, median, range descriptive statistics on social and environmental disclosure scores and environmental performance measures by industry, which is consistent with Clarkson et al. (2007), De Silva (2008), and Sarumpaet (2005). Trend analysis and One-Way ANOVA F-test were used to explain the extent of CSER disclosure. Analysis of variance is a way to test the equality of the three leagues with respect to each quantitative variable. Three key assumptions are satisfied: individual variable is independent of one another; data for each is approximately normally distributed, and the variances of each league are approximately equal. Bivariate analysis involves two variables that deal with causes or relationship. The aim of bivariate analysis in this study is to describe the correlation statistics for independent variables used in the estimation.

4.2.5.2. Statistical Analysis

Previous studies on the association between CSER practices and company's characteristics (*e.g.* Clarkson, 2007; De Silva, 2008; Hibbit, 2003) have been led using regression analysis. Regression analysis is employed to examine the association between the independent variables and the level of social and environmental disclosure. Nevertheless, regression analysis has limits, such as multicolinearity errors, that are avoided by using panel data regression analysis. Carnevale, *et al.* (2009), Menz, (2012), Poelloe, (2010) and Saleh *et al.* (2008), used panel data analysis for their CSER relationship studies. Before employing regression analysis, it is essential to consider testing the four assumptions of the regression such as normality, linearity, homoscedasticity, and outliers (Hair *et al*., 1998).

4.2.5.3. Panel Data Analysis

Panel data denotes to data set containing of several observations on each sampling unit (Baltagi, 1998). This study uses panel data approach. Panel data is a combination of a cross-sectional and time-series. This longitudinal data has the same number of observations in each different time period (Kennedy, 2008: 281). The panel data approach is the most appropriate approach for this study because it uses a combination of cross-sectional data and time-series for five years of investigation (*i.e*. 2005-2009). Furthermore, Hsiao (2003) and Klevmarken (1989) describes a number of the benefits and limitations of using panel data (as cited in Baltagi 2005) which will be discussed in the Table 4.6 below.

Table.4.6.
Benefits and Limitations of Panel Data

No	Benefits	Limitations
1	Panel data is a collection of individuals, corporations, state, or heterogeneous state.	The emergence of complex problems in study design and data collection.
2	Panel data has some characteristics, *i.e.* the data is more informative, a higher variability of the data, collinearity between variables is low, a higher degree of freedom and more efficient.	Distortions of measurement errors.
3	Panel data is able to balance the dynamics of the data, while cross-sectional data appears to be relatively stable, but many hide multitude changes.	Selectivity problems.
4	Panel data can identify and measure effects that are not detected by the data are cross-sectional or pure time-series data.	Short time-series dimension.
5	Panel data model can construct and test more complicated behavioral models than cross-section data and the times-series	Cross-section dependence.
6	Micro panel data collected from individuals, companies and households can be measured more accurately than if the similar variable is measured at the macro level. Because of the bias resulting from the aggregation of the company or individual can be reduced or eliminated.	
7	Macro panel data on the other hand have a longer time series and do not have problems like that happen on the unique distribution of non-standard unit root tests in time-series analysis.	

Source: Adapted from Baltagi (2005) 3rd edition

However, panel data can control the nature of heterogeneous samples, able to balance the dynamics of the data, can identify and measure effects, can construct and test more complicated behavioral models, can be measured more accurately than if the similar variable is measured at the macro level. Macro panel data on the other hand have a longer time series and do not have problems. Thus, based on the advantages and disadvantages of the above it can be concluded that the data panel has greater benefits than limitations.

4.2.5.4 Panel data estimation

To estimate the data, this study uses three sets of panel data models, *i.e.* the pooled ordinary least squares model (POLS) or constant coefficients model, fixed effects (FEM or least squares dummy variable/LSDV model) and random effects models. The pooled ordinary least squares model (POLS) assumes a constant intercept for cross-sectional data. Similarly, for the slope and intercept being equal to the whole data. So, the POLS method pays no attention to any form of individual effects (heterogeneity) across units. POLS estimator so that no longer is the best unbiased linear estimator (Park, 2011). Panel Data generate a way to resolve the problem by using a fix model and random models.

Fixed effect model (FEM or LSDV) has the following characteristics: having different intercepts for individual observations, but assumes the equal slope and have a constant variance between individuals, groups, and institutions. The difference is due to the specific features of each unit together with management style or managerial philosophy (Greene, 2007). Fixed effect model estimated by least squares dummy variable (LSDV) regression (OLS with a set of dummies) and using effects estimation method (Park, 2011). Thus, the primary benefit of the fixed effects model (FEM) when using panel data analysis is to estimate the effect of independent variable on the dependent variable, while controlling for the influence of unobserved variables (Nelling & Webb, 2009).

In the random effects model (REM) there is no correlation between the individual effects (heterogeneity) with various regressors and to the group (or time). This model (REM) allows the intercept owned varied between cross-sections data, but random variation is maintained as specified. A random effects model (REM) will decrease the number of parameters to be estimated so that the estimates are inconsistent when the individual spesific random effects are correlated with regressors (Greene, 2008: 200-201). REM could avoid the loss of degrees of freedom when compared with FEM. The influence of group and time are more common in panel data. In conclusion, the differences in the intercept of the entire group or time assumed in FEM, while REM investigates differences in error variance.

4.2.5.5. Model Specification Tests

The next tests have been adopted to find the best model used in this study:

4.2.5.5.1 Step One: Examining group effects (Using F tests: Pooled Ordinary Least Square or Fixed Effect Model)

To test the best model between the fixed effects model (FEM) and Pooled ordinary least square POLS, the F-test was used. If the F-test results showed a high F-value with p-value is lower, then the fixed effects model is preferred. Conversely, if the null hypothesis is not rejected, the pooled regression is selected (Park, 2005).

4.2.5.5.2. Step Two: Examining random effects (Using LM test: Pooled Ordinary Least Square or Random Effects Model)

To test the best model between the random effects model (REM) and Pooled ordinary least square POLS, the LM-test was used (Breusch and Pagan, 1980). The LM statistic follows a chi-square distribution with one degrees of freedom. The null hypothesis assumes that there is no random effect, if the hypothesis is accepted then the POLS models is preferred. Conversely, if the null hypothesis is rejected, then there are significant random effects in panel data, so that the REM is more than capable of handling the heterogeneity than POLS method.

4.2.5.5.3. Step Three: Examining Fixed Effects Models *vs.* Random Effects Model (Using Hausman Test)

Hausman test is done to determine whether the research will use FEM or REM. Hausman testing is used to test whether or not the individual effects correlated with the other regressors in the model. If the results indicate that the individual effects associated with other regressors, then the random effects model will disrupt the Gauss-Markov assumptions and Best Linear Unbiased no longer Estimate (BLUE), due to the effects of the individual is part of the error term in the random effects model. Thus, if the null hypothesis is rejected, FEM preferred over REM. In the fixed effect model, the individual effects are part of the intercept and the relationship between the intercept and the regressors do not interfere with each Gauss-Markov assumptions; fixed effect model is still BLUE (Park, 2010).

4.2.6. Model Specification

To investigate the effect of independent variable on the level of CSER of Indonesian publicly listed companies, the following model was specified, with variable code names and descriptions.

$$\textbf{CSER} = \alpha + \beta_1\,\textbf{SENTV} + \beta_2\,\textbf{PROPER} + \beta_3\,\textbf{PRESSURE} + \beta_4\,\textbf{SHARE} + \beta_5\,\textbf{POSTURE} + \beta_6\,\textbf{GOVERN} + \beta_7\,\textbf{AWRD} + \beta_8\,\textbf{FORACT} + \beta_9\,\textbf{PROFIT} + \beta_{10}\,\textbf{LEV} + \beta_{11}\,\textbf{SIZE} + \varepsilon$$

Where

CSER	:	Corporate Social and Environmental Reporting
α	:	Intercept
SENTV	:	One (1) if the company is from a more environmentally sensitive industry and zero (0) if it is from fewer environmentally sensitive industry
PROPER	:	One (1) for companies under PROPER Program and zero (0) otherwise.
PRESSURE	:	Number of social and environmental articles of the top five Indonesian business newspapers (*e.g.* Jakarta Globe, Koran Tempo, The Jakarta Post, Suara Merdeka, and Kontan) in each company
SHARE	:	The percentage of shareholders who own 5% or more of total shareholding
POSTURE	:	One (1) given to companies which disclosed their social and environmental activities and commitment and/or if the company includes social and environmental concern

		in their mission or vision statement in their annual report, and zero (0) for otherwise.
GOVERN	:	One (1) if government shareholding is exist; 0 if otherwise
AWRD	:	One (1) if the company's CSER disclosure follows ISRA criteria; and zero (0) if otherwise
FORACT	:	One (1) if the company has foreign activities and zero (0) if otherwise.
PROFIT	:	Return on Assets is total return on assets measured as the ratio of income before extraordinary items at the end of fiscal year t and total assets at the end of fiscal year t-1
LEV	:	Long-term debt/book value of equity at the end of fiscal year
SIZE	:	Natural logarithm of market capitalization

4.3. Summary

This chapter has presented research design, sample and population, data collection, and analytical method. The result of this study will be presented in next chapter.

CHAPTER FIVE

RESULTS AND DISCUSSION

5.1 Introduction

This chapter offers the outcomes of panel data and hypothesis testing formulated in this study. This chapter has three sections. The first section discusses the companies activities and CSER disclosure. The second section discusses the assumption of normality, homogeneity,autocorrelation and multicollinearity related to the model being studied. The third section presents the result of panel data analysis concerning the hypothetical variables.

5.2 Company Activities and The Extent of CSER Disclosure

5.2.1 Company Activities

Before examining the results, the activity of the companies under this study is described. The activities of the companies can be seen in Table 5.1 below. The study examined all companies listed in the Indonesia Stock Exchange and identified 148 that had practiced CSER over the past five years, and ascertained that their practices had been disclosed in their annual reports. The selected sample of this study comes from a wide range of businesses that include agriculture, mining, basic industries and chemicals, miscellaneous industries, consumer goods industries, property (real estate) and building constructions, infrastructure and utilities and transportation. The companies chosen as the sample were those in operation in the last five years, from 2005 to 2009. Textile and garment companies and also property and real estate comprise of 10.81% out of 740 companies. This is followed by tobacco manufacturers; automotive and spare parts (7.43%). Of 740 companies, 50 companies (6.75%) involve in metal and alloy products, 40 (5.4%) in plastic and packaging, pharmaceutical, and transportation. The rest of the companies comprises less than 5% out of the total number of sampled companies. They include companies in chemical activities (4.73%), pulp and paper (3.37%), telecommunications (2.70%), and plantation, coal mining, metal and mineral mining, cement, ceramics, glass and porcelain, animal feed, cosmetics and household, and houseware (2.03%). Petroleum and natural gas production; land/stone quarrying; wood industries and building construction contain 1.35%. Finally, fishery; footwear; food and beverage; energy; toll road, airport, harbor and allied products involve 0.68%.

Table 5.1
Characteristics of Sampled Companies by activities(n = 740)

Industry	Company Activities	Each Year	All five years	% of All Years
4	Textile, garment	16	80	10.81
6	Property and real estate	16	80	10.81
4	Automotive and spare parts	11	55	7.43
3	Metal and alloy products	10	50	6.75
3	Plastics and packaging	8	40	5.40
5	Pharmaceuticals	8	40	5.40
7	Transportation	8	40	5.40
3	Chemicals	7	35	4.73
3	Pulp and paper	5	25	3.37
4	Cable	5	25	3.37
7	Telecommunication	4	20	2.70
1	Plantation	3	15	2.03
2	Coal Mining	3	15	2.03
2	Metal and mineral mining	3	15	2.03
3	Cement	3	15	2.03
3	Ceramics,glass,porcelain	3	15	2.03
3	Animal feed	3	15	2.03
5	Cosmetics and household	3	15	2.03
5	House ware	3	15	2.03
2	Petroleum and natural gas production	2	10	1.35
2	Land/stone quarrying	2	10	1.35
3	Woods Industries	2	10	1.35
6	Building and construction	2	10	1.35
1	Fishery	1	5	0.68
4	Footwear	1	5	0.68
5	Food and beverages	1	5	0.68
7	Energy	1	5	0.68
7	Toll road,airport,harbor and allied roducts	1	5	0.68
	Total	148	740	100

Note: 1. Agriculture; 2.Mining; 3.Basic Industry and Chemical; 4.Miscellaneous industry;5.Consumer goods industry; 6.Property, real estate and building construction;7.Infrastructures,utilities and transportation.

5.2.2. The Extent of CSER Disclosure

To examine the first research question in this study, this sub section described the extent of CSER disclosure among Indonesian companies. CSER disclosure index used in this study is adopted from the combination index of Clarkson's environmental index (Clarkson *et al.,* 2007) and Sutantoputra's social index (Sutantoputra, 2009). This combination index consists of 178 equally weighted items: 146 hard disclosure and 32 soft disclosure indexes. The explanation of the disclosure was divided into three parts, namely, total disclosure (which consists of both hard and soft disclosure), hard disclosure, and soft disclosure. To assess the CSER disclosures, the annual reports of each sampled firm were scored from 2005 to 2009. Since many years ago, the annual report has become the main reference for stakeholders to look at the performance of the company. In addition to annual reports, there is a new trend in the company to publish a stand-alone sustainability reports (Frost et al., 2005). The companies published this stand-alone report in both hardcopy and softcopy form through the company's website. This study also uses a stand-alone report that is associated with company's social and environmental activities in measuring the extent of CSER disclosure. The result of the study showed that the trend of total disclosure of social and environmental activities increased steadily from 2005 to 2009 (see Table 5.2). The score of Total CSER can be seen from the mean value. At the beginning of 2005, the level of total CSER disclosure's score increased lighty from 1.196 in 2005 to 1.207 in 2006, and increased significantly in 2007, 2008, and 2009 (*i.e.* 1.228, 1.258, and 1.281, respectively). The increased trend also followed by soft disclosure and hard disclosure.

