

AN EXAMINATION OF CORPORATE SOCIAL DISCLOSURES IN THE ANNUAL REPORTS OF INDONESIAN LISTED COMPANIES

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Abstract

This study examines the extent of corporate social disclosures (CSD) in Indonesian listed companies' annual reports for the years 2003 to 2006. Content analysis methods were employed and descriptive analysis conducted to explore the quantity and quality of this disclosure. The findings show that 'human resources' information is the information most disclosed, while 'sustainability' is the least disclosed information in the companies' annual reports. Documentation of information disclosed in the annual reports is mostly positive and descriptive in nature, rather than negative and quantitative. The results provide insight into the extent and nature of CSD in Indonesia.

Keywords

Corporate social responsibility; corporate social disclosure; content analysis; Indonesian listed companies

1. Introduction

The issue of corporate social responsibility (CSR) has been of growing concern among both business and academic communities. Organisations are now expected to participate in the solution of social problems, such as poverty and infrastructure within a wider community (Kok, Wiele, McKenna & Brown, 2001). One definition of CSR can be stated as "the obligation of a firm to use its resources in ways to benefit society, through committed participation as a member of society, taking into account the society at large and

improving welfare of society at large independent of direct gains of the company" (Kok et al., 2001, p. 287).

Whilst there has been increased public attention to CSR worldwide, most of the CSR studies conducted so far have been in the context of developed countries, such as those in Western Europe, the USA and Australia (Brown & Deegan, 1998; Deegan & Rankin, 1996; Gray, Kouhy, & Lavers, 1995; Raar, 2002; Snider, Hill, & Martin, 2003; Tilt, 1994). On the other hand, there have been relatively few empirical studies of CSR practices in developing countries (e.g. Ahmad & Sulaiman, 2004; Belal, 2001; Ramasamy & Hung, 2004; Rashid & Ibrahim, 2002; Thompson & Zakaria, 2004). Given the considerable differences in the economic and cultural environment, moral judgment and government roles that corporations play in a particular country, the extent of CSR practices will differ across countries (Adams, Hill, & Roberts, 1998).

Studies from developing countries are carried out mostly in the context of newly industrialised countries such as Malaysia and Singapore. There is a paucity of detailed CSR studies in the South Asian context, where countries are considered to be "less developed" and poorer, and which would include Indonesia (Belal, 2001). As the biggest country in the South East Asia region, Indonesia has a complex and varied social and geographical environment. Located centrally on the world's trade routes, Indonesia faces a number of factors exposing it to CSD practices. These include the issues of poverty alleviation, human rights, health and safety environmental concerns, pollution and waste, social and political insecurity, and the need for direct foreign investment (Goyal, 2006; Raynard & Forstater, 2002).

The poverty rate in Indonesia is considered the worst in Asia. It has been recorded that 17% of the total population in Indonesia, about 39 million people, live under the poverty line (Arka, 2006). The rate of poverty has been identified by Jenkins (2005) as an opportunity for higher levels of CSR disclosures in terms of likely impact on poverty reduction. In addition to poverty, Indonesia has also been rated as the world's worst for deforestation. Over 70% of Indonesia's original frontier forests have been lost (Hills, 2005). Panwar, Rinne, Hansen & Juslin (2006) mention that the forest product industry is very susceptible to increasing societal expectations regarding its use of forests throughout the world. Thus, companies are expected to show their responsibilities in maintaining the sustainable use of forests as a natural resource.

Foreign direct investment has been signalled by Goyal (2006) as having a positive impact on CSD practices for developing countries since CSR expenditure can be a tiny fraction of income. However, unlike other developing countries, Indonesia seems to be struggling to attract foreign investors since the economic crisis of 1997. Greenlees (2005) reports that investors and lenders have been slow to return to Indonesia because of the high rate of corruption. Donaldson (2005) suggests that the implementation of good CSR practice was one way to reduce corruption, as CSR deals with corporate transparency. It will be interesting, therefore, to see how CSR is practised through disclosures in a country where corruption is common.

It is also important to examine CSD in relation to culture. With a population of about 225.3 million, an area of 1.9 million square kilometres, and over 300 regional languages, Indonesia has a highly diverse culture (UNWCED, 1987). Williams (1999) finds that countries with lower scores on cultural determinants, such as masculinity and uncertainty avoidance, demonstrate more disclosures on CSR compared to those with higher scores. Based on the work of Hofstede

(1996) in scoring country culture, Indonesia obtains less than moderate levels for both "masculinity" and "uncertainty avoidance" (46 and 48 out of 100 respectively). These scores indicate that companies in Indonesia may provide comprehensive information related to CSR disclosures.

Another important aspect of Indonesian culture is religion; Indonesia has the world's largest Muslim population. According to Hofstede (1996) more than 85% of the Indonesian population follow the Islamic faith. The role of Islam in CSR as "giving to society is deep-rooted in Islamic tradition and is a cornerstone of positive CSR" is proposed by Al-Ali (2006, p. 1). This value may indicate that the majority of employees in Indonesia perceive that CSR is about donation. As a result, the information disclosed in CSD is more likely to focus on 'donation' or 'community development' information. The current study addresses this issue and discusses the findings relative to previous studies which mainly reveal disclosed information on environment, energy, customers and human resources (Deegan, Rankin and Tobin, 2002; Gray et al., 1995; Kuasirikun & Sherer, 2004; Purushothaman, Tower, Hancock & Taplin 2000).

As discussed, Indonesia has a number of unique factors that may positively or negatively influence the level of CSR disclosures. However, the practice of these disclosures is still in question. Therefore, a valuable insight into CSR practices in Indonesia will add the existing body of CSR literature. For the above reasons, this study selects Indonesian listed companies for examination of their CSR practices, by investigating the extent of their corporate social disclosures, in terms of both quantity and quality.

2. Literature review

2.1. Theoretical foundation

This study focuses on two notable theories to explain the extent of CSD: legitimacy and stakeholder theories. Legitimacy, in this study, is defined as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definition” (Schuman, 1995, p.574 cited in Tilling, 2004). Legitimacy theory has been used by a number of researchers as a framework to analyse corporate disclosure policies (Brown & Deegan, 1998; Deegan & Gordon, 1996; Guthrie & Parker, 1990; O'Donovan, 2002; Wilmshurst & Frost, 2000). Deegan (2002b) suggests that organisations need to adapt to community expectations if they want to be successful. In contrast, organisations will be penalised if they do not operate in a manner consistent with community expectations. Guthrie and Parker (1990) apply legitimacy theory to analyse corporate disclosure policies in Australian companies during the 1970s. They conclude that the peak level of social disclosures was at the time when mining, steel and oil industries became targets for conservationists. These results, among others, indicate legitimacy theory as being a basis for CSD practices which are responsive to environmental pressures, including political, social and economic.

