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Nothing to Report? Motivations for Non-Disclosure of Social Issues by Indonesian Listed Companies

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Abstract

A study based on the extent of voluntary social disclosure practices of Indonesian listed entities using Global Reporting Initiatives as a simplified social disclosure index found that all Jakarta Stock Exchange listed entities voluntarily disclose some social information in their annual reports, but at a low level (14.15%). Stakeholder theory partially explains the disclosures but does not explain why some issues such as Child Labour*,* Forced *and* Compulsory Labour*,* Bribery and Corruption *and* Political Contributions *are not disclosed by any listed companies. This paper examines the motivations for these non-disclosures and suggests that one of the more likely reasons that companies do not disclose certain items is to avoid scrutiny, particularly on issues where they are not performing or where it is evident that they are in breach of government regulations.*

Introduction

Social disclosure has been the subject of substantial academic research in recent times (Haniffa & Cooke, 2005). The majority of these studies focus on company disclosure in developed countries, such as the UK, USA, Western Europe and Singapore (see, for example, Ullman, 1985; Gray, Kouhy & Laver, 1995; Adams, Hill & Roberts, 1998; Newson & Deegan, 2002; Brammer & Pavelin, 2004). There are few studies on developing countries, but those that have been undertaken reveal that social disclosures are generally low (see, for example, Belal, 2001 on Bangladesh; and Kuasirikun & Sherer, 2004 on Thailand). One of the explanations for low disclosure rates in developing countries is the myriad of social problems encountered by such nations. Indonesia is no exception, as the following expose illustrates.

The 1997 Asian economic crisis and recent natural disasters, such as the December 2004 tsunami in the provinces of Aceh and North Sumatra, have compounded Indonesia's social problems. These problems include poverty, unemployment and

declining education and health standards (Booth, 1999). It is estimated that after the December 2004 tsunami, the number of people below the poverty line increased by more than 1 million and the number of jobs lost reached 600 thousand (Hagiwara & Sugiyarto, 2005). Unfortunately, the recovery from these social problems has been slow primarily due to the bureaucracy and corruption within the Indonesian Government system (Booth, 1999; Simanjuntak, 2002). Some commentators argue that both the non-governmental and private sectors must play a greater role in solving Indonesia's social problems (Booth, 1999). However, the private sector itself is beset with problems such as minimum safety standards for workers and violations of workers' rights (Pangestu & Hendytio, 1997) resulting in disharmony with surrounding stakeholders such as local governments and the general community.

It has been argued that disclosure of social issues by Indonesian companies is as a means to showcase a company's proactiveness in social issues (see Susanto, 2000; Yeung & Ennew, 2000). Indeed, social disclosure by Indonesian companies is voluntary, except for employee benefits which is legally required, under the Indonesian Accounting Standards 'Statement of Financial Accounting Standards' (PSAK) (IAIGlobal, 2006), to be disclosed in company annual reports.[1] Also, the Securities Supervisory Agency (BAPEPAM) does not require mandatory social disclosure for firms listed on the Jakarta Stock Exchange (JSX) (see BAPEPAM, 2006).

Reporting on the extent of voluntary social disclosure in annual reports, this paper focuses on identifying social items that are not disclosed, and explores the motivations for non-disclosure by Indonesian entities listed on the JSX. This paper is comprised of six sections. Following this Introduction, a brief overview of the literature on social disclosures is provided in Section 2. This is followed by a discussion on the social disclosure practices in an Indonesian context employing a stakeholder perspective. Section 4 presents the research methodology including the adoption of the 2002 Global Reporting Initiative (GRI)[2] social indicators as a checklist of social disclosure items. Section 5 presents the results of the descriptive statistics analysis. Lastly, discussion and conclusion of the results are provided.

Literature Review

As stated in the previous section, most social disclosure studies focus on developed countries (see Ullman, 1985; Gray *et al.*, 1995; Adams *et al.*, 1998; Newson & Deegan, 2002; Brammer & Pavelin, 2004). Examples of these countries include Singapore, New Zealand, South Korea, Australia, the USA, UK and Western European countries. Very few social disclosure studies focus on developing countries such as Bangladesh, Malaysia or Indonesia (Kusumo, 1998; Belal, 2001; Haniffa & Cooke, 2005).[3] Despite the unbalanced number of studies between developed and developing country contexts, it should be noted that previous studies have generally investigated the extent of disclosure in annual reports to best describe disclosure practices by companies in particular countries (see, for example, Purushothaman *et al.*, 2000; Newson & Deegan, 2002; Haniffa & Cooke, 2005). The extent of social disclosure is investigated by previous researchers based on either a cross-sectional study or longitudinal study.

