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THE EFFECT OF SOCIAL COST TO IMPROVE SOCIAL AND FINANCIAL PERFORMANCE AT MANUFACTURING INDUSTRIES IN INDONESIA

Noerlina, Lianawati Christian, Anderes Gui
Bina Nusantara University
nurlina@binus.edu

Abstract

Corporate social report had been done in company annual report in Indonesia. Workers theme was the most interesting them among others. The condition happened consistently on high-profile and low-profile industrial groups. But, corporate social report in Indonesia was still low. It was assumed because the company did not taking advantage to the annual report as a communication media between company and stakeholders. Possibly, it was because the company only used annual report as a report for the stakeholders and debt holders or as information for future investors. Another factor causing the low number was because the company was only done small social activities. The objective in this study is to determine the effect of social cost to improve performance specially social and financial field. Data collected high profile and low profile Indonesian manufacturing industries. Results have shown that social cost not significantly influences social and financial performance. Implications of these results are discussed, followed by suggestions for further studies.

Keywords : Social cost, social performance, financial performance.

1. Introduction

In the last two decades, the Industrial appearance is colored by various industrial conflicts such as demonstration and protest, implying dissatisfaction of several elements of stakeholders in corporation management. Workers frequently conduct demonstrations and strikes due to the policies of pay and providing of other welfare facilities applied by corporations that do not reflect the feeling of justice. Other case often taking place is the protest of communities around factories/plants who are harmed due to the wastes or pollution released into environment. The communities, generally the local communities are supported by non government organizations (NGO) for environment and the press circle in their action of protest. Occasionally discordant relation also occurs between the business world and its consumers. Many cases like poisonous biscuit, food containing pig fat, real estate and cigarette advertisement indicate the discordant relation.

The above description shows that corporations in Indonesia are not separated from social conflicts. The fact also proves that there are still many corporations in Indonesia ignoring theirs social harmony.

Being aware of such condition, corporations in Indonesia just do nothing, but they try to improve their relation with their social environment. By various media corporations try to communicate their social activities.

As a part inseparable of corporations, accounting tries to accommodate the change of such tendency by producing social accounting sub-discipline. There is a basic shift conducted by accounting discipline by this lecture, namely the change of accountability paradigm. If so far accounting products are intended as management's accountability to the shareholders, now the paradigm is expanded to accountability to all stakeholders. The financial accounting standards issued by the Indonesian Accountants Association (IAI) have implicitly accommodated the matter. For instance, as written in the Statement of Financial Accounting Standards (PSAK) No.1 (Revision 1998) the ninth paragraph:

The Corporation may also present additional statements, such as statement on environment and value added statement, particularly for industries, where environment factors play a significant role and for industries considering employees as a group of statement users playing a significant role.

This expansion of accountability paradigm is a great contribution of accounting discipline to the society. There has been recognition that users of financial statements are not limited to shareholders, prospective investors, creditors and government only, but have widened to other stakeholders.

Therefore, we should be able to know the practice of social disclosures conducted by corporations in Indonesia, besides we could also see the differences of practices of Social Cost disclosure and Social Cost role in improving social performance and social financial performance between high-profile industrial group and low-profile industrial group.

2. Literature Review

2.1 Social Cost

2.1.1 Definition of Social Cost

David Ricardo developed the instrument of theory concerning four groups of issue, namely 1) theory on value and price of goods, 2) theory on income distribution as profit division of all production and presented as theory of pay, theory of land lease, theory of interest and profit, 3) theory on international trading, 4) theory on accumulation and development of economy (Sumitro Djojohadikusumo, 31: 1991). Basically, the economic philosopher has the opinion that economic activities have to give contribution to society comprehensively, namely harmony in economic life and public welfare.

Parallel to the development of economic activity based on classic *mahzab* economic philosopher, accounting has also had a long historical development. The accounting historical development is not apart from practice of accounting recording. Principally, experts agree to say that accounting practice in the sense of recording business events has been long started, namely since the existence of economic activities. Egypt has a long accounting history. Thousands proofs of accounting records in wood skin found over

fifteen centuries ago clarify that accounting has existed for over 3,000 years based on its development (Ernest Stevelick, 1985).

In the decade of 1975 social accounting became a new issue discussing the recording of each financial transaction of corporations that influences social environment. If a corporation does not consider all factors surrounding it, starting from employees, consumers, environment and natural resources in a totality supporting each other as a system, it will finally terminate the corporation's own existence (Marbun, 1991). The cost related to social affairs is called social cost. It complies with the opinion stated by Estes (1976).