Stakeholders are the central focus of stakeholder theory. Stakeholders include a wide range of people and interest groups who have some kind of involvement with the organisation (Price, 2004). These are stockholders or shareholders, customers, suppliers, employees, the local community, government and others. Specifically, a stakeholder can be defined as “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman, 1984, p. 46). Stakeholder theory has become an important basis of knowledge for companies to secure their relationship with stakeholders through CSD. Snider, Hill, and Martin (2003) believe that stakeholder theory serves as an integral part of the concept of CSD. This view is also supported

by Carroll (1999) who explains that CSD relates to a society, which is represented by stakeholders. Wilson (2001) argues the importance of stakeholder theory as a concept whereby companies are able to integrate social and environmental information in their business operations and in their interactions with stakeholders.

Since there is no single motivation for making disclosures, prior studies that used either legitimacy theory or stakeholder theory are used in this study to build the themes of disclosure measurement and to analyse the extent of CSD in Indonesian listed companies.

2.2 Themes of disclosure management

This study applies eight themes of disclosure measurement. The majority of these themes are those most cited and relevant in the CSD literature, namely environment, energy, human resources, community involvement, products, sustainability, external relations, and other issues in CSR (Deegan, Rankin, & Tobin, 2002; Kuasirikun & Sherer, 2004; Purushothaman et al., 2000; Raar, 2002; Ratanajongkol, Davey & Low, 2006; Thompson & Zakaria, 2004; Wilmshurst & Frost, 2000). Each theme has either a single item or is elaborated into a few items. In total, there are 45 items used as measures to examine the extent of CSD through a content analysis process. These items have been previously tested for their appropriateness for the Indonesian situation (Gunawan, 2007). A brief discussion of each theme is provided below.

2.2.1. Environment

The ‘environment’ cannot be separated from social issues. The World Summit Conference in 2002 reached a consensus that businesses should have social and environmental responsibility to protect the planet and sustain life (Watson & Mackay, 2003). Most items in CSD relate to environmental information, which may signify its importance compared to other issues in CSD.

2.2.2. Energy

Non-renewable ‘energy’ is becoming a crucial issue due to the huge exploitation of fossil-related energy globally. Energy also relates to the importance of existing natural resources. If companies continue to exploit non-renewable energy, the environment is also likely to suffer. Therefore, information about the importance of energy conservation can be a good campaign for raising energy awareness and showing the company’s responsibility.

2.2.3. Human resources

‘Human resources’ among CSD themes identifies ‘employees’ as a key issue for businesses. Employees are categorised as primary stakeholders who need to be served and maintained to ensure good relationships within the companies. Employees are crucial as they are directly associated with business operational activities, including the practise of CSD (Ramasamy & Hung, 2004).

2.2.4. Community

A business cannot survive without ‘permission’ from its surrounding ‘communities’. Many examples exist showing how a company was forced to close its business because of community riots, violence, or litigation. In Indonesia, the pollution of *Teluk Buyat* with arsenic and mercury from the mine waste of *PT Newmon Minahasa Raya* led to its prosecution by the community and its dissolution. In this case, the communities played a major role in raising the issue and this resulted in further legal action.

2.2.5. Product

‘Products’ are essential for a company’s existence, and thus, information about products is important. Through product information, a company may deliver its image to the public so that they can evaluate the company’s performance. Product quality provides a basis for a company’s strategic advantage and any improvement in this quality may lead to enhanced company performance (Dunk, 2002).

2.2.6. Sustainability

‘Sustainability’ issues have grown enormously in recent years. Sustainability is defined as “meeting the needs of the present without compromising the ability of future generations to meet their own needs” (United Nations World Commission on Environment and Development, 1987, p. 8). In order for a company to maintain its reputation and stakeholders needs, it should include the sustainability information of its business operations in its CSD.

2.2.7. External relations

‘External relations’ describe stakeholder requirements, communication, benchmark, consultation, and information issues (Raar, 2002). In order to understand stakeholders’ needs, a company should maintain good communication with its external relations, such as labour unions, customers, media, or communities. Good corporate communication will reduce any misunderstanding between stakeholders’ expectation and the company’s actions, so that CSD disclosure is necessary to maintain appropriate public perceptions.

2.2.8. Other information

The ‘other information’ theme in this CSD list covers other relevant issues in social disclosures, such as corporate objectives, disclosures about consumers or suppliers, and receiving awards other than those awards related to environmental issues. It is expected that useful public information can be included in this theme.

2.3. Content and nature of CSD

The content of CSD varies across countries. Companies in Europe and Australia are more likely to disclose information about the environment, energy, customers, recycling, and pollution (Gray, Kouhy & Lavers, 1995; Tilt, 2001, and Deegan et al., 2002). Companies in Asia have focussed on information about employees and human resources in disclosing their social activities (see e.g. Kuasirikun & Sherer, 2004; Purushothaman et al., 2000; Ramasamy & Hung, 2004; Ratanajongkol et al., 2006).

While the content of CSD is generally different from country to country, the nature of this information has been similar throughout the world, in a neutral, positive, and descriptive nature rather than a negative or quantitative one. Positive disclosures include information about compliance with standards and receiving awards (Deegan & Gordon, 1996; Tilt, 2001); while negative disclosures include information about penalties as well as other 'bad news', such as boycotts, employees' strikes, and number of accidents in the workplace (Deegan, Rankin, & Tobin, 2002). Other information, such as training for employees, pollution control, product development, donation, and recycling, are considered to be neutral disclosures (Ahmad & Sulaiman, 2004).

Previous studies note that most companies tend primarily to use descriptive, narrative, or qualitative information to report their CSD. These kinds of information have taken up a large portion of CSD reporting rather than quantitative information, pictures, graphs, and charts (Guthrie & Parker, 1990; Tilt, 2001; Belal, 2001; Raar, 2002; Ahmad & Sulaiman, 2004; Kuasirikun & Sherer, 2004). In practice, quantitative and monetary information, to a certain degree, can be used to assess feasibility. Graphs and charts can be used to turn numbers into pictures and represent comparisons that allow people to understand the information easier (Burch, 1986). Thus, disclosing information in corporate social activities both descriptively and quantitatively, using graphs or charts, may provide a more comprehensive report to the readers. To accommodate this issue, the present study provides different forms of measurement for every different form of CSD disclosure, causing variations in either quantity or quality.