It is difficult to make comparisons between studies on the extent of social disclosure due to the fact that some assess social disclosure using content analysis (number of sentences, number of lines, number of words or number of issues) and others use disclosure indices. In general, however, the findings indicate that companies in both developed and developing countries disclose social information at a relatively low level. In Bangladesh, for instance, the level of social disclosure is very poor (only 0.5% of the total average number of lines contained in annual reports) (Belal, 2001). In Indonesia, the overall average of the quantity of voluntary environmental and social accounting disclosure is only 3.64 issues (Kusumo, 1998). In New Zealand, the overall average of social disclosure level is 23 sentences (Hackston & Milne, 1996). In Singapore, only 75 percent of the sample companies were found to disclose social information in their annual reports with an average of 7.4 issues disclosed (Purushothaman *et al.*, 2000).[4] The focus of these studies is on the level and extent of social disclosure. They do not examine the types of non-disclosure or the motivations behind non-disclosure. Therefore, in keeping with prior research, this paper is based on the results of a study on social disclosure but examines in detail the motivations for Indonesian companies not disclosing specific issues.

Social Disclosure in an Indonesian Context: A Stakeholder Perspective

Prior research has used agency theory, political economy theory, legitimacy theory and stakeholder theory as the underlying constructs of social disclosure studies (Hamid, 2004). However, the results are not always consistent and, to date, there exists no universally accepted theoretical framework of social disclosure practices (Gray *et al.*, 1995; Hackston & Milne, 1996; Brammer & Pavelin, 2004). As argued by Choi (1999) and Gray *et al.* (2001), each theory relies on different motivations by the companies to disclose information.

In Indonesia, the motivation for social disclosure by Indonesian companies is to serve the interests of not only investors but also other stakeholders such as the Indonesian Government, labour unions, potential employees and the surrounding community. These and other stakeholder groups appear to have considerable power to place pressure on companies in determining company strategy and policy (Perks & Sanderson, 2000). Against the backdrop of social problems facing Indonesia, stakeholder theory is considered relevant in explaining social disclosure and any apparent or perceived disparity between the influence these groups may have on a company or vice versa.

Stakeholder theory is 'an explicitly system-based view of the organisation and its environment which recognizes the dynamic and complex nature of the interplay between them' (Gray, Owen & Adams, 1996: 45). Freeman (1984: 46) defines a stakeholder as 'any group or individual who can affect or is affected by the achievement of the firm's objectives' (e.g., creditors, employees, customers, suppliers, public interest groups, governmental bodies). The idea that corporations have stakeholders has become commonplace in the literature since 1984 (Donaldson & Preston, 1995). As argued by Roberts (1992) and Ullman (1985), a good relationship between firms and stakeholders is important for successfully achieving a firm's long-term objectives.

Stakeholder theory has two branches, namely an ethical (accountability) branch and a managerial (organisation-centred) branch (Gray *et al.*, 1996; Deegan, 2000). The ethical branch of stakeholder theory postulates that all stakeholder groups have a right to be provided with information about how a firm affects them, even if they choose not to use that information and even if they, in turn, cannot directly affect the firm (Deegan, 2000). This is because, within the stakeholder view, there are implicit contracts between society and corporations in relation to any social activities those corporations engage in (Brown & Deegan, 1998; Brammer & Pavelin, 2004). Companies, therefore, have a responsibility to act in the best interests of society and to provide useful and relevant social disclosures so that company stakeholders can evaluate the performance of those companies with respect to those social contracts (Deegan, 2000; Henderson, Peirson & Harris, 2004). The managerial branch postulates that firms identify important groups of stakeholders and seek to manage each group to benefit the firm through the provision of voluntary disclosures (Henderson *et al.*, 2004).

Figure 1 illustrates groups of stakeholders that potentially affect or are affected by a firm. To enhance the explanation of the ethical and managerial branches of stakeholder theory, the influence of two stakeholder groups have been identified: governments and communities.

Governments can be divided into three levels[5]: the Indonesian Government (Central Government), province government and local governments (*Pemerintah Kabupaten* and *Pemerintah Kota*).[6] These three government levels are influential on Indonesian companies' policies as these policies must conform to the particular government legislation.[7] In Indonesia, government does legislate on several activities. Under *Act no. 13/2003* articles 86 and 87, for example, companies in Indonesia are legally required not only to protect their employees' health and safety but also to apply integrated systems for dealing with such protection (*Pemerintah Republik Indonesia*, 2003). Under this act, companies are also not allowed to employ children under 13 years old (*Pemerintah Republik Indonesia*, 2003). Thus, it is arguable that the governments have a right to access any information in relation to the legislated social activities from companies. The companies themselves potentially identify this circumstance and voluntarily disclose such activities in their annual reports.

