

Corporate Governance, Corporate Size, Corporate Industry, Corporate Social Responsibility Disclosure Size and Stock Price

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The objective of this research is to test whether there are relationships between corporate governance, corporate size and industry category with corporate social responsibility (CSR) disclosure size, and also the implication of CSR disclosure size to corporate performance (stock price). The research model has the combined research model from the two models. The first model is to describe the relationship between corporate size, industry category, and corporate governance with CSR disclosure size, and the second model is to find that between CSR disclosure size with corporate performance (stock price). The research result from the first model shows that industry type and corporate governance index have a significant relationship with corporate social responsibility disclosure size. The second model shows that CSR disclosure size has a significant relationship with corporate stock price.

Keywords: corporate governance index, corporate size, industry type, corporate social responsibility disclosure size, stock price

Introduction

Some researchers conclude that weak corporate governance triggered the financial crisis in Asian countries including Indonesia in 1997-1998 (Darmawati, Khomsiyah, & Rahayu, 2005; Veronica & Bachtiar, 2005). Ineffectiveness of implementation on corporate governance (CG) in Indonesia has been found by the results of research Zarkasyi (2008) which put the implementation of CG on corporates in Indonesia the lowest in East Asia (2.88), compared with Malaysia (7.72), Thailand (4.89), Singapore (8.93), and Japan (9.17).

Brammer and Pavelin (2006) have found that corporate social responsibility (CSR) disclosure size is considered as an effective tool to influence the perception of people outside the corporate. Handajani and Chandrarin (2009) found that the corporate that is deeply involved in social and environmental activities will have a better relationship with the investors. Based on the above, this article will try to test the relationship of corporate governance, corporate size, and industry category with CSR disclosure size and also its implications to corporate performance.

Many people said that the weakness of corporate governance was one of the causes of the financial crisis in Asian countries. Bankruptcy of several banks and major companies in Indonesia, such as the Indonesian Development Bank, Bank of Commerce, Bank Bumi Daya, PT Indo Rayon, PT Indonesian Aerospace, and others was caused by unhealthy corporate governance (Agoes & Ardana, 2009).

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The problem in this study will be limited to the relationship of corporate governance (corporate governance/CG), corporate size, and industry type to corporate social responsibility disclosure size and its implications to corporate performance (stock price).

Literature Review and Hypothesis Development

In the development of the theory/agency relationship, there are changes in particular assumptions on the meaning of the term “principal”. The academics then try to develop a variety of theoretical models based on different assumptions. Syakhroza (2005), for example, tried to develop four theoretical models in corporate governance, namely, (a) the finance models, (b) the stewardship models, (c) the stakeholder models, and (d) the political models, but Syakhroza (2005) tried to simplify these theoretical models into two perspectives, namely, the perspective of the owner (shareholding), and the stakeholder perspective. In the perspective of the owner, the agent acts solely for the benefit of the owners, or shareholders, whereas in the stakeholder perspective, the agent will act for the benefit of all stakeholders. The second view is that this (stakeholder perspective) will in turn give rise to the concept of CSR; therefore theoretically it is believed to influence the level of CG index.

Corporate Performance (Stock Price)

Corporate performance is quite recognized by many people, especially the corporate management, accountants, stock market analysts, investors, and other stakeholders. However, the definition and measurement of corporate performance vary widely. It is because of so many indicators or the use of the ratio as a measure of performance. The book of *The Foundation for Performance Measurement*, says that performance measurement is crucial in relation to the function of supervision (control) in an organization (<http://www.fpm.com/journal/mattison.htm>). For a final reflection, corporate performance can be measured by corporate stock price. This is because this measurement comes from the perspective of investors or external parties by looking through the corporate fundamentals. Hence, this research is using the stock price as a corporate performance indicator (measurement).