3. Research methods

3.1. Sample selection

In this study, company annual reports were used as secondary data for conducting the content analysis. The period of Indonesian

annual reports follows the financial year, which corresponds with the calendar year, i.e., from the 1st January to 31st December each year. Annual reports were collected at The Capital Market Reference Centre (for hard copies), and The Capital Market Electronic Document Services (for soft copies). Alternative sources were from the Jakarta Stock Exchange (JSX) website (www.jsx.co.id) or the company's own website.

This study uses annual reports of companies that were listed in the JSX for the period of 2003 to 2006. This represents the most current data available. There were about 330 companies listed on the JSX for the each of the years 2003, 2004, 2005 and 2006. The selection of these reports was initially based on the simple random sampling method. However, the aim is to gather the annual reports from the same company for four consecutive years, the sample has to be selected based on companies that provided annual reports for each year from 2003 until 2006. Companies that were de-listing during the period were not included in the sample. Finally, 117 company annual reports were collected each year a total of 468 annual reports for 4 years. Of the 117 companies, 76 were from sensitive industries and 41 from non-sensitive industries.

3.2. Content analysis

A content analysis was performed to analyse the annual reports and to determine the extent of CSD in the reports. Wolfe (1991) defined content analysis as systematic procedures for studying the content of written documents. The application of content analysis was carried out by converting the qualitative information in the annual reports into quantitative scores. The content analysis method has been widely used and considered as an appropriate method to analyse the extent of disclosures, although it has also been noted that it is prone to a 'subjectivity' problem, which is associated with the issues of reliability and validity (Guthrie & Parker, 1990; Choi,

1999; Tilt, 2001; Raar, 2002; Ahmad & Sulaiman, 2004).

In order to reduce the subjectivity in this study, three coders were involved in the content analysis process, following Krippendorff's (1980) suggestion. These three coders were the researcher as supervisor and two research assistants. A set of guidelines that govern the content analysis procedure was established to achieve reliable and systematic coding, ascertain that the process was applicable, and yield uniform results on repeated procedures. These guidelines were explored and discussed among the coders to establish an agreement for conducting the content analysis process consistently and systematically.

3.2.1. General guidelines

The coders were required to understand and carefully follow every step of the guidelines. Every coder undertook the content analysis independently, but communicated with the others if uncertainty arose. The name of the company was confirmed among coders after that company's information was examined to monitor and trace the number of samples that were evaluated.

3.2.2. Guidelines for identifying items

A set of 45 CSD items was provided, complete with all related examples and keywords. The CSD items were originally adapted from Hackston and Milne (1996), Deegan, Rankin and Tobin (2002), and Raar (2002); however, some were developed during the pilot study (Gunawan, 2007). By combining items from several sources and confirming the relevant items, the CSD items used in this study were considered to be both comprehensive and appropriate for an Indonesian context.

3.2.3. Guidelines for conducting content analysis

The guideline emphasises aspects considered vital to arranging a systematic content analysis procedure, that provides

more clarity and understanding (Krippendorff, 1980):

- Read the texts in the annual reports from the first page until the last page before the financial statements section.
- Indicate each statement disclosed and its relationship to the keywords, in the context of CSD items.
- Interpret and select the appropriate items for CSD.
- Award scores for both quantity and quality.
- Ignore all the irrelevant information that was not considered as CSD and thus, avoid awarding scores for this content.
- Draw inferences

After the scoring process was completed, the scores in each theme were calculated for both quantity and quality all these scores were then added to obtain overall total disclosure scores. These total scores inform readers about CSD practices undertaken by these Indonesian companies.

3.2.4. Guidelines for awarding scores

3.2.4.1. Quantity of disclosure

There is a range of scores from one to five to be awarded on each of CSD stated based on 'how much' information is disclosed.

- Score 'one' for disclosures in sentence. If the CSD information disclosed is only in one or two sentences, a score of 'one' should be awarded for this CSD quantity.
- Score 'two' for disclosures in paragraph. Scores of 'two' can be given for information stated in a paragraph which has at least three sentences. Up to two paragraphs of information can be disclosed to obtain a score of two.
- Score 'three' for disclosures in half of an A4 page. Disclosures stated in three paragraphs usually occupied half an A4 page, and should be awarded a score of three.
- Score 'four' for disclosures in a page of A4. Disclosures that stated in more than three paragraphs usually reach almost a

full A4 page, and should be awarded a score of four.

- Score ‘five’ for disclosures of more than one page of A4.

The highest possible score awarded for the quantity of disclosures is ‘five’, which can be given for disclosures stated for more than an A4 page. This information usually describes a certain topic in detail and various social activities that the company conducted, but still on the same issue.

The maximum score that can be achieved is 225 for total quantity. This is obtained by multiplying the maximum score for each measurement (5) by the total numbers of the CSD items (45).

3.2.4.2. Quality of disclosure

The score for quality disclosures ranges from one to seven and measures how the information is disclosed, using the following guide:

- Score ‘one’ for monetary information. Monetary information can be described as a quantitative item in currency terms. Any currency terms disclosed without other descriptions are given a score of one.
- Score ‘two’ for non-monetary information. Quantified numeric terms, other than currency, such as numerics for weight, volume, and size are awarded a score of two.
- Score ‘three’ for qualitative information. Descriptive, narrative, or qualitative information, forming the majority of a disclosure, should be awarded a score of three. This information is relatively easy to identify.
- Score ‘four’ for qualitative-monetary information. If the CSD stated is a combination of qualitative and monetary information, a score of four should be awarded.
- Score ‘five’ for qualitative and non-monetary information. Qualitative disclosures combined with non-monetary information are given a score of five.

- Score ‘six’ for monetary and non-monetary information. The information disclosed in currency and other numeric terms is awarded a score of six.

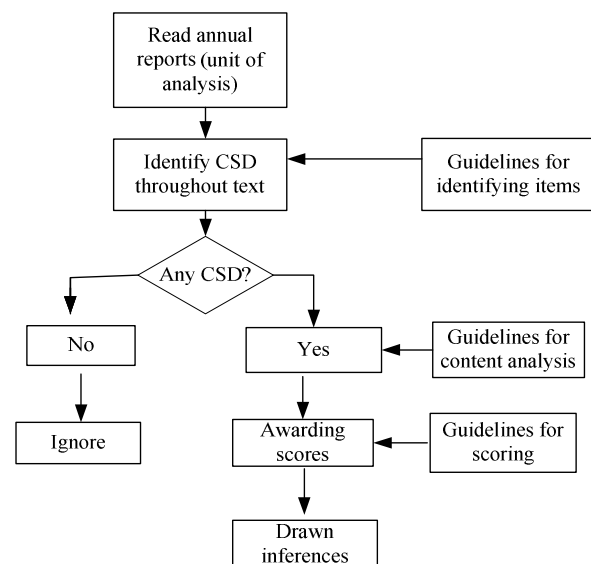
- Score ‘seven’ for qualitative, monetary, and non-monetary information. The highest possible score for qualitative measurement is ‘seven’, which should be awarded for the most comprehensive nature of CSD information that combines qualitative, monetary, and non-monetary aspects.