Table 5.2

CSER Disclosures All Years by All Companies

Year	Soft Disclosure Score	Hard Disclosure Score	Total CSER Score
2005	0.743	0.453	1.196
2006	0.751	0.456	1.207
2007	0.767	0.461	1.228
2008	0.787	0.471	1.258
2009	0.792	0.489	1.281

The results from this study revealed that the extent of CSER in Indonesia has increased from previous years. The level of CSER disclosure increased steadily from 2005 to 2009 for soft, hard and total of CSER disclosures. The number of companies that reveal the CSER information in their annual report is kept increasing. Hence, the level of total CSER disclosure, soft disclosure and hard disclosure for all companies increased from previous years and followed an upward trend, as shown in Figure 5.1. The Law No. 40 year 2007 concerning Limited Liability Company may give a significant impact on CSER disclosure practice in Indonesia. The present study demonstrated that the increasing quality of total CSER disclosure, soft disclosure and hard disclosure may have an association with the compulsory regulation that launched by the government.

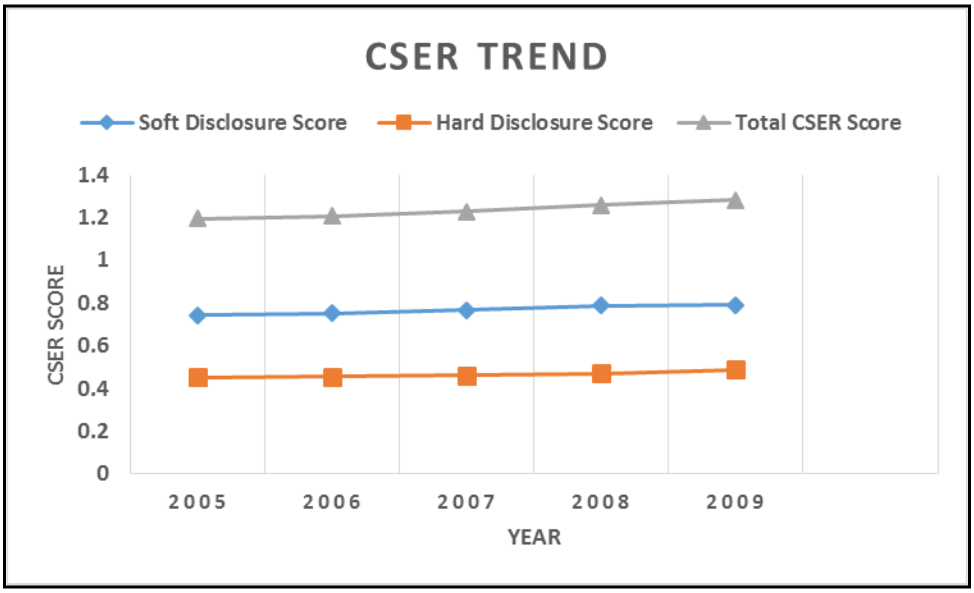


Figure 5.1
Corporate Social and Environmental Reporting Trend

To determine whether CSER disclosures increased significantly from year 2005 to 2009, one-way ANOVA test was performed. Based on one-way ANOVA test (refer table 5.3), there were significant differences (0.000<0.05) in the means of total CSER disclosures from 2005 to 2009. Therefore, there had been a significant increase (improvement) in the total disclosure score over the study period (refer Table 5.3).

Table 5.3
One- way Anova Result

	Sum of Squares	df	Mean Square	F	Sig.
Between Year	529.264	91	5.816	3.984	.000
Within Year	950.736	648	1.467		
Total	1480.000	740			

This research explains the extent of CSER disclosure related to hard and soft disclosure. Clarkson *et.al.* (2007) state, the hard disclosures are objective information that can be verified by users whereby any false information can lead to litigation. Hard disclosure items would be relatively difficult for companies with poor environmental performance to mimic. In contrast, soft disclosure items which are mainly qualitative claims, which are easily verified and could be present by all companies regardless of their CSER performances. Clarkson *et al.,* (2007) and Sutantoputra (2009) classifies GRI disclosure index into eleven categories (A1 to A11) that cover 178 equally weighted disclosure items (Appendix D). The first six categories comprise 146 hard disclosure items, while the last five categories comprise 32 soft disclosure items. Hard CSER disclosures are represented by categories A1-A6 and the soft CSER disclosure are represented by categories A7-A11. Appendix E present the total score of social and environmental disclosure and the corporate social and environmental score by items and by industry.

In detail, firm's disclosure-related governance structure and management systems regarding social and environmental protection was focused on the category A1 (consists of six items with a maximum score of 12). Firm's credibility of social and environmental disclosures was reflected on the category A2 (consists of 10 items with a maximum score of 20), the disclosure of specific environmental performance indicators and carries the most weighted of all categories was linked to category A3 (consists of 10 items with a maximum score of 60) relates to. The A3 criteria were included in the category of hard disclosure. Through this hard disclosure, the companies can influence the stakeholders about their environmental performance associated with their polluting emission's conditions, as well as their conservation and recycling activities. The firm's environmental spending activity was reflected on the category A4 (consists of three items with a maximum score of 3). This category emphasizes the company's savings disclosure that might arise from existing environmental initiatives and discretionary spending for the environment or the implementation of new technology related R & D. The disclosure of social performance indicators such as the firm's labour practces and decent work, human rights, social and product responsibility was focused on category A5 (consists of 16 items with a maximum score of 48). The last category of hard disclosure is the category A6 (consists of three items with a maximum score of 3), this category focusing the firm's social spending. This category emphasizes on firm's saving from social initiatives or amount spent on community, or spent on fines related social litigation.

The categories of A7 to A11 in this study are represented as soft disclosure. Category A7 (consists of six items with a maximum score of 12) refers to disclosures on a firm's social and environmental vision and strategy. For example, many companies show their social and environmental policies in the companies' vision and mission. Moreover, it has reviewed regularly, and they make claims for the prominence of environmental values. The disclosure of a firm's environmental profile in terms of the impact of its industry, and any environmental regulations was reflected on the category A8 (consists of four items with a maximum score of 4). Category A9 (consists of four items with a maximum score of 4) refers to disclosures on compliance with social standards, and social impact of the society, employee, and industry peers. The disclosure of environmental initiatives focused on the category A10 (consist of six items with a maximum score of 6). The last category of soft disclosure, category A11 (6 items with a maximum score of 6), focuses on the disclosure of social initiatives such as training, social incidents, awards, certification of employee programs and corporate donations related to society. Even though these items may denote he true commitments of the companies for social and environmental activities, sometimes they do not necessarily represent real pictures of companies' environmental performances.

Based on Table 5.4, the results prove that for A1 category (Governance Structure and Management Systems), the average score for 2005 was 0.32 and increased steadily in 2006 to 2009, from 0.336 to 0.394. For the A2 category (Credibility), the average scores were 0.447, 0.453, 0.452, for 2005, 2006 and 2007, respectively, and in 2008 and 2009 the scores increased more than those in the previous years from 0.498 and 0.566 (refer Table 5.4). Category A3 (EPI indicator) is an important category in viewing the company's environmental performance. The A3 into the kind of hard disclosure, this means that no disclosure can only be done by copying and imitating practices of similar companies in the same industry.

Table 5.4
CSER mean score by category of All 740 Companies from 2005 to 2009

	2005	2006	2007	2008	2009	Δ2005 -2006	Δ2006 -2007	Δ 2007 -2008	Δ2008 -2009
A1	0.320	0.336	0.340	0.360	0.394	0.016	0.004	0.004	0.033
A2	0.447	0.453	0.452	0.498	0.566	0.006	0.001	0.001	0.068
A3	0.099	0.105	0.196	0.123	0.177	0.006	0.092	0.092	0.054
A4	0.714	0.723	0.670	0.725	0.716	0.009	0.053	0.053	0.009
A5	0.453	0.454	0.448	0.471	0.532	0.001	0.006	0.006	0.061
A6	0.685	0.682	0.621	0.649	0.651	0.002	0.062	0.062	0.002
A7	0.628	0.623	0.645	0.638	0.633	0.005	0.021	0.021	0.005
A8	0.738	0.730	0.758	0.735	0.684	0.008	0.028	0.028	0.051
A9	0.787	0.780	0.786	0.789	0.755	0.007	0.006	0.006	0.034
A10	0.717	0.706	0.714	0.715	0.745	0.011	0.008	0.008	0.030
A11	0.847	0.837	0.841	0.846	0.816	0.010	0.005	0.005	0.029

Note:A1: Governance Structure and Management System, A2: Credibility, A3: Environmental Performance Indicators (EPI), A4: Environmental Spending, A5: Social performance indicators (SPI), A6: Social spending, A7: Vision and Strategy Claims, A8: Environmental Profile, A9: Social profile, A10: Environmental Initiatives, A11: Environmental Initiatives

This dilemma makes environmental performance become unobservable to a typical investor or stakeholder, creating a potential for setting of a partial disclosure equilibrium where some firms are more transparent than others in their reports/web disclosures do, while some firms are completely silent. A very detailed disclosure on A3 category causes a dilemma for companies that have a poor environmental performance. If they reveal their poor, environmental performance will degrade their firm's performance in front of the stakeholders. In practice, some companies more transparent than any other company to express it in the form of reports or on the web, while some other companies are completely silent. The mean score of A3 (EPI indicator) in the year 2005 was 0.990, which increased to 0.177 in 2009. Each item in the A3 category has a total score of 6 according to the dimensions indicated in appendix D. The weak scores for each year (2005 to 2009) recommend that disclosures in the environmental field are fewer than ideal, allowing the GRI guidelines. For Category A4 (Environmental Spending), the average score in 2005 was 0.714, and it increased to 0.723 in 2006, and decreased to 0.670 in 2007, and increase slightly to 0.725 in 2008. Finally decrease to 0.716 in 2009. Even though the amount of environmental spending is not material, such information is useful to the stakeholders as these numbers show the company's commitment to the environment. This category (A4) has a higher score than the previous category, which include hard disclosure items (A1-A3). Category A5 reflects the disclosure's main interest in social performance indicators. This category shows whether the company provides detailed measures of its social performance.

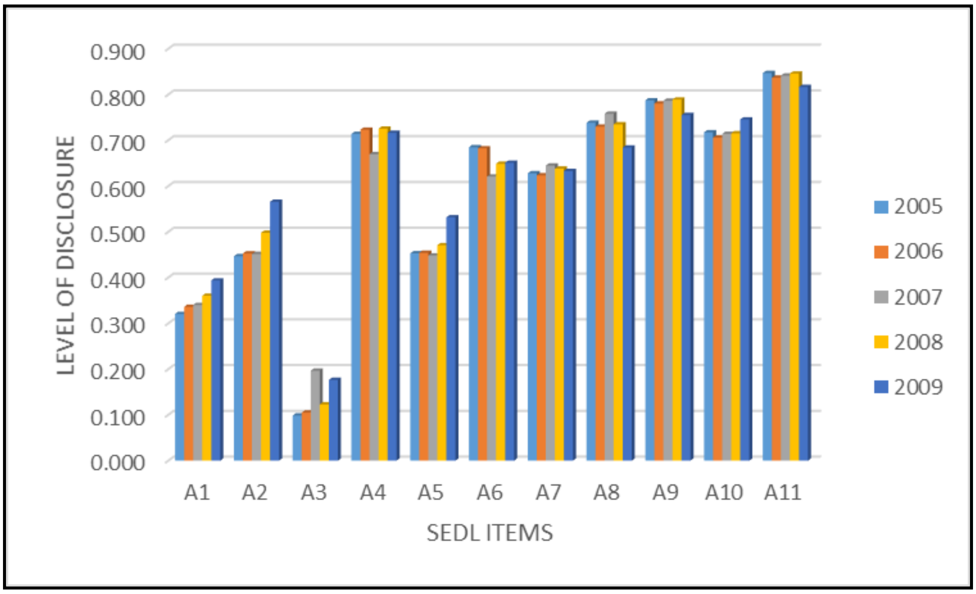
Companies are expected to provide comprehensive information about their social impacts, such as labor practices and decent work, human rights, society and product responsibility. The average scores from 2005 to 2009 followed an upward trend, *i.e.* 0.453 in 2005 followed by an increase to 0.454, 0.448, 0.471, and 0.532 from 2006 to 2009, respectively. The total score of social performance was higher than that of environmental performance. In category A6 (social spending category), a company is assessed based on its investment for enhancing social performances, especially in addressing the social impacts. The assessment includes whether there are financial benefits (*i.e.* savings) arising from the investment, endorsement for certain community group, and disclosure to infringements to social issues. The average score in 2005 was 0.685. This is following by a decrease in the value to 0.682, 0.621, 0.649, 0.651, from 2006 to 2009, respectively.