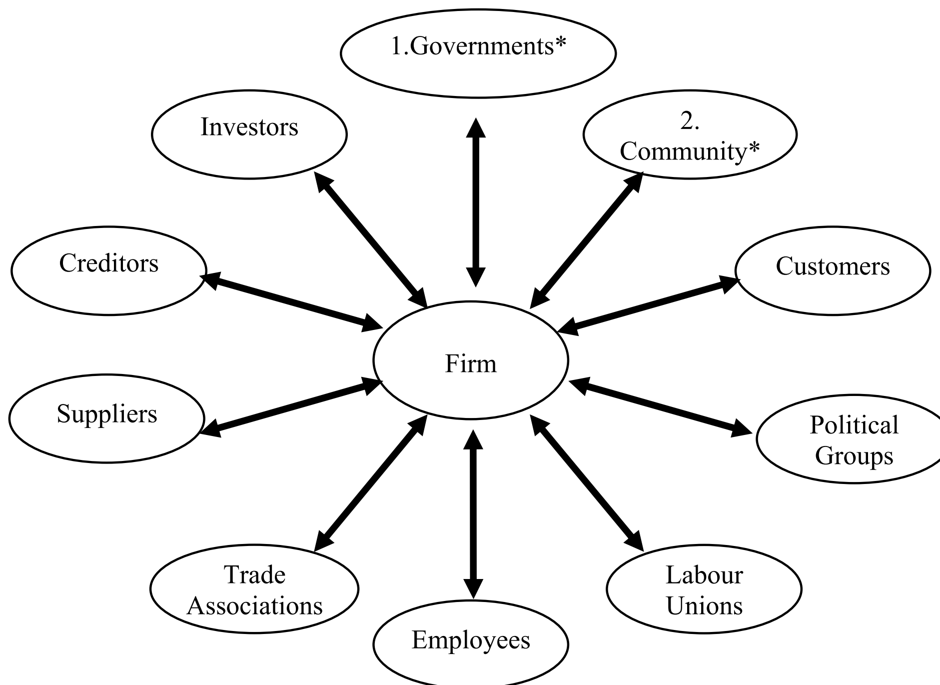
Community members potentially influence and are influenced by a company's operations as they live in the same area as the company. A survey done by Indonesian PROPER (a simple pollution disclosure system program) shows that there is a high demand among community members in Indonesia for environmental and social disclosure (O'Rourke, 2004). This is because such disclosure can help community members to evaluate the environmental and social impacts of companies (O'Rourke, 2004).

Other stakeholder groups depicted in Figure 1 (such as *customers* and *employees*) might not have sufficient power to motivate Indonesian listed companies in disclosing social information but are considered to have the right to be provided with social information by the companies. This is because some commentators, including members of the Indonesian Institute of Accountants (IAI) and the Chairman of BAPEPAM, argue that Indonesian companies are ethically responsible to the public for the social activities they have (or have not) undertaken (see *Penerapan Aturan Akuntansi Internasional di Indonesia,*

2002; *Mendorong Implementasi CSR,* 2005; Nasution, 2006). According to Nasution (2006), the Chairman of BAPEPAM, disclosure of information in relation to those activities enables the public to evaluate whether or not the companies contribute to the development of social, economic and environmental conditions. Further, Nasution (2006) states that BAPEPAM supports Indonesian listed companies in undertaking and disclosing social activities in their annual reports as a means of accountability and transparency to their stakeholders. It is clear from the above that the motivation of Indonesian listed companies in providing social disclosure is to provide social information their stakeholders need or have rights to obtain.

Thus, the combination of the ethical and managerial branches of stakeholder theory further substantiates that this theory underpins Indonesian companies' social disclosures despite any apparent or perceived disparity between the influences of a wide range of stakeholder groups.

Figure 1: Groups of Stakeholders



Source: Adapted and modified from Donaldson and Preston (1995), Gray, Owen and Adams (1996) and Deegan (2000). Note: The direction of the arrows shows that stakeholder theory assumes a co-operative and equal partnership structure where firms and their various stakeholders work towards ideal and sustainable solutions to a firm's social activities (Burritt & Welch, 1997; Kusumo, 1998). To illustrate the applicability of both ethical and managerial branches of stakeholder theory in an Indonesian context, this paper examines two stakeholder groups where the interplay of ethical and managerial forces takes place. Note that both strains of the theory apply to all groups as well but, for the purpose of this paper, the asterisked (*) groups in the above diagram are examined in detail.

