INDONESIAN STAKEHOLDERS’ PERCEPTIONS ON ENVIRONMENTAL INFORMATION

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Abstract
This study analyses Indonesian stakeholders’ viewpoints on environmental reporting items using the well known Global Reporting Initiative template. Respondents’ ratings showed high average scores of 5.46/7 with all items statistically far above the neutral position. These scores indicate that there is clear expectation of stakeholders for Indonesian companies to disclose all of these items. The evidence reveals that stakeholders weigh economically-focused topics higher than items relating to broader social issues. The weighted Indonesian Environmental Reporting Index (IERST) is developed based on the insights of survey respondents which better reflect the importance of key stakeholders’ demands for corporate environmental reporting in Indonesia.

Key words
Environmental reporting, stakeholder theory, Indonesia

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Introduction
This paper is an empirical study of the Indonesian stakeholder viewpoints about the Global Reporting Initiative’s (GRI’s) environmental reporting items. While prior research on stakeholders’ viewpoints of these items has been conducted in an Indonesian context (Cahaya, Porter and Brown, 2006), limited research has been undertaken on the key stakeholders’ views on environmental issues. This is surprising given the large environmental issues facing Indonesia (Walhi, 2007; Greenpeace, 2006). Despite Indonesia’s environmental problems, there are no specific mandatory reporting guidelines for Indonesian companies on generating environmental information for their stakeholders. The Indonesian Accountant Association (Ikatan Akuntan Indonesia), which governs the accounting system in Indonesia, adopts International Financial Reporting Standards (IFRS) as the base for national standards (Pernyataan Standar Akuntansi Keuangan, PSAK) (Saudagaran and Diga, 1997). However, none of the IFRS or PSAK require substantial disclosure of environmental data (see Porter, Brown, Purushothaman, and Scharl, 2006, for an environmental accounting critique of IFRS). Accordingly, this paper considers key environmental reporting issues, as explicated by the GRI (2002), from the viewpoint of Indonesian stakeholders. The GRI is globally considered a sophisticated environmental reporting guideline for entities and their stakeholders in articulating and understanding the contribution of companies to sustainable development (GRI, 2002). The GRI environmental items are often referred to as Environmental Performance Indicators (EnPIs). This template is used in lieu of the more recent GRI (2006) document for several reasons: it is better known but similar to the 2006 variant - the GRI (2006) version has 30 environmental items that address all the same key issues as its earlier 2002
counterpart. Moreover, the GRI (2002) benchmark list better fits with the evidence phase time period. Overall, the GRI (2002) EnPIs provide an extensive list of 35 environmental reporting items and thus a useful context for assessing the key environmental issues rated by Indonesian stakeholders.

This paper is structured as follows. The following section examines stakeholder theory. It considers the role of stakeholders from both ethical and financial viewpoints and their influence in the affairs of Indonesian society. The next section describes the research methods used. The empirical results of the study are then followed by implications and conclusions.

**Literature Review**

Indonesian respondents’ perceptions are gathered from a face-to-face survey incorporating both restricted (narrow) and unrestricted (broader) stakeholder groups. The restricted and unrestricted variants of stakeholder theory are explicated in depth. As detailed below, this paper offers unique insights of actual demand by a broad and eclectic group of stakeholders encompassing both financial/economic and broader societal viewpoints. Herbohn (2005) argues the importance of applying stakeholder theory as a lens to better understand the dynamic interaction of stakeholders and managers and the use of accounting as a basis for dialogue and negotiation.

There are arguably two main branches of stakeholder classification: strategic management and moral-based (Harrison and Freeman, 1999; Frooman, 1999). The focus of the former branch is on managing the ‘financial’ stakeholders of the company for the benefit of the company’s agenda and, thus, reflects an economic perspective where strategic management of important stakeholders is given primacy. The focus of the latter branch emphasises the interests of all stakeholders in order to fulfill the broader perspective of satisfying as many stakeholders as possible, regardless of the strength of their economic relationship with the company (Frooman, 1999).