"Social cost: any cost, sacrifice, or detriment to society (or to any element of society whether economic or non economic, internal or external. Social costs include sacrifice for which compensation is made (such as service used and paid for) as well as detriment not paid for (such as air pollution); any payments are treated separately as a benefit to society. (traditionally the term social cost has been used to refer only to consumption or damage to society with no associated pecuniary cost to the consuming entity, and thus not internalized by it, i.e. external diseconomies; the reader should be careful to note the broader, more inclusive meaning assigned here)".

To sharpen the definition of social cost, Ramanathan viewed from the point of noting, defining:

"Social accounting is the process of selecting firm level social performance variables. Measures, and measurement procedure; systematically developing information useful for evaluating the firm's social performance; and communication such information to concerned social group, both within and outside the firm (Ramanathan, 1976)".

The social cost to be spent by corporations in their development so far is still based on society's urge. Although society demands corporations to produce products as their requirement, but now society demands that corporations are responsible to society by being concerned with social issues. It means the rights and duties of corporations are equal as if they are residents as part of society expected to become residents having social responsibility instead of destroyers.

2.1.2 Practice of Social Cost Disclosure

Gray et.al., (1998b: 50-56) summarized various theories used by surveyors to explain the tendency of social disclosure in three main groups, namely:

1. **Decision-Usefulness Studies.** Some studies conducted by surveyors presenting this theory identified proofs that social information is required by users. Analysts, bankers and other parties involved in the study were asked to conduct rating on accounting information. The accounting information was not limited to traditional accounting information known so far, but also other information relatively new in accounting lecture. They placed information on corporate social activity in a moderately important position.

2. **Economic Theory Studies.** This study on economic theory in corporate responsibility reporting is based on economic agency theory and accounting positive theory. The use of agency theory draws an analogy that management is the agent of a principal. Generally, principal is defined as shares or other traditional users. However, the definition of principal widens to all interests of group of the relevant corporation. As agent, the management will try to operate the corporation to the desire of public (read: stakeholders).
3. **Social and Political Theory Studies.** The study in this field applies stakeholder theory, organization legitimacy theory and economic politic theory. Stakeholder theory assumes that a corporation existence is determined by the stakeholders. The corporation tries to seek for justification from the stakeholders in undertaking the corporation's operation. The stronger the stakeholders' position, the greater the corporation's tendency to adapt itself to the desire of its stakeholders will be.

The definition of Legitimacy Theory can be understood from the definition offered by Lindholm (in Gray et.al, 1995b:54) as follows:

"... a condition or status which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy."

By conducting social disclosure, a corporation feels that its existence and activity are legitimized. In this perspective, the corporation will avoid the existing regulation of an aspect, which is considered heavier from the point of cost instead they do it voluntarily.

As disclosed above, an overlapping occurs between one theory and another theory. For instance, between stakeholder theory and legitimacy theory. While regarding political economy theory, Jackson (in Gray et.al. (1995b:52) explained as follows:

"...the study of the interplay of power, the goals of power wielders and the productive exchange system (Zald, 1970. p. 223). As a framework, political economy does not concentrate exclusively on market exchanges. Rather it first of all analysis exchanges in whatever institutional framework they occur and, second, analyses the relationships between social institutions such as government, law and property rights, each fortified by power and the economy, the systems of producing and exchanging goods and services"

Mapping and Practice of Social Disclosures Based on Corporation types

In this section, the writer will map the social disclosures conducted by corporations in Indonesia, either high-profile or low-profile industries.

In table 1a, 1b, 2a and 2b, the cells found at the right side of items of social disclosures show the percentage of corporations conducting social disclosures that are according to the cell criteria. The cell criterion is a combination between the row and column.

Table 1a.

Percentage of Social Disclosure by High Profile Corporation based on theme and location in Annual Statement (by percentage)

Disclosure theme	Location in Annual Statement					
	Overview	LfC	LfD	Feature	NFS	DMA
Society affairs	2,56	2,56	12,82	15,39	48,72	7,69
Products and Consumers	20,51	17,95	41,01	15,36	2,56	20,51
Employment	15,39	56,41	74,36	30,77	89,74	20,51

Notes: LfC= Letters from Commissionaire; LfD= Letter from Board of Director; NFS= Note of Financial Statement; DMA= Discussion and Management Analysis.

Table 1a shows the proportion (percentage) of corporations in high-profile industry making social disclosures based on the disclosure theme and location. Employment theme is a theme disclosed by many corporations: 89.74% corporations disclose it in the part of "Note on financial statement"; 74.36% disclose it in the part of "Letters from the board of directors".

If viewed from the location of annual statement, many corporations utilizes the part of "Letters from the board of directors" to conduct their social disclosures, i.e. 12.82% (social affairs); 41.01% (products and consumers) and 74.36% (employment) corporations of high-profile sub-sample conduct social disclosures in this part. Nearly the same condition occurs in low-profile sub-sample corporations (see Table 1b).