Research Methodology

A sample of 100 publicly listed entities was chosen from a population of 331 companies from the JSX for the financial year ending 2004 (Jakarta Stock Exchange, 2004). Selection of the sample companies was based on the accessibility of annual reports from the JSX website and the presentation clarity of those reports in the Adobe Reader file.

The study adopted a simplified disclosure index to measure the extent of social disclosure.[8] A number of studies have noted that a disclosure index seems to be more suitable for measuring the level of disclosure in developing countries whose set of economic, political and social conditions are very different to those of developed countries (Brown, Tower & Taplin, 2004; Nurhayati, Brown & Tower, 2006). The use of a simplified index is deemed suitable for such countries because the index avoids penalising companies for a non-disclosed item when it is not relevant to them (Cooke, 1991; Meek, Roberts & Gray, 1995; Nurhayati, 2005). Furthermore, it has been argued that a disclosure index generally enables researchers to best gain insight into the level of information disclosed by companies (Cooke & Wallace, 1989; Hossain, Perera & Rahman, 1995).

As stated in the introduction section of this paper, GRI social indicators are adopted in this study as a checklist of social disclosure items (see Appendix A). These indicators are an international reporting guideline and framework for sustainability reporting with a high international profile focusing primarily on the content of sustainability reporting (Adams, 2004; Loftus & Purcell, 2006). The use of GRIs is considered useful for developing social disclosure indices as there are no legal standards for voluntary social disclosures in Indonesia. GRI social indicators consist of four categories (*Labour Practices and Decent Work*, *Human Rights*, *Society* and *Product Responsibility*) comprising 20 items. The disclosure indices are developed based on these items, namely *Labour/Management Relations*, *Health and Safety*, *Training and Education*, *Diversity and Opportunity*, *Strategy and Management*, *Non-Discrimination*, *Freedom of Association and Collective Bargaining*, *Child Labour*, *Forced and Compulsory labour*, *Disciplinary Practices*, *Security Practices*, *Indigenous Rights*, *Community*, *Bribery and Corruption*, *Political Contributions*, *Competition and Pricing, Customer Health and Safety*, *Products and Services, Advertising* and *Respect and Privacy* (Global Reporting Initiative, 2002). To determine the extent of social disclosure by JSX listed entities and, therefore, to ascertain which items are not disclosed, descriptive statistics analysis is utilised.

Descriptive Statistics Analysis

The descriptive analysis reveals that all 100 sample companies disclose some social information in their annual reports. As depicted in Table 1, the mean of social disclosure level is 14.15% (approximately 2.83 out of 20 items). This percentage suggests that social disclosure practices by Indonesian companies listed on JSX is low[9], but consistent with prior research.

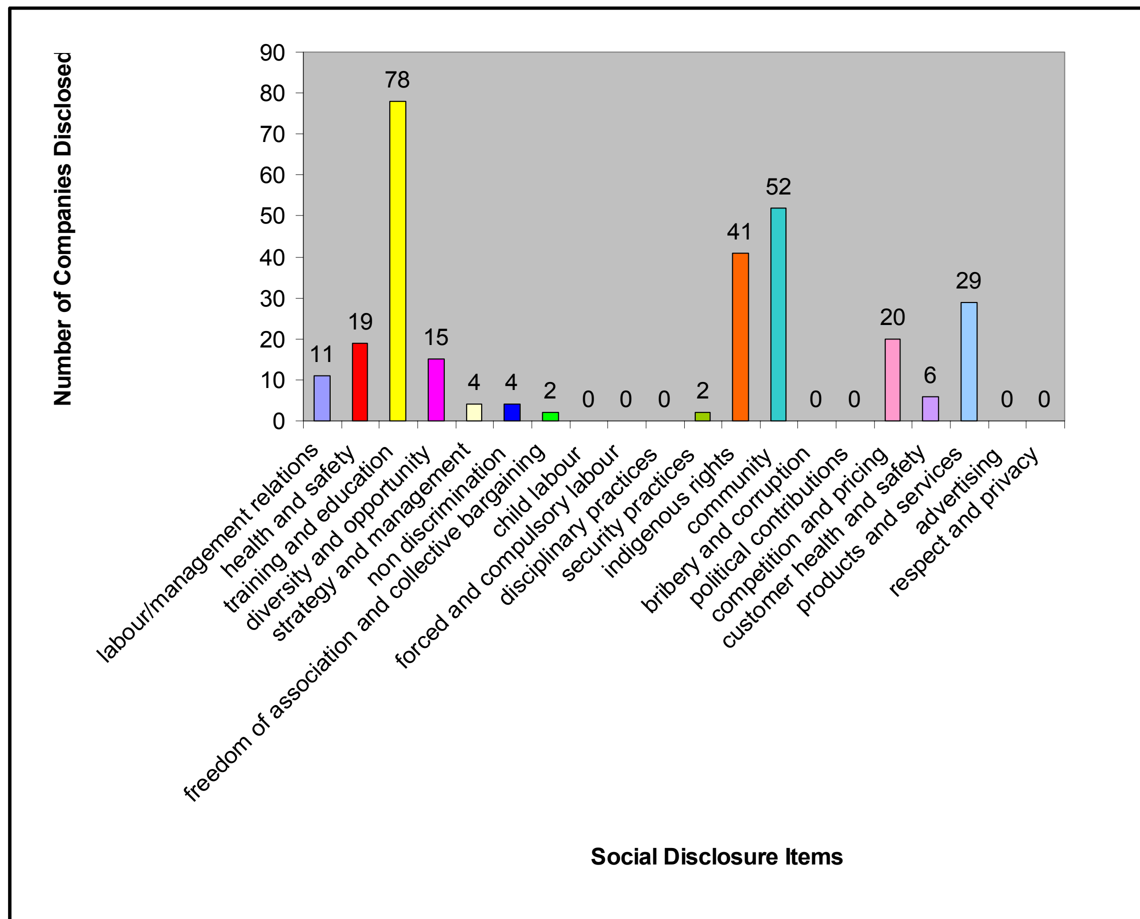
Table 1: Social Disclosure (%) of the 100 JSX Sample Companies