From a strategic management perspective, there are two very different stakeholder groups that can, in varying degrees, influence or affect the existence of the company (Clarkson, 1995; Mellahi and Wood, 2003). They are primary and secondary stakeholder groups. A primary stakeholder group is “one without whose continuing participation the corporation cannot survive as a going concern” (Clarkson, 1995, p. 106). Shareholders and creditors (debt holders) are examples in the primary stakeholder group. Between the company and its primary stakeholder group there is a very high level of interdependence.

The primary stakeholders tend to be powerful ‘financial’ stakeholders (Eesley and Lenox, 2006). A company can suffer or collapse as a going concern without sufficient and satisfactory relationships with these groups; thus, there is a constant need to monitor and manage a restricted and primary stakeholder groups to further the interests of the company (Clarkson, 1995; Mellahi and Wood, 2003). Business people and regulators are considered to have such prime direct roles, whereas, secondary stakeholder groups are defined as “those who influence or affect, or are influenced or affected by, the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival” (Clarkson, 1995, p. 107). They have little or no direct power upon the corporation. Unlike the primary stakeholder groups, a company does not directly depend upon secondary stakeholder groups for its ongoing survival. Non-financial groups such as press, academics and environmentalists are commonly classified as secondary stakeholders (Eesley and Lenox, 2006). This unrestricted stakeholder approach proposes that the company needs to consider the interests of all stakeholders affected by the firm including both primary and secondary stakeholders (Mellahi and Wood, 2003).
In contrast, the moral-based (broader focus) stakeholder group posits that companies have moral commitment to advance stakeholder interests (Harrison and Freeman, 1999). Werhane and Freeman (1997, p. 53) define the moral view as “a mental and emotional standpoint from which all persons are seen as having a special dignity or worth, from which the Golden Rule gets its force…” This viewpoint envelops both the mental and emotional perspectives of individuals or institutions. Herbohn (2005) cites the example of moving beyond the economic rationalist reformation when looking at full cost environmental accounting in the Australian forest sector.

Based on Werhane and Freeman’s moral perspective, Brown, Tower and Taplin (2004) develop an empirical reporting classification model in the context of developing countries, where primary ‘financial’ stakeholders (Ullmann, 1985; Mellahi and Wood, 2003) are contained within a Western-narrow model and secondary ‘non-financial’ stakeholders fall under either a Western-broad or Traditional reporting model (Brown et al., 2004). This paper considers the viewpoints of business people (investors, lenders, management and directors) that represent the interest-based and Western-narrow stakeholder viewpoint; regulators that represent the rights-based and Western-broad stakeholder viewpoint; and academics that represent the virtues-based and Western-broad stakeholder viewpoint.

The purpose of this paper is to evolve a unique Indonesian Environmental Reporting Index (IERST) from the viewpoint of survey respondents. The Indonesian respondents to a face-to-face survey comprise restricted (narrow) and unrestricted (broader) stakeholder groups. Their perceptions are utilized to create the IERST index which better reflects the importance of the survey respondents’ demand for corporate environmental reporting in Indonesia.

The evolution of the initial IER uses the GRI (2002) EnPIs as a template. Benchmarking of the Guidelines has clear advantages. For example, the GRI is widely considered the most sophisticated environmental reporting guideline and it is easier for preparers to generate environmental information because the GRI EnPIs Guidelines provide applicable indicators that are comparable with other firms (Dixon, Mousa and Woodhead, 2005). This is in line with the objective of the Guidelines, which is to help reporting companies and their stakeholders in articulating and understanding the contribution of companies to sustainable development (GRI, 2002). The GRI is also supposedly designed to be applicable to all sizes and types of companies in any location (GRI, 2002). Here analysis is made of the extent the GRI EnPIs Guidelines are appropriate in an Indonesian context.

Insights from Indonesian stakeholders, including narrow and broader groups, will enable differential weighting of GRI to include unique Indonesian insights. Many past studies (such as Jenkins and Yakovleva, 2006; Hedberg and Malmborg, 2003) have used the GRI as the benchmark for analysis although most past studies have weighted the indicators equally — without due consideration of the appropriateness of such an approach.

