Corporate Social and Environmental Reporting: A Case of Mimetic Isomorphism

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Abstract

This study provides an examination of corporate social and environmental reporting in Indonesia publicly listed companies. The aspects of corporate social and environmental reporting that are not extensively studied, particularly in Indonesia were also examined in this research, and these included focus on content-quality, this study was used a combination tools of Clarkson's environmental index and Sutantoputra's social index. This index was divided into two sections, hard disclosure and soft disclosure. Asystematic investigation into corporate social and environmental disclosure of five year data of 2005 to 2009 of 911 Indonesian publicly listed companies were carried out. The results revealed that the extent of corporate social and environmental reporting in Indonesia has increased from previous years and dominated by soft disclosure. Consequently, under uncertainty of government tool for corporate social and environmental reporting in Indonesia, companies tend to similar or mimic performance, structure and practices of other companies. From Institutional Theory, this practice is known as mimetic isomorphism.

Keywords*:* Corporate Social and Environmental Reporting, Soft disclosure, Institutional Theory, Mimetic Isomorphism

1.Introduction

The Indonesian regulated body has enacted the Indonesian Corporate Rules in 2007 which is known as Law No. 40/2007 concerning limited liability companies. Considerable controversy has accompanied the Indonesian government's recent enactment of legislation requiring corporations to participate in mandatory corporate social responsibility (CSR) programs. Despite strong protests from the business community and cynical indifference on the part of the public, the provision requiring mandatory participation in CSR programs was retained, although it was modified to cover only companies in natural resource-based sectors. The bill was passed on July 20, 2007 and became operative on August 16, 2007 (Darwin & Gutensperger, 2007).

According to the rules, all Indonesian's companies engaged in the exploitation of natural resources must conduct environmental and social responsibility programs to allocate a percentage of reported earning to social and environmental initiatives and that they will be liable to sanctions if they fail to do so. The funds expended on CSR programs are to be considered as part of a company's annual operating costs, and so can be set off against taxation liabilities (article no.74 section 1) and they are required to disclose the application of CSR in their annual report (article no 66. section 2). Nevertheless, the Corporation Rule above does not describe how far such corporations need to carry out their corporate social and environmental initiatives, and the disclosure contents and format of sentences arranged are left to the preparers (Darwin & Guttensperger, 2007). Given that, there are still problems (governance gap) in relation to the implementation of the new regulations as the specific items of the social activities that must be undertaken and reported by the companies are not clearly delineated in those regulations (Utama,2008). Hence, inadequate rules describing Corporate Law no.40/2007 in Indonesia will complicate the general public, such as readers and corporation as preparers of disclosure, to compare and to evaluate the application of Corporate Social and Environmental Reporting (CSER).

This is left to the discretion of each company and remains in effect, voluntary. The extent of CSR reporting may therefore vary across companies (Utama 2008). Thus this study is aimed at enhancing literatures in the field of corporate social and environtmental reporting and offer a tool to fill the governance gap.

2. Literature Review

2.1. The Extent of Corporate Social and Environmental Reporting

Corporate social disclosure refers to the process of communicating the social and environmental effects of organizations' economic action to particular interest groups within society and to society at large (Gray et al., 1987). In general, social disclosures can be defined as the reporting of environmental, ethical and human activities (Adams et al., 1998; Branco & Rodrigues, 2007; Gray et al., 1995; Hackston & Milne, 1996). Gray et al. (1996) note that corporate social reporting practices appear to vary across the world. The different levels of social and environmental reporting are also influenced by the domicile of the company. For companies domiciled in more developed countries, they are likely to report their social and environmental activities extensively than companies that operate in lesser developed countries (Doughlas et al., 2004). Chambers et al. (2003) investigate CSR reporting in Asia by analyzing the top 50 companies in seven countries (such as India, Indonesia, Malaysia, the Philippines, Singapore, South Korea and Thailand). Their result shows that CSR levels in Asia still low and lags behind those in the west.

