The Impact of Corporate Governance, Corporate Social Responsibility and Information Quality on the Value of Indonesian Listed Firms

By
Annisa Abubakar Lahjie

A thesis submitted in total fulfilment of the requirements for the degree of Doctor of Philosophy

College of Business
Victoria University
Melbourne, Australia

2017

Abstract

Corporate governance (CG) and corporate social responsibility (CSR), which incorporate notions of transparency, accountability and fairness, are important dimensions of a firm's responsibilities toward its stakeholders. Although it has been established that these two dimensions make significant contributions towards increasing firm value in developed countries, limited studies have been conducted in developing countries. Furthermore, few studies have examined the influence of CSR on firm value while accounting for the impact of information quality.

This study investigated the impact of CG and CSR on the value of listed firms in Indonesia as well as the impact of information quality on CSR and firm value. In order to better understand the relationships, the study utilised a comprehensive measure of CSR; one more suitable in the developing country context.

Corporate governance mechanisms employed in this study examined the structure and composition of board of directors and ownership structures via the following variables: board size, independent directors, public ownership, and managerial ownership. The value of CSR engagement was assessed at two levels: (i) a single non-accounting proxy comprising the CSR disclosure index; and (ii) accounting and non-accounting proxies consisting of three key performance indicators (KPIs), along with CSR value added and CSR disclosure index. Information quality was measured via forecast earnings and forecast dispersion. The use of these proxies allowed for a more precise measurement of the economic costs and benefits to the study population.

The study sample included 76 Indonesian firms listed in the Indonesian Stock Exchange (IDX) covering the period from 2007 to 2013. The relationships were expressed in a set of simultaneous equations. These functions were then estimated under two different functional forms: the typical linear function and the Cobb-Douglas type function. Each functional form was in turn estimated under ordinary least squares (OLS) and two stage least squares (2SLS) approaches.

The results demonstrated that a lack of CG in monitoring and supervisory mechanisms and a high concentration of managerial ownership can significantly contribute to low levels of CSR engagement. Furthermore, independent directors with limited social and environmental expertise were identified as a possible key obstruction to the implementation of CSR. Information quality was demonstrated to have a significant impact on the relationship between CSR and firm value. The relationships between CG mechanisms, CSR and information quality on firm value produced mixed results, however from an overall perspective the results suggest that firm value would increase. The adoption of a comprehensive CSR measurement (using both accounting and non-accounting proxies) facilitated the detection of more meaningful contributions to CSR, which could lead to better policy initiatives within the Indonesian context. Finally, the results also showed that the employment of a non-linear Cobb-Douglas type function provided greater statistical significance of the coefficients estimates of the simultaneous equation models compared to the linear function, implying diminishing returns.

The potential policy implications arising from this study consist of: (i) improving the monitoring and supervisory roles of CG mechanisms in order to provide more support to CSR engagement; (ii) increasing the regulatory pressures for improved CSR performance; and (iii) enhancing information quality via adopting a standardised CSR reporting scheme.

Declaration

I, Annisa Abubakar Lahjie, declare that PhD thesis entitled "The Impact of Corporate Governance, Corporate Social Responsibility and Information Quality on the Value of Indonesian Listed Firms", is no more than 100,000 words in length including quotes and exclusive of tables, figures, appendices, bibliography, references and footnotes. This thesis contains no material that has been submitted previously, in whole or in part, for the award of any other academic degree or diploma. Except where otherwise indicated, this thesis is my own work.

Signature	Date
[redacted]	
Annisa Abubakar Lahjie	09 September 2016

Dedication

To my parents

Abubakar M. Lahjie

&

Aty Karwati

Who I am incredibly blessed to have!

Acknowledgements

I would like to take this opportunity to express my greatest acknowledgement to Dr Riccardo Natoli for his invaluable guidance, assistance and comments in completing this research. Dr Natoli's support deserves my utmost appreciation and gratitude. I would also like to acknowledge my associate supervisor Dr Segu Zuhair for his suggestions and guidance on the research method adopted for this study. Without their support, it would have been much more difficult to complete.

I am also grateful to Professor Sardar Islam, Dr Michelle Fong, Dr Petre Santry, Dr Jeffrey Keddie and other academics who were willing to provide comments about improving my work. My sincere thanks and appreciation also go to Ms Tina Jeggo for her administrative support throughout the study and everyone else who has directly or indirectly contributed to the completion of this thesis.

My deepest appreciation goes to my parents, Abubakar M. Lahjie and Aty Karwati, as well as other family members - thank you so much for your unconditional love and support throughout the completion of my study. Last but not least, I am indebted to the financial sponsorship on the Indonesian Directorate General of Higher Education (DIKTI), Doctoral scholarship program. The scholarship provided me with a wonderful opportunity to access a higher standard of research in a multicultural learning environment.

Table of Contents

List of Tables

List of Figures

List of Abbreviations

ACGA	Asian Corporate Governance Association
ACILS	American Central for International Labour Solidarity
AFL-CIO	American Federation of Labor and Congress of Industrial Organisation
ANSI	American National Standards Institute
ASEAN	Association of South East Asian Nations
ASR	Asian Sustainability Rating
AVCA	Accounting Value of the Firm’s Current Assets
AVCL	Accounting Value of the Firm’s Current Liabilities
AVLTD	Accounting Value of the Firm’s Long Term Debt
BAPEPAM-LK	Badan Pengawas Pasar Modal dan Lembaga Keuangan
BoCs	Board of Commissions
BoDs	Board of Directors
BoMDs	Board of Management Directors
BPK-RI	Badan Pemeriksaan Keuangan Republik Indonesia
BS	Number of Board Members
BWI	Business Watch Indonesia
CDI	CSR Disclosure Index
CEC	Commission of the European Communities
CEO	Chief Executive Officer
CG	Corporate Governance
CICA	Canadian Institute of Chartered Accountant
CPH	Cost Per Hire
CSID	Canadian Social Investments Database
CSP	Corporate Social Performance
CSR	Corporate Social Responsibility
CSR-M	Maximum CSR Disclosure Score
CSR-TD	Total CSR Disclosure Score
CVA	CSR Value Added
CV	Control Variable
D	Debt
DMR	Diminishing Marginal Return
EB	Employer Branding
EEOC	Equal Employment Opportunity Commission
EMA	Employment Management Association
EPA	Environmental Protection Agency
EPS	Earnings Per Share
ETO	Employee Turn Over
EVA	Economic Value Added
FD	Forecast Dispersion
FE	Forecast Error
FS	Firm Size
FTSE	Financial Time Stock Exchange
FV	Firm Value
GCG	Good Corporate Governance

GMS	General Meeting of Shareholders
GNI	Gross National Income
GRI	Global Reporting Initiative
IBL	Indonesia Business Links
ICMD	Indonesian Capital Market Directory
ID	Independent Directors
IDR	Indonesian Rupiah
IDX	Indonesian Stock Exchange
IQ	Information Quality
ISCT	Integrated Social Contract Theory
ISO	International Organisation for Standardisation
JSX	Jakarta Stock Exchange
KADIN	Indonesia Chamber of Commerce (Kamar Dagang Indonesia)
KLD	Kinder, Lindenberg and Domini
KPIs	Key Performance Indicators
LBS	Log Board Size
LCDI	Log CSR Disclosure Index
LCPH	Log Cost Per Hire
LCVA	Log CSR Value Added
LETO	Log Employee Turn Over
LFD	Log Forecast Dispersion
LFE	Log Forecast Error
LFS	Log Firm Size
LID	Log Independent Director
LMO	Log Management Ownership
LMS	Log Market Share
LPO	Log Public Ownership
LROA	Log Return on Assets
LROS	Log Return on Sales
LTI	Log Type of Industry
LTQ	Log Tobin's Q
MO	Managerial Ownership
MS	Market Share
MVS	Market Value of the Firm's Share
N	Number of Observations
NCCG	National Committee on Corporate Governance
NCSR	National Centre for Sustainability Report
NGOs	Non-Government Organisations
NI	Negative Insignificant
NPV	Net Present Value
NS	Negative Significant
NYSE	New York Stock Exchange
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Squares
PI	Positive Insignificant
PIAC	Public Interest Advocacy Centre
PO	Public Ownership
PPEB	Partnership Program and Environmental Building