Table 5.4 shows the statistics of soft disclosure comprises disclosure category of A7 to A11, comprises corresponding statistics for the soft disclosure categories A7 to A11. The result of the study showed that the scores of soft disclosures are higher than those of hard disclosures for all categories (A7 to A11) with the lowest average score being 0.623 and the highest average score being 0.847. Figure 5.2 gives as a picture of the above explanation related to hard and soft disclosures of corporate social and environmental activities. As seen in Figure 5.2, the level of CSER disclosure in Indonesia rose steadily from 2005 to 2009 for all items (A1-A11) of corporate social and environmental disclosures. The amount of soft disclosures (A7-A11) is always higher than that of hard disclosure (A1,A2,A3,A5 and A6) except A4 category in every year of observation.

The amount of soft disclosures as shown in Figure 5.2 is always higher than that of hard disclosure in every year of observation and in every industry (also can be seen in Table 5.5). Therefore, to analyze CSER disclosures from the industry's perspective, companies were divided into seven types of industries, namely:

1. Agriculture
2. Mining
3. Basic industry and chemicals

4. Miscellaneous industry
5. Consumer goods industry
6. Property, real estate and building construction
7. Infrastructure, utilities and transportation



Note:A1: Governance Structure and Management System, A2: Credibility, A3: Environmental Performance Indicators (EPI), A4: Environmental Spending, A5: Social performance indicators (SPI), A6: Social spending, A7: Vision and Strategy Claims, A8: Environmental Profile, A9: Social profile, A10: Environmental Initiatives, A11: Environmental Initiatives

Figure 5.2
CSER trend for all 740 companies by category

The result of the analysis showed that for hard disclosure, the lowest average score was 0.438 and was observed in the property, real estate, and building construction industry, while the highest score was 0.534 and was observed in the Mining Industry. For soft disclosure, the lowest average score was 0.645 and was observed in the infrastructure, utilities and transportation industry, while the highest score was 0.815 and was observed in the Mining Industry.

Table 5.5
Hard and Soft Disclosure's mean score in Every Year by Type of Industry

	INDUSTRY						
DISCLOSURE	1	2	3	4	5	6	7
HARD 2005	0.480	0.499	0.464	0.430	0.450	0.417	0.478
HARD 2006	0.436	0.531	0.467	0.432	0.450	0.436	0.481
HARD 2007	0.476	0.478	0.477	0.437	0.466	0.414	0.485
HARD 2008	0.541	0.581	0.485	0.447	0.458	0.432	0.490
HARD 2009	0.480	0.582	0.517	0.48	0.478	0.492	0.401
AVG HARD	0.483	0.534	0.476	0.445	0.460	0.438	0.467
SOFT 2005	0.729	0.82	0.782	0.741	0.701	0.728	0.673
SOFT 2006	0.620	0.778	0.782	0.741	0.701	0.708	0.673
SOFT 2007	0.704	0.844	0.801	0.746	0.737	0.712	0.660
SOFT 2008	0.733	0.806	0.785	0.742	0.706	0.728	0.677
SOFT 2009	0.758	0.828	0.784	0.742	0.706	0.730	0.544
AVG SOFT	0.709	0.815	0.787	0.743	0.710	0.721	0.645

Note: **Hard Disclosure consist of** A1: Governance Structure and Management System, A2: Credibility, A3: Environmental Performance Indicators (EPI), A4: Environmental Spending, A5: Social performance indicators (SPI), A6: Social spending. **Soft Disclosure consist of** A7: Vision and Strategy Claims, A8: Environmental Profile, A9: Social profile, A10: Environmental Initiatives, A11: Environmental Initiatives**. Industry** 1:Agriculture; 2. Mining; 3.Basic industry and chemicals; 4.Miscellaneous industry; 5.Consumer goods industry; 6.Property, real estate and building construction; 7.Infrastructure, utilities and transportation

It appeared that soft disclosure'score was always higher than hard disclosure's score in all years and all industries. This indicates that CSER in Indonesia was still low and dominated by soft disclosure. This result consistent with the previous study conducted by Djajadikerta & Terri (2012), they investigate the extent of CSER disclosure in companies listed on the Indonesian Stock Exchange by using their company website. Their results showed that the disclosure level is still low, and they dominate with descriptive statements without showing specific period.

From the industrial perspective analysis, the highest level of hard CSER disclosures are performed by the mining industry, followed by the agricultural industry. This phenomenon is predictable as these industries are highly sensitive to the environment. Furthermore, the amounts of soft disclosures are always higher than hard disclosures by year and by industry. This is not surprising considering it is easier for firms to copy or mimic this type of social and environmental information than the exact and verifiable social and environmental information. The practice of adopting similar practices in Institutional Theory is referred to as isomorphism (DiMiggio & Powell, 1983). The present study also showed that firms, mainly those with lower performance, tend to adopt the same disclosure mechanisms of companies with higher performance to get their legitimacy. Therefore, there is a greater tendency for isomorphism. Organisational isomorphism refers to the assimilation of organisations that co-exist in similar environmental conditions (Dacin, 1997).

There are three mechanisms to perceive the changes in the organization, namely: coercieve, mimetic and normative isomorphisms. Coercive isomorphism is an organizational response to the pressure from other organizations with the purpose to conform with community expectations (DiMaggio and Powell, 1983). These pressures are, *e.g.* governmental mandates, contract law, and financial reporting requirements. Organizations are increasingly homogeneous within given domains and increasingly organized around rituals of conformity to wider institutions. Likewise, mimetic isomorphism involves organizations seeking to emulate (copy) or improve upon the institutional practices of other organizations, often for the reasons of competitive advantage in terms of legitimacy (Deegan, 2007). Following Institutional Theory, the mimetic isomorphism generated by environment uncertainties. For example, a regulator does not clarify the detailed corporate social and environmental activities, and what kind of disclosure that should be communicated by companies (*i.e.* lack of clarity of law No. 40 year 2007). This result reinforces earlier finding that mimetic isomorphism is subjected to ambiguity of the objectives and of the means to reach them. The organization sets up imitation of behavioral heuristics by seeking its model in the organizations that perceive legitimate and success (DiMaggio & Powell, 1983). Normative isomorphism refers to organisational change as a response to exchange with peer organisations and professional associations. Therefore, isomorphism occurring on the basis of such pressures is associated with professionalism.

5.2.3 Descriptive Analysis

Table 5.6 show the descriptive statistics of the independent and dependent variables considered in this study. For continuous variables, there is a high variability in CSER practices across Indonesian listed firms, as the total CSER score varies from 1.267 to 1.99 with standard deviation of 0.283 with mean score of 1.207. It can be seen a high variability in media pressure (PRESSURE) across Indonesian listed firms, as the total media pressure score varies from 0 to 84 with standard deviation of 8.136 and mean score of 4.017. SHARE is measured by the percentage of shareholders who own 5% or more of the company's total shareholding. The SHARE mean value was 68.51 with mean score of 68.510 and standard deviation of 16.939.

The percentage of company's profit that earned in relation to its overall resources can be seen from Return on assets (ROA). Table 5.6 indicates that mean value of ROA was 0.025. In this study, ROA value includes negative numbers. It is indicated that some of the companies concluded the financial year with a loss. It is reasonable to consider a low or negative ROA as a sign of bad management. Leverage ratio is accounted as the extent to which a company depends upon a loan to finance its operations. The LEV mean was 2.912. The higher the degree of leverage, the riskier the company.

Table 5.6

Descriptive statistics for continuous variables

Variables	Mean	Median	SD	Minimum	Maximum
Dependent:					
CSER	1.207	1.292	0.283	0.540	1.699
Independent:					
PRESSURE	4.017	2.000	8.136	0.000	84.000
SHARE	68.510	69.120	16.939	0.000	99.790
Control:					
ROA	0.025	0.019	5.119	-125.5	52.294
LEV	2.912	0.995	18.664	68.98	322.27
SIZE	26.868	26.704	2.183	20.708	32.952
N	740				

Note: CSER –Corporate Social and Environmental Reporting ; PRESSURE- Number of social and environmental articles of the top five Indonesian business newspapers (*e.g.* Jakarta Globe, Koran Tempo, The Jakarta Post, Suara Merdeka, and Kontan) in each company; SHARE:The percentage of shareholders who own 5% or more of total shareholding; PROFIT-Return on Assets is total return on assets measured as the ratio of income before extraordinary items at the end of fiscal year t and total assets at the end of fiscal year t-1; LEV-Long-term debt/book value of equity at the end of fiscal year ; SIZE-Natural logarithm of market capitalization

SIZE is a proxy of a company's size. Company size is measured as the natural logarithm of market capitalization. Market capitalization is calculated by multiplying the company's shares outstanding by the current market price of one share. The SIZE' means value was 26.868 with standard deviation of 2.183. The variability of size seems to be high from 20.708 to 32.952 because of the different size of the companies took in this study.

Table 5.7 depicts the descriptive statistics for binary variables. With regard to the industry sensitivity (SENTV), the findings revealed that 130 companies of the samples (17.6%) are companies categorized under the fewer sensitive industry criteria. Whilst, 610 companies (17.6%) are companies classified under the sensitive industry criteria. There are only 178 companies (24.1%) followed the PROPER program. In addition, 24.1% of the samples have disclosed their social and environmental activities and commitment as well as starting the social and environmental concern stated in their mission or vision statement of their annual report (POSTURE). Government shareholding (GOVERN) used in this study exist only of 7.6%. With regard to the AWRD, the majority of the company's CSER disclosure do not follow the ISRA criteria (83.1%). Finally, most of the companies used in this study have foreign activities (74.9%).

Table 5.7
Descriptive statistics for binary variables

Variables		Freq	%	Disc	t test	Min	Max	SD
SENTV	Fewer Sensitive	130	17.6	1.219	7.237**	0.000	1.000	0.380
	More Sensitive	610	82.4	1.297				
PROPER	Not Follow	562	75.9	1.248	2.979**	0.000	1.000	0.427
	Follow	178	24.1	1.302				
POSTURE	Not Have	556	75.1	1.263	5.107**	0.000	1.000	0.432
	Have	184	24.9	1.320				
GOVERN	Not Have	680	91.9	1.248	9.791**	0.000	1.000	0.265
	Have	56	7.6	1.310				
AWRD	Not Follow ISRA	615	83.1	1.217	10.489**	0.000	1.000	0.374
	Follow ISRA	125	16.9	1.297				
FORACT	Not Have	186	25.1	1.208	7.237**	0.000	1.000	0.433
	Have	554	74.9	1.292				
N		740						

SENTV-One (1) if the company is from a more environmentally sensitive industry and zero 0) if it is from fewer environmentally sensitive industry; PROPER-One (1) for companies under PROPER Program and zero (0) otherwise; POSTURE-One (1) given to companies which disclosed their social and environmental activities and commitment and/or if the company includes social and environmental concern in their mission or vision statement in their annual report, and zero (0) for otherwise; GOVERN-One (1) if government shareholding is exist; 0 if otherwise; AWRD-One (1) if the company's CSER disclosure follows ISRA criteria; and zero (0) if otherwise; FORACT-One (1) if the company has foreign activities and zero (0) if otherwise. Disc% (% mean disclosure).

5.3 Assumptions Testing

The majority of statistical tests depend on assumptions of the variables applied in the research analysis. There are principal assumptions, which justify the use of regression for prediction linearity of the relationship between dependent and independent variables *i.e.* normally distributed error, independence of errors (no serial correlation), free from multicollinearity and homoscedasticity of errors. If the assumptions of OLS regression are not fulfilled, an inaccuracy of the estimation process in the interpretation of the results may occur.

5.3.1 Normality Diagnostics

The most fundamental assumption of regression analysis is normality (De Silva, 2008). The normal distribution is an important assumption in the study. All variables that will be used should have a normal distribution of data. If the variables were not normally distributed (highly skewed variables or kurtotic, or variables with substantial outliers) the relationship between variables will be distorted as well as the level of significance (Osborne & Waters, 2002). Gaussian distribution is another term for normal distribution and follow central limit theorem (Studenmund, 2001). Central limit theorem (CLT), is one of the main theorems in statistics, this theorem states that the sampling distribution of sample means will be approximately normal if the sample size increases (Hays, 1994). Moreover, if the sample size is too large, then it will cause rejection of the normality assumption. Normality can be tested by using visual inspection tools and statistical tests such as histograms, the Kolmogorov-Smirnov test, normal probability plots or test skewness and kurtosis test statistic of the Kolmogorov-Smirnov test and normal probability simple and useful (Hair *et al*., 1998). In line with Hair *et al.*, (1998), Similarly with Hair et.al.(1998), Park (2008) states that graphical and the numerical method is a statistical method that is widely used in testing normality. Numerical methods provide a summary of statistics such as skewness and kurtosis, or conduct statistical tests for normality. Whereas if you use the graphical method, the normality test was conducted with, a random variable with distribution describes or compares the empirical distribution and theoretical distribution (*e.g.*, is the dot plot and histogram). Normality was tested in this study to plot probabilities (PP plot). Probability-probability plot (PP plot) compares the empirical cumulative distribution functions of variables with certain theoretical cumulative distribution function such as the standard normal distribution function (Park, 2008). Based on figure 5.3, the P-P plots below, it indicate that the data points are not extremely diverged from the fitted line.