Corporate Size

Corporate size is a variable that explains variation in the disclosure of the Corporate's Annual Report. Corporate size depicts the large-scale of business that can be measured by using several alternative indicators such as total sales, the number of employees, total assets, and so on. In this research, the corporate size is used as a predictive indicator that can impact the disclosure size, specifically, in the corporate social responsibility disclosure size.

There are allegations that corporate size has a positive relationship with the size of information disclosure, including information relating to CSR. Corporate size tends to present the whole thing about the corporate, specifically, the corporate responsibility disclosure size. This research attempted to examine the relationship between corporate size and corporate social responsibility disclosure size. Our first hypothesis is thus:

H_{a1} : The corporate size has a relationship with CSR disclosure size

Industry Type

In the article of Utomo (2000) distinguished two types of industries, namely, high profile and low profile. Corporates in high-profile type are corporates that have a high degree of sensitivity to the environment, a high level of political risk, or strict level of competence. High profile corporates are generally corporates that

become courtesy of the public because their operating activities have the potential to intersect with wide interests. The corporates in low profile type are not under the public eye too much when their operation fails or they make errors on a particular aspect of the process or products. Industry types are included in the category of high-profile corporates that consist of oil and mining corporates, chemical, forest, paper, automotive, aviation, tobacco and cigarettes, food and beverage products, media and communications, energy, engineering, healthcare, and transportation and tourism, while low profile corporates consist of finance and banking, medical equipment suppliers, property, retailers, textile and textile products, personal products and household products. Therefore, the second hypothesis is as follows:

Ha₂: Industry type has a relationship with CSR disclosure size

Corporate Governance

Corporate governance is defined as a system or structure to direct and control an organization, or a set of rules that define the relationship between managers and stakeholders (Cadbury committee, in Arafat & Fajri (2009)). The basis for the understanding of corporate governance can be traced from the perspective of agency relationship (agency theory). Agency relationship is a contract between the principals and agents (Darmawati et al., 2005). Agency relationship arises as a consequence of the separation between the principal (owner) and agent (manager).

Many researches on the relationship between CG and CSR have been produced. One of the researchers is Murwaningsari (2009). This research found there was no relationship between CG and CSR. Based on the finding, hence the third hypothesis is:

Ha₃: Corporate governance (CG) has a relationship with CSR disclosure size

Corporate Social Responsibility (CSR)

The Business for Social Responsibility defines CSR, as follows:

Operating a business in a manner that meets or exceeds the ethical, legal, commercial, and public expectations that the society has.

On the other hand, the European Commission hedges its bets with two definitions wrapped into one:

A concept whereby companies decides voluntarily to contribute to a better society and a cleaner environment. A concept whereby companies integrates social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis (www.mallenbaker.net/CSR/definition.php).

Corporate social responsibility (CSR) is a concept that is popular and continues to grow today, but this term does not have a definition or set of criteria that is mutually recognized by all parties. Conceptually, the CSR also intersects or is exchanged with other terms, such as corporate responsibility, corporate sustainability, corporate accountability, corporate citizenship, and corporate stewardship.

Corporate Social Responsibility Disclosure

Currently, most corporates in Indonesia, especially big ones, have run CSR programs and reported the implementation of the CSR program in the Corporate's Annual Report, but what is reported and disclosed is very diverse. The kind of information needed is looking for progress, because some users need the non-financial information (including reports on activities related to CSR). This kind is not included in financial statements (as the product of accounting). Moreover, some corporates are seeking alternatives and they would like to develop a reporting standard as demanded by users. In this regard, some reporting standards can be used

as a reference, among other things: (1) the United National Global Impact, (2) Social Accounting 8000, and (3) Global Reporting Initiative (GRI) (2006).

Corporate Social Responsibility Disclosure Size

Many previous studies have shown that the number of corporates is increasing the implementation of CSR disclosure in their annual reports (Sayekti & Wondabio, 2007). Similarly, investors and relevant stakeholders use CSR report in the decision-making process (for example, results of surveys by Sayekti & Wondabio (2007), and also Basamalah & Jermias (2005)).