The GRI provides a generic list that, theoretically, could apply to all countries. However, it is argued that a country-specific index is better in that it could take into account specific differences that may result in terms of unique country business practices, culture, laws, funding sources and national expectations (Ahmad and Sulaiman, 2004; Buhr and Freedman, 2001; Adhikari and Tondkar, 1992). It is posited that a focused country-specific index is especially important for a developing country such as Indonesia.

**Research Approach**

To obtain Indonesian insights on environmental items, the importance of the GRI is directly rated by key Indonesian stakeholders (IERST). A direct face-to-face survey conducted in Indonesia in 2005 with
69 Indonesian stakeholders resulted in the production of a rich and valid data set. Respondents were asked to evaluate the relevance of all the 35 GRI EnPIs items by providing a rating of the importance of each of the items on a 1-7 Likert-scale. A score of (1) reflects the most unfavorable attitude—very strong disagreement with the importance of the individual item, whilst a score of (7) points out the most favorable ranking—very strong agreement. Such scaling helps “to compare one person’s score with a distribution of scores from a well-defined sample group” (Cooper and Schindler, 2003: 253).

These important stakeholders are selected from a diverse sample of Indonesian professional backgrounds in order to obtain heterogenic viewpoints. This generates richer insights into the IER items. With the aim of achieving widely acceptable results, face to face survey components are not solely directed to any specific user groups (Marston and Shrives, 1991; Cooke, 1989). Therefore, diversity of outcomes rather than less insightful homogeneity can be achieved (Marginson, 2004). The purpose of this evidentiary phase is to achieve valid insights of Indonesian stakeholders’ perspective.

The survey evidence is derived from 69 different Indonesian stakeholders; arguably each has expertise or at least a good level of knowledge of the importance of relevant factors. The respondents are classified into two groups.

The narrow ‘financial’ stakeholder category consists of businesspeople and regulators. A diverse group of businesspeople are selected from directors, managers, and owners of national and local firms, from large to medium sized firms. They are from a variety of financial, services and manufacturing industries in Indonesia. Businesspeople are included in the sample because they are involved in planning and preparing company environmental reporting (see Herbohn, 2005). Regulators are selected because they traditionally focus on financial aspects of financial markets and play a key authoritative role in the regulation of environmental data. Regulators are chosen from the authorized Indonesian bodies (which monitor and control the environment) for example from the Environmental Impact Management Agency (BAPEDAL, Badan Pengendali Dampak Lingkungan), and Regional Development Planning Board (BAPPEDA, Badan Perencanaan dan Pembangunan Daerah).

In the broader stakeholder category, environmentalists are included from various Non Governmental Organizations (NGOs) such as Indonesia Forum for the Environment (Wahana Lingkungan Hidup Indonesia, WALHI) and Yayasan Lingkungan Hidup Indonesia (YLHI). These are peak environmental bodies in Indonesia. Since senior management is trained mainly at education centers such as university and especially from business schools, academics play an important role in the success of Indonesian firms. Academics are selected from representative Indonesian business schools in areas such as management, accounting, finance and also from business education programs. Overall, obtaining a heterogeneous and extensive range of stakeholders is important to enrich the data set and increase the likely applicability of the IER to the Indonesian context. The sample set obtained is well balanced between narrow (48%) and broad (52%) stakeholder groups.

Evidence is obtained in face-to-face meetings held in Indonesia over several months in 2005. Each meeting started with a predetermined list of questions which were based on the 35 GRI (2002) EnPIs items. Stakeholders were allowed to explain their views and importance ratings of all items. They were initially given a written list of the EnPI items and verbally walked through their rating of each. This approach highlights areas of specific interest, as well as enables responses to be questioned in greater depth, and in particular to bring out and resolve apparent contradictions (Bryman and Bell, 2003; Horton, Macve and Struyven, 2004; McNamara, 2006). This technique enriches and offers a better understanding of the
reasoning behind the given scores (McNamara, 2006). This series of procedures better ensures that the stakeholders are comfortable in stating their opinions (Cooper and Schindler, 2003) about the importance of various facets of environmental reporting in Indonesia. A more relevant and reliable database is thus obtained.