PRB	Population Reference Bureau
PS	Positive Significant
PwC	PricewaterhouseCoopers
RBV	Resources Based View
RDT	Resource Dependence Theory
ROA	Return on Asset
ROE	Return on Equity
ROI	Return on Investment
ROS	Return on Sales
R&D	Research and Development
SCSB	Swedish Customer Satisfaction Barometer
SCT	Social Contract Theory
SMEs	Small Medium Enterprises
SOEs	State Owned Enterprises
TA	Total Asset
TCE	Transaction Cost Economics
TI	Type of Industry
TQ	Tobin's Q
2SLS	Two-Stage Least Squares
3SLS	Three-Stage Least Squares
WBCSD	World Business Council for Sustainable Development

It takes twenty years to build a reputation and five minutes to ruin it. If you think about that, you will do things differently. (Warren Buffett, quoted in Joshua-Amadi, 2013, p. 66)

Chapter 1: Introduction

1.1 Background of the Study

Due to the Asian economic crisis and corporate scandals such as those of Enron, Worldcom, Maxwell and Parmalat , the concept of corporate governance (CG) has generated considerable attention in Indonesia in recent years (Kaihatu 2006; Organisation for Economic Co-operation and Development OECD 2011). This has resulted in increased attention to CG issues in relation to the ethics of economic behaviour, focusing on trust, accountability, transparency and disclosure (Kolk and Pinkse 2010; Sembiring 2005). Corporate governance is the system that is not only identified as an essential aspect in addressing the issue of corporate failures (Kirkpatrick 2009; OECD 2015a) but, as Clarke (2004) points out, it also provides economic benefits to firms and is linked to the economic growth of a country.

The Asian Development Bank has identified certain characteristics as indicators of poor CG in Asian countries, including ownership structure concentration, excessive government intervention, underdeveloped capital markets, and weak investor protection (Capulong et al. 2000). In Indonesia, Lukviarman (2004) found that the characteristics of poor CG also include majority ownership in a small number of families, a limited number of independent boards of directors to direct firms, lack of board and committee audits, and absence of market control. A 1999 survey by PricewaterhouseCoopers (PwC), found that Indonesia ranked extremely low in the Asia-Pacific region in many categories, including perceived standards of transparency and disclosure, accountability, board processes, auditing and compliance (Kurniawan and Indriantoro 2000). Furthermore, the 1998 Transparency International Corruption Perception index showed that Indonesia’s position was number 80 out of 85 countries surveyed, and one of the most corrupt countries in the world (Robertson-Snape 1999). The systematic corruption in regulations, licenses and levies imposed by government officials (Henderson and Kuncoro 2004) has created continuing weaknesses in addressing the CG laws for protecting investor rights (e.g., creditors and minority stakeholders) and providing suitable transparency and accountability in corporate, fiscal and monetary disclosures (Alijoyo et al. 2004).

In order to address poor CG in Indonesia, in 1999 the government established a National Committee on Corporate Governance (NCCG) aimed at strengthening, disseminating and promoting good corporate governance (GCG) principles. The findings of the NCCG were the basis for developing the National Code of Corporate Governance (Wibowo 2008). Subsequently, the NCCG was restructured and given stronger formal governmental oversight structure (Dercon 2007).[1] In addition, the National Code was revised in 2006, and although it resulted in strengthening the quality of: (i) financial disclosure; (ii) CG guidance; (iii) minority shareholder protections; and (iv) anti-corruption programs, the indicators of GCG implementation in Indonesia have remained below standard (Asian Corporate Governance Association ACGA 2012). For this reason, the Indonesian government has continued to introduce reforms to help improve GCG practices, with the aim of reducing corruption levels, improving the business environment, and supporting economic growth.

A number of previous studies examining CG effectiveness have analysed the impact of governance mechanisms on shareholder wealth (Denis and McConnell 2003; Gompers, Ishii and Metrick 2003; Masulis and Wang 2007; Rodriguez-Dominguez, Gallego-Alvarez and Garcia-Sanchez 2009).[2] These studies have focused on shareholders as the primary concern in corporate decision-making for the improvement of firm efficiency and risk reduction (Rossouw 2009). At the same time, many studies have focused on the expectation of a firm to concentrate not only on profit-oriented activities, but also on improving the welfare of society as a whole, through analysing corporate social responsibility (CSR) activities (Fred 2008; Nicolau 2008; Ricart, Rodriguesz and Sanchez 2005; Spitzeck 2009).

[1] The NCCG became the National Committee for Governance (NCG) in 2004.

[2] In the context of the present research, shareholder wealth is similar in nature to firm value as defined in this thesis, with both terms reflecting a long-term outlook. Please refer to Table 1.1 for their definitions.

1.1.1 Corporate Social Responsibility

In defining the nature of CSR, Friedman (1970) first described it as socially responsible business activities that fulfil a firm's economic interest, while conforming to the basic rules of society including law and ethical customs. More recent literature tends to recognise the scope of CSR as covering the economic, legal, ethical, humanitarian and discretionary issues that significantly influence a firm's strategy and operational implementation (Darwin 2004), which ultimately influence stock prices (Berens, Cees and Gerrit 2005). Thus, the notion of CSR is that it moves beyond legal requirements. This, in turn, is expected to lead to good growth prospects and profit sustainability (Rust, Lemon and Zeithaml 2004). However, although CSR has generally been defined in positive terms, the increasing focus on CSR activities has resulted in increased criticisms from across the political spectrum (Berens, Cees and Gerrit 2005), with some free-market economists attacking the idea of CSR as essentially misguided. They maintain that CSR tends to impair the firm value[3] of enterprises in both the short-term and long-term (Henderson 2004), by reducing competition and economic freedom and undermining the market economy (Nicolau 2008). In the context of Indonesia, despite these criticisms, CSR is increasingly being seen as necessary in the development of a healthy environment based on more responsible approaches to economic activity (Achda 2006; Subroto 2002; Susilowati 2014). This is evidenced by the fact that CSR is mandatory under Indonesian law.

Such ethical responsible approach, which incorporates the inclusion of societal and environmental aspects in business strategy, has been found to significantly influence the long-term existence of firms, and provide improved information transparency and risk management (Falck and Heblich 2007). Other studies have found an important role for CSR in reducing business risk (Castello and Lozano 2009; Jo and Na 2012; Oikonomou, Pavelin and Brooks 2014). Moreover, some strategies show that the omission of CSR in a firm strategy can increase business risk when it is deemed a

---

[3] When discussing studies that examine firm value, some of the empirical studies referenced have used the term 'financial performance' instead. The interpretation of financial performance as a proxy for firm value is a common practice in accounting and financial empirical studies (Al-Najjar and Anfimiadou 2012; Lee and Park 2009; Bolton 2004; Lenham 2004). Hence, the term 'firm value' is used throughout this thesis. This study employs three proxies to examine firm value: return on asset (ROA), return on sales (ROS) and Tobin's Q. The discussion of firm value, and its measurement, is further elaborated in Section 3.10.