The maximum score that can be achieved is 315 for total quality. This number is obtained by multiplying the maximum score for each measurement (7) by the total number of CSD items (45).

The content analysis process

The content analysis process incorporating the development of guidelines for this study is shown in Figure 1.

Figure 1. Process for awarding scores in content analysis



Besides the above steps, the aspects of reliability and consistency were also of concern. These include the processes of multiplying and adjusting scores, which are important since more than one person did the coding. Therefore, additional guidelines for awarding scores were applied.

- a. One context of CSD information should only be applied to a single item of disclosure; one sentence of CSD information cannot be awarded multiple scores or added to another score.
- b. Adjustments of scores during an ongoing content analysis process were allowed. However, once any ambiguity or uncertainty in scoring has been resolved, the adjustment process should end.
- c. The recording of every score for CSD on a disclosure sheet should be confirmed for both quantity and quality in the appropriate items.

3.3. Application of the content analysis

The complete content analysis process conducted in this study is described in Figure 2. Firstly, three initial steps were applied to recruit the two research assistants; notices were posted describing the desired criteria, applicants interviewed, and a simulated content analysis conducted to confirm that the candidates could apply the knowledge gained during the content analysis process.

The next step was to give two briefings to the successful candidates. The first explored all the guidelines and every item on the disclosure list and the second provided training to the coders in conducting content analysis procedures by underlying the keywords to ease the process of interpreting the sentences, and explaining the process of transferring statements into points based on the keywords and the relative context of the sentences. This dual strategy reduced misconceptions and increased the reliability of the content analysis process.

Subsequently, the researcher supervised and monitored the coding activities through face-to-face meetings, emails, and regular telephone calls. Apart from the disclosure

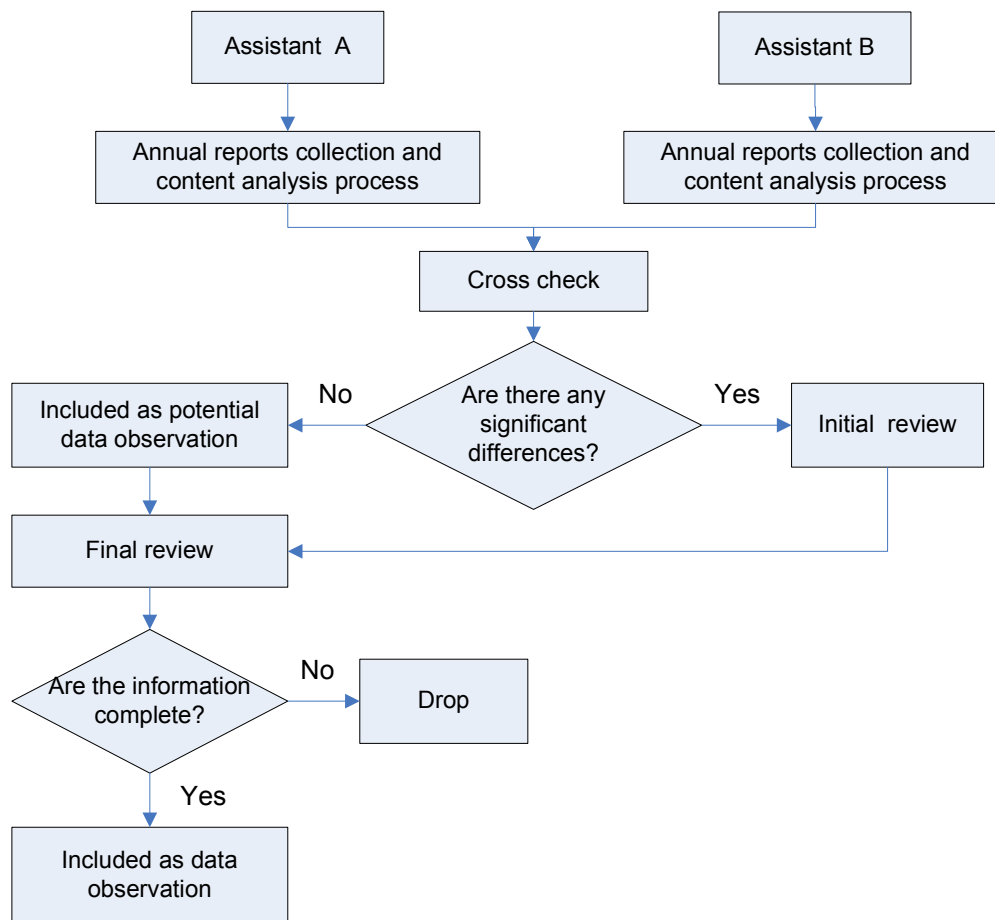
lists, all other relevant information obtained during the process were recorded.

The next step was to verify the quantitative data and scores from the content analysis. Assistant 'A' re-conducted the scoring task on data scored by assistant 'B', while assistant 'B' re-conducted work completed for another company by assistant 'A'. Both assistants worked independently, without seeing the other person's results. Any differences in the assessment of the quantitative data was re-examined and re-calculated. 'Five' and 'seven' for quantity and quality respectively, were specified as the maximum acceptable, thus any recorded score beyond this range meant that double-counting had occurred, meaning that the whole content analysis process for that company had to be re-performed by the researcher in the initial review stage.

The initial review was undertaken by the researcher together with the other two coders. The process included discussions in interpreting the differences in relative context of the CSD information and clarifying the score, as well as elaborating any uncertain issues that had been recorded. After confidently confirming the context in the sentences or as indicated by the keywords, the scores were re-assigned in the disclosure sheet.

Finally, around 20% of the content analysis results as well as the quantitative data recorded were re-evaluated randomly by the researcher. The evaluation included re-scoring the selected company annual reports following the content analysis guidelines, and re-inputting the quantitative data. If any scores resulting from this final review were different from the previous records, the judgment of the researcher was applied.

Figure 2. Annual Reports Collection and Content Analysis Process



4. Results and discussion

A descriptive analysis was performed to observe mean scores of CSD quantity and quality for the years 2003 to 2006. Table 1 demonstrates that the mean scores for both

CSD quantity and quality increased annually.