Results
There are four key groups of career classifications in the sample - businesspeople (41%), environmentalists (25%), regulators (7%) and academics (27%). The average age of the survey respondents was 42 years (with the oldest 56 years and youngest 24 years). Distribution of age indicated that 11 respondents (16%) were less than 35 years old, 8 people (12%) were fifty years or older, and the remaining 50 stakeholders (73%) had an age between 35 and 50 years; the median figure was 42 years old.

Thirty eight percent of respondents had international experiences with the remaining having only domestic experience. The classification of ‘international focus’ is measured by whether the respondent has had experience in overseas business and/or universities. It was posited that respondents with an international focus had a broader environmental perspective.

As expected, the sample had a gender imbalance. There were 61 males (88%) and 8 females (12%). This is consistent with Indonesian business work practices for white collar workers (Zein, 2005). By nature, the structure of management or strategic positions in Indonesian business institutions is dominated by males with only 1% of total numbers holding a position as a decision maker in Indonesia being female (Kompas, 2003). Consequently, it is difficult to obtain a greater balance in gender representation. There is also an urban/rural dichotomy, with over 75% of the respondents being urban dwellers. This is somewhat inconsistent with living patterns in Indonesia in that more than 55% of the population lives in rural areas (Baird and Versegí, 2005). However, the key point is that the vast majority of businesses in Indonesia have an urban focus. Thus, the composition of respondents is a reflection of the real Indonesian business orientation. Overall, the structure of respondents represented a broad cross section of Indonesian stakeholders with a business orientation. This breadth of data provided a better base from which to generalize to the Indonesian stakeholder population.

This paper compares and contrasts both restricted and unrestricted variants of stakeholder theory in the evolution of the IER\textsubscript{ST} index. The IER\textsubscript{SN} and IER\textsubscript{SB} indices are weighted equally and then averaged to create the IER\textsubscript{ST} which represents the perceptions of both the narrow and broader survey respondent groups in Indonesia.

Survey results from the restricted stakeholder groups including businesspeople and regulators are presented in Table 1 (middle column); respondents give all 35 GRI items high ratings (mean = 5.02 with 4.00 = neutral position). The IER\textsubscript{SN} column shows a homogeneous index spreading from the highest rating (5.55) to the lowest score (4.55), yet the top eight items are all economically-oriented with direct financial implications. Whereas, broader groups clearly demand more holistic environmental economic data with higher ratings (mean = 5.85). Their range is wider with the highest score of 6.47 and the lowest of 5.19.

Table 1 reveals the range of scores spread from a maximum point of 6.03 (Hazardous Wastes) to a minimum of 4.96 (Other Indirect Energy) with an overall mean of 5.46. The spread value of 1.07 highlights that there is no extreme gap between the highest and the lowest score. Given these uniformly high scores, the survey respondents ‘agree’ or ‘strongly agree’ that all of the GRI EnPI items are expected to be disclosed by Indonesian companies.

The far right column of Table 1 shows the 35 survey weighted IER items based on the perceived importance by Indonesian survey respondents. The higher the score given by the interviewee, the greater is accorded the importance of disclosing this item. The
Table 1: Aggregate Rating of Importance on environmental Items (IER<sub>ST</sub>): Evidence Derived from Indonesian Survey Respondents