Percentage of Social Disclosure by Low Profile Company based on theme and location in Annual Report (by percentage)

Table 1b.

Percentage of Social Disclosure by Low Profile Corporation based on theme and location in Annual Statement (by percentage)

Disclosure theme	Location in Annual Statement					
	Overview	LfC	LfD	Feature	NFS	DMA
Society affairs	4,76	2,38	9,52	4,76	42,86	11,90
Products and Consumers	16,67	4,76	23,81	11,90	0	9,52
Employment	9,52	38,10	59,52	14,29	90,48	19,05

Notes: LfC= Letters from Commissionaire; LfD= Letter from Board of Director; NFS= Note of Financial Statement; DMA= Discussion and Management Analysis

Similar to high-profile corporations, employment theme is also disclosed by many corporations. Around 90% low-profile corporations conduct disclosure of this theme in the part of "Note on financial statement" and 59.52% in the part of "Letters from the board of directors". The many number of corporations making the disclosure of employment theme is due to the three items available in this theme, disclosed by nearly each corporation, either low-profile or high-profile, namely: education and training, salary, and other allowances and welfares.

Table 2.a

Percentage of Social Disclosure by High Profile Company based on theme and Disclosure Type (by percentage)

Disclosure theme	Disclosure type		
	Qualitative Narrative	Non-monetary Quantitative	Monetary Quantitative
Society affairs	30,77	12,82	46,15
Products and Consumers	66,67	40,26	10,26
Employment	87,18	56,41	94,87

94.87% high-profile corporations conduct disclosure of employment theme by monetary quantitative disclosure type and 87.18% in the form of narrative qualitative. The high percentage is caused by salary item, item of other allowance and welfare, and item of education and training in employment theme, frequently stated in two forms, namely monetary quantitative and narrative qualitative.

Other theme of concern by high-profile corporations is products and consumers. 66.67% high-profile corporations disclose this theme by narrative qualitative manner. The corporations generally disclose the items of "Product quality" and "Quality appreciation" in their annual statements in narrative qualitative manner.

Table 2b

Percentage of Social Disclosure by Low Profile Corporation based on theme and Disclosure Type (by percentage)

Disclosure theme	Disclosure type		
	Qualitative Narrative	Non-monetary Quantitative	Monetary Quantitative
Society affairs	23,81	2,38	52,38
Products and Consumers	42,86	2,38	0
Employment	85,71	45,24	90,48

Similar to corporations in high-profile industry, low-profile corporations also conduct many disclosures of employment theme. The disclosures are in the form of monetary quantitative (90.48%), narrative qualitative (85.71%) and non-monetary quantitative (45.24%). On the other hand, there is no low-profile corporation making any disclosure in the main theme of products and consumers in the form of monetary quantitative.

1.3 Practice of Social Disclosures in Two Types of Industry

The activity of social disclosures conducted by corporations in low-profile industry will be shown in table 3.

Table 3
The Whole Theme Social Disclosure Average and Percentage

Industry types	Theme	Average	Σ item	A	% dari Σ A
High-profile	Social affairs	1,462	10		14,62
	Products and consumers	1,359	5		27,18
	Employment	4,821	15		32,14
	Total	7,641	30		25,47
Low-profile	Social affairs	1,190	10		11,90
	Products and consumers	0,738	5		14,76
	Employment	4,167	15		27,78
	Total	6,095	30		20,32
Total	Social affairs	1,321	10		13,21
	Products and consumers	1,037	5		20,74
	Employment	4,481	15		29,87
	Total	6,840	30		22,80

Table 3 shows that the social disclosures conducted by corporations in high-profile industry in the average are higher than the social disclosures conducted by corporations in low-profile industry (7,641:6,095). The same result is also shown by the average in each theme. The explanation that can be made is high-profile corporations have social environment sensitivity higher than low-profile corporations. High-profile corporations generally have the characteristics: having a great number of manpower, greater size of corporation, and consumers who are more careful with the products and services of high-profile corporations.

Table 3 show that the theme mostly disclosed is employment theme: 4,481 items. In percentage, the figure is 29.87% of the total items in the theme to be disclosed. This result is similar to the theme of Andrew et.al. (1989:373), when studying social disclosure in developing countries (Malaysia and Singapore). They found that the figure 71% of the total social disclosures conducted by the corporations were the disclosures in the theme of human resources. Andrew et.al. (1989:373) suspected that the tendency was caused by the great attention of the local government to the theme.

The high disclosure portion in employment affairs does not only occur in developing countries, but also occurs in Australia and England. While in USA, the disclosure portion in employment affairs theme is equal to the social affairs theme (Guthrie and Parker, 1990:167). The reason able to present is that the labor unions in those countries have a strong bargaining position, when facing corporation management.