Table 1. Descriptive Statistics for CSD Quantity and Quality

	CSD Quantity				CSD Quality			
	2003	2004	2005	2006	2003	2004	2005	2006
Mean Score	20.085	23.598	27.171	36.624	29.812	33.641	38.145	47.573
Std. Deviation	12.176	14.426	18.326	24.012	24.047	23.827	28.527	28.111

Total sample = 117 companies for each year

Inferential statistics were subsequently conducted to test whether these increases were significant. A *Kolmogorov-Smirnov* test was initially applied to check the normality of the data distribution, and the results indicated that the majority of CSD scores from 2003 to 2006, for both CSD quantity and quality, were not normally distributed (p-values < 0.05). For this reason, a non-parametric test was performed on the raw data, and a parametric test was undertaken by transforming the raw CSD scores into a *natural logarithm* (ln). This transformation resulted in a normal distribution (p-values > 0.05).

Kruskal-Wallis was chosen as an appropriate non-parametric test. The results for both total CSD quantity and quality showed significant

differences among the four years examination (p-value < 0.05).

Table 2. Kruskal-Wallis Test Result

CSD	Kruskal-Wallis Test	
	Chi-Square	Asymp.Sig
Quantit	42.979	0.000
Quality	36.545	0.000

A *paired sample t-test* was then applied to transformed data, labelled by ln-CSD. The results detailed the significant differences in the yearly sequence (from 2003 to 2006). The significant level of 0.00 (p-value < 0.05) explains that CSD quantity is significantly different from CSD quality (Table 3).

Table 3. Paired-Sample T-test for CSD Total Quantity and Quality 2003-2006

Paired Samples Test							
		Paired Differences			t	df	Sig. (2-tailed)
		Std. Deviation	95% Confidence Interval of the Difference				
			Lower	Upper			
Pair 1	TotCSDQT - TotCSDQL	.19362	-.32893	-.29376	-34.787	467	.000

Based on the understanding that the CSD data was sourced from similar companies which were repeatedly tested for the four years period, a repeated measures ANOVA

was conducted to obtain robust results. The values of *Wilks' Lambda* or *U statistic* show moderate levels (0.475 and 0.519 for quantity and quality respectively).

Table 4. Repeated Measures ANOVA for CSD Quantity and Quality 2003 to 2006

Test	CSD quantity		CSD quality	
	Value	Sig	Value	Sig
Pillai's Trace	0.525	0.000	0.481	0.000
Wilks' Lambda	0.475	0.000	0.519	0.000
Hotelling's Trace	1.104	0.000	0.927	0.000
Roy's Largest Root	1.104	0.000	0.927	0.000

The overall results are relevant to the observation that CSD disclosures in Indonesia grew quite remarkably every year. This trend is expected to continue in

the future, as positive trends for CSD are also evident in other Asian countries, such as Bangladesh, Malaysia, and Thailand (Deegan, 2002a; Imam, 2002; Mathews,

1997; Rashid & Ibrahim, 2002; Ratanajongkol et al., 2006).

4.1. Content of disclosure

As predicted, 'human resource' information was the dominant disclosure in the company annual reports for both

CSD quantity and quality during the four years of examination. For CSD quantity, the second most disclosed item was 'other information' followed by 'community',

while for CSD quality, 'community' was the second most disclosed item, followed by 'other information'. This difference was the result of more comprehensive 'community' information, with many pictures of social activities, and the amount of allocated budget to generate high scores for quality. The mean scores were calculated using descriptive analysis; a summary is provided in Table 5.

Table 5. Descriptive statistics for CSD themes disclosed by companies during 2003-2006

Descriptive statistics	QUANTITY			QUALITY		
	<i>Sum</i>	<i>Mean</i>	<i>Std. Deviation</i>	<i>Sum</i>	<i>Mean</i>	<i>Std. Deviation</i>
Environmental	827	7.068	8.847	1,444	12.342	16.877
Energy	186	1.590	3.105	317	2.709	5.010
Human Resource	4,959	42.385	11.488	6,474	55.333	16.499
Community	2,513	21.479	13.962	4,082	34.889	21.552
Product	1,002	8.564	4.775	1,429	12.214	7.102
Sustainability	126	1.077	2.447	154	1.316	2.864
External Relation	338	2.889	2.403	465	3.974	3.067
Other Info	2,620	22.393	8.750	3,239	27.684	10.038

Cooper (2004) explains that revealing 'human resources' is important because they play a significant role to support the company's life. Employees are crucial because they are directly associated with business operational activities, including the practice of CSD (Ramasamy & Hung, 2004). The 'other information', that is information about 'good corporate governance' (GCG), had been the second and third major disclosures in CSD quantity and quality respectively. The clear link of good corporate governance to the practice of CSD has not been subject to rigorous empirical testing. However, one study has discussed the critical role of corporate governance and its potential for promoting CSD in Russian business (McCarthy & Puffer, 2008). This study suggests non-Russian businesses operating in Russia had to be aware of GCG practice in that country in order to comply with CSD. This can be interpreted as business

sustainability being dependant on good corporate governance practice and a social responsibility. Theoretically, this idea is acceptable. However, in Indonesia, it is still unclear whether a company that discloses GCG can be seen as confirming its social responsibility, as both aspects are complementary; CSD appears to have more issues related to stakeholders while GCG has more emphasis on ethical business issues. In fact, some of the companies disclose GCG in their annual reports just to comply with the government regulations, unaware that appropriate practice and reporting of good corporate governance is also important for realisation and reporting of its social responsibility.

Information about 'community' was the third most frequent information disclosure in CSD quantity and the second major disclosure for CSD quality. This was similar to the findings

of Kuasirikun and Sherer (2004), and Ratanajongkol et al. (2006), in their study of Thai companies. Social pressure together with local community pressure is a relevant explanation as to why companies disclose a lot of information about their community activities. In particular, business enterprises today are under pressure from the community to report the activities they have conducted in protecting community interests and demands (Imam, 2000).

In contrast to the most disclosed information, 'energy' and 'sustainability' were found to be less important. Two possible reasons explain this situation: first, companies are unaware of efficient energy utilisation, and second, many companies do not realise that 'energy' closely relates to CSD. A similar reason for minor disclosure in 'sustainability' is that the companies are not familiar with disclosing sustainability in terms of economic and social activities, although they understand that maintaining economic and social values can create sustainability. In this context, the knowledge of reporting should be improved so that companies better understand the

information relevant to CSD, and how to inform the activities relative to CSD. The issue of energy efficiency and sustainability is increasing, so that disclosure about this information is becoming more essential.

The high variance numbers show that the CSD scores are widely spread between the most and the least disclosed information, indicating that some companies provide high CSD scores, while others are much lower. This also reflects the lack of standard or consistent CSD reporting within the company annual reports. Gray, Owen, and Adams (1996) explain that since the practice of CSD is still voluntary, the moral responsibility of companies plays an important role, therefore the practice of CSD varies among them. Table 6 presents the average total scores of 26.870 and 37.293 for quantity and quality respectively. Considering that the maximum possible scores are 225 and 315 for quantity and quality respectively, it is clear that the practice of CSD in Indonesian companies is still in its infancy.