Awareness and adherence from corporates that implement CSR programs to comply with regulations that are specifically issued by the government are called the legitimacy theory (Haniffa & Cooke, 2005). This theory states that a corporate has a contract with the public to perform corporate activities to align with the expectations and desires of stakeholders. If there are inconsistencies with the corporate value system for society, the corporate can lose its legitimacy. With this foundation of legitimacy theory, corporates that are implementing CSR expect a positive response from the market participants (in this case it will be reflected on the corporate performance in the form of rising stock prices).

There are many researches on CSR that relate to corporate performance (stock price) and those researches showed different results. CSR has a hypothesis that most corporates realize and implement some CSR activities that are based on profit-maximization. Mostly, researches of CSR have focused on a research question: Do socially responsible firms achieve higher, lower, or similar levels of financial performance than comparable firms that do not meet the same CSR criteria (Griffin & Mahon, 1997; Dowell, Hart, & Yeung, 2000; McWilliams & Siegel, 2001; Orlitzky, Schmidt, & Rynes, 2003)? Financial performance is typically defined in such studies in terms of either short- or long-run stock prices. Such studies also tend to use the firm rather than the establishment or sector as the unit of observation for empirical analysis, stock price data from the capital market directory for research.

The research findings which accept that there is a relationship between CSR disclosure size and corporate performance (stock price) were done. The other research findings showed there is no relationship between CSR disclosure size and corporate performance (stock price), as conducted by Hackston and Milne (1996). Based on the above, the fourth hypothesis of this research is:

Ha₄: CSR disclosure size positively has a positive relationship with corporate performance (stock price)

Research Methods

Research Design

This research is to test whether corporate size, industry type, and corporate governance (CG) have a relationship with CSR disclosure size. The last testing is to test whether there is a relationship between the CSR disclosure size and corporate performance (stock price). From this research, we can say that there are two regression models. The first model will test the relationship between corporate size, industry type, and CG Index (as independent variables) and CSR disclosure size (as a dependent variable). Then the second model will proceed testing the relationship between CSR disclosure size (as an independent variable) and corporate performance (as a dependent variable). The secondary data are used by this research.

Population, Sampling Technique, and Data Gathering

The population of this research is corporates listed on the Indonesian Stock Exchange (ISE). The research

objects are: corporate governance (CG), corporate size, industry type, corporate social responsibility disclosure size (CSR size), and corporate performance (stock price). The sample selection has been done by using the purposive sampling method, as follows:

(1) Corporates can only have CG index score for the period 2006-2008 and this index can be obtained from the Indonesian Institute for corporate governance.

(2) Corporates have published their annual reports, management discussion, and analysis for the period 2007-2009, in particular the corporate social responsibility disclosure size.

(3) Corporate operational data available in Indonesian Capital Market Directory are from 2007-2009.

The results from data collection are firstly tested to make sure that the data have been appropriated. This is to be done in particular to measure the CSR disclosure size by reviewing and checking on the annual report.

Research Variables

Based on the previous description, research variables are the details of models as follows:

Corporate social responsibility disclosure size (CSR disclosure size) as dependent variable/Y and the other variables such as corporate size (X1), industry type (X2), and CG index (X3) as independent variables.

(a) CSR disclosure size

CSR disclosure size index can be measured by Global Reporting Initiatives (GRI) (2006). This research will refer to the guidelines established by the Global Reporting Initiatives (GRI) (2006). GRI has been adapted by Hackston and Milne (1996) in their research, and the result of the disclosure index will be used as a proxy for CSR disclosure size. The research has used many indicators as follows: environmental aspects (13 items), energy (7 items), health and safety (8 items), other workers (21 items), product (10 items), and community involvement (9 items). Total disclosure items are 68. Each CSR index is calculated based on a formula that has been used by Haniffa and Cooke (2005) as follows:

$$ICSR = \sum_{i=1}^{nj} X_{ij}$$

The above formula is an index of CSR disclosure size, while n is the number of items disclosed for the corporate j. Total items are determined by nj symbols, the total number is 68, while ΣX_{ij} is the number of items disclosed by the firm j. The result of this research is an index that depends on the fact from the annual report.