‘punishable offence’ by the government and/or public (Orlitzky and Benjamin 2001). Corporate Social Responsibility therefore can positively reduce business risk in the Indonesian market where a social ethics crisis exists (Widigdo 2013), and where corruption and business uncertainty are increasingly recognised (Matten and Moon 2008). Thus, for the most part, CSR activities can act as a useful as a strategy against corruption and to reduce financial risk (Mazni and Ramli 2010; Rodriguez et al. 2006).[4] According to Daniri (2008) and MacIntyre (2003), excluding CSR as part of the business strategy would negatively impact on Indonesia’s overall social-economic development in term of investment flows and economic growth.

In order to achieve country developmental policies for poverty alleviation, Newell and Frynas (2007) pointed out that international organisations, such as the United Nations and the World Bank, recommend the implementation of CSR in listed firms’ operations. These organisations maintain that firms can contribute to poverty reduction and make profits at the same time by inventing new models for business strategies that provide products and services for over 1.37 billion people worldwide who live on $1 per day (World Hunger Education Service 2013). However, even though there is no direct correlation between firm CSR engagement and world poverty, governments and non-governmental organisations (NGOs) can encourage firms to develop new markets and services that allow poor people access, as well as increase their employment (Newell and Frynas 2007; Reuber et al. 1973; Wilson and Wilson 2006). The role of product providers, employers and investors can all play a crucial part in tackling poverty. For example, Romer and Gugerty (1997) recorded that, in East Asian countries, the dramatic growth of manufacture and service exports has created numerous job opportunities for poor people, absorbed the supply of low-productivity workers and increased real wages. They argued that countries with higher income distribution will experience rapid economic growth rates and ultimately reduce poverty rates.

Newell and Frynas (2007) warned that government and NGOs interventions aimed at harnessing business towards poverty alleviation may be inappropriate, since firms already contribute to poverty reduction efforts through negotiation with unions and

[4] The details about how CSR was devised, implemented, scrutinised and managed are beyond the scope of the present research. For those interested, please refer to the cited publications.

paying taxes, rather than philanthropic activities. In this context, Newell and Frynas identify CSR as a business strategy tool, not a developmental tool, maintaining that, although the role of government needs to be supported by both the firm and society, business practices can play a part in reducing poverty and contributing to the achievement of development goals.

Due to several corporate scandals which negatively impacted environmental, employee and community issues in Indonesia, including the *Buyat Bay case* (cited in Edinger et al. 2008), *the Papua case* (cited in Hills and Welford 2006), and *the Sidoarjo 'hot-mud volcano' case* (cited in Schiller, Lucas and Sulistiyanto 2008), both the government and society have now recognised the importance of implementing CSR. For example, due to poor levels of CSR implementation precipitating the 2006 *Sidoarjo* '*hot-mud volcano*' eruption, 15,000 families lost their houses and agricultural land, and thousands of factories and workplaces were buried under mud. The long-term costs of the environmental and social damage in this case alone were catastrophic (Schiller, Lucas and Sulistiyanto 2008). In order to address this problem, the Indonesian government was compelled to make firms more socially responsible, and to assist them in implementing CSR by establishing the 2007 Indonesian Corporate Law No. 40 and the 2007 Indonesian Investment Law No. 25[5] on making CSR a mandatory requirement. Business interests represented by the Indonesian Chamber of Commerce and Industry (Kamar Dagang and Industri [KADIN]) and a few firms initially challenged these laws in a case before the Constitutional Court, questioning the legality of the definition, disclosure and sanction of CSR presented in Article 74 of the 2007 Corporate Law No. 40. They argued that this Article violated Indonesia's constitution because it was directed at particular industries, was discriminatory and unjust, and created an additional burden for firms that would ultimately negatively affect Indonesia's economic situation. However, they lost the case because the Court held that CSR is a flexible concept which is open to interpretation.[6] The court maintained that CSR is indeed compatible with Indonesia's social, economic and legal structure. Thus, regulations provided in the 2007 Corporate Law No. 40 and the 2007 Investment Law

[5] The Indonesian government further established the 2012 Indonesian Government Regulation No. 47 on Social and Environmental Responsibility of Indonesian listed firms.

[6] Although the Constitutional Court did state that CSR was flexible and open to interpretation, they also added that the mandatory attribute gave greater certainty and clarity to CSR.

No. 25 obliged all firms in Indonesia to include CSR in their business activities (Waagstein 2011).

The 2007 Corporate Law No. 40 and the 2007 Investment Law No. 25 were put in place to help regulate two aspects: (i) various relationships between business, society and government; and (ii) the responsibilities that corporations have in contributing to Indonesian social and economic development (Arifudin 2008). Following these two laws, CSR programs have been implemented by individual firms in cooperation with government and NGOs (Wowoho 2009). However, despite these mandatory laws on CSR, issues still exist. For instance, the Environmental Performance Index (2016) reported that Indonesia's Borneo and Sumatera region burned 21,000 km^2 of forest and peatland in 2015 for agriculture operations and this has caused cross-boundary public health hazards which have impacted other countries (e.g., Singapore and Malaysia). Furthermore, the 2015 RobecoSAM Country Sustainability Ranking Survey of CSR, placed Indonesia 51st out of 60 countries surveyed, with a performance rating of 3.8 out of 9 (RobecoSAM 2015).[7] This result was primarily due to poor performance in environmental disclosures. Typically, this occurs due to the influence of political issues, differences in cultural understandings, and lack of expertise in CSR (Waagstein 2011). Although stakeholders encourage firms to be more active in CSR practices, Indonesia's firms are still failing to provide satisfaction to stakeholders (Anatan 2010). Another important issue is that there is no standard of CSR disclosure published by boards in Indonesia, although there are several designations for a firm's CSR disclosure, such as sustainability reports, CSR reports and social accounting reports. Moreover, the National Centre for Sustainability Reporting (NCSR) actively promotes the importance of Indonesian firms using the Global Reporting Initiative (GRI) (Frisko 2012). As Brammer, Jackson and Matten (2012) and Aguilera et al. (2007) point out, since CSR disclosure is still viewed as a voluntary practice in Asian countries, transnational regulatory bodies such as the Association of South East Asian Nations (ASEAN) face challenges in promoting CSR disclosure due to a lack of direct power to intervene in national law.

[7] This survey also listed only one Indonesian publicly listed firm (i.e., PT. Adaro Energy, Tbk) as one of the sustainability leaders in the coal and consumable fuel industry in Asia.

According to McWilliams and Siegel (2001), CSR goes beyond the interest of the firm and law requirements. However, debate continues as to whether investment in CSR activities enhances, creates or destroys firm value (Jo and Harjoto 2012). Barnea and Rubin (2010) argue that, if a firm's CSR activities do not contribute to maximising firm value, then these activities waste valuable resources and can erode firm value. Many scholars suggest that the important role of CSR investment in enhancing, creating or destroying firm value is determined by well-designed CG mechanisms (Jo and Harjoto 2011, 2012; Spitzeck 2009). If a firm's CSR investment decision-making is not integrated with the firm's vision and mission, firms may over-invest in CSR activities simply to enhance the firm's reputation as a good corporate citizen (Anatan 2010). However, this managerial decision may also be driven by the manager's wish for personal financial gain (Barnea and Rubin 2010). Waddock and Graves (1997) found a strong correlation between managers over-investing due to firm reluctance to adopt an integrated CSR approach, resulting in value-destroying investments that produced losses (Arora and Dharwadkar 2011). Although such actions can negatively affect the firm value and share price, Jo and Harjoto (2011) point out that firms employing effective CG mechanisms in the implementation of CSR tended to reduce conflict of interest between managers and stakeholders, resulting in CSR engagement having positive links with firm value.[8] Effective CG mechanisms therefore place a greater emphasis on CSR as an avenue to create and/or enhance firm value maximisation (Barone et al. 2011; Bowen 1953; Garcia-Castro, Ariño and Canela 2010; Jamali, Safieddine and Rabbath 2008; Van Beurden and Gössling 2008).