Dependent Variable	Minimum (%)	Maximum (%)	Mean (%)	Standard Deviation (%)
Social disclosure index (%) of all 100 sample companies	5	40	14.15	10.05

Source: Original table.

Figure 2 illustrates the 20 GRI social items[10] disclosed by the sample companies. It is evident from this figure that 13 of the 20 social items are disclosed at varying levels. For example, *Training and Education*, *Community* and *Indigenous Rights* are the three most disclosed items (78, 52 and 41 of 100 companies disclosing these issues respectively). Equally obvious from Figure 2 is that seven of the 20 items are not disclosed at all by any of the companies although these items seem relevant to the Indonesian context. These items include *Child Labour*, *Forced and Compulsory Labour*, *Disciplinary Practices*, *Bribery and Corruption*, *Political Contributions*, *Advertising*, and *Respect and Privacy*.

Figure 2: The 20 Items of Social Disclosure



Source: Original figure.

Of the four GRI categories identified in the previous section, all items under the Labour *Practices and Decent Work* category are disclosed by all companies. In the *Human Rights* category, 62.5 percent of items are disclosed whilst 37.5 percent are not. The non-disclosures include *Child Labour*, *Forced and Compulsory Labour*, and *Disciplinary Practices*. In the *Society* category, 50 percent of issues are not disclosed, being *Bribery and Corruption* and *Political Contributions*. Similarly, under the *Product & Responsibility* category, 50 percent of items are not disclosed, these being *Advertising* and *Respect and Privacy*. The next section examines why these items may not be disclosed.

Human Rights Category

Child Labour relates to a company's policy to exclude child labour in their operations (Global Reporting Initiative, 2002). The Indonesian Government allows companies to employ children aged between 13 and 15 years old under specific circumstances (*Pemerintah Republik Indonesia*, 2003). However, employing children under 13 years old is strictly prohibited (*Pemerintah Republik Indonesia*, 2003). Thus, disclosing commitments to exclude under 13 year old child labour is very important for companies to not only comply with Indonesian Government legislation, but also to attract the support of other related parties such as the International Labour Organization (ILO), local labour unions, potential employees and shareholders.

Forced and Compulsory Labour relates to the use of threats or coercion for the provision of labour and services by organisations and employees. The criteria requires a description of any policy that prevents forced and compulsory labour, the extent to which this policy is visibly stated and applied, and a description of procedures and/or programs to address this issue, including monitoring systems and results of monitoring (Office of the High Commissioner for Human Rights, 1932; Global Reporting Initiative, 2002). As a member of ILO, Indonesia has been applying such prevention through *Act no. 33/1961* (*Presiden Republik Indonesia*, 1961). Disclosing policies in relation to such issues is therefore useful for companies to show their compliance with government regulation.

Disciplinary Practices mainly deal with description of appeal practices including, but not limited to, human rights issues (Global Reporting Initiative, 2002). According to Lasmahadi (2004), a good appeal practice is one factor that creates effective communication between subordinates and superiors within a company. This is because a good appeal practice enables subordinates to communicate directly to their superiors especially when they have problems at work (Lasmahadi, 2004). Thus, information on *Disciplinary Practices* is a valuable category to be included in annual reports as it can show how companies manage communication across all levels of employees.