<table>
<thead>
<tr>
<th>EnPI#</th>
<th>IER Items</th>
<th>IER&lt;sub&gt;SN&lt;/sub&gt;</th>
<th>IER&lt;sub&gt;SB&lt;/sub&gt;</th>
<th>IER&lt;sub&gt;ST&lt;/sub&gt;</th>
<th>IER&lt;sub&gt;ST&lt;/sub&gt; Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>EN31</td>
<td>Hazardous Waste</td>
<td>5.55</td>
<td>6.47</td>
<td>6.03</td>
<td>1.10</td>
</tr>
<tr>
<td>EN20</td>
<td>Water Sources and Habitat</td>
<td>5.24</td>
<td>6.33</td>
<td>5.81</td>
<td>1.06</td>
</tr>
<tr>
<td>EN13</td>
<td>Spills of Chemicals</td>
<td>5.27</td>
<td>6.25</td>
<td>5.78</td>
<td>1.06</td>
</tr>
<tr>
<td>EN1</td>
<td>Materials by Type</td>
<td>5.48</td>
<td>5.97</td>
<td>5.74</td>
<td>1.05</td>
</tr>
<tr>
<td>EN13</td>
<td>Business Units Impact on Protected Areas</td>
<td>5.21</td>
<td>6.17</td>
<td>5.71</td>
<td>1.05</td>
</tr>
<tr>
<td>EN14</td>
<td>Impact of Products</td>
<td>5.24</td>
<td>6.08</td>
<td>5.68</td>
<td>1.04</td>
</tr>
<tr>
<td>EN25</td>
<td>Operations in Protected Areas</td>
<td>5.15</td>
<td>6.08</td>
<td>5.64</td>
<td>1.03</td>
</tr>
<tr>
<td>EN11</td>
<td>Waste by Type</td>
<td>5.30</td>
<td>5.92</td>
<td>5.62</td>
<td>1.03</td>
</tr>
<tr>
<td>EN35</td>
<td>Environmental Expense</td>
<td>5.52</td>
<td>5.72</td>
<td>5.62</td>
<td>1.03</td>
</tr>
<tr>
<td>EN17</td>
<td>Renewable Initiatives</td>
<td>5.39</td>
<td>5.78</td>
<td>5.59</td>
<td>1.02</td>
</tr>
<tr>
<td>EN27</td>
<td>Ecosystem Protection Programs</td>
<td>5.00</td>
<td>6.06</td>
<td>5.55</td>
<td>1.02</td>
</tr>
<tr>
<td>EN5</td>
<td>Volume of Water Use</td>
<td>5.00</td>
<td>6.03</td>
<td>5.54</td>
<td>1.01</td>
</tr>
<tr>
<td>EN18</td>
<td>Energy Consumption</td>
<td>5.33</td>
<td>5.67</td>
<td>5.51</td>
<td>1.01</td>
</tr>
<tr>
<td>EN21</td>
<td>Withdrawals of Ground Water</td>
<td>5.00</td>
<td>5.97</td>
<td>5.51</td>
<td>1.01</td>
</tr>
<tr>
<td>EN9</td>
<td>Emissions of Ozone-Depleting Substances</td>
<td>5.03</td>
<td>5.94</td>
<td>5.51</td>
<td>1.01</td>
</tr>
<tr>
<td>EN16</td>
<td>Incidents and Fines</td>
<td>5.24</td>
<td>5.75</td>
<td>5.51</td>
<td>1.01</td>
</tr>
<tr>
<td>EN15</td>
<td>Recycling Materials</td>
<td>5.03</td>
<td>5.89</td>
<td>5.48</td>
<td>1.00</td>
</tr>
<tr>
<td>EN28</td>
<td>Affected Red List Species</td>
<td>4.76</td>
<td>6.11</td>
<td>5.46</td>
<td>1.00</td>
</tr>
<tr>
<td>EN10</td>
<td>Other Air Emissions</td>
<td>4.94</td>
<td>5.89</td>
<td>5.43</td>
<td>1.00</td>
</tr>
<tr>
<td>EN32</td>
<td>Water Discharge Effect on Ecosystem</td>
<td>4.97</td>
<td>5.83</td>
<td>5.42</td>
<td>0.99</td>
</tr>
<tr>
<td>EN3</td>
<td>Direct Energy</td>
<td>5.00</td>
<td>5.75</td>
<td>5.39</td>
<td>0.99</td>
</tr>
<tr>
<td>EN22</td>
<td>Recycling Water</td>
<td>4.70</td>
<td>6.00</td>
<td>5.38</td>
<td>0.98</td>
</tr>
<tr>
<td>EN23</td>
<td>Land for Extraction</td>
<td>4.91</td>
<td>5.81</td>
<td>5.38</td>
<td>0.98</td>
</tr>
<tr>
<td>EN24</td>
<td>Impermeable Surface</td>
<td>4.91</td>
<td>5.81</td>
<td>5.38</td>
<td>0.98</td>
</tr>
<tr>
<td>EN8</td>
<td>Greenhouse Gas Emissions (GGEs)</td>
<td>4.67</td>
<td>6.03</td>
<td>5.38</td>
<td>0.98</td>
</tr>
<tr>
<td>EN2</td>
<td>Material Wastes</td>
<td>5.42</td>
<td>5.31</td>
<td>5.36</td>
<td>0.98</td>
</tr>
<tr>
<td>EN7</td>
<td>Impact on Biodiversity</td>
<td>4.76</td>
<td>5.86</td>
<td>5.33</td>
<td>0.98</td>
</tr>
<tr>
<td>EN4</td>
<td>Indirect Energy</td>
<td>5.00</td>
<td>5.58</td>
<td>5.30</td>
<td>0.97</td>
</tr>
<tr>
<td>EN12</td>
<td>Discharges Water</td>
<td>4.97</td>
<td>5.61</td>
<td>5.30</td>
<td>0.97</td>
</tr>
<tr>
<td>EN26</td>
<td>Habitat Changes</td>
<td>4.55</td>
<td>5.83</td>
<td>5.22</td>
<td>0.96</td>
</tr>
<tr>
<td>EN34</td>
<td>Impact of Transportation</td>
<td>4.70</td>
<td>5.64</td>
<td>5.19</td>
<td>0.95</td>
</tr>
<tr>
<td>EN33</td>
<td>Performance of Supplier</td>
<td>4.67</td>
<td>5.53</td>
<td>5.12</td>
<td>0.94</td>
</tr>
<tr>
<td>EN6</td>
<td>Land Information</td>
<td>4.61</td>
<td>5.56</td>
<td>5.10</td>
<td>0.93</td>
</tr>
<tr>
<td>EN30</td>
<td>Other Indirect GGEs</td>
<td>4.64</td>
<td>5.47</td>
<td>5.07</td>
<td>0.93</td>
</tr>
<tr>
<td>EN19</td>
<td>Other Indirect Energy</td>
<td>4.70</td>
<td>5.19</td>
<td>4.96</td>
<td>0.91</td>
</tr>
<tr>
<td>Mean (standard deviation)</td>
<td>5.02</td>
<td>5.85</td>
<td>5.46</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.29) (0.27) (0.23)</td>
<td></td>
<td></td>
<td>(0.23) (0.23) (0.23)</td>
<td></td>
</tr>
<tr>
<td>Mean Economic (EV) Items (standard deviation)</td>
<td>5.19</td>
<td>5.86</td>
<td>5.54</td>
<td>1.02</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.24) (0.27) (0.20)</td>
<td></td>
<td></td>
<td>(0.20) (0.20) (0.20)</td>
<td></td>
</tr>
<tr>
<td>Mean Broader (BV) Items (standard deviation)</td>
<td>4.83</td>
<td>5.85</td>
<td>5.36</td>
<td>0.98</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.21) (0.29) (0.23)</td>
<td></td>
<td></td>
<td>(0.23) (0.23) (0.23)</td>
<td></td>
</tr>
</tbody>
</table>