In line with Chambers et al. (2003), Craig and Diga (2009) analyze corporate annual report disclosure practices in five ASEAN countries: Singapore, Malaysia, Indonesia, the Philippines and Thailand. They find that the level of CSR disclosure in Indonesia only ranged from 51% to 61%. In a different study, Suratno et al. (2006) reveal that Indonesia's private companies only disclosed four out of eight items of disclosures developed by Patten (2002). Similarly, Darwin (2006) demonstrates that only 10% from Indonesian public companies made disclosures in 2004 annual reports. Hartanti (2007) also finds a low level of disclosure in Indonesian's environmental initiatives, scoring 8.3 point from a total score of 30.

Indonesia has recently passed new laws related to corporate responsibility, despite protests from local companies, this includes Article 74, passed in July 2007, which focuses on the extractive industries. This law, which will mandate a certain level of corporate spending and reporting on environmental and social programs, is the first mandatory CSR law in the world (Krechowicz and Fernando, 2009). The Company Law obliges all companies to make report on the implementation of Social and Environmental Responsibility in their annual report. This regulation has caused society is unclear of the motive of Indonesian listed companies to report their CSR activities. Many companies claim that they are genuinely committed to the society, thus they perform social activities. However, it is a very subjective opinion. Public and government policies are believed to be the trigger of companies reporting CSR activities (Kurniawan & Wibowo, 2011). Kusumadilaga (2010) investigates the level of Corporate Social Responsibility in Indonesia before and after the enactment of Law N0.40 Year 2007 regarding Limited Liability Company. The result demonstrates there is an increase of CSR disclosure in 8.44% after the enactment of Law No. 40 Year 2007. Furthermore, Kartadjumena et al. (2011), investigates the trend of CSR disclosure in annual report during 2007 to 2009 period. Their result show that the average CSR Index (CSRI) manufacture company in annual report tends to increase, with average CSR Index in 2007 was 26%, in 2008 by 29%, and in 2009 by 33% . From the evidence presented above, the level of corporate social and environmental reporting from year to year seems to have increased especially after the launching of Law No.40/2007.

2.2. Hard and Soft Disclosure

This research was explain the extent of social and environmental disclosure related to hard and soft disclosure as conducted by Clarkson et al.(2007). Clarkson et al. (2007) develop a new environmental index based on GRI guidelines, they divide the level of environmental reporting into two main categories namely hard and soft disclosures. The hard disclosures are information that objective and can be verified by users and where any untrue information can lead to litigation. Hard disclosure items would be relatively difficult for poor environmental performers to mimic. Conversely, it views soft disclosure items as those that are mainly qualitative claims which are not easily verified. Their result find soft disclosures score than hard disclosure score is higher in all of 191 firms from the five most polluting industries in US.

Cormier et al. (2009) also use the environmental index develop by Clarkson (2007) and their finding demonstrate that soft disclosure score dominate than hard disclosure score in all companies. In Indonesian'context, Sarumpaet (2005) demonstrates that the level of environmental disclosure in Indonesia has risen steadily from 2001 to 2005 for soft, hard and total environmental disclosures and domination by soft disclosure. Hence, the amount soft disclosures are always higher than their hard disclosures in every year of observation in above studies, which is not surprising considering it is easier for firms to copy or mimic this type of social and environmental information than the exact and verifiable social and environmental information. Based from the above studies, soft disclosure score are always higher than hard disclosure score.

2.3. Mimetic Isomorphism

Basically, institutional isomorphism occurs when companies compete with other firms for economic, social and political power and institutional legitimacy (Shepard et al., 1997). DiMaggio and Powell (1983) define isomorphism as a process through which organizations in the same line of business become homogeneous. Meyer and Rowan (1977) argue that organizations integrate socially-legitimated rational elements in their formal structure in order to maximize their resources and survival capabilities. They assert that, "Independent of their productive efficiency, organizations which exist in highly elaborated institutional environments and succeed in becoming isomorphic with these environments gain the legitimacy and resources needed to survive" (p.352).