1.1.2 Corporate Governance, Corporate Social Responsibility and Firm Value

Both CG and CSR practices encourage firms to adopt fiduciary and moral responsibilities toward stakeholders based on transparency, accountability, fairness and honesty (Van den Berghe and Louche 2005). According to Jo and Harjoto (2012), CSR is an extension of a firm's effort to encourage CG effectiveness and increase firm sustainability through accountability and transparency. In Indonesia, both CSR and effective CG practices are becoming important business strategies, as shareholders and

[8] Jo and Harjoto (2012) developed two hypotheses to justify the relationship between CG and CSR based on two different theories: (i) the over-investment hypothesis based on agency theory; and (ii) the conflict-resolution hypothesis based on stakeholder theory. An in-depth discussion of the relationship between CG and CSR is located in Section 4.3.1.

other stakeholders (such as consumers, employees and suppliers) become more critical and conscious of their rights and powers to affect firm behaviour (Urip 2010). Although this cannot replace the government role in providing public service and infrastructure, CSR activities in developing countries, including Indonesia, can provide significant contributions to economic growth through listed firms using effective CG mechanisms, operational excellence and best practices (Urip 2010). Brine, Brown and Hackett (2007) found that, in developing countries, inclusion of CSR in the process of managerial decision-making has been generally positive, despite its effect on firm value not being easily determined by external observers. They also argue that having social and environmental information in firms' sustainability management reports assists in facilitating the improvement of quality decision-making in the future.

Although some studies examining the empirical relationship between CG and CSR, CSR and firm value, and CG, CSR and firm value have been mixed (Fauzi and Idris 2009; Margolis and Walsh 2003; Roberts and Mahoney 2004; Wibowo 2012), a number of studies have identified a positive impact. For instance, Roberts and Dowling (2002) found that the benefits of adopting CSR are not limited to the welfare of society but extend to the firms themselves. These benefits reach many aspects, including increased shareholder wealth, ease of expansion into new markets, ease of links to financial markets, improved transparency, and increased firm value (Fauzi and Idris 2009; Frooman 1997; Wood and Jones 1995). Corporate Social Responsibility disclosure not only reduces the average cost of equity (Chang, Khanna and Palepu 2000; Panaretou, Shackleton and Taylor 2012) and debt capital (Lang and Lundholm 1996), but also increases share liquidity (Brickley, Coles and Terry 1994; Linck, Netter and Yang 2008), all of which are crucial in upholding resource allocation efficiency in the share market (McGuire, Sundgren and Schneeweis 1988). Therefore, there is evidence for a positive correlation between CSR and firm value. Furthermore, firms that are proactive in CSR tend to reduce their potential sources of business risk, including financial, social or environmental crises (Sharfman and Fernando 2008) caused by corruption, inflation rate fluctuation (Matten and Moon 2008), labour disturbances and environmental harms (Orlitzky and Benjamin 2001).

The existence and level of business risk can have a negative effect on forecasting and planning activities, which can result in fluctuations in a firm's value and share price (Bettis and Thomas 1990; Brigham and Gapenski 1996; Sharpe and Sherrerd 1990). However, disclosures of CSR can not only reduce the average cost of equity (Chang, Khanna and Palepu 2000; Panaretou, Shackleton and Taylor 2012) and debt capital (Lang and Lundholm 1996), but also increase share liquidity (Brickley, Coles and Terry 1994; Linck, Netter and Yang 2008), all of which are crucial in upholding resource allocation efficiency in the share market (McGuire, Sundgren and Schneeweis 1988). Therefore, there is a positive correlation between CSR and firm value. As business risk negatively affects forecasting and planning activities (Brigham and Gapenski 1996; Sharpe and Sherrerd 1990), poor financial outcomes in firm value and share price can occur (Bloom and Milkovich 1998; Orlitzky and Benjamin 2001). Thus, an effective risk management plan is an important part of a firm's responsibilities.

Effective risk management, which is viewed as an essential driving force in business and entrepreneurship, is not employed to eliminate risk taking but rather to identify unnecessary risks in order to avoid firm bankruptcy (OECD 2014).[9] For instance, a firm that provides greater information about its operations than mandated by government regulation can '… *reduce the information risk that investors assign to our stock…*' (Graham, Harvey and Rajgopal 2005, p. 57). Information quality therefore can be identified as a factor of perceived risk, that is, a specific kind of uncertainty perceived by investors (Nicolaou and McKnight 2006). Since shareholders are at an informational disadvantage relative to institutions, greater firm disclosure can reduce information asymmetry among stakeholders (e.g., institutional investors) (Balakrishnan et al. 2014). Hence the greater the information precision, or information quality, the better a firm's disclosure credibility (Mercer 2004). Conversely, a firm's non-disclosure, whether it reflects managerial choices or lack of data (Hribar 2004), creates uncertainty about the firm's financial condition for investors (Lee and Masulis 2009). The accounting impact of this is that it lowers demand for the firm's new equity capital and ultimately increases

[9] It refers to fiscal risks, which include macroeconomic aspects (i.e., economy activity, interest rates, exchange rates, terms of trade and contingent liabilities) of probable events for which firms may be called upon to honour explicit or implicit guarantees and assurances. These events are typically associated with financial default, various legal contracts, natural disaster and other environmental damage.

their underwriting costs and risk (Lee and Masulis 2009). As Foster (2003, p. 1) argued, '*... more information always equates to less uncertainty, and people pay more for certainty. In the context of financial information, the end result is that better disclosure results in a lower cost of capital*'.

Thus, a firm with high quality disclosure leads to share price efficiency and more efficient managerial investment or production decisions (Fishman and Hagerty 1989; Lambert, Leuz and Verrecchia 2007). Furthermore, greater disclosure by firms tends to reduce their cost of equity capital and increase their liquidity (Balakrishnan et al. 2014; Botosan 1997; Graham, Harvey and Rajgopal 2005; Verrecchia 2001). Previous studies have found a positive relationship between the information quality of the firm's disclosure and the share price (Botosan and Plumlee 2002; Gelb and Zarowin 2002; Healy, Hutton and Palepu 1999; Leuz and Verrecchia 2000). From an investment perspective, informed investors can combine the firm's improved public information disclosure with their private information to gain greater information benefits (Kim and Verrecchia 1997; Lundholm 1991; Verrecchia 2001). However, it must be noted that such disclosures will also be observable by the firm's current and potential rivals, aiding them in their competition with the disclosing firm. Thus, managers face a trade-off between the benefit of increasing information quality (e.g., include proprietary information to reduce information asymmetry) for potential market participation against the costs of aiding rivals (Ellis, Fee and Thomas 2012; Hayes and Lundholm 1996).