Society Category

Bribery and Corruption relates to the description of any company policy or program that addresses this issue including risk assessment, employee training and any actions taken in known incidents of bribery and corruption (Global Reporting Initiative, 2002). The World Bank has included many Indonesian companies on a black list because those companies are involved in corrupt activities (*Bank Dunia cekal perusahaan Indonesia,* 2006).

Image becomes a crucial issue when organisations like the World Bank do not want to conduct business with companies that have a bad image or a history of bribery and corruption (*Bank Dunia cekal perusahaan Indonesia,* 2006). Therefore, policies and programs that address and manage *Bribery and Corruption* are important to be disclosed in annual reports so that companies can improve their image and can conduct business with particular parties such as the World Bank.

Political Contributions deal with policies for managing political lobbying and contributions, as well as the amount of money paid to political parties (Global Reporting Initiative, 2002). Under *the Political Party Act no. 31/2002 article 18*, a political party in Indonesia is allowed to receive funds from companies up to a maximum amount of Rp800,000,000,- (*Pemerintah Republik Indonesia*, 2002). To monitor the compliance of this regulation, the government annually obtains the audited financial statements of political parties and investigates those financial statements. Disclosure of *Political Contributions* information by companies therefore serve as supporting evidence that can be traced by the government to check whether or not the amount of money stated in the political parties' financial statements conforms to the amount stated in the contributing companies' annual reports.

Product Responsibility Category

Advertising deals with policies for adherence to standards and voluntary codes related to advertising (Global Reporting Initiative, 2002). In Indonesia, companies which actively advertise their products and services in any media must adhere to the Indonesian Advertising Ethics Code (*Sejarah periklanan Indonesia 1744-1984,* n.d.). Adherence to this code of ethics is continually monitored by the Indonesian Advertising Commission (Indonesia Media Law and Policy Centre, 1996). Disclosure of *Advertising* information in annual reports can serve as a tool for reporting what companies have done in relation to their adherence to the Indonesian Advertising Ethics Code.

Respect and Privacy mainly describe policy and compliance mechanisms for consumer privacy (Global Reporting Initiative, 2002). In Indonesia, consumer privacy is an important issue since many email passwords, personal identification numbers (PIN) of internet banking and credit cards are tapped by dishonest people (*Mengatur dunia rimba raya,* 2003). Regulations in relation to such cyber crimes have not been issued yet (*Mengatur dunia rimba raya,* 2003). Thus, in relation to privacy protection, consumers can only depend on how companies address and manage this issue. A company with a good privacy protection program demonstrates high integrity which may lead to a competitive advantage as consumers are more likely to deal with a reputable company. Disclosure of *Respect and Privacy* information can therefore be used to highlight that competitive advantage to investors.

From the above GRI categories, it can be seen that four of the seven non-disclosed items are contained within Indonesian legislation (*Child Labour*, *Forced and Compulsory Labour, Political Contributions* and *Advertising*). Although regulation does not require disclosure of these items in annual reports (see BAPEPAM, 2006; IAIGlobal, 2006), it

would be expected that listed companies are complying with legislation and therefore would be voluntarily disclosing at least the four items listed above.

Discussion of Results and Concluding Remarks

Consistent with the findings of prior studies in developing countries (Kusumo, 1998; Belal, 2001; Haniffa & Cooke, 2005), this study reveals there is a low level of social disclosure (14.15% of 20 items) of JSX listed entities. Three GRI indicators, namely *Training and Education*, *Community* and *Indigenous Rights*, were the most disclosed items. The nature of these disclosures supports the explanatory powers of stakeholder theory, emphasising that it is not only powerful lobby groups such as investors that influence disclosure practices of Indonesian listed entities but other non-financial groups as well. Conversely, none of the JSX listed companies disclosed the items of *Child Labour*, *Forced and Compulsory Labour*, *Disciplinary Practices*, *Bribery and Corruption*, *Political Contributions*, *Advertising* and *Respect and Privacy.* According to Manning (2000), Indonesian companies often illegally recorded children aged between ten and 14 as aged 15 or above, and that at least 14 percent of children between ten and 14 years old are still engaged in some work activity. While it is illegal to employ any child under 13, there are exceptions for those between 13 and 15 years of age (*Pemerintah Republik Indonesia*, 2003). Therefore, based on Manning's findings and the non-disclosure of *Child Labour* in this study, it is clear that Indonesian companies are still illegally employing children under 13 years of age and that companies may be falsifying their records to avoid complying with the exception rule for those between 13 and 15 years of age. The implication is that *Child Labour* is not disclosed in order to avoid further investigation by the government.