Viewed from industrial type, employment theme also holds the top position in case of proportion of items mostly disclosed, either in high-profile or low-profile industries. In high-profile industry, the items disclosed in this theme reach 4,821 items or 32.14% of all items to be disclosed in this theme (15 items). While in low-profile industry, there are 4,167 items or 27.78% of all items in this theme.

If the disclosure theme is rated based on the order of disclosure portion, the order obtained is (1) employment theme; (2) social affairs theme; (3) products and consumers theme. If related to legitimacy theory, agency theory or stakeholder theory, the order also reflects the order of public demand on corporations. Demand in employment affairs is generally related to corporation's inability to meet the employees' welfare requirement, for instance the small pay level and management's reluctance of many corporations in fulfilling holiday allowance (THR).

Table 3 also shows that social affairs conducted by corporations are still relatively very few. The highest percentage reached by employment theme is only around 30% (total 29.87%; high-profile 32.14% and low-profile 27.78%) of the list of social disclosures they should disclose. In the overall, corporate social disclosures in Indonesia only reach 22.80% (high-profile 25.47% and low-profile 20.32%).

There are some possibilities causing such few social disclosures conducted by the corporations, among others:

1. Corporations have conducted disclosures in the preceding period, hence they feel it is not necessary to disclose again.
2. Corporations do not feel necessary to conduct disclosures of certain items, as they consider them as common issues. For instance, a corporation does not disclose the donation to a religious institution or the sponsorship of campus activity, since such information is considered normal and the value is insignificant, therefore no disclosure is required.
3. The annual statement is designed in the interest of the shareholder, hence the information required by other stakeholders is not disclosed in the annual statement. The corporation selects other media for disclosure other than to the shareholders.

If the above three possibilities are correct, there is a gap between social activity and social disclosure in the annual statement. It means, the corporation has not fully utilized

the annual statement as a communication means between the management and stakeholders outside the shareholders. The corporation still considers that annual statement is only allocated to the shareholders, debt holders and prospective investors.

Besides the above three possibilities, the low disclosure level is also likely to occur due to the factor of corporation's social concern that is in fact still low.

LIST OF SOCIAL DISCLOSURES

Social Affairs Theme

1. Support in art and culture activities
2. Support in sport activities (including sponsorship)
3. Support in children's world
4. Participation in activities of the community around the office or factory
5. Support in spiritual institutions
6. Support in educational institutions (including scholarship, internship opportunity and study opportunity)
7. Support to other social institutions
8. Social facilities and public facilities
9. Priority of employment opportunities to the local people (including providing facilities and motivation by the corporation to the local community to conduct entrepreneurship)
10. Etc.

Consumer Theme

11. Product quality
12. Quality appreciation (including quality certification, kosher certification, appreciation)
13. Customer satisfaction (efforts to increase consumer satisfaction)
14. Computer Issue of (MKT) 2000/Y2K
15. Etc.

Employment Theme

16. Number of employees
17. Work safety (policy and facilities of work safety)
18. Health (including facilities of corporation's doctor and polyclinic)
19. Employees' Cooperative
20. Salary/pay
21. Allowances and other welfare (including UMR, critical period support, welfare for employee's family, insurance and transportation facility)
22. Education and training (including cooperation with university)
23. Equality of gender in employment and career opportunities
24. Facility of worship (including facilities of worship and celebration of religious holidays)
25. Employee's leaves (including leaves required by female employees)

26. Pension (including establishment or selection of pension fund institution)
27. Labor Union
28. Mutual Work Agreement (KKB)
29. Employees turnover (including employee reduction and recruitment)
30. Etc.

2.2 Social Performance and Financial Performance

2.2.1 Social Performance

Corporation's concern to society should be disclosed in the form of report of social responsibility that in fact can have impact on the advancement of the corporation alone. This is according to the opinion of Ingram, The information content of social responsibility disclosure was conditional upon the market segment with which a firm is identified (Ingram, 1978). Further Watt & Zimmerman had the opinion that the activity of corporation's responsibility may have positive impacts on employees and government. "Corporation employ social responsibility activities reduces the risk of governmental intrusions, such as regulation, that may adversely affect firm value." (Watt & Zimmerman, 1978). Evan Abbot & Mosen had the opinion that the impact of report of this social responsibility affects the corporation's profit. The change over time of this corporation's social involvement, the direction and scope of this involvement, and the effect that corporate social involvement appears to have on corporate profitability (Abbot & Manson, 1979).

The report of corporation's social responsibility is not only useful for the community outside the corporation, but employees also really consider this issue, as the information material on the corporation's responsibility to society, since the report of corporation's social responsibility may give spirit for making achievement in performing their jobs. The social report has been accepted by employees as a corporate means of communication (Schreuder, 1981). Further Benston had the opinion that this report of social responsibility can be used as a means of social control on corporations. Social responsibility accounting can be used to measure and serve as a mean of controlling externalities are delineated, analyzed rejected (Benston, 1982). However Wiseman had the opinion that if the disclosure related to environment is incomplete, it will not affect its social performance. If the result of corporate environment disclosure are incomplete and they are not related to the firm actual environment performance (Wiseman, 1982).