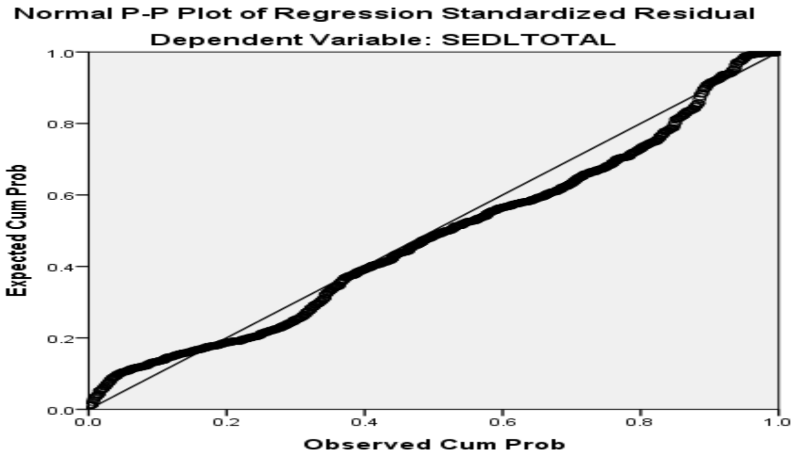


Figure 5.3
Normal P-P Plots

Moreover, they consistently indicate that the residuals of the data are normally distributed. Thus, parametric tests are designed for normal distribution data whose reliance can be used in this study to measure significance (F-scores) and coefficients (t-statistic).

5.3.2 Multicollinearity Diagnostics

Based on Kothari (1995) if the independent variables are highly correlated each other, and then indicating a multicollinearity problem occurs. While the existence of multicollinearity does not influence the consistency of the OLS estimate of regression coefficients, the estimates become extremely imprecise and unreliable (Defusco *et al.*, 2011). Correlation coefficient can be used to indicate the severity of multicollinearity by looking at the value of VIF (Variance Inflation Factor) and condition index. The estimated regression coefficients are measured by VIF.

Table 5.8
Testing for Multicollinearity

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
SENTV	.875	1.143
PROPER	.831	1.203
PRESSURE	.854	1.170
SHARE	.951	1.074
POSTURE	.726	1.377
GOVERN	.830	1.205
AWRD	.664	1.505
FORACT	.881	1.135
ROA	.991	1.009
LEV	.981	1.019
SIZE	.661	1.512

To support this result, variance inflation factor (VIF) is checked. Hair *et al.,* (1998) suggests that multicollinearity exists when VIF value is more than 10. The VIF values for this study range from 1.009 to 1.512. Thus, VIF statistics appear to indicate that there is no multicollinearity problem. The acceptable values of collinearity are considered from the tolerance value of more than 0.10 or the VIF value of less than 10 (Hair *et al.*, 1998). As shown in Table 5.8, there is no evidence of the problem of multicollinearity in the multiple regressions for the models. The largest VIF of the model was 1.377, and it well below the threshold. Hence, the tolerance value was more than 0.10, and the VIF values for all variables were less than 10.

A correlation coefficient is a number that describes the association between two variables. A measurement of the relationship between the independent variables is very important because it can support researchers to achieve the scientific goal. The strength of linear association between two variables is quantified using a correlation coefficient. The correlation coefficients presented and discussed in this study for the variables offer insights into the relationship between the measured variables. Thus, by employed multicollinearity test, researchers can increase their understanding of the causal relationship among variables and then the ability of variables to predict other variables can be increased. In this study, associations among the observed variables were analyzed using bivariate correlation procedure of Eviews v 8. Guildford's (1973) rule of thumb (Table 5.9) was used to deduce the correlation between variables. Correlation coefficients (r) were calculated, to test correlation between dependent and independent variables.

Table 5.9
Guildford's Rule of Thumb

r value	Strength of relationship
< 0.20	Almost negligible relationship
0.20-0.40	Low correlation; definite but small relationship
0.40-0.70	Moderate correlation;substantial relationship
0.70-0.90	High correlation; marked relationship
> 0.90	Very high correlation; very dependable relationship

Source: Gujarati (2003,p.359)

A summary of correlations of the model is presented in Table 5.10. Table 5.10 presents correlation analysis between dependent variable and independent variables. As the correlations among the independent variables are below the threshold value of 0.8 or 0.9, the results indicate that there is no multicollinearity problem (Gujarati, 2003, p.359). The correlations between independent variables in this study range between 0.001 to 0.410, which are less than 0.8 or 0.9. Furthermore, based on Guildford's (1973) rule of thumb, all coefficients have low correlation.

Table 5.10

Correlation Matrix

	CSER	SENTV	PROPER	PRESSURE	SHARE	POSTURE	GOVERN	AWRD	FORACT	ROA	LEV	SIZE
CSER	1	0.064*	0.179**	0.121**	0.164*	0.225**	0.190**	0.048	0.128**	0.018	-0.151**	0.268**
SENTV		1	0.012	0.043	0.135**	0.059	0.001	0.010	-0.142**	-0.001	0.029	-0.023
PROPER			1	0.215**	0.124**	0.341**	0.125**	0.010	0.139**	0.023	0.073*	0.280**
PRESSURE				1	0.074**	0.204**	0.140**	0.024	0.125**	-0.008	-0.011	0.304**
SHARE					1	0.036	-0.051	0.124**	0.084*	0.087*	0.148**	-0.127**
POSTURE						1	0.275**	0.040	0.094*	0.015	0.043	0.402**
GOVERN							1	0.008	0.058	0.014	0.023	0.324**
AWRD								1	0.251**	0.015	0.139**	0.410**
FORACT									1	0.032	0.132**	0.138**
ROA										1	0.110**	-0.001
LEV											1	-0.043
SIZE												1

Note: *. Correlation is significant at the 0.05 level (2-tailed). **. Correlation is significant at the 0.01 level (2-tailed). CSER –Corporate Social and Environmental Reporting Level ; SENTV-One (1) if the company is from a more environmentally sensitive industry and zero 0) if it is from fewer environmentally sensitive industry; PROPER-One (1) for companies under PROPER Program and zero (0) otherwise; PRESSURE- Number of social and environmental articles of the top five Indonesian business newspapers (*e.g.* Jakarta Globe, Koran Tempo, The Jakarta Post, Suara Merdeka, and Kontan) in each company; SHARE:The percentage of shareholders who own 5% or more of total shareholding; POSTURE-One (1) given to companies which disclosed their social and environmental activities and commitment and/or if the company includes social and environmental concern in their mission or vision statement in their annual report, and zero (0) for otherwise; GOVERN-One (1) if government shareholding is exist; 0 if otherwise; AWRD-One (1) if the company's CSER disclosure follows ISRA criteria; and zero (0) if otherwise; FORACT-One (1) if the company has foreign activities and zero (0) if otherwise. PROFIT-Return on Assets is total return on assets measured as the ratio of income before extraordinary items at the end of fiscal year t and total assets at the end of fiscal year t-1; LEV-Long-term debt/book value of equity at the end of fiscal year ; SIZE-Natural logarithm of market capitalization

5.3.3. Heteroscedasticity Diagnostics

OLS regression assumes that the independent variable is independent so that the assumption of homoscedasticity to be fulfilled. Independence of the error term variance of the independent variables can be seen from the data homoscedasticity. If the data used in the regression analysis heteroscedastic it will give results biased estimates for relationships between predictor variables and standard errors,thus the conclusions derived from the data analysis is doubtful. Testing homoscedasticity assumptions made in this study by examining plots studentized residual tests. Figure 5.4 shows that the points in the plot seem to fluctuate randomly around zero in the un-patterned fashion, and the plot did not indicate violations of the assumption of constant variance of the random error. Studentised residual plot of the regression model used in this study showed no heteroscedasticity.

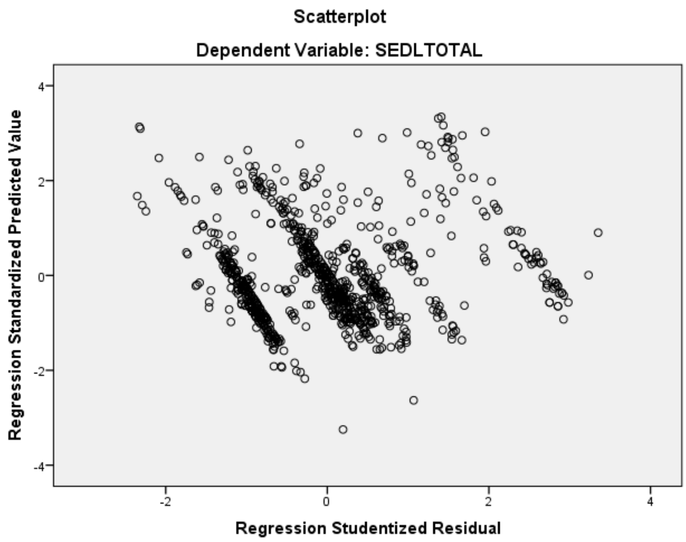


Figure 5.4
Studentized residual plots

In addition, to ascertain whether the data has heteroscedasticity problem, a simple test is conducted within this study with the following steps:

1. Conduct regular OLS regression.
2. Perform regressions with OLS and White heteroscedasticity separately. The White test was suggested by Gujarati (1995). This test includes the regression of the square error from the ordinary least square (OLS) regression on the dependent variable within the model. The White regression shows that the data exactly follows the chi-square distribution.
3. Compare the adjusted R^2 values from both regressions. If both the adjusted R^2 is relatively equal, then no heteroscedasticity problem found. Conversely, if both the adjusted R^2 differ significantly, it indicates that the data contains heteroscedasticity problem.

After heteroscedasticity testing, the results obtained for Pool OLS regression showed that the value of the adjusted R^2 equals to 0.164644 and the result of Pool White regression showed that the White adjusted R^2 value equals to 0.164644. It is concluded that there is no heteroscedasticity indicated in this study. Therefore, an estimation result on the model is good and can be analyzed. A complete regression results can be found in Appendix G.

5.3.4. Autocorrelation Test

Statistical tests (e.g. Durbin-Watson test) were used to identify the presence of autocorrelation among residuals (errors predictions) in the regression analysis. Autocorrelation is the relationship between values separated from each other with a certain lag period. Autocorrelation deals with correlations between the errors that occur in time series, so that it is crucial for ensuring the model built reasonable and representative. However, when data panel is given, the autocorrelation test is not required. According to Hong and Kao (2004) and Inoeu and Solon (2006), testing for serial correlation has not been a standard practice in research that uses panel data. Likewise, such a test does not apply for model research having no lag variables.

5.4. Panel Data Analysis

This section discusses about the pool regression resulting from panel data approach to analyze the relationship between variables. This panel data approach consists of three-estimate models *i.e.* pooled OLS, fixed effect model and random effect model. Additionally, the three estimates were compared to find the best model using three specification test, F-test, the LM test and Hausman test.

5.4.1. The relationship between CSER Disclosure and Its Determinants

Table 5.11 shows the pooled regression results analysis between the companies' performance as independent variables and CSER disclosure (CSER) as the dependent variable. This study‘s sample period was the five years from 2005 until 2009 with 148 companies included in the study, there were 740 observations. Panel analysis of the direct relationship showed the following results.

5.4.2. Model Specification Test

The following test result is used to identify the significant model for the study. The specification tests have been discussed more detail in Chapter 4. The summary of specification test related to the regression of this research will be described in this section. The subsequent test result is used to ascertain the significant model for the study.

5.4.2.1. F-tests (Examining group effects: Pooled OLS or Fixed Effects Model)

Table 5.11 shows the results attained from the panel data analysis, the p-value of F test is one, and the p-value is > 0.05 then accepts the null hypothesis. The results show that the pooled OLS model is the better than FEM models. As shown in Table 5.11, the F test shows that the pooled OLS method is more precise than the FEM, therefore, the results of the analysis used is to follow the model of OLS pool.

5.4.2.2. Lagrange multiplier test (Examining Random Effects: Pooled or REM)

The Lagrange Multiplier (LM) test reveals the random effects of the model. Table 5.11 shows that p value in the results of the LM test is 0.064 and higher than the 0.05. Thus, the result of the LM test fails to reject the null hypothesis, which means that the use of random effects is not proper for this study. In other words, the results showed that there are no random effects that occur in the model, using pooled OLS model seem more appropriate. Moreover, it was not necessary to apply the Hausman test.

5.4.2.3. Conclusion of Pooled Regression's Result

From these specification tests, it can be determined that the POOLS is the most suitable method, as was explained earlier in above paragraph. Pooled Ordinary Least Square (POOLS) regression analysis has been used in this study to observe the association between corporate characteristic's variables and CSER disclosure. It is apparent to Table 5.11 that the overall regression models (Pool OLS,FEM and REM) are significant at the 99 per cent confidence level, as shown by the probability of F = 0.0000. The result in table 5.11 indicates that the adjusted R squared for the model used in the study is 0.164488. It means that the model can explain 16.4488 per cent of the variation in the CSER disclosure. Adjusted R^2 is slightly higher than similar studies done by Murray *et* *al.*, (2006) and Murcia & Santos (2012) which report adjusted R^2 of 10.4% and 6. 65% respectively. Table 5.11 has shown that there is a positive and significant relationship between SENTV, PROPER, PRESSURE, POSTURE, GOVERN, FORACT, SIZE, and CSER. SHARE is also significant; however, the sign of SHARE is inversed related with what was predicted. Moreover, there is a significant negative relationship between LEV and CSER. Conversely, this analysis did not reveal any significant relationships between the AWRD and ROA toward CSER. This result is line with the correlation test (refer to Correlation Matrix on Table 5.10). The involvement of the control variables in the research model affects the influence of the independent variables over the dependent variables more significantly. This can be excerpted from the significant values of each independent variable near 0 in the full model and an increase in the adjusted R^2 value of 16.4488 showing the level of accuracy of the model. As for the model without the involvement of the control variables has the adjusted R^2 only of 3.9594, furthermore the control variables in this study fit to be used in the analysis.