Table 6. Total amount of disclosures

	Minimum	Maximum	Sum	Mean	Std. Deviation
Total CSD Quantity	4	113	12,575	26.870	18.795
Total CSD Quality	4	195	17,453	37.293	26.965

Total sample = 468 companies for 4 years examination

The small number of disclosures reported in this study is consistent with the results of other studies in Bangladesh, Thailand, and Malaysia (Belal, 2001; Ratanajongkol et al., 2006; Thompson & Zakaria, 2004). The results reinforce the argument by Gray, Owen, and Adams (1996) who stated that since there are no existing guidelines specified by the accounting and reporting authorities, the disclosure is left to the discretion of management. Further, lack of understanding and perceived benefits of CSD, as well as the cost of reporting may also contribute to the apparent low scores in both quantity and quality (Thompson & Zakaria, 2004).

Table 7 describes the percentage of companies which disclosed corporate social information in their annual reports based on each CSD theme. It shows that generally, there were increased numbers of companies which disclosed the information from the years 2003 to 2006. 'Human resources' information has been disclosed by more than 95% of companies, however, less than 25% of companies disclosed the 'energy' information. The decreased number of companies which disclosed the 'sustainability' information from 2005 to 2006 may have been caused by the increased numbers of sustainability reports produced by the companies, so that the information disclosed in the annual reports declined.

Table 7. The percentage of companies in Practising Their Disclosures

	2003	2004	2005	2006
Environmental	0.205	0.222	0.239	0.333
Energy	0.103	0.068	0.085	0.205
Human Resources	0.966	0.983	0.983	0.991
Community	0.513	0.624	0.598	0.829
Product	0.538	0.607	0.624	0.726
Sustainability	0.068	0.077	0.085	0.060
External Relation	0.128	0.205	0.274	0.513
Other Information	0.752	0.838	0.872	0.983

4.2. Nature of Disclosure

Positive and descriptive information has been predicted as a common practice of CSD (Deegan & Gordon, 1996; Tilt, 2001). No negative information could be found during this study, and little information disclosed comprehensively, in the context of quantitative, graph, or monetary. The positive descriptive (declarative) information was predominant. Companies seem to fear negative public reaction to any 'bad news' reports, such as fines or penalties. This public reaction could have an adverse impact on the company image (Adams, 2002). Declarative 'good news' was predicted, as the Indonesian companies may use CSD to obtain a good company image and enhanced credibility. This

situation coincides with other major studies, which reported the same findings (Adams, 2002; Milne, Owen & Tilt 2000; Wilmshurst & Frost, 2000).

Specific events may increase the extent and nature of CSD, as indicated during the content analysis process. Given the fact that many Indonesian companies provide extensive information about serving communities through donations, the nature of charitable provision focused on supporting victims of natural disasters relating to a particular tragedy. However, apart from the similarities in disclosing the nature of donations, the

other content of disclosures varied across industries. Service industries provided the

lowest disclosures on the 'environmental' theme, but the greatest information on the 'human resources' and the 'external relations' themes, especially regarding customers. Companies involved in mining tend to disclose compliance to specific government regulation in land reclamation and repair of environmental damage. The location of the companies operations also influenced the information of CSD, as the practice of social activities was related to the needs of the local communities. Other factors, such as the interests of companies and management competencies were also strongly associated with the nature of disclosures (Owen & Scherer, 1993; Ratanajongkol et al., 2006).

4.3. Corporate social disclosure item analysis

The following discussion describes the items disclosed by Indonesian companies under each CSD theme.

4.3.1. Environment

The amount of 'environmental' information disclosed in the annual reports was relatively low. The few disclosures that were made refer to the repair of damage to, or protection of the environment, the receipt of awards for environmental activities, and reducing pollution. The companies were evidently unaware of the need to disclose information such as the efficient use of natural resources, or the training of employees in environmental issues. There was also no disclosure about 'receiving penalties' as a result of environmental violations, although in fact, some companies had received penalties. It was noticed that companies in the oil industry, mining, agriculture, food and beverages, and paper and allied products provided more environmental information compared to other industries, demonstrating that industry type may have an affect on differences in CSD information.

Environmental reports were identified as another form of reporting environmental activities. These reports did not usually accompany the annual reports, but were

separate reports. Although few in number, the big Indonesian companies tended to produce this kind of report for more comprehensive disclosures. It is likely that more companies will produce environmental reports in the future as the number of reports in 2006 was greater than in the previous years.

4.3.2. Energy

'Energy' received minimal attention in CSD. This information appeared as uncommon information for Indonesian companies (Gunawan, 2007) as they may have assumed that energy saving is not a part of CSD, or they were unaware of the use of efficient energy. Ratanajongkol et al. (2006) also reported that among industries (refer to manufacture, finance, and property) 'energy' was informed as the least disclosed in the Thai companies annual reports.

Within the 'energy' theme, 'efficiently using energy during the manufacturing process' was the most disclosed. In contrast, 'voicing the company's concern about energy shortage' was rarely reported. However, bio-diesel fuel was being used by a small number of companies which disclosed they had been using it in their operations to 'save energy'. It is worth noting that this information is considered as a good indication that 'energy' may be disclosed more in the future. Others reported that they had reduced energy consumption to save production costs. One example about 'energy' disclosure that showed the concern for energy shortage was "... company concerns about the lack of energy as there were huge exploitations of the natural resources; therefore we are all aware we should use the energy wisely ...".

In line with the fact that the price of petrol is rising globally and subsequently transportation costs too, more attention should be paid to an awareness of using energy efficiently. This would be similar to the environmental accounting that has been developed as a new branch of accounting to enhance the existing 'cost management' knowledge, for example, a new idea such as 'energy accounting' could be considered.

Beyond the pros and cons, there are certain benefits to be obtained in calculating energy consumption so that people understand the value of energy and realise how much money they can save by using energy efficiently. A further positive impact is that many social problems can be eliminated by this saving. The funds generated from this saving can be used to develop the communities or to conduct other social activities that bring more benefits for them. Thus, responsible energy usage is expected to become of greater concern and its impact will be more significant on CSD.

4.3.3. Human resources

As discussed above, 'human resource' information has been the major disclosure in company annual reports. 'Employee profiles', including managerial levels, board of director's profiles, and number of employees were dominant in CSD quantity and quality, as this information was considered a compulsory disclosure. Obviously, all the Indonesian annual reports had comprehensive information about their boards of directors and commissioners, with descriptions about their education and employment history, complete with impressive photographs. The second most disclosed item in 'human resources' is 'employee training'. This issue includes 'external and internal training', 'providing financial assistance to employees in educational institutions' or continuing education', or 'establishing training centre for both employees and communities'.