Investors are also concerned with this environment issue, particularly related to investment selection, investors certainly select the most favorable investment. Investors using the information released by the CEP to discriminate between companies with different pollution control performance records (Shane & Spicer, 1983). However, this corporate social concern is still affected by the business scale and certain corporate groups only. Company size and industry classification are associated with corporate social disclosure (Cowen et al., 1987). Even in further development, the parties concerned give attention to this social cost disclosure, particularly in their economic decisions. Some recent studies in the social

responsibility area have recognized the role of stakeholders in influencing corporate decisions (Mc. Guire et al., 1988). Even R.W. Robert had the opinion that this social responsibility disclosure shall be used as a strategy in developing its business. Measures of stakeholder power, strategi posture, and economic performance are significantly related to levels of corporate social disclosure (R.W Robert, 1992). From the existing studies, most surveyors have the opinion that the social cost spent by a corporation is more directed to the positive image of society to the company, since the company has been concerned with the society. However, the following surveyors stated that the social cost spent by a corporation also affects the financial performance, this is according to the opinion of Spicer, stating that:

"For the sample drawn from the pulp and paper industry, companies with better pollution control records tend to have higher profitability, larger size, lower total risk, lower systematic risk and higher price/earning ration than companies with poorer pollution control records (Spicer, 1978)". Even Anderson & Frankie has further opinion that the implication of corporate profit will affect the up and down of the price of shares at stock exchange for corporations having high social concern. Social disclosure has information content and that the market values this disclosure positively (Anderson & Frankle, 1980).

The same thing is also shown by the result of study of Chugh et.al., Trotman & Bradley, and Mahaputra having the opinion that the level of corporate social concern affects the corporation's performance in stock exchange. Significant relationship between corporation's level of social responsibility activities and stock market performance (Chugh et al, 1978; Trotman & Bradley, 1981; and Mahapatra, 1984). Similarly, the result of the following study conducted by Spicer, Anderson & Frankle, Shane & Spicer, who had the opinion that corporate responsible activities may affect the financial performance in stock exchange. Corporate Social responsibility activities impact on the financial market (Spicer, 1978 a,b;Anderson & Frankle , 1980;Shane & Spicer,1983). Even the study conducted by Little at.al., 1992 was related to systematic risk. No systematic relationship between the two assessment, raising the question of whether the financial statements disclosure are consistent with investor interests (Little at al ., 1992).

2.2.2 Financial Performance

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2.3 Types and Characteristics of Corporations

The types of industries can be discriminated into 2, namely: high-profile and low-profile industries.

This difference of industrial types is widely used in social study

To discriminate the two types of industries, the definition proposed by Robert in Hackston and Milne, 1996: 87) can be used. Robert defined high-profile companies as companies having consumer visibility, high political risk level and high competition level.

High-profile industries are believed to conduct more social disclosures than low-profile industries. As an illustration, Dickers & Preston (in Hackston & Milne, 1996:81) described high-profile industries as follows:

".....companies whose economic activities modify the environment, such as extractive industries, are more likely to disclose information about their environmental impacts than are companies in other industries."

Cowen et.al. (in Hackston & Milne, 1996:82) added as follows:

"Consumer-oriented companies can be expected to exhibit greater concern with demonstrating their social responsibility to the community, since this is likely to enhance corporate image and influence sales."

List of High Profile Corporation

No	Sample of Company Perusahaan Sampel	Sector Sektor
1	PT Alter Abadi Tbk	Pertambangan
2	PT Alumindo Light Metal Industry Tbk	Industri Dasar & Kimia
3	PT Aneka Tambang Tbk (Persero) Tbk	Pertambangan
4	PT Asahimas Flat Glass Co.Ltd.Tbk	Industri Dasar & Kimia