Table 5.11

Pooled Regression Result

		Pooled OLS		**Fixed Effects**		**Random Effects**	
Observation		740		740		740	
No of groups				148		148	
	Predicted sign	Coefficient	Sig	Coefficient	Sig	Coefficient	Sig
C				0.037305	0.0986	0.037305	0.0986
Independent Variables:							
SENTV	+	0.031385	0.0000**	0.029373	0.0000**	0.029373	0.0000**
PROPER	+	0.019305	0.0000**	0.019885	0.0000**	0.019885	0.0000**
PRESSURE	+	0.000816	0.0000**	0.000854	0.0000**	0.000854	0.0000**
SHARE	-	0.000917	0.0000**	0.000862	0.0000**	0.000862	0.0000**
POSTURE	+	0.036852	0.0000**	0.037742	0.0000**	0.037742	0.0000**
GOVERN	+	0.11578	0.0000**	0.117213	0.0000**	0.117213	0.0000**
AWRD	+	-0.00166	0.7503	0.000694	0.8775	0.000694	0.8775
FORACT	+	0.030075	0.0000**	0.029363	0.0000**	0.029363	0.0000**
Control Variables:							
ROA	+	3.47E-05	0.8960	4.66E-05	0.8631	4.66E-05	0.8631
LEV	-	-0.00026	0.0005**	-0.00027	0.0004**	-0.00027	0.0004
SIZE	+	0.009544	0.0000**	0.008345	0.0000**	0.008345	0.0000**
Full Model							
R^2		0.165368		0.165765		0.165765	
Adj.R^2		0.164488		0.163738		0.16479	
F Value				81.77926		171.2098	
Sig.				0.0000		0.0000	
Experimental Variables							
R^2		0.040296					
Adj.R^2		0.039594					
Control Variables							
R^2		0.06773					
Adj.R^2		0.067535					
F Test (Chi-square		0.00000					
Sig.		1.00000					
LM Test (Chi-square)		2.18095					
Sig.		0.06472					

Sources: Results from the panel data analysis ** sig at α=0.001 * sig at α=0.05. **Dependent** Variable :CSER. **Full Model** (SENTV,PROPER,PRESSURE, HARE,POSTURE,GOVERN,AWRD,FORACT) and Control Variables(ROA,LEV,SIZE); **Experimental Variables** consists of Independent Variables (SENTV,PROPER,PRESSURE,SHARE,POSTURE,GOVERN, AWRD,FORACT).

A similar result has been shown on both a hard disclosure regression with the independent variables and also soft disclosure with independent variables (See Table

5.12). The result reveals a significant value in which it is equal to total disclosure value. The only difference between the two is at the value of adjusted R square, showing 14.579% for hard disclosure, and 11.132% for soft disclosure. Therefore, the regression from the total disclosure performs the best with the adjusted R square value of 16.448%

Table 5.12
Pooled, Hard, and Soft Regression Result

Observation		**Hard Disclosure** 740		**Soft Disclosure** 740		**Total Disclosure** 740	
	Predicted sign	Coefficient	Sig	Coefficient	Sig	Coefficient	Sig
Independent Variables:							
SENTV	+	0.029425	0.0000**	0.090290	0.0000**	0.031385	0.0000**
PROPER	+	0.016412	0.0000**	0.014832	0.0000**	0.019305	0.0000**
PRESSURE	+	0.000814	0.0000**	0.000781	0.0001**	0.000816	0.0000**
SHARE	-	0.000956	0.0000**	0.001527	0.0000**	0.000917	0.0000**
POSTURE	+	0.038672	0.0000**	0.033574	0.0000**	0.036852	0.0000**
GOVERN	+	0.059316	0.0000**	0.110159	0.0000**	0.11578	0.0000**
AWRD	+	-0.000837	0.8775	-0.005008	0.1695	-0.00166	0.7503
FORACT	+	0.052992	0.0000**	0.028617	0.0000**	0.030075	0.0000**
Control Variables:							
ROA	+	9.63E-05	0.8631	7.23E-05	0.8026	3.47E-05	0.8960
LEV	-	-0.00383	0.0000	-0.00034	0.0000	-0.00026	0.0005**
SIZE	+	0.011810	0.0000**	0.020050	0.0000**	0.009544	0.0000**
Full Model							
R^2		0.146527		0.11208		0.165368	
Adj.R^2		0.145790		0.11132		0.164488	

Sources: Results from the panel data analysis ** sig at α=0.001 * sig at α=0.05. **Dependent** : Total Disclosure, Hard Disclosure, Soft Disclosure. **Full Model** (SENTV,PROPER,PRESSURE, SHARE,POSTURE,GOVERN, AWRD,FORACT) and Control Variables(ROA,LEV,SIZE);

5.5. Hypotheses Testing

5.5.1. Dependent Variables

The following subsections provide the answer of the second research question in this study, which investigated the relationship between the variables being studied as hypothesized in chapter three. To test the hypotheses in this study, the CSER disclosure variable (CSER) was regressed on each of the eleven independent variables. The pooled regression was performed using Eviews v.8 for the sample of each year from 2005 to 2009. Table 5.10, summarize the results of each set of regressions. Based on Table 5.10, this study provides strong support for hypotheses: H1, H2, H3, H5, H6, and H8. Conversely, for H7, have an insignificant coefficient. Thus, it indicates a failure to support the alternate hypothesis. Furthermore, Hypothesis 4 (H4) is significant, but the direction is inversed related with what was predicted.

Hypothesis related to the firm's sensitivity (H1): Regressions analysis indicated a positive direction of the association with coefficients of 0.031385. The coefficient was significant at the 0.05 level, which means that for the increase in each unit of the SENTV, there is an increase in CSER. Thus, the result indicated that SENTV significantly contributes to the improvement of CSER, and this justifies the **acceptance of the hypothesis.**

Hypothesis related to government environmental monitoring (H2): It was hypothesized (H2) that firms which follow PROPER program is positively associated with its CSER disclosure level among Indonesian companies. The regression analysis showed a significant positive association ($p < 0.05$) with a coefficient of 0.019305. This means that for each unit increase in the independent variable (PROPER), there is an increase in CSER as the dependent variable by the value similar to the coefficients. This result indicated that PROPER significantly contributes to the improvement of CSER. This result justifies the **acceptance of the hypothesis.**

Hypothesis related to print media coverage (H3): It was hypothesized (H3) that firm's print media coverage is positively associated with its CSER disclosure level among Indonesian companies. The regression analysis showed a significant positive association (p <0.05) with coefficients of 0.000816. This means that for each unit increase in PRESSURE, there was an expected increase in CSER as the dependent variable by the value of 0.000816. The result indicated that PRESSURE significantly affects CSER. This finding justifies the **acceptance of the hypothesis.**

Hypothesis related to blocholder ownership (H4): It was hypothesized (H4) that blockholder ownership is negatively associated with the CSER disclosure level among Indonesian companies. The regression analysis showed a positive and significant association (0.000917, p< 0.05), but the direction is inversed related with what was predicted. This means that **the hypothesis is not supported.**

Hypothesis related to strategic posture (H5): POSTURE proxy was chosen to test the strategic posture argument. The result of regression analysis demonstrated a significant positive association (p < 0.05) with the coefficients of 0.036409. This means that for each unit increase in POSTURE there was an increase in CSER by the value of 0.036852. This finding justifies the **acceptance of the hypothesis.**

Hypothesis related to Government Shareholding (H6): GOVERN proxy was chosen to test the coercieve isomorphism argument. Regression analysis demonstrated a significant positive association (p < 0.05) with coefficients of 0.115925. This means that for each unit increase in GOVERN; there was an increase in CSER by the value of 0.11578. This result indicating that GOVERN significantly contributes to the improvement of CSER. This finding justifies the **acceptance of the hypothesis.**

Hypothesis-related Award (H7): AWRD proxy was chosen to test the normative isomorphism argument. Table 5.10 demonstrated a positive association with coefficients of -0.00166 (p>0.05). A decrease in AWRD was followed by an increase in CSER by the value of -0.00166. Nevertheless, insignificant coefficient (*p* value>0.05) indicates that AWRD did not give an improvement to CSER. This suggests that AWRD was not significant to CSER. This means that **the hypothesis is not supported.**

Hypothesis related Foreign Activities (H8): The regression analysis showed a significant positive association ($p < 0.05$) with a coefficient of 0.030075. This means that for each unit increase in the independent variable (FORACT), there is an increase in CSER as the dependent variable by the value similar to the coefficients. This result indicated that FORACT significantly contributes to the improvement of CSER. This result justifies the **acceptance of the hypothesis.**

5.5.2. Control Variables

Among control variables, Lev (with coefficient of -0.00166; p value of 0.0004) and Size (with coefficient of 0.009544; p value of 0.000) were shown to be significant in the full model. Lev is measured by long term debt/book value of equity at the end of fiscal year and SIZE measured by natural logarithm of market capitalization are generally related to increased CSER disclosures. Conversely, firm ROA (with coefficient of 3.47E-05; p value of 0.8631) does not affect the CSER disclosure quality. Finally, the decision to disclose corporate social and environmental activities will decrease a company's income. Therefore, companies that have high leverage will reduce their CSER disclosure level. A negative relationship was also reported by previous studies (*e.g*. Cormier & Magnan, 2003; Dhaliwal *et al.*, 1982; Elijido-Ten, 2004; Hagerman & Zmijewski, 1979; Roberts, 1992). Similar to previous studies, it is more likely that larger companies in Indonesia will consider social and environmental activities and disclosure as a way of enhancing corporate reputation (*e.g*. Adams *et al.*, 1998; Belkoui & Karpik,1989; Cormier &Magnan, 2003; Cowen *et al.*,1987; Ness & Mirza,1991; Neu *et al.*, 1998; Sarumpaet, 2005).

5.5.3. Sensitivity Analyzes of the CSER Model

An additional sensitivity analyzes are performed, an OLS regression was performed where the dependent variable is the CSER disclosure score, which deflated year-specific regressions. The result of this test justifies that pooled OLS regression is robust. Based on Table 5.13, the result from annual regression is consistent with the results shown in the pooled OLS regression (Table 5.11). Moreover, it reinforces the relationship between most of the explanatory variables, and the CSER disclosures are stable over time. The mean adjusted R^2 for the five annual regressions is 16.708% (refer in Table 5.13). The mean of the annual coefficient is close to the result from pooled OLS in Table 5.11. Furthermore, the results from annual regressions are consistent with evidence from the pooled regression and demonstrate that the associations between most explanatory variables and CSER disclosure are properly stable over time. Notwithstanding, overall interpretations about the determinants of CSER disclosure remain similar.

Table.5.13
OLS regressions by year-spesific regression

	2005 coeff.	2006 coeff.	2007 coeff.	2008 coeff.	2009 coeff.	mean coeff.
SENTV	0.013887*	0.000773**	0.023601*	0.036556**	0.070749**	0.03091
t stat.	(2.29645)	(4.20645)	(2.83084)	(4.41117)	(4.78849)	
PROPER	0.008539	0.005429*	0.010597**	0.009784**	0.026464**	0.12036
t stat.	(0.54436)	(2.43430)	(3.21723)	(3.24468)	(3.04943)	
PRESSURE	0.001382**	0.002931**	0.003361**	0.001604**	0.000182**	0.00222
t stat.	(3.27855)	(3.27965)	(4.692785)	(2.99583)	(4.79935)	
SHARE	0.000685	0.000327	0.001439	0.000596**	0.000275**	0.00066
t stat.	(1.02140)	(1.36255)	(1.12433)	(4.10134)	(3.3488)	
POSTURE	0.009738**	0.010754	0.010016*	0.035735**	0.057885**	0.02483
t stat.	(2.96255)	(1.36255)	(2.12433)	(2.88549)	(3.79772)	
GOVERN	0.092300**	0.059905**	0.003062**	0.012216**	0.012288**	0.10373
t stat.	(4.72271)	(4.72271)	(6.17814)	(6.80854)	(5.79977)	
AWRD	0.000157	0.008609	0.165636	0.88496	0.086018	0.00483
t stat.	(0.72419)	(0.72419)	(0.26209)	(0.73955)	(1.86440)	
FORACT	0.006906**	0.014182**	0.028291	0.032707**	0.037374**	0.02789
t stat.	(4.96237)	(4.88955)	(3.65349)	(4.08408)	(5.34765)	
ROA	0.012765	0.003623	0.010713	0.000678	0.001822	0.00319
t stat.	(0.88955)	(0.88955)	(0.65464)	(0.84089)	(0.87678)	
LEV	-0.00022**	-0.00382**	-0.00108**	-0.00266**	-0.0008**	-0.00124
t stat.	(-4.26241)	(-4.7756)	(-3.53037)	(-4.14333)	(4.14301)	
SIZE	0.011097**	0.012608**	0.009626**	0.011242**	0.010674**	0.01105
t stat.	(12.5727)	(12.34627)	(16.30712)	(16.4333)	(15.9684)	
R^2	0.135409	0.119276	0.164526	0.203438	0.219021	0.168334
Adjusted R^2	0.130763	0.118862	0.160005	0.200507	0.218659	0.167084
S.E.	0.125325	0.136644	0.136275	0.134218	0.14781	0.133973

Note: t value are presented in the bracket. **,* represent significance levels at 1%, 5% . **Dependent Variabl**e:CSER

5.5.4. Summary of Findings

This part presents the summary of the results aimed at providing a solution to the research questions in this study (as shown in Table 5.14).