This might also apply to other 'sensitive' issues and is supported by findings in relation to *Bribery and Corruption.* Can (2004) and Ali (2006) found that case studies conducted on PT Bank Negara Indonesia Tbk and PT Bank Rakyat Indonesia Tbk between 2002 and 2003 revealed corruption amounting to 1,700 billion Rupiah and 300 billion Rupiah for the two companies respectively. This shows that corruption prevention programs of Indonesian companies are still weak, that opportunities will be utilised by corrupt people in management positions of those companies and that companies will not voluntarily disclose such breaches.

Alternatively, it may be that companies do not believe there is any need to disclose an issue when they are not in breach of any social conditions or legal requirement. For example, as of late September 2004, there were no complaints or information brought to the attention of the National Human Rights Commission regarding *Forced and Compulsory Labour* practices in Indonesia (*Indonesia,* 2004). As companies are not apparently breaching the Act (*Act no. 33/1961* relating to prevention of *Forced and Compulsory Labour*) (see *Presiden Republik Indonesia*, 1961), they may believe there is no need to disclose this fact

However, there are also disciplinary practices by Indonesian companies that do not work effectively. This is because labourers in Indonesia usually express their disagreements, disappointments, protests, complaints and demands to the management through strikes and demonstrations (Rahayu & Sumarto, 2003) and, as a consequence, formal appeal procedures are difficult to apply. According to Rahayu and Sumarto (2003),

disputes between workers and management are, in practice, finally resolved through dialogue either with or without the involvement of a third party (e.g., the heads or staff of the local Office of Manpower).[11]

For *Political Contributions*, it was acknowledged that Indonesian listed companies do provide funds to particular political parties in excess of the allowed amount under the *Political Party Act no. 31/2002* article 18.[12] According to Hafild (2004) the relationship between Indonesian corporations and political parties is, at present, an issue of public concern. This is because Indonesian corporations expect that the political parties they donate to will protect their interests if those parties win the general election (Hafild, 2004). The implication supports those previously made on the topic of *Child Labour* - that Indonesian companies do not undertake and certainly will not voluntarily disclose information on issues where they have breached acceptable social conditions.

In relation to *Advertising*, it is implied that Indonesian listed companies do breach the Advertising Code of Ethics. As claimed by Ardianto (2003), many companies in Indonesia breach that code and the breach is particularly made in terms of exploiting women and children. The evidence of this breach can be easily found in any media such as newspaper and television (Ardianto, 2003). Commentators argue that advertisements that exploit women and children (see *Sejarah periklanan Indonesia 1744-1984* which, for example, specifically prohibits advertising that offends morality and those that target children under 18) also violate the norms which prevail within the Indonesian society (Ardianto, 2003). Such advertisements, according to Ardianto (2003), potentially aggravate the corporate image of companies.

For *Respect and Privacy*, Indonesian listed companies may provide information in relation to the protection of customer privacy in media other than annual reports, such as a company website and brochures. The purpose for doing so might be to inform customers directly when they contact a company, buy or use the company's products or access information from the company's website. PT Bank Mandiri Tbk, for instance, provides privacy guidelines and protections for SMS banking service on its website, but not in its annual reports (Bank Mandiri, 2006).

The low level of social disclosure may imply that, in general, Indonesian companies do not realise that disclosure of the GRI social disclosure items can lead to longer-term success for both companies and their stakeholders by attracting higher levels of investment both local and foreign. There is also the implication that Indonesian companies may not attempt to utilise social disclosure as a means for managing the relationship with their stakeholders. This might be because Indonesian listed companies only understand a very narrow corporate social responsibility concept to meet stakeholder demand, focusing mostly on the provisions of *Training and Education*, *Community* and *Indigenous Rights*.

Overall, the findings of this study suggest that social disclosures by Indonesian companies fall well short of the GRI guidelines. The GRIs are continually evolving to meet the demand of global stakeholders. Thus, to adopt this global development, both reporting regulatory bodies (IAI and BAPEPAM) and the educational body (Ministry of Education) in Indonesia may need to consider the need for mandatory social disclosure in

accordance with GRI guidelines by Indonesian listed companies and promote the concept of social disclosure to both accounting practitioners and report preparers. Given the fact that the *Employment* item (the only mandatory social disclosure item in Indonesia which has been excluded from this study) is disclosed by all sample companies, it is logical to assume that there would be a higher level of compliance by Indonesian listed companies if all GRI social indicators become mandatory.