(b) Corporate size (X1)

Corporate size depicts small- or large-size of the corporates. Corporate size can be measured by using several alternative indicators, such as total sales, number of employees, total assets, and so on. In this research, the number of assets as an indicator is indicated in the financial statements (statement of financial position). Total assets are the total value of assets of the corporate that are defined and measured in money term, guided by the Financial Accounting Standards (IAI).

(c) Industry type (X2)

Industry type can be categorized as the high profile industry type and the low profile industry type. Corporate with high-profile industry type is a company that has a high degree of sensitivity to the environment, a high level of political risk, or strict level of competence. The corporate with low-profile industry type is not under the spotlight of the public too much when its operation fails or it makes errors on a particular aspect of

the process or products. Industry types that are included in the category of high-profile corporates are oil and mining companies, chemical, forest, paper, automotive, aviation, tobacco and cigarettes, food and beverage products, media and communications, energy, engineering, healthcare, and transportation and tourism. Industry types that are included in the category of low-profile corporates are building corporates, finance and banking, medical equipment suppliers, property, retailers, textile and textile products, personal products. The high-profile industry is coded “1”, while the low-profile is coded “0”.

(d) Corporate Governance Index (CGI) (X3)

CGI index score is based on the “Report of Research and Ratings” which was published by The Indonesian Institute for Corporate Governance (IICG). This research uses 10 coverage assessment indicators, namely, commitment to good corporate governance, transparency, accountability, responsibility, independence, justice (fairness), competence, corporate mission statements, leadership, and staff collaboration.

(e) The objective of this model is to find that there is a relationship between corporate social responsibility disclosure size (Y) and corporate performance (stock price) (Z). Corporate social responsibility disclosure size (Y) is an independent variable and the other variable corporate performance (stock price) (Z) is a dependent variable. The proxy of corporate performance stock price is given the symbol Z. The stock price is the closing price at the end of a period.

Research Model

This research uses secondary data obtained from the Capital Market Information Center (CMIC) at the Faculty of Economics, Tarumanagara University, the Indonesia Stock Exchange (ISE), and the Institute for research: the Indonesian Institute for corporate governance. The data of this research are a combination of panel data from time series and cross section.

Based on the identification of the research problem, it can be formulated as a research model which is shown in Figure 1 below. In a test between independent variables and dependent variables, two research models of regression analysis were used. In the first model, CSR disclosure index is a dependent variable, whereas the independent variables consist of corporate size, industry type, and corporate governance index. In the second model, the dependent variable is the corporate performance (stock price) (Z) and CSR disclosure index becomes an independent variable.

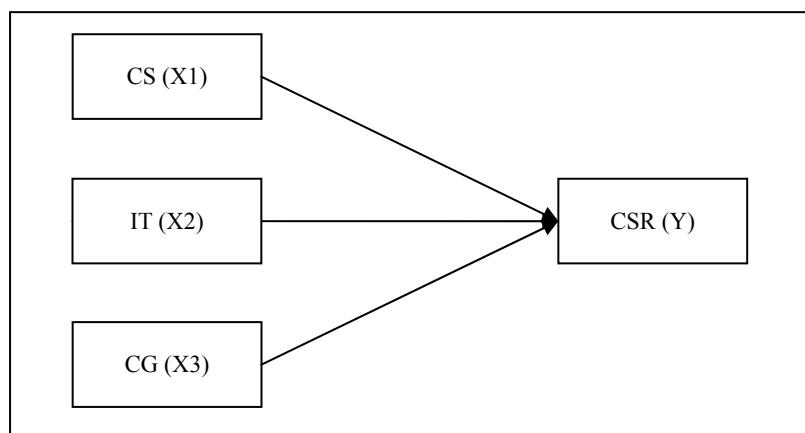


Figure 1. First model design. Note. CS (X1) = Corporate Size; IT (X2) = Industry Type; CG (X3) = Corporate Governance Index; CSR (Y) = Corporate Social Responsibility Disclosure Size.