DiMaggio and Powell (1983) divide isomorphic process into three parts i.e. coercive isomorphism, mimetic isomorphism, and normative isomorphism. They state that coercive isomorphism results from both formal and informal pressures exerted on the organizations by other organizations upon which they are dependent by cultural expectation in the society within which the organizations function. Normative isomorphism results from the increasing professionalization of the environment (DiMaggio & Powell, 1983). Normative isomorphic pressure could arise from formal or informal group influences to which managers belong such as the culture and working practices developed within their workplace. This could produce collective managerial views in favor of or against certain types of reporting practices, such as collective managerial views on the desirability or necessity of providing a range of stakeholders with social and environmental information through the medium of corporate reports. Mimetic isomorphism is generated by environment uncertainties. Facing the ambiguity of the objectives and of the means to reach them, the organization sets imitation up a behavioral heuristics by seeking its model in the organizations that it perceives to be legitimate and successful (DiMaggio & Powell, 1983). Likewise, mimetic isomorphism involves organizations seeking to emulate (copy) or improve upon the institutional practices of other organizations, often for the reasons of competitive advantage in terms of legitimacy (Deegan, 2007). Altogether this research suggests the following hypotheses:

H1: The extent of corporate social and environmental reporting in Indonesia has increased from previous year
H2: The extent of corporate social and environmental reporting in Indonesia is dominated by soft disclosure.

3. Methodology

This research conducts a descriptive research design which employs a cross sectional study and a longitudinal analysis. This research is mainly grounded in the content analysis of the firm's annual reports and standalone corporate social and environmental reports or sustainability reports in the company's website. The population of the sample is all listed companies since they are required to publish their annual reports yearly in the Indonesian Stock Exchange from 2005 until 2009. This study applies purposive sampling method on the sectors of the listed companies in the Indonesian Stock Exchange. There are approximately 336 to 398 companies listed on the Indonesian Stock Exchange from 2005-2009 or about 1857 observations. However, some observations could not be included due to delisting, financial and trade companies or unavailability of data. The final sample consists of 911 observations (year-firms). This study measures the level of corporate social and environmental disclosure in terms of Global Reporting Initiative index based on combination of Clarkson's environmental index (2007) and Sutantoputra's social index (2009).

4. Analysis and Discussion

4.1. Statistics Descriptives

As shown in Table 1, the total sample (i.e. all companies) has a mean content-quality of social and environmental index (SEDL) in 2005 to 2009 from a base point of 38.008, to 42.3711 in 2009, and a standard deviation of 13.37358 in 2005 to 16.83749, respectively.

Along with the increased range of SEDL in 2009, there is an indication of an overall increase in social and environmental reporting content-quality in 2009.

Table 1. Descriptives Statistics

Variables	Min	Max	Mean	SD	Skewness	Kurtosis
SEDL2009	17.42	93.26	42.3711	16.83749	0.888	0.371
SEDL2008	15.17	84.83	40.9059	15.97386	0.933	0.500
SEDL2007	15.7	80.34	39.7148	15.51608	1.000	0.785
SEDL2006	6.18	78.65	38.1881	14.52967	1.046	1.430
SEDL2005	15.17	78.65	38.008	13.37358	1.140	1.929

4.2. Hypothesis Testing

4.2.1. Hypothesis Related the Extent of Corporate Social and Environmental Reporting

The result of the study showed that the trend of total disclosure of social and environmental activities increased steadily from 2005 to 2009 (Table 2). Hence, the level of social and environmental disclosure for all companies increase from previous year and followed an upward trend. To determine whether social and environmental disclosures increased significantly from year 2005 to 2009, one way ANOVA test were performed. Based on One way ANOVA (Table 3) there were significant differences in the means of total social and environmental disclosures from 2005 to 2009. Therefore, there has been a significant increase (improvement) in the total disclosure score over the study period, hence this finding **reject the null hypohesis or accepted the alternate hypothesis (H1).**