In contrast with this finding, information about 'employment of minorities or women' is the information least disclosed by the companies for all CSD items; it reveals that companies employ people from the local community. The information about creating a harmonious, fair, transparent and conducive work environment, establishing environment, health and safety (EHS) policy, stating the number and severity of accidents per million man hours worked, and declaring health and safety management systems, are examples of the 'employee health and safety' disclosure

items. The major information for 'employee assistance or benefits' include providing staff accommodation or home ownership schemes, scholarships for employees' children, and recreational activities, such as togetherness in sport activities, and family or employee days.

'Employee remuneration' was disclosed by information regarding the implementation of employee revenue systems and payroll, and compensation schemes based on performance measures. This information has become greater as it is now a government directive related to the practice of good corporate governance. 'Disclosing company's relationship with trade unions and/or workers, was found as representative of 'industrial relations'; however, no information about any strikes, industrial action or activities or the resulting losses in terms of time and productivity were included. Finally, other information such as re-organisation, closures, reduction in number of employees, and employee turnover were associated with events that occurred in the company during that period. This information was rare, as business in Indonesia is sensitive in relation to labour issues.

4.3.4. Community involvement

Maintaining a good relationship with communities surrounding the location of the company is important to insure that activities of the company operate effectively. Indonesian companies believe that this is 'social permission' to conduct a business. For this reason, the majority of social responsibility activities are targeted to serve the community, particularly community development. Thus, the disclosures about community, especially charity, were easily found in the company annual reports.

It is worth noting that 'corporate giving or donations' was the major information under the 'community' theme. Evaluation of statements about corporate giving shows that a company was motivated by a desire to support local community needs, while improving community awareness of the

'good' name of the company. These intentions are classified as local community support and commercial motivation (Meijer et al., 2006). The companies eventually had to allocate a significant amount for donations in order to maintain good relationships with the local communities and government. This situation appears common with big or prominent companies that received much public attention. As Indonesia has the largest Muslim population of any country in the world, the perception of 'donation' is also relevant to Islamic values, namely 'zakat' (Al-Ali, 2006). Thus, Indonesian companies consider that 'providing donation' not only represents company social responsibility, but complies with their religion beliefs.

Other specific disclosures under 'community involvement' include 'sponsoring public health', in which the most disclosed items were 'blood donation programs' and 'free medical treatment' for local residents. Some companies financed medical faculties in collaboration with certain universities or institutions to conduct medical research, although the medical research itself has not been developed in Indonesia. Providing scholarships for further study was noted as a remarkable disclosure in the company annual reports of some large and famous companies. These scholarships are provided not only for their employees' families, but also for public.

Most of the disclosures for 'other special community related activities' were about companies' involvement in the community's activities such as providing water pumps and tanks for supplying clean water, electricity generators, or paving roads. These activities were normally conducted together with the local residents. 'Supporting national sport tournaments' or 'campaigns to prevent youth smoking' were examples of CSD, showing that companies were involved in government programs. Supporting the development of local industries was revealed by companies that provided credit schemes or facilitated small and medium enterprise's access to sources of finance. 'Company community

programs designed to respect the rights of indigenous peoples' was an example of 'recognising local and indigenous communities'. This kind of statement however, was found infrequently. The last item, 'providing aid or compensation to communities' was represented by the information of compensating for land that belongs to local communities after the company's exploration process in bauxite subtraction, and by building water irrigation schemes for them.

4.3.5. Products

'Products' information was easily identified in the annual reports. 'Product safety' was the most expected disclosure by stakeholders, but disappointingly, this information seemed to be neglected when compared with other product information, such as 'product development' and 'product quality'. The disclosures in 'product safety' were only provided by companies in food and pharmaceutical industries as they are obliged to comply with product safety regulations. This may be the reason why companies not involved with food or pharmaceutical manufacture tended to be resistant to disclosing this information. Another reason is, perhaps, that the nature of the industries was not compatible with the issue of product safety, for example, in companies in service industries. Other examples of 'products' disclosures were associated with new product packaging, the amount or percentage of research and development expenditure to improve existing products, and the release of new products. Information about the achievement and maintenance of ISO 9000 series certification was also dominant, showing that companies fulfilled the requirements in producing quality products.

4.3.6. Sustainability

Only companies that clearly linked their sustainability efforts with economical and social values in long-term decision making and performance issues were considered to have completed this CSD item. The following sentence "... in order to maintain

sustainability, the company has continually decided to focus on economic and social improvements by returning some profits to support social development ...” and “... company believes that maintaining economical and social development is a tool to create sustainability...” are examples of this disclosure. There are still some debates about whether social activities really create sustainability or if they are just another cost to secure company operations. This perception may be the reason why disclosure about the linkage between sustainability and economic and social values was hard to identify in the annual reports.

4.3.7. External relations

Common disclosures addressing the manner in which companies maintain their external relations emphasised ‘customer communication’. This kind of disclosure was easily found in service industries that were oriented towards customer relations, particularly in the banking sector. Information about ‘holding regular meetings with their stakeholders’ was also disclosed by different industrial sectors.

4.3.8. Other information

The last section in the disclosure list is ‘other CSR information’. This includes the issues of corporate policies, company concern for their stakeholders, and various awards received by companies, reflecting their good performances. The information about good corporate governance (GCG) has been disclosed regularly, particularly in establishing an independent commissioner and audit committee. Two other disclosure items reported company concerns about the issue of human rights, and achievement of several awards, such as CSR awards, Customer Satisfaction Awards, Best Brand Awards, and Best Companies for Corporate Governance. The reporting of these achievements was often accompanied in the report by impressive pictures of the awards.

5. Conclusion and Implications

5.1. Conclusions

To conclude, several points can be drawn. First, with regard to the reporting methods, nature, location, and the amount of CSD, this study provides similarities with CSD practices in the majority of Asian countries (Imam, 2000; Kuasirikun & Sherer, 2004; Purushothaman, et al., 2000; Ramasamy & Hung, 2004; Ratanajongkol et al., 2006). Second, the ‘Board of Directors’ section in the annual reports is not always the most important location for CSD, as the disclosures are spread across the management discussions, GCG section, and separate sections indicating direct topics, such as ‘social activities’, ‘maintaining environment’, or the many other terms used to describe CSD. Third, the type of industry influences the type of information disclosed by the company, but the nature of the disclosures was similar, that is, in terms of descriptive and positive information. Fourth, the specific events became general disclosures when they happened during the specific period. Fifth, the amount of disclosure, both in quantity and quality, was limited, because the companies were still uncertain about the benefits of CSD and they were more reluctant to provide the information if the disclosure costs rise. Sixth, it was noticed that the companies had been looking for the ‘best’ type of report to disclose their CSD activities. They consider that annual reports may not be appropriate anymore as they have limited space to disclose CSD, being mainly for presenting financial reports. Finally, despite the similarities within Asian countries, this study supports the idea that many aspects should be considered as greatly influencing CSD, such as social, political, cultural, legal or government, economic, and technology factors (Belal, 2001; Tsang, 1998).