Table 5.14
Summary of Findings

	Alternate Hypotheses	Predicted Sign	Actual Sign	Result	Outcome
H1	Firm's industry sensitivity is positively associated with its CSER disclosure level	Positive (+)	Positive (+)	Significant	Accepted
H2	Firm which follow government environmental monitoring program is positively associated with its CSER disclosure level	Positive (+)	Positive (+)	Significant	Accepted
H3	Firm's print media coverage is positively associated with its CSER disclosure level	Positive (+)	Positive (+)	Significant	Accepted
H4	Firm's blockholder ownership is negatively associated with its CSER disclosure level	Negative (-)	Positive (+)	Significant	Rejected
H5	Firm that disclose their strategic posture is positively associated with its CSER disclosure level	Positive (+)	Positive (+)	Significant	Accepted
H6	Firm's government shareholding is positively associated with its CSER disclosure level	Positive (+)	Negative (+)	Significant	Accepted
H7	Firm's social and environmental disclosure that in line with ISRA criteria is positively associated with its CSER disclosure level	Positive (+)	Positive (+)	Not Significant	Rejected
H8	Company's foreign activity is positively associated with its CSER disclosure level.	Positive (+)	Positive (+)	Significant	Accepted

5.5.5. Overall Discussion of Hypotheses

Hypothesis Related Sensitivity (H1: SENTV). Industry sensitivity was found to be positively significant related to CSER disclosure level. Thus, industry sensitivity has a significant explanatory power to describe CSER disclosure. Positive accounting theory point of view, the CSER disclosures can be seen as an opportunity provider for managers in a certain industry (sensitive industry – *e.g.* minings) to act in such a manner that the reports will be the primary means by which the managers provide information to shareholders (Ness & Mirza, 1991; Watts & Zimmerman, 1978). Assuming that other factors remain constant, industry sensitivity leads to CSER improvement. Among diverse companies in legitimacy studies, industry classification is a usually accepted as a factor to distinguish the CSER disclosure (Yao *et al.*, 2011). A greater visibility of an industry sector may drive disclosures as firms seek to avoid undue pressure and criticism from social activists (Patten, 1991). A larger potential environmental impact industry is considered to have greater pressures with respect to environmental concerns than industries with less environmental impact. As such, companies with greater public visibility are more likely to disclose corporate social and environmental activities. In Indonesia, companies which are environmentally sensitive industries pursue strategies (*e.g* disclose their social and environmental activities) that are consistent with legitimacy strategy, as these strategies enable them to focus on activities that impact the environment. This result particularly supports previous studies (*e.g*. Deegan & Gordon, 1996; Gray *et al.*, 2001; Hacston & Milne, 1996). Based on institutional viewpoint, the mimetic isomorphism copying practices may occur in Indonesia in a more specific industry. Companies in more sensitive industries may disclose more information on social and environmental issues as the companies have greater risks during their operations than companies in fewer sensitive industries (DiMaggio & Powell, 1983). Thus, the association between industry sensitivity and CSER disclosure can be viewed from positive accounting theory, legitimacy theory and institutional theory.

Hypothesis Related Government Monitoring Program (H2:PROPER). Analysis of data related to H5 found that firms under PROPER program were significantly and positively associated with their social and environmental disclosure level. The positive and significant result between government monitoring program and CSER disclosure means that a company acquiring PROPER ranking commonly states that the achievement on its annual reports is a part of the company's strategy to show their legitimacy to the society. Good environmental performance is expected to increase company's reputation and attract investors. Based on the notion of legitimacy theory companies must act within the boundary of a socially acceptable behavior in order to continue to operate successfully (Jupe, 20005). Firms can practice CSER disclosures as part of their legitimation strategy. Several factors that can lead to social pressure are as follows: public dissatisfaction (sometimes indicated by the consumer lobby), the activity of the shareholders in the form of ethical investment, new legal action or proposed, and the difference in understanding regulation (Walden & Schwartz, 1997). CSER disclosure is issued by the company due to the social pressures of the social environment. CSER is very beneficial to society. CSER disclosure itself can measure the development of policies or to complete the enforcement of policy by relevant organization (Rhodes, 2010). From stakeholder perspective, the significant and positive result of this hypothesis means that a variety of stakeholder groups having an interest in the CSR activities of businesses, mostly consider their voluntarily produced reports due to lack of company's credibility and the skeptical view of firms' social responsibility reporting (Tilt, 1994). Tilt (1994) also argues that the formation of stakeholders that have the greatest influence on environmental activities as perceived by companies come from (in descending order): (a) government, (b) public, (c) consumers, insurance companies, and shareholders, (d) lobby groups, banks, suppliers, and the media. Tilt (1994) stated that the Ministry of Environment could view the company's visibility from their participation in the government's environmental assessment program (e.g. PROPER). Moreover, firms under the supervision of the government will undertake a wider CSER disclosure in their annual reports than companies that do not follow the government's environmental assessment program (Sarumpaet, 2005). This study is consistent with previous studies that investigated the association between government environmental monitoring program and CSER disclosure (e.g. Hibbit, 2003; Sarumpaet, 2005; Tilt, 1994; Walden & Schwartz, 1997). Thus, the association between government environmental monitoring program and CSER disclosure can be viewed from legitimacy theory and stakeholder theory.

Hypothesis Related Media coverage (H3: PRESSURE). This study found empirical evidence to support the hypothesis that the level of a firm's environmentally-related print media coverage (which was proxied by PRESSURE) is positively associated with the CSER discosure level. From institutional theory and stakeholder theory point of views, print media coverage in Indonesia can be seen as a coercive pressure, than companies employed coercive isomorphism by undertaking institutional practices (e.g. CSER disclosure practices) due to pressures from the media as their influential stakeholders (DiMaggio & Powell,1983). Likewise, coercive isomorphism relates to the managerial branch of stakeholder theory, whereby a company will, for example, use voluntary corporate reporting disclosure to address the economic, social, and environmental and ethical values and concerns of those stakeholders who have the most power over the company. The company is therefore coerced by its influential stakeholders into adopting particular voluntary reporting practices (Deegan, 2007). From legitimacy theory, media coverage may indicate social pressure. The higher the media coverage of a company, the higher the attention of the public as a result of social pressure will increase. Media's ability to communicate of a news to the society can affect the individual's mental. Although the media are not always able to persuade public opinion, but they are able to influence people to think about the news (Cohen, 1963, as cited in De Silva, 2008; McCombs & Shaw, 1972). The agenda-setting function of mass communication is the capability of mass media to influence cognitive change and to build the thinking of individuals (McCombs & Shaw, 1972). The media posits a relationship between the relative emphasis given by the media to various topics and the degree of salience these topics have for the public. Thus, they can influence public priorities rather than mirror them. This study supports previous studies that media are powerful and can influence the public agenda (*e.g*. Adler, 1995; Adler & Milne, 1997; Brown & Deegan, 1998; McCombs & Shaw, 1972; O'Donovan, 1999). Thus, the association between print media coverage and CSER disclosure can be viewed from institutional theory, stakeholder theory and legitimacy theory.

Hypothesis Related Blockholder Ownership (H4: SHARE). The result of this study found that SHARE (as a proxy of blockholder ownership) was significant and positively associated with the CSER disclosure level, but the direction is inversed related with what was predicted. Many researchers have used the managerial branch stakeholder theory to determine why companies report their social and environmental information (Reverte, 2009). Company manages and manipulates their substantial stakeholder perceptions using CSER disclosure to gain support from stakeholders (Gray *et al*., 1996). If shares are in the hands of a few large shareholders, there is less public accountability, and therefore, it is expected that ownership concentration is negatively associated with CSER disclosure (Banwarie, 2010). However, the significant and inverse direction (positive sign) result in this study means that blockholders are perceived as long-term investors, they can work as active devices of monitoring management. Thus, blockholders ownership has shown to be a powerful determinant of Indonesian firm. In other words, this set of results can be interpreted as a signal that large blockholders of Indonesian firm consider CSER policy as a way of increasing firm image and reputation with possible value creation in the long run. This finding is inconsistent with previous studies in this area (*e.g*. Banwarie, 2010; and Ghazali, 2007). Conversely, this study was supported by research conducted by Crisostomo, & de Vasconcellos (2011); Jung and Kwon (2002); Said, Zainuddin, & Haron (2009) that have found a positive effect of blockholder ownership on CSER disclosure.

Hypothesis Related Strategic Posture (H5: POSTURE). This study found evidence to support the hypothesis that strategic posture was positively associated with the CSER disclosure level. It was also found from pooled regression analysis that strategic posture was a predictor or a significant exploratory variable of CSER disclosure level. The finding confirms the hypothesis that firms with active posture towards social and environmental issues are positively associated with their CSER disclosure level. Based on institutional theory point of view, normative isomorphism pressures might occur when a firm has a stated goal related to its CSR activities in an annual report as such a goal reflects the way the company should behave (Amran & Susela, 2008). Its pressure could arise from government law No. 40/2007 regarding Limited Liability Company, which obliges a company with business related to natural resources to implement social and environmental responsibility. The law also stipulates that all corporations should report CSR implementation in the annual report. From stakeholder theory point of view, strategic posture is the second dimension of Ulmann's (1985); this dimension is able to explain the rationale of management in response to the demands of the stakeholders. Strategic posture consists of passive and active posture. A firm adopting passive strategic posture makes no attempt to monitor and manage its relationship with its stakeholders (Elijido-Ten, 2004). Active posture can be demonstrated with good financial performance, a high level of CSER. By using the active posture, managers try to influence, and to continue to monitor the company's relationship with key stakeholders, such as employees, to achieve an optimal level of interdependence and pursue a strategy of optimal stakeholders (Kent & Chan, 2009). Hatten (1978, as cited in Robert, 1992) defines corporate strategy as a strategy associated with the goals and objectives of the products offered, markets served and the environment in which it operates. This present study showed that in the Indonesian context, companies that provide more and better social and environmental information use mission and vision statements recognizing social and environmental activities as a strategic posture. Consequently, firms displaying active strategic posture contribute to the improvement of CSER disclosure. The results of this study support previous research in the strategic posture argument of stakeholder theory (*e.g*. Chan & Kent, 2003; Elijido-Ten, 2004; Robert, 1992). Thus, the association between strategic posture and CSER disclosure can be viewed from institutional theory and stakeholder theory.

Hypothesis Related Government Shareholding (H6:GOVERN). The study found evidence to support the hypothesis that the existence of government shareholding (proxied by GOVERN) was significantly and positively associated with the CSER disclosure level. Based on stakeholder theory point of view, the result reveals that a greater government shareholding in a company contributes to a stronger political connections, and larger donations that can help firms mitigate unfavorable government's intervention and tension between the firm and its stakeholders. The introduction of recommendations to reporting the social and environmental activities is a further confirmation of the government’s regulatory power on Indonesian firms' social and environmental disclosures. Hence, firms use corporate social and environmental disclosure as a strategic tool to fulfill the demand of this powerful stakeholder *(i.e.* the government). Based on positive accounting theory argument, firm's usage socially responsible action is to decrease the government interventions that may affect the firm's value. Government ownership and disclosure are significantly related. Thus, by developing CSER disclosures it will reduce moral hazard and agency problems that is caused by government ownership in the company.

Based on institutional theory, the association between government shareholding and CSER disclosure can also be seen from coercive isomorphism argument. Coercive isomorphism, similar to managerial stakeholder theory, refers to a situation in which organizations undertake institutional practices (e.g.CSER disclosure) because of pressures from stakeholders who are considered important and influential to the organization (Deegan, 2007). The Indonesian government is managing CSER issues seriously. This can be seen in the changes in regulations related to social reporting practices in Indonesia. From December 7th 2006, under the Indonesian Securities Supervisory Agency (BAPEPAM)'s regulation, all registered companies are mandatory to report any social responsibility activities in their annual reports (see Badan Pengawas Pasar Modal dan Lembaga Keuangan 2006). This law is then strengthened by the Act No. 40/2007, which requires limited companies in and/or related to the area of natural resources, regardless of whether they are listed or not, to do social and environmental activities (Pemerintah Republik Indonesia, 2007). This act, which was effective from 16 August 2007, also requires all limited companies (not only companies dealing with natural resources) to release their social and environmental activities in annual reports (Cahaya *et al.*, 2008). Companies that have significant government investments normally have government-appointed directors in their board of directors. These directors have some influence on certain decisions to align the firms with the goals of the government. Over and done with their actions, the dynamic forces of field coercion come into play (Amran & Susela, 2004). The positive and significant result in this context is that firms that display coercieve isomorphism contribute to the improvement of CSER disclosure. This result supports earlier findings on the coercieve isomorphism argument of institutional theory (*e.g.* Cahaya, 2008; Carpenter & Feroz, 2001). Thus, the association between government shareholding and CSER disclosure can be viewed from stakeholder theory, positive accounting theory and institutional theory.