Legend: IER<sub>SN</sub> are the ratings from the narrow stakeholder groups (businesspeople and regulators). IER<sub>SB</sub> are the ratings from the broader stakeholder groups (environmentalists and academics). IER<sub>ST</sub> is the overall average of all stakeholders. The IER<sub>ST</sub> index in the far right column shows the weighting on environmental items in cascading order from more to less important. For example, the Hazardous Waste score (originally achieved 6.03) is divided by the overall mean (5.46) resulting in a weighting value of 1.10.
relative important of an item reflects the survey groups’ demand for the item. For example, the importance of Hazardous Waste is 1.10 times more higher rated than the average (1.00).

Whilst both groups have positions, far higher than neutral, seeking environmental data, independent sample t-tests indicate that there is a different view about IER between restricted (narrow) financial and broader stakeholder groups at the 1% significance level (t = -4.622, p-value = 0.000). This evidence highlights that the broader stakeholder group (mean = 5.85) has statistically significantly higher demand for environmental economic information than the more business-focused group (mean = 5.02). Table 1 reveals that except for ‘hazardous waste’, the top ranked IERSB items differ from those highly ranked by IERSN. For instance, the narrow stakeholders greatly valued information on ‘material waste’ whereas the broader stakeholders far preferred data on items such as ‘impact on biodiversity’.