Given the importance of the firm's disclosure credibility,[10] the issue of information asymmetry is widely recognised as a crucial consideration in the disciplines of accounting, finance, organisational behaviour, and marketing (Kirmani and Rao 2000). Some prior studies have examined the negative effects of information asymmetry in financial markets (Aman and Miyazaki 2009; Dierkens 1991; McLaughlin, Safieddine and Vasudevan 2000). However, other studies such as Berger et al. (2005) and Zhao (2004) found that information asymmetry can be useful in assisting the firm's management to reduce the negative effects of business risk, including bankruptcy cost

---

[10] The firm's disclosure credibility is defined as '... *investors' perceptions of the believability of a particular disclosure*' (Mercer 2004, p. 186).

and cash flow variability. A company's firm value may represent an opportunity for managers to act in the firm's self-interest using private information. Hence, greater frequency of disclosures encourages the informed trader to acquire private information, which ultimately increases information asymmetry between agents and shareholders, leading to conflicts of interest (Fu, Kraft and Zhang 2012; Martins and Paulo 2014). In order to reduce the likelihood that managers, acting in their own self-interest, take decisions that deviate from maximising firm value, CG mechanisms may impact on how annual firm value is disclosed by a firm to its shareholders. At the same time, when corporate social performance (CSP) is an additional disclosure, together with annual firm value, information asymmetry decreases (Daily and Dalton 1994; Van Beurden and Gössling 2008). McWilliams and Siegel (2001) emphasise the importance of information asymmetry in the CSR context. Specifically, they state that stakeholders have difficulty in determining whether a firm's business meets their moral standards and laws for social and environmental responsibilities. This is due to information asymmetry regarding the internal operations of a firm (Rodriguez et al. 2006), where many firms internally incorporate CSR activities within their information evaluation processes (Knight 1998; Reverte 2009).[11]

Clearly, the role of CG mechanisms and CSR engagement can play an important role in a firm's information quality through reducing information asymmetry problems and improving both firm value and shareholder value (Elbadry, Gounopoulos and Skinner 2015). Thus, the relationship between CG mechanisms, CSR and information asymmetry is worthy of empirical study (Jiang, Habib and Hu 2011). Although prior studies have assessed the relationship between firm value and information asymmetry (Aaker and Jacobson 1994; Klein, O'Brien and Peters 2002), CG and information asymmetry (Jiang, Habib and Hu 2011; Kanagaretnam, Lobo and Whalen 2007), and CSR and information asymmetry (Feddersen and Gilligan 2001; McWilliams, Siegel and Wright 2006; Siegel and Vitaliano 2007), the vast majority of CSR and firm value studies do not specifically account for the impact that information quality (i.e., information asymmetry) has on the relationship between CSR and firm value (Cormier

[11] For example, a firm that publishes their CSR reports via annual reports could be viewed as a good corporate citizen. However some stakeholders (e.g., consumers) may perceive that the CSR report could provide bias information since the report is filtered through the executive managers before it is released to the public.

et al. 2009; Hung, Shi and Wang 2013), especially in the context of developing countries.

In recent studies examining CSR, non-accounting disclosure has received the most attention (Fifka 2013; Mathews 1993). Single non-accounting disclosures such as the CSR disclosure index (CDI) consider many aspects of a firm when examining the dimensions of CSR, such as: (i) customers; (ii) the local community; (iii) environment protection; (iv) employees; (v) quality of product; and (vi) human rights (Jo and Harjoto 2011; McGuire, Sundgren and Schneeweis 1988). However, another useful approach in measuring the value of CSR that can be built into both accounting and non-accounting disclosures is known as key performance indicators (KPIs) and CSR value-added (CVA) as proposed by Weber (2008). These two measurements encompasses four areas of CSR business benefits: (i) customer attraction and retention; (ii) employee motivation and retention; (iii) employer attractiveness; and (iv) cash flow.

The present study will draw from the above evidence and combine the CSR disclosure index, KPIs and CVA in order to provide a more comprehensive measure of CSR to evaluate a firm’s CSR engagement. This approach provides an economic perspective in evaluating CSR engagement. Consequently, CSR engagement is expected to not only meet the legal obligations of a firm, but also to drive economic benefits and various types of competitive advantage for the firm, as well as more generally to promote economic growth.

Despite CG and CSR significantly influencing firms in terms of maximising profit and enhancing economic performance, empirical studies focusing on CG, CSR and firm value in developing countries, including Indonesia, are still limited (Muller and Kolk 2009; Mustaruddin, Norhayah and Rusnah 2011). Although the discussion of CSR and information quality through reducing information asymmetry has occurred since the early 1970s, a limited number of studies have examined the impact information quality could have on the relationship between CSR and firm value (Cho, Lee and Pfeiffer Jr 2013; Cormier et al. 2009). Furthermore, the inclusion of information quality to analyse the relationship between CG, CSR and firm value has, to the best knowledge of the researcher, never been conducted in developing countries.

1.2 Definition of Key Terms

1.2.1 Corporate Governance

Although definitions for CG vary, this study adopts the definitions espoused by Claessens (2006, p. 94) and Rezaee (2009, p. 16), respectively:

> The relationship between shareholders, creditors, and corporations: between financial markets, institutions and corporations; and between employees and corporations. Corporate governance would also encompass the issues of corporate social responsibility, including such as aspects as dealings of the firm with respect to culture and the environment.

> The process affected by a set of legislative, regulatory, legal, market mechanisms, listing standards, best practices, and efforts of all corporate governance participants, including the company directors, legal counsel, and financial advisors, which creates a system of checks and balances with the goal of creating and enhancing enduring and sustainable shareholder value, while protecting the interest of other stakeholders.

Following this, the present research's use of the term CG encompasses two main areas of CG. The first is maximising firm value and protecting shareholder interests. The second is the firm's systems of accountability (Farrar 2008; Iskander and Chamlou 2000; Rezaee 2009). From an operational perspective, these definitions confirm that firms can maximise value for the long term by discharging their accountability to stakeholders and optimising their CG systems (Solomon 2010).

1.2.2 Corporate Social Responsibility

Although definitions of CSR vary, many studies suggest that it generally refers to the fact that firms need to go above and beyond legal requirements and firm interests to serve the community, environment and its inhabitants (Cui, Jo and Na 2016; Ioannou and Serafeim 2015; Margolis and Walsh 2003; Orlitzky, Schmidt and Rynes 2003). Although Visser (2008), argues that developing countries place a lower priority on 'legal responsibility', previous Indonesian CSR studies have defined CSR as going above and beyond legal requirements (Afiff and Anantadjaya 2013; Edwin 2008; Rosser and Edwin 2010). Consequently, the above definition is adopted by this study, which views CSR as a sound business practice that benefits communities and the natural environment while honouring ethical values. Accordingly, CSR is measured by items that are beyond legal requirements but also reflect accepted standards in annual reports. This has been used in previous CSR studies.[12]

According to Weber (2008), CSR management is closely associated to *corporate sustainability management*, which identifies the economic, environment and community as crucial factors of business management. Thus, corporate sustainability management integrates three sustainability factors into business management with a focus on the firm's sustainable long-term operations. As a sub-area of corporate sustainability (Weber 2008), CSR terms can also include CSR engagement, CSR activities, CSR investment, CSR practices, CSR performance, and CSR disclosure.

1.2.3 Key Definition of the Research

Table 1.1. below provides definitions of key concepts utilised throughout the present research.