Further investigation showed that ‘state owned companies’ have provided much higher CSD compared to ‘non-state companies’. Cormier and Gordon (2001) asserted that ‘company status’ closely links to

the idea of 'legitimacy' because government owned companies are politically supported and must practise CSD more for reasons of accountability and visibility as outlined in legitimacy theory. This indicates that legitimacy theory is likely more relevant in explaining CSD practices in Indonesia than is stakeholder theory. Moreover, there is an indication that Indonesian companies tend to pay little attention to serving stakeholder's needs. 'Serving communities' as disclosed in the company annual reports was merely targeted to 'secure' company business operations and 'avoid' any social or law penalties. Thus, it may be said that Indonesian companies practise CSD, essentially to smooth their relationships with government and society. However, Gray, Kouhy, and Lavers (1995) emphasise that CSD is a complex activity that cannot be fully explained from a single theoretical perspective or from a single level of resolution. Agency theory or political cost theory might also be relevant in explaining some areas of CSD (Smith, Yahya & Amiruddin, 2007; Watts & Zimmerman, 1983).

5.2. Limitations

A number of limitations are present in the current study. Firstly, only annual reports, from listed companies, accessible for four years were included; therefore, it may not be possible to generalise these results to the wider Indonesian context. Secondly, as a result of the limited availability of annual reports, the data collection may be insufficient for certain frequency analyses. Third, some issues surrounding the validity of the content analysis method may appear because the technique of codifying text into numbers is still considered to be subjective. The level of subjectivity in coding the different items of disclosures is unavoidable given the diversity of the presentation in the annual reports. Therefore, to address this issue, this study has developed a set of guidelines and employed other coders. Finally, since the practice of CSD in

Indonesia is still in the embryonic stage of development; it may generate unsatisfactory results for the extent of CSD in both quantity and quality. A more refined measuring system that acknowledges the extent of CSD could possibly have produced different results from those observed in this study.

A need exists to improve the quantity and quality of CSD among companies. It may, therefore, be timely for accounting professional bodies and the 'Indonesian Accounting Standards Board' to seriously consider the development of social reporting standards. At the same time, however, this body can also play a significant role in improving the knowledge of conducting social reporting, for example, by promoting other report formats beyond financial statements or annual reports, such as environmental reports or sustainability reports. The 'Capital Market Supervisory Agency' should also provide guidelines for informing social activities in company annual reports. There is a plan for the implementation of both the 'Act on Cooperation Limited' and ISO 26000, which may be a way to incorporate CSD development and improvement. Government, industrial bodies, accounting profession, and scholars should also be involved to improve this CSD practice.

5.3. Future practice for Corporate Social Disclosure in Indonesia

This study offers a platform for further work relating to future predictions based on the updated practices. During the last two years an important potential regulation and a particular certification for social activities have been introduced for companies in Indonesia with the endorsement of the 'Act on Cooperation Limited' on 20th July 2007, article number 74. Under this law, all natural resources companies will be obligated to conduct and report their social activities, and will remove the incentive for companies to conduct and report any voluntary social activities in Indonesia, once it is enacted as law. The second practice was the introduction of ISO

26000 as guidance for social responsibility. This guidance is currently being reviewed to suit the Indonesian business environment. Some important effects of the implementation of this standard are the universal responsibility of all companies, institutions, government and non-government organisations, and the public to engage in social activities. In addition, ISO 26000 stresses social activities to include good corporate governance, human rights, human resources, environment, 'true and fair' business practices, and consumer issues. This, again, highlights the scope of social activities as being broader than the environment.

Future practice for CSD in developing countries appears closely related to the involvement of Government. The imposition of regulations and certification seem to be a good start to drive the CSD practices. Since the issue of 'social problems' is potentially more complex in developing countries compared to developed countries, so the necessary approach to CSD practices is different too.

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Appendix 1
Disclosure themes and items

a. Environment

Environmental pollution:

1. Pollution control in the conduct of the business operations
2. Statements indicating the company's compliance with environmental laws and regulation
3. Statements indicating that pollution from operations has been or will be reduced
4. Prevention or repair of damage to the environment
5. Natural resources, e.g. recycling glass, metals, oil, water and paper
6. Efficiently using materials resources in the manufacturing process
7. Supporting environmental campaign
8. Receiving an award relating to the company's environmental policies or programs or penalties against the environmental regulations

Aesthetics

9. Designing facilities harmonious with the environment
10. Contribution in terms of cash or art/sculptures to beautify the environment

Other

11. Undertaking environmental impact studies to monitor the company's impact on the environment
12. Training employees in environmental issues
13. Technology applied to support environmental existence

b. Energy

14. Conservation of energy in conducting the business operation
15. Efficiently using energy during the manufacturing process
16. Discussing the company's efforts to reduce energy consumption
17. Voicing the company's concern about the energy shortage

c. Human Resources

18. Employee health and safety
19. Employment of minorities or woman,
20. Employee training
21. Employee assistance / benefits
22. Employee remuneration
23. Employee profiles
24. Employee share purchase scheme
25. Employee morale
26. Industrial relations
27. Other information in relation to working conditions and reorganisation

d. Community involvement

28. Donation of cash, products or employee services
29. Sponsoring public health projects
30. Aiding medical research
31. Sponsoring educational conferences, seminars or art exhibits
32. Funding scholarship programs or activities
33. Providing civic amenities or supporting town planning
34. Supporting national pride/government sponsored campaigns
35. Supporting the development of local industries or community programs and activities

- 36. Recognizing local and indigenous communities
 - 37. Providing aid or compensation to communities around their operations
- e. Products
- 38. Product development
 - 39. Product safety
 - 40. Product quality
- f. Sustainability
- 41. Information about the integration of economic and social goals and values, linkage with long term decision making and performance issues
- g. External relations
- 42. Stakeholder requirements, stakeholder communication, benchmarks, consultation and information issues
- h. Others
- 43. Corporate objectives/policies/mission
 - 44. Other disclosing/reporting to groups in society other than shareholders and employees
 - 45. Receiving other penalties/awards, beside environmental and energy issues