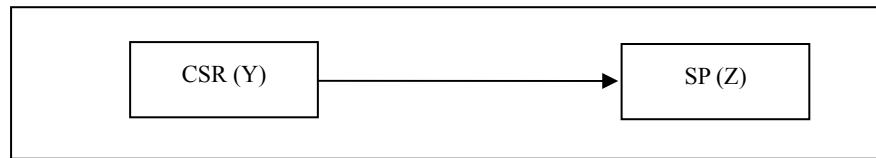


Figure 2. Second model design. Notes. CSR (Y) = Corporate Social Responsibility Disclosure Size; SP (Z) = Corporate Performance (Stock Price).

First Modelling:

$$Y_t = \alpha + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3,t-1} + \varepsilon_t$$

Y_t = Corporate Social Responsibility Disclosure Size at the current period

α = Constant

$\beta_1, \beta_2, \beta_3$ = Regression Coefficient

X_{1t} = Corporate Size at the current period

X_{2t} = Industry Type at the current period

X_{3t} = Corporate Governance Index at the previous period

ε_t = Error term

Second Modelling:

$$Z_t = \alpha + \beta_1 Y_t + \varepsilon_t$$

Z_t = Corporate Performance (Stock Price) at the future period

α = Constant

β_1 = Regression Coefficient

Y_t = Corporate Social Responsibility Disclosure Size at the current period

ε_t = Error term

Therefore, the research can combine the first model and second model as follow:

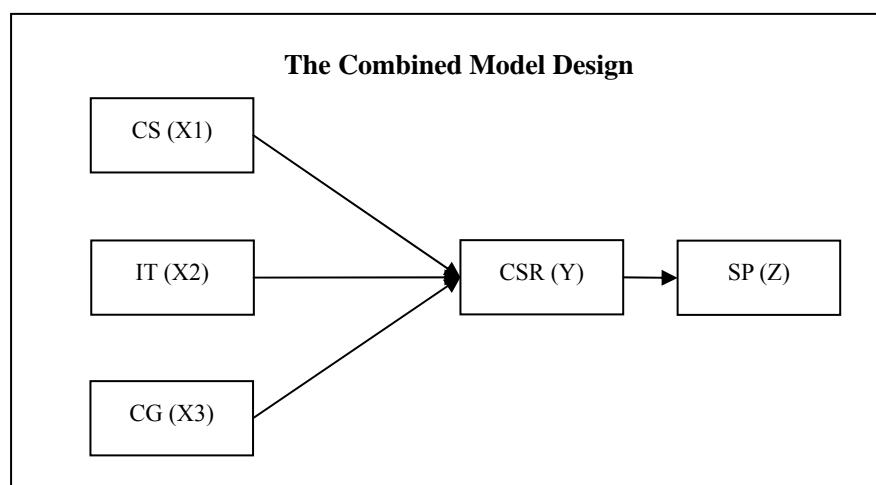


Figure 3. The combined model design.

Result

Analysis and Discussion

First Model.

- a. Descriptive statistics

Descriptive statistic aims to provide a data summary and also the characteristics from all variables. Descriptive data summary is as follows:

Table 1

Descriptive Data Summary

Descriptive statistics			
	Mean	Std. deviation	N
Y	32.90	6.416	62
X1	7.531749	0.5951028	62
X2	0.76	0.432	62
X3	74.57	7.242	62

Notes. X1 = Corporate Size (log total asset); X2 = Industry Type: “0” for low profile, and “1” for high profile; X3 = Corporate Governance Index (CGI); Y = Corporate Social Responsibility Disclosure Size (CSRDS); N = The number of Research Sample.

b. Correlation analysis and determination

In the first model, the testing has the results, as follows:

Table 2

Correlation and Determination Table From First Model

Model	Model Summary ^a				
	R	R-square	Adjusted R-square	Std. error of the estimate	Durbin-Watson
1	0.432 ^a	0.186	0.144	5.936	1.547

Notes. a. correlation (R) and determination (R-square and adjusted R-square).