Hypothesis Related Award (H7: AWRD). Companies' CSER disclosure that is in line with ISRA criteria (proxied by AWRD) was not significantly associated with their social and environmental disclosure level. This means that the normative isomorphism argument could not be proven. Organizational changes in response to exchange with peer organizations and professional associations are referred to as normative isomorphism. Normative isomorphism occurs because of the pressure associated with professionalism (DiMaggio & Powell, 1983). The basic emphasis on normative isomorphism is to regulate how the dimensions prescriptive, evaluative, and obligatory affect the implementation of corporate social and environmental activities. Thus, this normative isomorphism dimension covers both the values and norms. Winning CSR award is one strategy that can improve the company's image in the eyes of stakeholders. Award is arecognition for the winners and verifies their compliance with the criteria of the award. Hence, this factor can influence a company to make a better CSER disclosure (Amran & Susela, 2004). In respect to that, insignificant association found in this study suggests that from normative isomorphism argument, improvement of CSER disclosure in Indonesia is not determined by imitating another companies'social and environmental activity that in line with ISRA criteria (AWRD). This finding is inconsistent with previous studies in this area (*e.g.* Amran &Susela, 2004). The insignificant relationship between the award variable (AWRD) with CSER disclosure may occur because the number of Indonesian companies that publish stand-alone sustainability report is still very narrow. The number of participants increased from seven participants in 2005. In 2011, only one independent publishing company Sustainability Report to around 30 participants. Accordingly, when compared with the total companies listed in Indonesia Stock Exchange, the percentage of companies that issue stand-alone Sustainability Report from 2005 to 2011 year is still very low, ranging from 2% to 7%. (ISRA 2011). Moreover, the number of publications has increased sustainability report shows that companies begin to realize that they have a responsibility not only to their shareholders but also to stakeholders. Thus, the insignificant result means institutional theory and stakeholder theory failed to explain the association between Award and CSER disclosure.

Hypothesis Related Foreign Activities (H8:FORACT). This study found evidence to support the hypothesis that companies'foreign activities (FORACT) were positively associated with its social and environmental and environmental disclosure level. Hence, the positive significance of international operations, therefore, entails that companies in Indonesia have to disclose additional information on CSER issues in their annual reports in order to compete and better survive in a global market. CSER disclosure are made as reactions to environmental pressures (economic, social, and political) in order to legitimize the corporation's existence and actions (Guthrie & Parker,1989). This result also suggests that the mimetic isomorphism argument was proven. Mimetic isomorphism is the practice to replicate the performance, structure, and practices of other organizations in response to an uncertainty situation. Uncertainty is a situation where the management is under pressure to improve performance, but they do not know how to achieve this goal (DeVilliers & Alexander, 2008). To maintain the company's image and viability of the company, various methods are used to follow or imitate the international companies that are more successful in order to be accepted as part of a multinational fraternity. In conclusion, under uncertainty, companies, which are involved in international trade, will mimic the practices of successful competitors to gain competitive advantage and maintain the legitimacy of the company (Cahaya *et al*., 2008). Such behavior is more likely to occur when the regulatory environment is not certain (DiMaggio & Powell 1983). This uncertain situation is consistent with the CSER reporting phenomenon in Indonesia in which the regulator does not clarify the detailed CSER activities and the disclosure that must be communicated by companies. To be able to compete globally, an internationally operating IDX listed company may, therefore, apply a particular CSER disclosure practice, such as Global Reporting Initiative, SRI, *etc*., and disclose that application in its annual reports. With such practices, the positive and significant result is that companies, which do mimetic isomorphism by displaying their foreign activities significantly, contribute to the improvement of CSER disclosure. This result supports earlier findings from the mimetic isomorphism argument of institutional theory (*e.g*. Amran & Susela, 2004; Cahaya *et al.*, 2008). Thus, the association between companies' foreign activities and CSER disclosure can be viewed from legitimacy theory and institutional theory. The research on social and environmental reporting explained that are many modifications in the theoretical perspectives have been implemented (Deegan, 2002). A shift has arisen by some researchers to use more than one theory to offer an explanation for particular managerial actions between a number of theories, and also to provide slightly different and useful insights (Fiedler and Deegan, 2002). Based on the discussion of the all hypotheses, it can be concluded that a considerable amount of overlap exists between the managerial branch of stakeholder theory and legitimacy theory (Gray *et al.*,1995a). Reflecting the overlapping nature of many theories, the idea of legitimacy is also essential to institutional theory (DiMaggio & Powell, 1983). Companies change their structure or operations to conform to external expectations about what forms or structures are satisfactory. Likewise, Deegan (2002) argued that a number of theories such as stakeholder theory (managerial branch), political cost hypothesis of positive accounting theory, institutional theory, which are overlapping to some extent, would also have been relevant in explaining environmental disclosure (Deegan, 2002 cited in Shiddique, 2009). Thus, this study can help the policy-makers and regulators to recognize the need for changing the current accounting practices to include a new and relevant set of descriptions of organizational actions on the natural system and thereby assist them in developing proper and rational environmental standards to promote organizational accountability (2009).

5.6. Summary

This chapter provides an in-depth discussion on all significant related variables from economic, social, and political perspectives. This chapter has proven that positive accounting theory, legitimacy theory, stakeholder theory, and institutional theory overlap each other. Likewise, Deegan (2002) argued that a number of theories such as stakeholder theory (managerial branch), political cost hypothesis of positive accounting theory, institutional theory, which are overlapping to some extent, would also have been relevant in explaining environmental disclosure (Deegan, 2002). The results of this study have provided an insight into some explanatory factors that have significant associations in the improvement of CSER disclosure. The data supports 6 out of 8 alternative hypotheses formulated in this study. A round-up report of the entire study, including the limitations of the study, limitations of the study, implications and suggestions for future research, will be presented in Chapter 6.

CHAPTER SIX

CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

This chapter presents the summary of the results, discusses implications, contributions, assumptions and limitations of the study, as well as suggestions for future research, and conclusion. The first section is devoted to the summary of research finding, the second section to research implications. The third section describes research contributions. The fourth section describes the assumptions and limitations of the study. The fifth section is devoted to suggestions for future research, and finally, the sixth section concludes the study.

6.2 Summary of the Study’s Findings

This study is an empirical attempt to find plausible answers to several questions pertaining to CSER. This study aimed at presenting a framework that can explain CSER in terms of the determinants and the consequences. Existing literatures indicate a lack of consistency in previous findings. This study extended previous social and environmental reporting studies. It tries to fill the theoretical and empirical gap in the CSER being practiced in Indonesia. This study gives better insight of the underlying reasons and motivations of CSER, and to provide better knowledge on companies’ considerations as a part of the corporate social and environmental process.

The first research question is deceptively simple but arguably important, i.e. “What is the extent of CSER among Indonesian companies?” In respect to this research question, this study provides a more recent examination of CSER in companies’ annual reports, as well as other reports of Indonesian publicly listed companies.

Aspects of CSER that are not extensively studied, particularly in Indonesia, were also examined in this research. They include:

- a focus on content-quality as opposed to quantity.
- a combination tools of Clarkson's environmental index and Sutantoputra's social index. This index is divided into two sections: hard disclosure and soft disclosure.
- a thorough study on social and environmental disclosure appearing in a variety of corporate social and environmental reports.
- a thorough study on the CSER disclosure trend over five period.
- employment of eclectic theories approach.

Addressing the first section in research question, a systematic investigation into CSER disclosure of a five year data from 2005 to 2009 of 740 Indonesian publicly listed companies were carried out. The results revealed that the extent of CSER in Indonesia has increased from year 2005 until 2009 and dominated by soft disclosures (items that are not easily verified). Regardless of years and industries, the number of soft disclosures was always higher than of hard disclosure. This was not surprising considering that this type of social and environmental information is easier to copy or mimic than the exact and verifiable social and environmental information. The practice of adopting similar practices in institusional theory is referred to as isomorphism. The upward trend shows an increase of total CSER disclosure‘quality. The requirements of the Corporate Law No. 40 year 2007 to hold on CSR activities have strongly influenced the social and environmental reporting of Indonesian companies that include the need to report, and the companies CSR activities. The mandatory requirements have successfully increased awareness of Indonesian companies to provide social and environmental reporting. Further regulation is to be reinforced, careful consideration of the reporting requirements is needed.

The second research question addresses the strength of the association between determinants of CSER disclosure and the level of CSER disclosure among Indonesian companies. The pooled regression results of this study have provided insights into some explanatory factors that have significant associations in the improvement of CSER disclosure. This study employed profitability, leverage and size as control variables. The results of this study support 6 out of 8 alternative hypotheses formulated in this study.

This study has employed the hypothetico-deductive method. The implementation of CSER disclosure in Indonesia is examined using eclectic-theories approach, which covers economic, social, and political theories to develop a descriptive model to explain human behaviors. According to Collin *et al.* (2009), "Eclectic theories are analytical tools that make use of different theories in order to find the factors that can create a satisfactory explanation, without any commitment towards the need of integrating one theory's factors into another theory". All of the four theories exploited were as used to formulate testable hypotheses based on the previous research, and the predicted association between variations in the volume of CSER disclosure and in other explanatory variables. Pooled OLS regression findings are presented in relation to various hypotesized associations between the variations in the volume of CSER disclosure and the variations in other explanatory variables. The results reported in this study provide partial support for the predictions of all theories. Some of the predictions shown werewell-founded, whereas others were not.

Industry sensitivity was found to be positively and significantly related to CSER disclosure level. Thus, industry sensitivity has a significant explanatory power to describe CSER disclosure. The association can be viewed from positive accounting theory, legitimacy theory and institutional theory. The positive and significant result between government monitoring program and CSER disclosure can be viewed from legitimacy theory and stakeholder theory. The empirical evidence of this study supports the hypothesis that the level of a firm's environmentally-related print media coverage (which is proxied by PRESSURE) is positively associated with the CSER disclsure level. Thus, the association can be viewed from institutional theory, stakeholder theory and legitimacy theory.

SHARE (as a proxy of blockholder ownership) was significantly associated with the CSER disclosure level, but the direction is inversely related with what was predicted. It was also found from the pooled regression analysis that strategic posture was a predictor or a significant exploratory variable of CSER disclosure level, and the association can be viewed from institutional theory and stakeholder theory. Moreover, government shareholding (proxied by GOVERN) was significantly and positively associated with the CSER disclosure level. Thus, this association can be viewed from stakeholder theory, positive accounting theory and institutional theory. Companies' CSER disclosure that in line with ISRA criteria (proxy by AWRD) was positively but not significantly associated with their social and environmental disclosure level. Companies' foreign activities (FORACT) were positively associated with its social and environmental and environmental disclosure level, and this association between company's foreign activities and CSER disclosure can be viewed from legitimacy theory and institutional theory.

It may be assumed that each of the four theories employed in this study is empirically valid within the positivist tradition. Each theory has something to offer to determine why firms provide social and environmental disclosure. However, the association between CSER disclosure and other variables may still be uncertain because the same data set may result in different interpretations, depending on the chosen theoretical framework; there is a general agreement amongst researchers from different viewpoints on the veracity of the raw data itself (Ryan *et al.*, 1992). Moreover, previous studies have used several theories (i.e. positive accounting theory (PAT), legitimacy theory (LT), stakeholder theory (ST), and institutional theory (IT)) to explain the observed relationship. Similar firm's characteristics such as SIZE and Leverage may be used to support any of the proposed theories (Ljungdhal, 1999). Even though each of the four theories employed in this study has not found very strong empirical support as shown by the results, it does not mean that these theories are invalid and hence dismissed. This is because a large and growing body of CSR research has failed to produce a consistent relationship between social and environmental disclosure, as well as other explanatory variables (Hibbit, 2003). As concluded by Gray et al. (1995), CSR is a complex activity that cannot be fully explained by a single theoretical perspective. Consistent with Gray *et al.* (1995), it should be recognized that there is much overlapped between other theories and Legitimacy Theory. Treating legitimacy Theory and others as sharply discrete theories would be mistaken.

In relation to the overlap between legitmacy theory and positive accounting theory, both theories explore the simliar presumed association (*i.e.* political visibility). While under positive accounting theory, political visibility is perceived as susceptible to political assumption, particularly from government and administration to look at as acting in the public interest to maintain their own wealth. Under legitimacy theory, political visibility is perceived as exposed to the public to reduce the social pressure. Considering the overlap between positive accounting theory and stakeholder theory, the political costs hypothesis (from positive accounting theory) and the government power (from Institutional and Stakeholder Theory), both recognize the ability of the government to have an impact on corporate strategy and performance. Therefore, a higher level of perceived governmental influence on corporate acativity is expected to lead to a greater effort to meet government expectations (Robert, 1992). In relation to the overlap between legitimacy theory and stakeholder theory, Deegan and Bloomquist (2006) stated that both theories perceived an organization as a branch of a broader social system in which it affects and is affected by other groups within a society. Legitimacy theory discusses the expectations of society in general. Stakeholder theory refers to the issues of stakeholder power, and how a stakeholders' relative power impacts their ability to 'coerce' the organization into compliance with their expectations. Moreover, legitimacy theory also has much overlapped with institutional theory, as it offers an explanation of how the mechanism through which firms seek to align perceptions of their practices and characteristics with social and cultural values (in order to gain or retain legitimacy) to become institutionalized (Deegan, 2007). Likewise, coercive isomorphism from Institutional Theory is related to the managerial branch of stakeholder theory, whereby a company will, for example, use voluntary corporate reporting disclosure to address the economic, social, and environmental and ethical values and concerns of those stakeholders who have the most power over the company. The company is therefore coerced by its influential stakeholders into adopting particular voluntary reporting practices (Deegan, 2007). In this context, these theoretical perspectives should be seen as complementary rather than competing. Employing only sociological and political perspective might ignore the economic nature of corporations, and vice versa (Orij, 2007). Sometimes a joint consideration of diverse theoretical perspectives can offer a more holistic understanding of particular practices.

6.3 Implications of the Study

This section presents implications of the study to theory building or knowledge enrichment in CSER, management and practical perspective, and methodological viewpoints.