The statistical results of overall stakeholders’ perspective of the importance of environmental items, whether they are economic (financially-oriented) or broader (socially-oriented), reveal that stakeholders weigh economic items higher (mean = 5.54) than broader items (mean = 5.36). Independent sample t-tests show that there is a significant mean difference between economic items and broader items (t = 2.363 and p-value = 0.024). This finding highlights heightened expectation for higher disclosure of economic items in companies’ annual reports. The above findings give support to the narrower restricted economic variant of stakeholder theory.

Consistent with the primary stakeholder theory (Ullmann, 1985), narrow stakeholders weigh economic items higher than broader items. Independent sample t-tests show that there is significant difference of means between economic items and broader items at the 1% level of significance (t = 4.571 and p-value = 0.000). This empirical finding is consistent with the position advocated by Brown, Tower and Taplin (2004). Narrow financial stakeholder groups place more weight on economic items than broader items. Economic items are more highly rated (5.19) than broader items (4.83).

The broader concept of stakeholder theory (Herbohn, 2005; BTT, 2004) holds that not only financial aspects but also other aspects are critically important for the success of a firm. Independent sample t-tests reveal an insignificant difference between the means for economic items and broader items (t = 0.066 and p-value = 0.948). This evidence highlights that broader groups weight equally economic items (mean = 5.86) as well as environmental economic items (mean 5.85). They uniformly rate both sets of information disclosures as important.

Further regression analysis finds that Stakeholder Group is a significant predictor for environmental disclosure ratings with narrow stakeholders having fundamentally different views from those of broader stakeholders, whereas, the other categories, of education, age, gender, international focus and location of respondents, have a statistically insignificant relationship with the ratings. Regardless of the age, gender, educational level or international focus of the stakeholder, perceptions of the importance of the GRI (2002) list of items are consistent. Consequently, the results show overall a uniformity of views across respondent characteristics. This uniformity further strengthens the use of stakeholder weighting to evolve the IERST.

Implications and Conclusions

The IERST contains powerful evidentiary data from a survey of senior experts, with 33 narrow financial stakeholders and 36 broader stakeholders. There are significantly different environmental views between narrow financial based and broader stakeholder groups. Narrow groups focus more highly on economic items in comparison with broader items as suggested by Ullmann (1995). In contrast, Indonesian broader stakeholders place equal weight on
both economic and broader items (consistent with Brown et al’s 2004 theory variant). Overall, Indonesian stakeholders have a high expectation that 35 items are disclosed in annual reports (all items are far higher than the neutral position) even though economic data are more highly weighted than broader disclosures.

Evidence in this research is consistent with the themes of previous studies such as Herbohn (2005). She uses a holistic framework of broader stakeholder theory to examine a full cost environmental reporting system in Australia. Herbohn (2005) surveys key economic valuation stakeholders (narrow financial based), including managers and government administration, and environmental economic valuation groups (broader stakeholder groups) such as conservationists. Her study found that full cost environment reporting was supported by broader groups however the reporting system was intended for the narrow group as part of a strategy to manage the powerful stakeholders. The results fit with holistic stakeholder theory.

The 35 IER indicators are ‘expected’ disclosures in Indonesian company annual reports, although the level of demand varies, albeit from high demand to even higher demand. Statistical procedures show an overall high demand for the GRI (2002) items especially the economic-orientated items.

Finally, an important end product of this research paper is the evolution of a weighted Indonesian Environmental Reporting Index (IER$_{ST}$) based on the insights of survey respondents. This new index better reflects the importance of key stakeholders’ demand for corporate environmental reporting in Indonesia. However, caution should be taken with this new index as it is an initial measure based on only 69 stakeholder viewpoints. Further research is recommended to develop additional insights on the importance of a comprehensive range of environmental issues.

References