5	PT Asia Intiselera Tbk	Industri Barang Konsumsi
6	PT Astra International Indonesia Tbk	Aneka Industri
7	PT Bakrie Sumatera Plantation Tbk	Pertanian
8	PT Berlian Laju Tanker Tbk	Infrastruktur, Utilitas, & Transportasi
9	PT Berlina Co.Ltd.Tbk	Industri Dasar & Kimia
10	PT Branta Mulia Tbk	Aneka Industri
11	PT Cahaya Kalbar Tbk	Industri Barang Konsumsi
12	PT Central Proteina Prima Tbk	Industri Dasar & Kimia
13	PT Cipendawa Farm Enterprise Tbk	Pertanian
14	PT Darya-Varia Laboratoria Tbk	Industri Barang Konsumsi
15	PT Davomas Abadi Tbk	Industri Barang Konsumsi
16	PT Daya Guna Samudra Tbk	Pertanian
17	PT Dynaplast Tbk	Industri Dasar & Kimia
18	PT Eterindo Wahanatama Tbk	Industri Dasar & Kimia
19	PT Fast Food Indonesia Tbk	Perdagangan, Jasa & Investasi
20	PT Gudang Garam Tbk	Industri Barang Konsumsi
21	PT Hotel Prapatan Tbk	Perdagangan, Jasa & Investasi
22	PT Hotel Sofyan Tbk	Perdagangan, Jasa & Investasi
23	PT Indah Kiat Paper & Pulp Corporation Tbk	Industri Dasar & Kimia
24	PT Indosat Tbk	Infrastruktur, Utilitas, & Transportasi
25	PT Jaya Pari Steel Tbk	Industri Dasar & Kimia
26	PT Kalbe Farma Tbk	Industri Barang Konsumsi
27	PT Komatsu Indonesia Tbk	Aneka Industri
28	PT Lippo Enterprises Tbk	Aneka Industri
29	PT Medco Energy Corp. Tbk	Pertambangan
30	PT Multi Bintang Indonesia Tbk	Industri Barang Konsumsi
31	PT Petrosca Tbk	Infrastruktur, Utilitas, & Transportasi
32	PT Rig Tenders Indonesia Tbk	Infrastruktur, Utilitas, & Transportasi
33	PT Semen Cibinong Tbk	Industri Dasar & Kimia
34	PT Charoen Phokphand Indonesia Tbk	Industri Dasar & Kimia

35	PT Try Polita Indonesia Tbk	Industri Dasar & Kimia
36	PT Sumalindo Lestari Jaya Tbk	Industri Dasar & Kimia
37	PT Surabaya Agung Industri Pulp Tbk	Industri Dasar & Kimia
38	PT Indal Aluminium Tbk	Industri Dasar & Kimia

List of Low Profile Corporation

No	Perusahaan Sampel	Sektor
1	PT Aneka Kimia Raya Tbk	Perdagangan, Jasa & Investasi
2	PT Asiana Multikreasi Tbk	Aneka Industri
3	PT Asuransi Bintang Tbk	Keuangan
4	PT Bakrie & Brothers Tbk	Perdagangan, Jasa & Investasi
5	PT Bakrie Finance Corporation Tbk	Keuangan
6	PT Bank CIC Tbk	Keuangan
7	PT Bank Danamon Indonesia Tbk	Keuangan
8	PT Bank Lippo Tbk	Keuangan
9	PT Bank Mayapada Tbk	Keuangan
10	PT Bank PDFCI Tbk	Keuangan
11	PT Bank Pikko Tbk	Keuangan
12	PT Bank Rama Tbk	Keuangan
13	PT Bhakti Investama Tbk	Keuangan
14	PT Dharmala Intiland Tbk	Keuangan
15	PT Dharmindo Adhiduta Tbk	Perdagangan, Jasa & Investasi
16	PT Entrex Jaya Limited Tbk	Aneka Industri
17	PT Great River International Tbk	Perdagangan, Jasa & Investasi
18	PT Indo Citra Finance Tbk	Keuangan
19	PT Indocopper Investama Tbk	Keuangan
20	PT Jembo Cable Company Tbk	Aneka Industri
21	PT Kabelindo Murni Tbk	Aneka Industri
22	PT Kasogi Internasional Tbk	Aneka Industri
23	PT Kedaung Indah Can Tbk	Industri barang Konsumsi

24	PT Lautan Luas Tbk	Perdagangan, Jasa & Investasi
25	PT Lippo Cikarang Tbk	Properti & Real Estat
26	PT Lippo Karawaci Tbk	Properti & Real Estat
27	PT Multipolar Corporation Tbk	Perdagangan, Jasa & Investasi
28	PT Panasia Filament Inti Tbk	Aneka Industri
29	PT Panin Insurance Tbk	Kuangan
30	PT Perdana Bangun Pusaka Tbk	Perdagangan, Jasa & Investasi
31	PT Polysindo Eka Perkasa Tbk	Aneka Industri
32	PT Pool Asuransi Indonesia Tbk	Perdagangan, Jasa & Investasi
33	PT Putra Surya Multidana Tbk	Kuangan
34	PT Putra Surya Perkasa Tbk	Properti & Real Estat
35	PT Ramayana Lestari Sentosa Tbk	Perdagangan, Jasa & Investasi
36	PT Ricky Putra Globalindo Tbk	Aneka Industri
37	PT Ristia Bintang Mahkotasejati Tbk	Properti & Real Estat
38	PT Sarasa Nugraha Tbk	Aneka Industri
39	PT Surya Semesta Internusa Tbk	Properti & Real Estat
40	PT Tancho Indonesia Tbk	Industri Barang Konsumsi
41	PT Trafindo Perkasa Tbk	Aneka Industri
42	PT Wicaksono Overseas International Tbk	Perdagangan, Jasa & Investasi