Table 2. SEDL All Years by All Companies

Year	SEDL
2005	0.380087
2006	0.381881
2007	0.397148
2008	0.409059
2009	0.423711

Table 3.One way Anova result

	Sum of Squares	Df	Mean Square	F	Sig.
Between Year	2493.412	4	623.353	2.609	.034
Within Year	216427.234	906	238.882		
Total	218920.646	910			

4.2.2. Hypothesis Related Hard and Soft Disclosure

This research explained the extent of social and environmental disclosure related to hard and soft disclosure. The hard disclosures are objective information that can be verified by users whereby any false information can lead to litigation. Hard disclosure items would be relatively difficult for companies with poor environmental performances to mimic. On the contrary, soft disclosure items which are mainly qualitative claims are not easily to be verified and could be presented by all companies regardless of their social and environmental performances. Clarkson et al. (2006) and Sutantoputra (2009) classified GRI disclosure index into eleven categories(A1 to A11) that cover a total of 178 equally weighted disclosure items. The first six categories comprise of 146 hard disclosure items, while the last five categories comprise of 32 soft disclosure items. Hard social and environmental disclosures are represented in categories A1-A6, and the soft social and environmental disclosure are represented categories A7-A11.

The amount of soft disclosures as shown in Table 4, are always higher than hard disclosure in every year of observation and in every industry. Therefore, to analyze corporate social and environmental disclosures from industries perspective, the companies were divided into seven type of industries, namely:

1. Agriculture
2. Mining
3. Basic Industry and Chemicals
4. Miscellaneous Industry
5. Consumer Goods Industry
6. Property, Real Estate and Building Construction
7. Infrastructures, Utilities and Transportation

The result of the analysis showed that for hard disclosure, the lowest average score was 38.36% and was observed in Infrastructures, Utilities and Transportation Industries, while the highest score was 48.67% and was observed in Mining Industry. For soft disclosure, the lowest average score was 69.26 and was observed in Infrastructures, Utilities and Transportation Industries, while the highest score was 78.67% and was observed in Basic Industry and Chemicals Industry. It appeared that soft disclosure'score was always higher than hard disclosure in all years and all industries. This indicates that corporate social and environmental reporting in Indonesia has increased from previous year and was dominated by soft disclosure. This finding justify the **rejection of null hypothesis, or accepted alternative hypothesis (H2)**.

Table.4. Summary of Hard and Soft Disclosure in every year by type of industry

DISCLOSURE	INDUSTRY 1	INDUSTRY 2	INDUSTRY 3	INDUSTRY 4	INDUSTRY 5	INDUSTRY 6	INDUSTRY 7
HARD 2005	0.421806	0.499167	0.464535	0.430492	0.450267	0.41767	0.347348
HARD 2006	0.480903	0.45625	0.467894	0.429371	0.450694	0.458962	0.383071
HARD 2007	0.490675	0.463151	0.473183	0.435754	0.454968	0.458916	0.390128
HARD 2008	0.470139	0.51209	0.486046	0.440469	0.45828	0.477041	0.396383
HARD 2009	0.480498	0.502818	0.517504	0.480117	0.478725	0.490232	0.401096
AVG HARD	0.468800	0.486690	0.481830	0.443240	0.458580	0.460560	0.38360
SOFT 2005	0.729167	0.82	0.782946	0.741414	0.701282	0.728704	0.6738100
SOFT 2006	0.67	0.681944	0.782946	0.731373	0.701282	0.706349	0.696296
SOFT 2007	0.792857	0.71875	0.782979	0.73619	0.70641	0.73172	0.684167
SOFT 2008	0.809259	0.730303	0.78522	0.719583	0.70641	0.769192	0.693333
SOFT 2009	0.802083	0.730069	0.799806	0.767233	0.705035	0.78986	0.715413
AVG SOFT	0.760670	0.715260	0.786770	0.739150	0.704080	0.74516	0.69260