Table 1. 1 Key Definition of the Research

Variable	Description
CG	Formal and informal relations involving the firms and their impact on society, which covers two main focus areas: (i) maximising shareholder value and protecting shareholder interests; and (ii) firm systems accountability (Farrar 2008; Iskander and Chamlou 2000; Rezaee 2009; Keasey, Thompson and Wright 1997).
Independent directors	An independent director as a director elected by shareholders who is not affiliated with the firm's management (Fama 1980; Fama and Jensen 1983b; Jo and Harjoto 2012).
Ownership concentration	A shareholder owns 5 percent or more of the votes (Cronqvist and Nilsson 2003; Li, et al. 2006; Thomsen, Pedersen and Kvist 2006).
Information quality	The level of information that should be addressed by recipients, which generally cover data quality factors such as accuracy, timeliness, precision, reliability, currency, completeness, and relevancy (Wang and Strong 1996).
Information asymmetry	An information problem that exists in every relationship between parties that have information differences and conflicting interests (Akerlof 1995; Brown and Hillegeist 2007).
CSR	A concept whereby firms need to go above and beyond legal requirements and firm interests to serve the community, environment and its inhabitants (Cui, Jo and Na 2016; Ioannou

[12] Section 4.9.4 identifies aspects of the CSR measurement that go beyond legal requirements.

Variable	Description
	and Serafeim 2015; Margolis and Walsh 2003; Orlitzky, Schmidt and Rynes 2003).
CSR engagement	The system in which the firm's managers analyse CSR-related activities, manage resources to involve these kind activities, and use the knowledge acquired from these kind activities for economic benefits (Tang, et al. 2012).
CSR activities	Activities which demonstrate the inclusion of environmental and community aspects in the firm's business operation and communication with various stakeholder groups (Pedersen 2006).
CSR investment	The firm's investment focusing on social welfare (McWilliam and Siegel 2001; Godos-Diez et al 2011).
CSR performance	The business firm's configuration of making CSR applicable and focusing it into the practice (Maron 2006).
CSR disclosure	The information that a firm disclose about assessing the social and environmental impact of firm operations, measuring effectiveness of CSR activities and its relationship with its stakeholders by means of relevant communication links (Campbell 2004; Gray et al. 2001; Parker 1986).
Firm value	The firm's expenditure and revenue over different periods reflecting the market value of business (i.e., accounting and market based measurements). It is a sum of claims made by all claimants: creditors and shareholders (Saeed 2011; Moyer, McGuigan and Rao 2015).
Firm performance	The process wherein the firm manages its performance to fulfil the firm strategies and objectives (Bititci, Carrie and McDevitt 1997)
Shareholder wealth[13]	The present value of the expected future return to shareholders of the firm, which can be formed into divided payments and /or the process of stock sales (Moyer, McGuigan and Rao 2015).
Shareholders	An individual and/or an institution owns some shares in the firm and therefore have right to receive dividends and to control on how the firm's business is operated.
Stakeholders	A person, group or organisation that has interest or concern in organisation (Freeman 1984).

1.3 Research Problem

Although CG and CSR have an important role in supporting listed firms and Indonesian economic development, the implementation of CG and CSR is still weak in comparison to neighbouring developing countries (Asian Sustainability Rating ASR 2010; Falck and Heblich 2007; RobecoSAM 2014). This is because CSR engagement has not been

[13] Although firm value and shareholder wealth are similar as evidenced by their focus on market value, shareholder wealth reflects a long-term outlook.

viewed as the type of investment that is profitable for Indonesian listed firms (Haniffa and Cooke 2005). Thus, there is a lack of awareness and understanding about the important role that CSR can have on firm value. Many studies on CG and CSR have been undertaken in developed countries, but few have been undertaken in developing countries, including Indonesia (Muller and Kolk 2009; Mustaruddin, Norhayah and Rusnah 2011). In addition, most of the studies have employed econometric modelling focusing on non-accounting proxies to examine CSR activities (Fifka 2013; Mathews 1993), with only a few attempting to integrate both accounting and non-accounting proxies to examine CSR in developing countries. Furthermore, there are also limited studies that assist managers of firms in evaluating CSR engagement (Weber 2008), while also examining the influence that CSR engagement has on firm value through the role of information quality. Given this, the proposed study will examine the impact of CG and CSR on firm value in Indonesian listed firms, while also assessing whether information quality (i.e., information asymmetry) affects the relationship between CSR and firm value.

Consequently, the research problem for this study is:

- To utilise a comprehensive CSR measurement to assess whether CSR engagement, as impacted upon by CG, leads to better information quality and positively impacts the value of Indonesian listed firms.

1.4 Aims of the Research

The specific research questions arising from the research problem are:

RQ1: Do CG mechanisms impact the level of CSR engagement?

RQ2: Does information quality affect the relationship between CSR and firm value?

RQ3: Does a comprehensive measure of CSR (i.e., accounting and non-accounting proxies) provide a more appropriate analysis of CSR and firm value?

The research objectives pursued in order to answer the research questions are:

1. Measure the impact of CG and CSR on the value of listed firms in Indonesia, as well as the impact of information quality on the relationship between CSR and firm value.

To achieve this, the present research will analyse the impact of CG mechanisms on a firm's CSR engagement. This will be followed by an assessment of the role of CSR in increasing information quality (i.e., reducing information asymmetry) and its impact on firm value.

2. Employ a more comprehensive measure of CSR to analyse CSR engagement within a developing country context.

To achieve this, the present research will use both accounting and non-accounting proxies to produce a more comprehensive CSR measurement suited for Indonesian listed firms, which is the study population. The measure will also provide an economic perspective in evaluating CSR engagement.

The first objective will elicit information about which CG mechanisms affect the level of CSR performance. It is expected that this will provide information that allows the development of recommendations for management on how CSR engagement can help reduce information asymmetry, and its corresponding impact on the firm value of Indonesian listed firms. The second objective will assess whether the proposed CSR measure to be adopted in this study assists managers to more appropriately evaluate their firm's CSR engagement by incorporating an economic perspective in the evaluation.

1.5 Overview of the Research Method

In order to understand the development of CG and CSR engagement within Indonesian firms, this study will use a quantitative approach. Specifically, simultaneous equation models will be employed to investigate the impact that CG, CSR and information quality have on firm value on Indonesian listed firms. As Al-Tuwaijri, Christensen and Hughes (2004) argue, this approach may provide a more coherent explanation regarding relationships between variables than those in previous studies using pair-wise tests of association. The use of simultaneous equation models to model relationships between both CG and firm value, such as ordinary least squares (OLS) and two stage least squares (2SLS), has been used in previous studies (Agrawal and Knoeber 1996; Al-Tuwaijri, Christensen and Hughes 2004; Bathala, Moon and Rao 1994; Bhagat and

Bolton 2008; Black, Jang and Kim 2006; Chung and Pruitt 1996). This approach accounts for potential endogeneity which has been an issue with CG and CSR studies. Another benefit of this approach is that this method provides a substitution effect in CG and CSR studies (Jo and Harjoto 2011). This helps avoid the potential for missing variable bias and controls in possible interrelationships between CG mechanisms and CSR. Therefore, following Cui, Jo and Na (2016), Harjoto and Jo (2015), Jo and Harjoto (2012), Al-Tuwaijri, Christensen and Hughes (2004), and Agrawal and Knoeber (1996), this study employs simultaneous equation models with OLS and 2SLS analyses to capture the interdependence of CG mechanisms, CSR, information quality and firm value.

Seven years of historical data (2007-2013) will be used as the observation study period. The National Code of Corporate Governance was created in 2001 (Wibowo 2008) and later revised in 2006, prior to establishing a law that made CSR a mandatory requirement in 2007 (Waagstein 2011). This observation period will enable this study to adequately review the implementation effects of the latest CG code and CSR law. Data from secondary sources, including the Indonesian stock exchange (IDX) fact book, annual financial reports, share prices, Indonesian capital market directory (ICMD) and other data sources (e.g., Orbis-Bureau van Dijk and DataStream databases), are used to examine the relationships between CG, CSR, information quality and firm value.