2.4 Role of Social Cost in Enhancing Social Performance and Financial Performance in High-Profile and Low-Profile Corporations

Effect of Environment Management Cost on Corporation's Social Performance

The environment management cost dominantly affecting the social performance of open corporations in Indonesia is salary and pay for environment division. It means that the higher the cost of salary and pay spent for environment division specially managing environment issues will increase the corporation's social performance. This is because the availability of special employees giving attention to environment will avoid environment issues, hence it will give implication to the corporation's good image. Study (Belkaoui & Karpik, 1989), (Roberts R.W., 1992), (Trotman & Bradley, 1981; Cowen and friends, 1987; Roberts R.W., 1992). Besides, it also complies with the opinion of Gibson and friends regarding work satisfaction, stating that work satisfaction comes from many work aspects such as pay, promotion opportunity, supervision, policy

and procedure, membership of work group, work condition and allowances (Gibson, 1992; 62).

Effect of Cost of Employee's Welfare on Corporation's Social Performance

The most dominating cost of employee's welfare that will affect the corporation's social performance is the cost of bonus and royalty given to employees, which will increase the corporation's social performance. This is because by the existing bonus and royalty given as incentive to employees, it will increase employees' productivity, further it will give implication to the increase of corporation's image before public.

Satisfaction theory of Maslow (1943), Herzberg (1959) and Mc Clelland (1961). The basic assumption of this theory is that individuals select personal behavior based on: 1) expectation that the behavior will produce certain output; and 2) the total valences, namely personal benefits or repayment received from the output. The result of study conducted by the writer supports the theory presented by the three experts, stating that the cost of employee's welfare significantly affects the social performance of open corporations in Indonesia.

Effect of Cost of Community around the Corporation on the Corporation's social performance

The cost of community around the corporation that most dominantly affects the corporation's social performance is the cost of clean water. It means the higher the cost of clean water provided to the community around the corporation will increase the corporation's social performance. This is because the existing clean water provided to the community around the corporation will give peace to the community around the corporation and they feel that a part of their cost of living is supported by the main need in the form of water, particularly in environment which water has been polluted by the corporation's presence.

The opinion presented by Marbun (1991) stating that if a corporation does not consider all factors surrounding it, from employees, consumers, environment and natural resources as a totality supporting each other as a system, they will finally terminate the existence of the corporation alone.

Effect of Production Monitoring Cost on Corporate Social Performance

The cost or production monitoring most dominantly affecting corporate social performance is the cost of public service advertisement, although insignificant. It means the higher the cost of public service advertisement spent by a corporation, it will increase the corporate social performance. It is essential, since consumers also need to get protection from producers for the products consumed by them. For example the warning to smokers written on the cigarette cover, stating that smoking harms health or by specifying the specifications of the products. There is also kosher label for food and drink products for Moslems. The insignificant cost of advertisement of social service on social performance may also be resulted by the level of social concern in Indonesia alone

that has not reached the level of whether corporations have high attention or not related to public service advertisement.

The opinion of Heard and Bolce (1981) that formerly society considers corporations to be only responsible for the supply of goods and services, employment opportunities and improvement of social welfare. The society no more limits their demand for fulfillment of goods, services and employment opportunities, but they demand entrepreneurs to consider and be responsible for environment and humanity issues in their business activities. The society claims that these issues are to be corporate responsibilities (internal issues), instead of social responsibilities (external issues), hence to be considered in any decision making.

Effect of Social Cost on Corporate Social Performance

There are five variables of most dominating social cost affecting corporate social performance in Indonesia, namely: 1) cost of salary and pay; 2) cost of clean water; 3) cost of bonus; 4) cost of royalty; and 5) cost of social service advertisement. It means that the higher the cost of salary and pay, cost of clean water, cost of bonus, cost of royalty, cost of service advertisement, it will increase corporate social performance.

Study of Ernst & Ernst (1971). Although somewhat different regarding the dominant variables as those of the result of study of Arpan and Radebaug, it is stated that corporations in France were required to make social balance sheet addressed to employees and the management annually. The social balance sheet confirmed: 1) the employees, 2) salary; 3) health and security protection; 4) other conditions in working; 5) employee's training; 6) industrial relation; 7) other conditions related to life, including housing and transportation for corporation's employees.