The above table (Table 2) has indicated a correlation coefficient value (R) of 0.432 ($R = 0.432$). This value means the degree of relationship between corporate size, industry type, and corporate governance index as independent variables (X) with the corporate social responsibility disclosure size as a dependent variable (Y). The value from coefficient of determination is 0.144 (adjusted R-square = 0.144). This value means that some independent variables from this model have influenced a dependent variable by 18.6% only.

The detail is for the second model, as follows:

Table 3

Correlation and Determination Table From the Second Model

Model	Model summary ^b				
	R	R-square	Adjusted R-square	Std. error of the estimate	Durbin-Watson
1	0.544 ^a	0.296	0.281	3,219.71948	1.346

Notes. a. correlation (R); b. correlation (R) and determination (R-square) result.

Table 3 has different result from Table 2. The result has indicated that correlation coefficient value (R) of 0.544 ($R = 0.544$) more than from the first model. The value means the degree of relationship between corporate responsibility disclosure size (Y) with the stock price as a dependent variable (Z). The value from coefficient of determination is 0.296 (R-square = 0.296). This value means that some independent variables from this model have influenced a dependent variable by 29.6% only.

c. The model testing

Before we continue this research, we have to know the feasibility from this research model by ANOVA result, as follows:

Table 4
ANOVA Result Table

ANOVA ^a					
Model	Sum of squares	Df.	Mean square	F	Sig.
1	Regression	467.705	3	155.902	4.424
	Residual	2,043.715	58	35.236	0.007 ^b
	Total	2,511.419	61		

Notes. a. ANOVA; Y; b. significant prob.

Table 4 indicates that F value is 4.424 and the significant value is 0.007. This result shows that the research model can be continued to test all variables in this model, because the significant value result is 0.007 less than 0.05.

d. Individual variable testing

Individual tests are intended to further investigate whether there is a significant relationship between each independent variable with the dependent variable individually. Individual testing has used the *t*-test statistical with the significance level 0.05. The results from this testing can be seen from Table 5.

Table 5 has some results from the individual variable test as follows:

(a) The significance value is 0.257 for regression coefficient β_1 in independent variable (X_1 = corporate size) and this value is more than the 0.05 level. This means that H_0 is accepted or H_a is rejected. In other words, this can be concluded that there is no significant relationship between corporate size (X_1) and corporate social responsibility disclosure size.

(b) The significance value is 0.026 for regression coefficient β_2 in independent variable (X_2 = industry type) and this value is less than the 0.05 level. This means that H_a is accepted or H_0 is rejected. In other words, it can be concluded that there is significant relationship between industry type (X_2) and corporate social responsibility disclosure size.

(c) The significance value is 0.001 for regression coefficient β_3 in independent variable (X_3 = corporate governance index) and this value is less than the 0.05 level. This means that H_a is accepted or H_0 is rejected. In other words, it can be concluded that there is significant relationship between corporate governance index (X_3) and corporate social responsibility disclosure size.

Table 5
T-Test and Significance Table

Model	Coefficients ^a										
	Unstandardized coefficients		Standardized coefficients		T	Sig.	Correlations			Collinearity statistics	
	B	Std. error	Beta				Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	-20.563	19.800		-1.038	0.303					
	X1	2.228	1.945	0.207	1.146	0.257	0.014	0.149	0.136	0.431	2.318
	X2	6.665	2.919	0.448	2.284	0.026	0.062	0.287	0.271	0.364	2.749
	X3	0.424	0.120	0.479	3.521	0.001	0.325	0.420	0.417	0.759	1.318