4.3. Discussion

The results from this study revealed that the extent of corporate social and environmental reporting in Indonesia has increased from previous year and dominated by soft disclosure. The level of social and environmental disclosure increased steadily from 2005 to 2009 for soft, hard and total of corporate social and environmental disclosures. The number of companies reveals the corporate social and environmental information in *their* annual report keeps *increasing*. Beginning in 2005 the level of total social and environmental discosure were increased lighty from 2005(38%), to 2006(38.19%) and increase significantly after 2007, 2008, and 2009 (i.e. 39.71% 40.9% and 42.37% , respectively). The upward trend shows an increase of total corporate social and environmental disclosure 'quality. The present study demonstrated that better quality of corporate social and environmental reporting that has encouraged the company motive to perform corporate social and environmental disclosure is solely because of regulation imposed by the government and social contract with public policy. The Law No. 40 year 2007 concerning Limited Company (Perseroan Terbatas) also assigns significant impacts to the motivation for corporate social and environmental reporting. From industrial perspective analysis, it obvious that the highest level of hard corporate social and environmental disclosures is performed by Mining Industry followed by Agriculture Industry. This phenomenon is also predictableas these industries are highly sensitive to the environment.

The amount of soft disclosures are always higher than hard disclosure by year and by industry which is not surprising considering it is easier for firms to copy or mimic this type of social and environmental information than the exact and verifiable social and environmental information. The practice of adopting similar practices in Institutional Theory is referred to as isomorphism (DiMiggio & Powell, 1983). The present study also showed that it is reliable to assume that firms, mainly those with lower performance, tend to adopt the same disclosure mechanisms of companies with higher performance to get their legitimacy. Therefore, there was a greater tendency for isomorphism. Organisational isomorphism refers to the assimilation of organisations that co-exist in similar environmental conditions (Dacin, 1997). Organizations are increasingly homogeneous within given domains and increasingly organized around rituals of conformity to wider institutions. Likewise, mimetic isomorphism involves organizations seeking to emulate (copy) or improve upon the institutional practices of other organizations, often for the reasons of competitive advantage in terms of legitimacy (Deegan,2007). Following Institutional Theory, the mimetic isomorphism is generated by environment uncertainties, for example: regulator does not clarify the detailed corporate social and environmental activities, and the disclosure that must be communicated by companies (e.g lack of clarity of law No. 40 year 2007). This result reinforces earlier finding that mimetic isomorphism is subjected to ambiguity of the objectives and of the means to reach them. The organization sets up imitation of behavioral heuristics by seeking its model in the organizations that perceives legitimate and success (DiMaggio and Powell, 1983).

5.Conclusion and Reccomendation

The mandatory requirements have successfully increased awareness of Indonesian companies to provide social and environmental reporting, but yet to show significant impact on social and environmental activies. If further regulation is to be reinforced, careful consideration of the reporting requirements is needed. The extent of CSR reporting may, therefore, vary across companies. At the moment most corporations are still unclear as to what their specific obligations are, and the public suspects that it is yet another legislative package that will be summarily ignored if compliance is either inconvenient or expensive. Careful consideration, indeed, will have to go into the formulation of this most critical aspect of CSR legislation in Indonesia. In the absence of legislative prescriptions (under uncertainty) of corporate social and environmental reporting tools, the tool used in this study can fill the governance gap by offering an alternative guide for companies on how to report their social and environmental activities. Such an inadequacy might bring into light what theoretical perspectives that could explain the management motivations to disclose voluntarily social and environmental activities, in example institutional theory could be used as strategy to achieve the organization' goals when engaging in social and environmental reporting area by mimicking the another organization's practices with which it interacts for the reasons of competitive advantage in terms of legitimacy.

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