6.3.1 Theoretical Perspectives

Previous researches in corporate social responsibility have explained factors that contribute to corporate disclosure. This study may be the first study in Indonesia that attempted to determine the motive of CSER disclosure using four different theories jointly. With these different perspectives, results and explanations from different theories are compared to establish paradoxes, conflicts, or even complementaries. The insights of alternative theories help extend or revise one's theoretical stance and understanding of the topic under scrutiny (Hoque, 2006). A joint consideration based on different theoretical perspectives can offer a more holistic understanding of particular practices. In respect to that, this study ascertained the different assumptions of each paradigm by analyzing data using codes from the constructs and protocols of each perspective, and rebuilt one's focal theory by comparing and contrasting each set of results to establish differences, contradictions or even similarities (overlaps between theories). The findings of the present study, to certain extent, fill the gap that exist between empirical and theoretical knowledge of CSER.

6.3.2 Methodological Perspectives

The development of CSER is still relatively new to academics and researchers in the management accounting field. Development of research streams for environmentally conscious practices is currently occurring. With the existing cross-disciplinary theory, (*i.e.* multiple-theories approach), development of a theory from various perspectives is essential to increase the body of knowledge. The fundamental concern about the use of multiple-theories approach is that it carries theories with different philosophies (ontology and epistemolgy) that can lead to theoretical and methodological opportunism and incoherence. The association tested in this study are straightforward and uses the combination of Clarkson's environmental index (Clarkson, 2007) and Sutantoputra's social index based on Global Reporting Initiative (GRI) reporting guidelines as a tool to measure the level of social and environmental reporting. This index describes better, the firm's reporting commitment than other indices employed by previous studies (*e.g.* using word count). The combination of index used in this study provides a base content of CSR reporting that is divided into five areas: environment, labor practice, human rights, product responsibility, and society. According to Willis (2003), as a tool, GRI can be used by all types of companies (*e.g.* allowing the use of similar coding structure for different industries) in a rigorous, comparable, auditable, and generally acceptance manner. The test complexity of these associations deals not only with the accumulation of data and theory to build and test several models, but also with the issue of non-normality and theory development. The complex relationship uncovered by this research demonstrates what constructs and association are important, while also bring multiple unresolved associations that are not significant in the hypotesized model.

6.3.3 Practical Perspectives

The results are of interest to managers who have to make decisions regarding corporate social and environmental practices. While some managers consider corporate social and environmental reporting as a cost of business, others may consider it as a way to achieve legitimacy from stakeholders and society. This present study has shown that the four theoretical perspectives may provide greater insights into managerial motivation for disclosure if they are linked more explicitly to the nature of CSER disclosure. In Indonesia, in particular, there were increased levels of corporate social and environmental disclosure over the periods from 2005 to 2009. There was also an assumption among Indonesian executive management that there should be a change in communications strategy with respect to social and environmental issues. Different theories suggest some reasons for this change, namely, purely self-interest for economic motivations (under positive accounting theory), socio-economic (under the managerial branch of stakeholder theory), and also socio-political (under legitimacy theory and institutional theory) motivations. These alternative theories would be a theoretical mirror.

Different motivations underlying numerous private and public inititiatives have emerged over the last ten years to improve the relevance, quality and reliability of corporate environmental reporting. This study is trying to offer a more holistic understanding of how the management accounting system operates within a corporate social and environmental context by examining the four different theoretical perspectives. This approach also can be considered as corporate strategies on CSER practice in order to maintain the sustainability of a business. This approach was prompted by perceived inadequacies of a single theory or research method for tapping the wider aspects of management accounting practice. In short, the data seem to indicate that with corporate social and environmental disclosure toward CSR agenda, companies can be more social and environmentally responsible (clean) and more efficient (green). However, Indonesian firms should have a competitive edge when considering other companies and regional competitors. This matter has to be taken into consideration when ACFTA (ASEAN–China Free Trade Agreement) takes effect. In general, this can be an argument for firms to achieve their competitive advantage from social and environmentally friendly activities in the face of global business challenges.

6.3.4 Government Perspective

Command and control regulations are another important tool in social and environmental law. The Indonesian House of Representatives has passed a controversial corporation bill (Corporate Law no. 40 year 2007 article 74 Limited Liability Companies) into law at a plenary meeting. This new regulation makes Corporate Social Responsibility (CSR) mandatory for almost all companies outside the financial sector. The bill was passed on July 20, 2007, and became operative on Aug. 16, 2007 (Darwin & Gutensperger, 2007). Article 74 of the law states that a company that operates in any business field related to natural resources is required to institute social and environmental responsibility programs, and that sanctions will be imposed on non-compliant firms. The article not only affects natural resource-based companies, such as mining, oil and gas, and plantation firms, but also other firms that do not exploit natural resources but yet affect the environment. This means that all businesses outside the financial sector are required to conduct CSR programs (Haswidi, 2007). The revised law also mandates disclosure of activities related to environmental and social responsibility programs in the companies' annual reports. However, inadequate rules (lack of clarity/no adequate description) on how global regulation describing Corporate Law no.40/2007 in Indonesia will complicate the general public, such as when readers and corporation as the preparers of disclosures compare and evaluate the application of CSER. This is left to the discretion of each company and remains unclear. The extent of CSR reporting may, therefore, vary across companies (Utama, 2008). Now, most corporations are still unclear as to what their specific obligations are, and the public suspects that it is yet another legislative package that will be summarily ignored if compliance is either inconvenient or expensive. Careful consideration, indeed, will have to go into the formulation of this most critical aspect of CSR legislation in Indonesia (Darwin & Gutenspergers, 2007). Darwin and Guensperger argue that creating ancillary regulations will be more challenging than the formulation of the law itself. This is because the law expresses a general set of principles, and formulates a lofty goal; the details of how these principles will be implemented in practice need to be contained and clarified in these regulations. On the other hand, the ancillary regulations will be a compilation and harmonization of the relevant existing laws, including those on issues related to the environment, water resources, biodiversity, general mining, oil and gas mining, forestry, labor, social security for employees, national social security system, human rights, state-owned enterprises, and foreign investment. To this concern, the Indonesian government as a policy maker may consider to use Social and Environmental index used in this study as a tool to manage fairly and properly the process of global economic and social change. It can also use the tool to build and institutionalize measures to ensure the usefulness of social and environmental reports, and to reform the corporate law, regulation and practice to be more CSR-sensitive. In the absence of legislative prescriptions of CSER tools, the tool can fill the governance gap by offering an alternative guide for companies on how to report their social and environmental activities. Such an inadequacy might bring into light what theoretical perspectives that could explain the management motivations to disclose voluntarily social and environmental activities.

However, understanding of CSR in Indonesia still varies. While a number of corporations have built CSR into their strategies, many still regard CSR merely as a charitable activity (Hasibuan-Sedyono, 2005). Much of CSR research, particularly research that employed Legimacy Theory and Institutional Theory, has highlighted the way in which social and environmental disclosure is used for political rather than decision-making or accountability process. As companies tend to report CSER only for public relation and not for accountability purpose, the role of a regulator is to establish infrastructures that support: accountable CSER which includes the existence of globally accepted reporting standard/guidance on CSER., the existence of globally assurance standard for corporate social and environmental reports, the practice of good corporate governance, supportive regulation on CSR, and the existence of public pressure on CSR.

By considering four different perspectives in this study, the government as a policy maker may consider comparing the perspectives in setting a social and environmental reporting framework for Indonesian companies *i.e*. how they can enforce regulations with regard to the minimum activities that must be reported, and how they can be easily understood by considering whose interests are being served (*i.e* individual, group or even the society). In other words, the government can determine how the activities should be reported by the companies clearly. As a policy maker, government promulgates policies, supervises the enforcement of regulation and provides information on corporate social and environmental issues to accommodate the individual, groups or the society in an ethical and accountable manner. In summary, the findings suggest that the government as a policy maker need to seek and consider other alternative inputs when formulating related public policies.

6.4 Limitations

Despite the contributions this study, a number of limitations of the study should be addressed. These limitations have the potential to affect generalizability of the results, and this influence can hinder the interpretation of the results. Firstly, generalization in accounting research is something that needs to be considered carefully, as the social context of accounting changes over time and location. This study focuses only on the Indonesian context; hence, this limits comparison with other countries. In respect to that, it is unclear whether the interpretations provided in this study hold true in other cultures and societies, or whether the results would be similar for listed companies in different countries trading on different capital markets. Further research to investigate corporate social and environmental disclosures could focus on cultures and societies that are different from Indonesia's.

Secondly, as the sample of companies includes only public-listed companies from Indonesian Stock Exchange (IDX), the results of this study cannot be assumed to non-public companies. While the results may offer a valuable guide for social and environmental practices of public-listed companies, their generalization to other business entities that are not subject to similar reporting requirements or public attention is suspect.

Thirdly, the data in this study were subjected to similar analysis using several statistical tests that were run against each year's data. The handling of each year of the study as a separate data set assumes that one year's data set is independent of other years. Nevertheless, this assumption may not be absolutely valid, especially in the case of corporate social and environmental disclosure. What companies disclose in one year may have an effect on what is disclosed in the following years. For example, the size of a company in year *n* will obviously have an effect on its size in year *n+1*. In summary, although the study has considered five different periods, these periods may not automatically support each other.

Fourthly, with regards to the media coverage variable, the effect of lagged media coverage (*i.e*. media coverage 13-24 month prior to reporting year-end) was not investigated. The asumption behind lagged media coverage is that while lagged media coverage influences the social and environmental reporting, the effect of current media coverage (*i.e*. media coverage 0-12 month prior to reporting year-end) is stronger. Thus, employing lagged media coverage and additional test will clearly affect current media coverage. Thus, finally this study has employ binary variables for the government ownership and foreign activity. By using continuous variables, the research result will be stronger than that of using binary variables. Continuous variables might be used in future research, instead if data is available.

6.5 Future Research

Results of this study along with the limitation also open the way for future research in related areas. A number of issues are identified and awaiting investigation. Future research in the area of CSER could be more extensive in a number of directions. Firstly, a natural extension of this current study is to perform a comparative analysis between CSER in Indonesia and other Asian countries. Secondly, related to the sample of the study, it may be valuable to employ samples from public-listed companies and nonpublic listed companies that are subject to similar reporting requirements or public attention. This may broaden the generalization of the findings.

Thirdly, future researchers should consider the use of lagged media coverage in their investigation, as they offer an explanation on the influence of the lagged media coverage on current media coverage. Fourth, legitimacy theory was widely tested in the context of CSER, the other relevant theories such as stakeholder theory, institutional theory or political cost hypothesis of positive accounting theory are yet to be explored in future.

6.5.1 Future Research Agenda

Accounting in a social context is fundamentally a process of accounting for something, which assists human beings to make sense of the social and environment around them. Furthermore, the forms of corporate accounting and reporting that have been released and increased over time reflects changes that have taken place in the way society itself is organized.

Currently, several guidelines for corporate reporting on economic, social, ethical and environmental aspects of business have been developed by government, regulatory and non- governmental organizations (i.e. GRI, ISO2600, AA1000 series, etc.). There is a possibility that a new development of CSER disclosure guides, which have a more powerful insight to develop a connection between business and society and especially economy and ecology, will lead to the creation of new images of business organizations. However, most university accountancy and business finance departments all over the world, particularly in Indonesia, have ignored such a possibility. One of the barriers of this development is that certified accuntancy practitioners and talented researchers tend to believe that they have a sufficient knowledge, capability and social consideration to teach, give training, conduct research and give services in this area. Lack of education at the undergraduate and post graduate levels in social, political, ethical, and ecological considerations of corporate social and environmental accounting is perhaps a crucial factor in this context. To improve this condition, there should be a major change in both university undergraduate and postgraduate teaching and research programmes in a corporate social and environmental context. In respect to that, government should continuously attempt to promote public awareness on the importance of sustainable development and on the fact that social well-being and environmental preservation is the responsibility of all members of the society. Education curriculum in the undergraduate level to postgraduate levels needs to be designed to widen social, political, ethical, and ecological considerations of corporate social and environmental accounting.

Considering research practices in a corporate social and environmental accounting field, this study suggests that there are certain factors that could affect corporate social and environmental practices that need to be examined, as well as many unanswered, unconvincing or paradoxical issues that still need to be ascertained. Hackston and Milne (1996) argued that, in reality, any stable relationships that exist between CSER disclosure and other explanatory variables both across firms and over time is still arguable. This uncertainty is complicated by a lack of standardized research techniques utilized with respect to sampling and measurement techniques, making it difficult to explain any firm interpretation on these relationships. Hence, such research works are worthwhile since they offer an insight into how management takes action in the changing social, political and economic sense. It is essential that research in the context of corporate social and environmental reporting is continually conducted at different locations using one or more existing and/or new theories to discover potential influence of firms' characteristics and socio-political-influences.

Furthermore, to the level that the existing perspective or theory is seen as insufficient in the context of CSER disclosure, researchers can drive from their own discipline to enrich various disciplines to offer theoretical and methodological perspectives toward giving a holistic interpretation of corporate social responsibility and corporate social and environmental disclosure.

6.6 Concluding Comments

Management is faced with the rising pressures to address social and environmental issues and expectations of various interests (i.e. individual, groups or even the society). In an attempt to respond to these challenges, firms have explained their CSER disclosure through various theoretical lenses. This study has shown that there is much overlap between four theories used in this study because CSER is a complex activity that cannot be explained by a single theoretical perspective. Hoque (2006) states that no theories or method can have a monopoly on explanation because there are some virtues in each individual theory or method, and collectively, they add to an understanding that an organisational process is indeed a complex and paradoxical phenomenon.

It is expected that this study will help shed a light on broader economic, social and political perspectives in relation to corporate social and environmental issues. To academia, it is hoped that this study could uncover the corporate mystery of the motives of CSER disclosure, particularly, of Indonesian public-listed companies in a wider economic, social and political viewpoint.

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