1.6 Statement of Significance

As demonstrated earlier in this chapter, previous studies that have consistently cited CG and CSR as essential aspects in increasing firm value were undertaken primarily for developed countries, with limited studies on developing countries, especially in Indonesia (Korathotage 2012; Saleh, Zulkifli and Muhamad 2010; Arli and Tjiptono 2014). As the fourth most populous nation in the world and the largest country in the Southeast Asian continent with 259 million people (Population Reference Bureau PRB 2016), foreign direct investment (FDI) of Indonesia has increased 19.2% year on year to Indonesian Rupiah (IDR) 365.9 trillion in 2015.[14] However, although the Indonesian economy has been able to attract outside investment and to compete in the global market by showing a significant growth in FDI, Indonesia still faces major challenges in

[14] IDR 365.9 trillion is equivalent to US$ 29.27 billion (NB:IDR 12,500 per US$ at time of writing).

business practices (e.g., tax evasion, bribery/corruption, nepotism, cronyism, and lack of transparency). These issues have caused widespread cynicism and complicity in a culture used to official dishonesty (Arli and Tjiptono 2014) and represents an obstacle in encouraging firms to adopt fiduciary and moral responsibilities toward stakeholders based on transparency, accountability, fairness and honesty (Van den Berghe and Louche 2005). The present research can help address this issue by highlighting areas of improvement and outlining recommendations for future action.

Although the situation is not ideal, several Indonesian have shown improvements in CG and CSR through firm financial disclosure, minority shareholder protection, anti-corruption programs and closer adherence to CG and CSR guidelines (ACGA 2012; Achda 2006). However, the implementation of CG and CSR has failed to provide adequate satisfaction to stakeholders due to a lack of integration between the two concepts (Kamal 2010; Uriarte 2008; Waagstein 2011).

The aforementioned limited CSR studies in developing countries such as Indonesia have resulted in a significant gap between foundation theories and practical applicability, especially in relation to CG and CSR issues. Specifically, the integration of the relationship between CG and CSR in a developing country such as Indonesia has not been addressed in the literature. This study will fill the literature gap by examining this relationship from accounting and non-accounting perspectives, along with examining the impact that information quality has on the relationship between CSR and firm value, using simultaneous equation models.

Furthermore, by analysing CSR engagement via KPIs, CVA and CDI, a more comprehensive measurement tool to examine the value of CSR is utilised. This has not been used previously and constitutes a contribution to the literature.

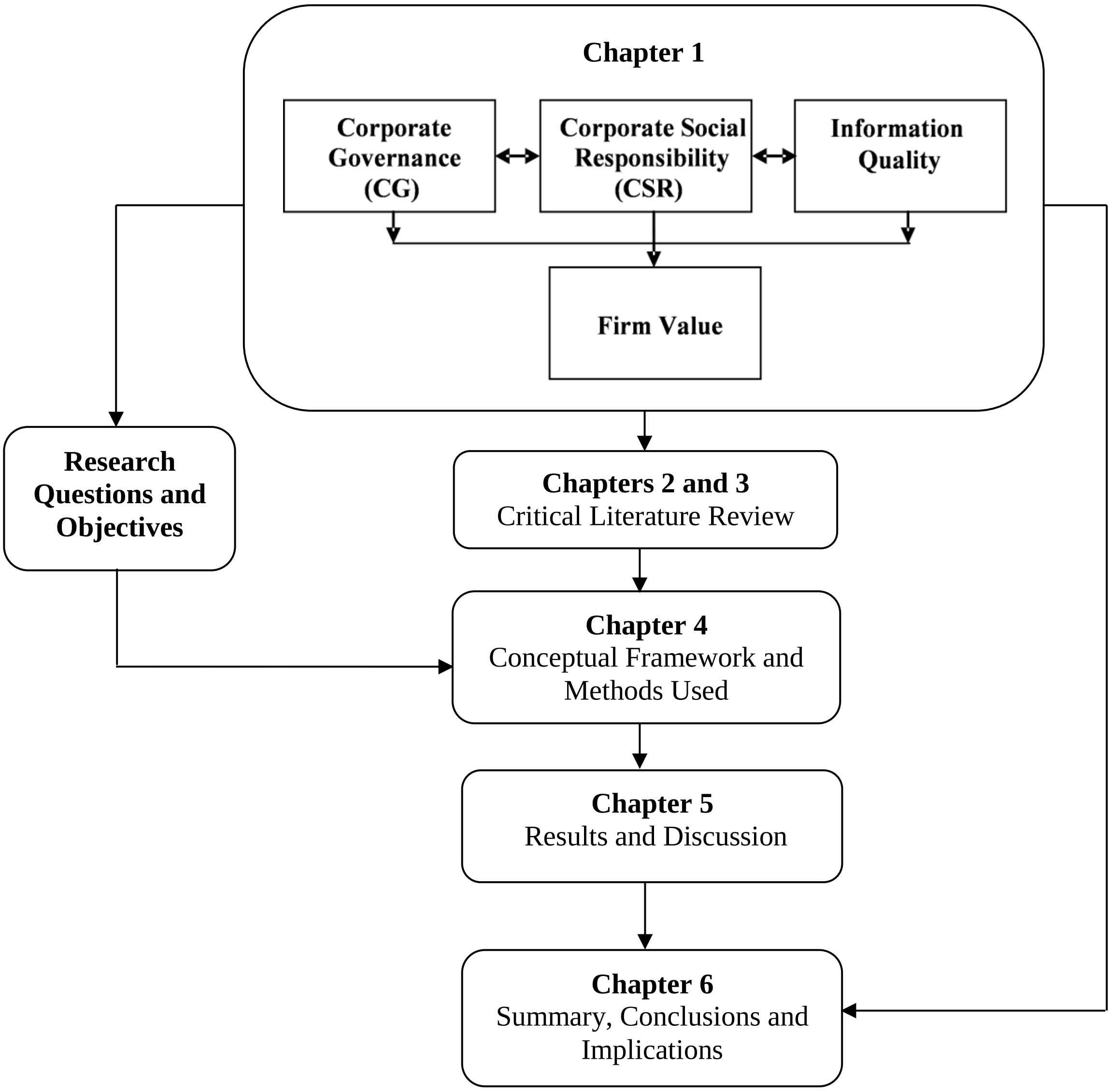
The roles of CG and CSR are identified as challenges faced by developing countries. Hence, research related to resolving them has great importance (Crowther and Aras 2009; Visser 2008). The new insights derived from this study will help foster greater awareness and understanding of the link between CG, CSR for the study population.

1.7 Organisation of the Thesis

In order to provide an outline of the thesis construct, the six chapters of this thesis are presented in Figure 1.1 below. This chapter gives an overview of CG, CSR, information quality and firm value for Indonesian listed firms, and sets out some of the issues faced by Indonesian firms as they come to terms with mandatory CSR. The research problem is identified and specific research questions and objectives are delineated.

Chapters 2 and 3 provide an in-depth review of CG and CSR issues relating to the thesis topic. In Chapter 4, the conceptual framework for this research is developed as are the hypotheses for the research. This chapter also outlines the data collected, and the methods of analysis are set out in detail. The results of the analysis are discussed in Chapter 5. Chapter 6 consists of a summary of the research undertaken for this thesis, its implications and suggestions for further research.