First multiple regression model can be described by the above table and can be rewritten in the form of a mathematical equation as follows:

$$Y = -20.563 + 2.228X_1 + 6.665X_2 + 0.424X_3 + \varepsilon$$

Constant = -20.563
 X1 = Corporate Size
 X2 = Industry Type
 X3 = Corporate Governance Index
 Y = Corporate Social Responsibility Disclosure Size
 ε = Residual Value

Second model (simple linear regression). The second model is only to test relationship between one independent variable and one dependent variable, the relationship between corporate social responsibility disclosure size (Y = independent variable) and corporate stock price (Z = dependent variable).

a. The model testing

Table 6 below is to describe the model that can be proceeded to the next stage as follows:

Table 6

ANOVA Table

ANOVA ^a					
Model		Sum of squares	Df.	Mean square	F
1	Regression	208,950,998.437	1	208,950,998.437	20.156
	Residual	497,596,489.583	48	10,366,593.533	
	Total	706,547,488.020	49		

Notes. a. ANOVA: Z; b. significance prob.

Table 6 is to present the result of F-test and the result is to indicate the significant level 0.000 below 0.05. This test meant that the second model can be accepted to proceed a variable testing for this model.

b. T-test (variable testing)

This hypothesis testing is intended to further investigate whether there is a significant relationship between the corporate social responsibility disclosure size (Y) and corporate performance (stock price) (Z), as seen in Table 7:

Table 7

T-Test and Significance Table

Model	Coefficients ^a				
	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std. Error	Beta		
1	(Constant)	-5,351.411	2,107.281	-2.539	0.014
	Y1	282.485	62.920	4.490	0.000

Notes. a. dependent variable: Z.

Table 7 is to present significant level 0.000, and the result is less than the significant level 0.05. This means that H_0 is rejected and H_a is accepted. In other words, it can be concluded that there is a significant relationship between the corporate social responsibility disclosure size (Y) and stock price (corporate performance) (Z).

Conclusion and Discussion

In this research, we have observed and investigated the relationship between corporate governance index, corporate size, industry type and corporate social responsibility disclosure size and also corporate performance

(stock price). Our research results have confirmed that there are three hypotheses from four hypotheses that we've tested. The research result details are as follows:

(1) This research has not found that corporate size has a relationship with corporate social responsibility disclosure size.

(2) This research has found that industry type has a relationship with corporate social responsibility disclosure size.

(3) This research has found that corporate governance index has a relationship with corporate social responsibility disclosure size.

(4) This research has found that corporate social responsibility disclosure size has a relationship with corporate performance (stock price).

We can conclude that corporates which are in high profile type have a tendency to increase disclosure size. Specifically, information about corporate social responsibility activities should be informed to interested parties, like investors, potential investors, creditors, and potential creditors. It means that corporates should inform external parties about these activities in order to make public or anyone interested in these corporates know about the corporates as a whole.

Corporate governance index has provided good picture about how corporations have been continuously living in their business with high competitiveness. This structure can afford to well-inform the whole interested parties. The research has found that corporate governance index has a relationship with corporate social responsibility disclosure size. It means that corporations which have high corporate governance index have an indication to increase the disclosure size.

After we proceeded the data to this model, we also found that there is a relationship between corporate social responsibility disclosure size and stock price. This research can confirm that the disclosure size can influence external parties in stock market, even if it is not too strong. Specifically, some kinds of information about corporate social responsibility events can be used by some investors, because several investors may have thought that the corporations have cared, such as making good environment, decreasing poor people, providing opportunity in education, and increasing people health. Those conditions can make investors believe and trust those corporations that could live and survive for a longer period.

The limitations of the research are surely in using the stock price as a corporate performance that is connected to corporate social responsibility disclosure size. Because of this, the stock price can be influenced by many factors, either from internal side or external side of the corporation. But we do believe this research could provide important things from the internal side of the corporation which is termed in non-financial term as corporate social responsibility events disclosure. This research has given us a direction to further understand the reason why corporations need to increase the size of their corporate social responsibility disclosure.

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