Effect of Social Performance on Corporate Financial Performance

There is no effect of social performance on corporate financial performance. This is because the level of social concern in general has not increased. It means, even if entrepreneurs have shown their concern with environment, if the public consumers as users of corporate products are not concerned with environment issues, the business will not have positive impacts on the financial performance of the emitters. This reason can be shown from the level of awareness or understanding of society to discriminate which corporations are concerned with environment and which are not is still very small.

Consumers' concern in Indonesia is also related to the purchase power of society, or the income that is generally still low. It means the consumers still consider that at significant level, their needs are still affordable, but they have not considered yet whether the products are eco-friendly or not. This is due to the National income level per capital that is still very low compared to other countries, so that it may have implication to public level of concern to environment issues.

The study of Yamagami & Kokubu (1991) stated that in Japan the implementation of corporate social responsibility disclosure works slowly compared to that in USA and European countries (Ernst & Ernst, 1978; Dierkers, 1980; Rey, 1980; Gray and friends, 1987). The result of study of Luyann (1992), in Hong Kong, social disclosures are lower than in Malaysia and Singapore (see Andrews and friends, 1989).

Description of Method of Corporate Social Responsibility Disclosure

The method of social responsibility disclosure of corporations, particularly open corporations in Indonesia uses different media. The groups of social cost and media of disclosure mostly selected by corporations are: 1) presentation of environment management cost in prospectus: 21.0%, 2) cost of employee's welfare presented in the note on financial statement: 36.1%, 3) cost for community around corporation presented in annual statement: 15.0%, and 4) cost of product monitoring presented in the note on financial statement: 3.8%.

The variety in the method of selection of the media of corporate social responsibility disclosure seems to be based on certain habit and in certain interest. For instance for disclosure of environment management cost, more corporations select the media of prospectus report, since this prospectus report can be used as an arena of propaganda when the corporations sell their initial shares in stock exchange. The disclosure at least give impression that a corporation has been concerned with environment management. The disclosure is expected to be able to attract prospective investors to buy the corporation's shares. For the disclosure of corporate social responsibility on the welfare of the employees, community outside the corporation and the cost of production monitoring, the media of disclosure generally selected are annual statement and note on financial statement. This is based on the habit conducted by corporations in Indonesia in general.

Other cause of inconsistency in the method of corporate social responsibility disclosure is because there is no clear rule on the method of presentation or components classified in the social cost. As the result, each corporation has its own method and policy on the expense related to social cost. Study of Yamagami and Kokubu (1991) in table 4 below.

Table 4
Corporate Social Responsibility Disclosure in Japan

	Environment		Community Involvement		Employee relations		Research and development		International activity	
	No	%	No	%	No	%	No	%	No	%
Operating report (total: 49 companies)	0	0	6	12.2	21	42.9	38	77.5	23	46.9
English version report (total: 47 companies)	3	6.4	9	19.1	12	25.5	41	87.2	35	74.5
Public relations report (total: 49 companies)	13	26.5	25	51.0	17	34.7	41	83.7	39	79.6
Average percentage of the three report		11.0		27.6		34.5		82.3		66.9

Sumber: Yamagami dan Kokubu (1991)

Based on the result of study of Yamagami and Kokubu (1991) in table 4 above, the disclosure of social responsibility and social cost is classified based on 1) environment

(including energy and product security), 2) social environment, 3) employment affairs, 4) research and development, and 5) international activities. The media used are 1) operational report, 2) report of English version, 3) report for public. The results are: 1) environment cost presented in operational report: 0%, in report of English version: 6.4%, in report for public: 26.5%, 2) cost of social environment presented in operational report: 12.2%, in report of English version 19.1%, in report for public: 51.0%, 3) cost of employment affairs presented in operational report: 42.9%, in report of English version 25.5%, in report for public: 34.7%. The result of study concludes that in general the media for disclosure mostly used are: report for public, particularly concerning environment: 26.5%, public environment: 51.1%, international activities: 79.6%. The media of report of English version disclose more on research and development: 87.2%, international activities: 74.5%. The lowest is operational report disclosing employment affairs: 42.9%.

3. Conclusion

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Social disclosures have been conducted in the annual statements of corporations in Indonesia. The themes of employment affairs mostly receive attention are themes of social disclosures. This condition is consistent in high-profile and low-profile industrial groups.

Social disclosures in Indonesia are relatively still low. Corporations are suspected not using annual statement as a communication medium between corporations and stakeholders. It is likely that corporations only utilize annual statement as report to stakeholders and debt holders or as information for prospective investors.

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There are five variables of most dominating social cost affecting corporate social performance in Indonesia, namely: 1) cost of salary and pay; 2) cost of clean water; 3) cost of bonus; 4) cost of royalty; and 5) cost of social service advertisement. It means that the higher the cost of salary and pay, cost of clean water, cost of bonus, cost of royalty, cost of service advertisement, it will increase corporate social performance.

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