Appendix A: The 2002 Global Reporting Initiative Social Performance Indicators

2002
A. Labour Practices and Decent Work
1. Employment
2. Labour/Management Relations
3. Health and Safety
4. Training and Education
5. Diversity and Opportunity
A. Human Rights
6. Strategy and Management
7. Non-Discrimination
8. Freedom of Association and Collective Bargaining
9. Child Labour
10. Forced and Compulsory Labour
11. Disciplinary Practices
12. Security Practices
13. Indigenous Rights
B. Society
14. Community
15. Bribery and Corruption
16. Political Contributions
17. Competition and Pricing
C. Product Responsibility
18. Customer Health and Safety
19. Products and Services
20. Advertising
21. Respect and Privacy

Source: Global Reporting Initiative (2002). Note: Employment item is excluded from the disclosure index checklist of this study because, in Indonesia, this item is a mandatory item. Therefore, only 20 items are used to measure social disclosure practices.

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Notes

[1] Under PSAK No. 24, Indonesian companies are required to disclose employee benefit information in their annual reports (IAIGlobal, 2006). Other social disclosure items such as *Training and Education* are voluntary although the social activities in relation to some of those items are mandatory. PSAK itself is developed by Indonesian Institute of Accountants (IAI) through its Financial Accounting Standard Board (DSAK) (IAIGlobal, 2006).

[2] The 2002 GRI Guidelines have been adopted because, at the time of undertaking this study, the 2006 draft of G3 Guidelines (the next generation of GRI reporting guidelines) were still being reviewed by the GRI Technical Advisory Committee, Stakeholder Council and Board of

Directors (see GRI, 2006). Furthermore, the use of the 2002 GRI Guidelines was considered relevant for the 2004 annual report data.

[3] The classification of developing countries and developed countries used in this study is based on the World Bank's classification (World Bank, 2006).

[4] The extent of voluntary environmental and social accounting disclosures in Kusumo (1998) and corporate social reporting in Purushothaman *et al.* (2000), which are 3.64 and 7.4 issues respectively, are considered low because they are less than 50 percent of the total 21 GRI social categories. The number of items that could be disclosed in Kusumo (1998) were 21 (not 20) because at the time of Kusumo's (1998) study, the *Employment* item (the first GRI item) had not become mandatory. Secondly, the disclosures represent not only social items but also environmental items.

[5] Actually, there are other government levels lower than *Pemerintah Kabupaten* or *Pemerintah Kota*. These include *Pemerintah Kecamatan* and *Pemerintah Kelurahan*. These governments are excluded from this study because, under *Act no. 32/2004*, they do not have full autonomy to govern the interests of the local people (see *Pemerintah Republik Indonesia*, 2004).

[6] At the time of this study, each local government in Indonesia (one level lower than provinces: *Pemerintah Kabupaten* and *Pemerintah Kota*) has decentralised power and authority to deal with any issues in relation to businesses within its area (*Pemerintah Republik Indonesia*, 2004).

[7] In the context of this study, legislation or regulation refers to any legal requirements from Indonesian regulatory bodies (government, IAI or BAPEPAM) applicable to Indonesian listed companies. Some Indonesian legislations or regulations require company compliance to undertake particular social activities (e.g., *Indonesian Act no. 21, 1999* requires companies not to discriminate against employees [see *Direktorat Pengawasan Kesehatan Kerja*, 2005]) but do not require disclosures of that compliance in annual reports.

[8] The disclosure index adopted in this study is the unweighted one. This is because the unweighted disclosure index has less subjectivity. Moreover, each disclosure item in the checklist is considered equally important and relevant to all sample companies (Craig & Diga, 1998).

[9] Although the extent of social disclosure (14.15%) found in this study is low, it is higher than an Indonesian study by Nurhayati, Brown and Tower (2006) on natural environmental disclosures. Nurhayati *et al.* (2006) found that the level of disclosures was nine percent, with only 37 out of 100 sample entities disclosing natural environmental information. This may imply that Indonesian companies are placing a greater priority on social issues.

[10] Although the first GRI item (*Employment*) is excluded from this study, it is important to note that all sample companies disclose this information in their annual reports. This shows JSX listed entities' compliance with PSAK No. 24. This item is not included in Figure 2 as it is excluded from the disclosure index checklist of this study.

[11] Office of Manpower is a government office which has the duty of implementing and supervising activities in industrial communication and protection of workers (*Pemerintah Kota Medan*, 2006).

[12] Under *the Political Party Act no. 31/2002 article 18*, a political party in Indonesia is allowed to receive funds from companies only up to a maximum amount of Rp800,000,000,- (*Pemerintah Republik Indonesia*, 2002).