Figure 1.1 Organisation of the Thesis



> Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. (Cadbury 2000, cited in Paulet and Talamo 2011, p. 237)

Chapter 2: Literature Review: Corporate Governance Theories and Mechanisms

2.1 Introduction

The previous chapter introduced the subject matter of this thesis and articulated its objectives. The current chapter discusses the theoretical issues and reviews the literature to examine CG theories and mechanisms (e.g., board size, independent directors and ownership structure) generally and within an Indonesian context.

The organisation of this chapter is as follows. Initially, a brief review of CG definitions is presented, prior to settling on an operational term to be adopted for this study. Theories of CG that have underpinned studies in good corporate governance (GCG) practices that have contributed to firm value are then reviewed. The remainder of the chapter focuses on CG mechanisms with a particular emphasis on the structure and composition of board directors, the Indonesian board system (i.e., two-tier boards) and ownership structure (i.e., managerial and public ownerships) with emphasis on their relationship with firm value.

2.2 Defining Corporate Governance

Although an array of definitions of CG exists in the literature (Du Plessis et al. 2010; Keasey, Thompson and Wright 2005; Low 2002; Mitton 2002; Mülbert 2009; OECD 2004), there is no generally accepted definition. As Bidar (2011) points out, the definitions are typically influenced by the aims of the studies involved. For example, as the pioneer in CG, the Cadbury Report on Financial Aspects of Corporate Governance defined CG as '… *the system by which companies are directed and controlled*' (Cadbury 1992, para. 2.5). However, Solomon (2010) argued that this definition is too narrow to appropriately describe the aims and mechanisms of CG.

Parkinson (1995) proposed a CG definition from a financial perspective by involving both management and shareholders, where CG is the process of supervision and control intended to ensure that the firm's management operates in shareholders' interests. Low (2002) proposed that CG is the way that firms are managed and managers are governed, and the role of boards of directors is to demonstrate an accountability that leads to increased shareholder value. However, as Solomon (2010) argued, this CG definition is quite narrow, since CG is limited to the relationship between the firm's managers as agents and its shareholders as principles. This perspective shows the traditional finance paradigm that is expressed in agency theory.

Solomon (2010) argued that CG should be seen as a network of relationships, not only between the firm and shareholders, but also between the firm and other stakeholders, including employees, customers, suppliers and bondholders. This definition is broader and more inclusive. Solomon's view is closely aligned with stakeholder theory. In recent years this theory has gradually garnered greater attention, especially as an issue of accountability and corporate social responsibility (CSR).

Given the aims of this research, an operational CG definition needs to encompass the entire scope of formal and informal relations involving the firms and their impact on society (Keasey, Thompson and Wright 1997). Definitions of CG which reflect this are provided by Claessens (2006, p. 94) and Rezaee (2009, p. 30), respectively:

> The relationship between shareholders, creditors, and corporations: between financial markets, institutions and corporations; and between employees and corporations. Corporate governance would also encompass the issues of corporate social responsibility, including such as aspects as dealings of the firm with respect to culture and the environment.

> The process affected by a set of legislative, regulatory, legal, market mechanisms, listing standards, best practices, and efforts of all corporate governance participants, including the company directors, legal counsel, and financial advisors, which creates a system of checks and balances with the goal of creating and enhancing enduring and sustainable shareholder value, while protecting the interest of other stakeholders.

As stated in Chapter 1, these definitions incorporate the two main focus areas of CG: (i) maximising shareholder value and protecting shareholder interests; and (ii) firm systems accountability (Farrar 2008; Iskander and Chamlou 2000; Rezaee 2009).

Under this scenario, firms can maximise long-term value by discharging their accountability to stakeholders and optimising their CG systems (Solomon 2010). With respect to firm systems, as Ghofar and Islam (2014) and Rezaee (2009) point out, the implementation of CG varies according to the firm, region and country, and is influenced by the people involved in firm management, legal and economic systems, market behaviour and culture. For example, Klapper and Love (2004) examined 25 emerging market countries and found that the level of CG performance of firms strongly correlates with a country's level of investor protection. Thus, internal and external mechanisms impact CG (Solomon 2010). Internal mechanisms such as an independent board and an audit committee can be used to both monitor and control management behaviours and balance management and shareholder interests (Daily, Dalton and Cannella 2003; Rezaee 2009). However, when internal managerial mechanisms have failed, market-based external mechanisms must be activated (Daily, Dalton and Cannella 2003).

From an operational perspective, this study adopts a broader concept of CG reflected in the CG mechanisms of board size, independent directors and ownership structure. Not surprisingly, the various definitions of CG are attributable to a wide variety of corporate governance theories. These theories are reviewed below in order to provide a theoretical framework for CG in order to enhance the understanding of those CG mechanisms that best serve organisational functioning in order to maximise firm value.

2.3 Corporate Governance Theories

Corporate governance includes the structure of rights and responsibilities amongst all parties that have a stake within a firm (Aoki 2001). To be effective, CG mechanisms have to respect the rights and interests of all stakeholders (Aguilera et al. 2008). In this situation, the theory of CG can be understood in terms of either agency theory (Berle and Means 1932), transaction cost economics (TCE) theory (Williamson 1978, 1985, 1993), stewardship theory (Barney 1990; Donaldson 1990), contingency theory (Donaldson 2001) or resource dependence theory (RDT) (Thompson, 1967; Pfeffer and

Salancik, 1978).[15] These five theories are reviewed below to determine their appropriateness for the study's aims within the Indonesian context.

2.3.1 Agency Theory

Agency theory posits that firms focus on the personal separation of owners and controllers, together with the legal separation of ownership rights and managerial decision rights. In pioneering agency theory for CG, Berle and Means (1932) argued that the agency relationship is viewed as a contract between the principal (e.g., owner) who grants the agent (e.g., manager) via the board to make decisions and take responsibility for these decisions (Jensen and Meckling 1976). Although Berle and Means were writing in a different business context, where CSR although not recognised as such was an inherent expectation, nonetheless the firm was seen as a nexus of contracts in which contract structures separated the ratification and monitoring of decisions from the business strategy and its implementation (Fama 1980).

According to Eisenhardt (1989a), agency problems can be influenced by: (i) conflicting interests between the principal and the agent; and (ii) the principal being unable to determine if the agent has behaved appropriately. However, empirical studies have identified four main areas as to how agency conflict can arise. They are: (i) moral hazard; (ii) earning retention[16]; (iii) time horizon; and (iv) managerial risk aversion (Jensen and Meckling 1976).

Moral hazard conflict can occur when managers tend to choose investment forms suited to their personal skills which can increase their own value and thus increase the cost of replacing her/him. Consequently, this allows managers to gain a high degree of remuneration compensation from their firms (Shleifer and Vishny 1989). Such moral hazard conflicts are frequently found in multinational firms (Jensen 1993) where large cash flows are harder to control (Jensen 1986a) and where external auditing and complexity of contracts expand exponentially, leading to increased agency costs.

---

[15] Stakeholder theory is reviewed as part of the CSR literature review in Chapter 3.

[16] The term earning retention also refers to 'earnings management' which is a term that has been employed in some CG studies. For example, Gumanti and Prasetiawati (2012) and Roychowdhury (2006).

Earning retention conflicts arise when compensation schemes have an undue importance for management decisions (Brennan 1995). For instance, if management is rewarded for firm size, it will focus on firm growth rather than increasing shareholder returns (Conyon and Murphy 2000; Jensen and Murphy 1990). This trend towards retained earnings is made possible when the potential investment of a firm is low (Jensen 1986a), as this limits the need for outside financing, since managers can use internal funds for investing in projects, thus reducing any form of external control on their operations (Easterbrook 1984).

Time horizon conflicts arise between shareholders and managers over the issue of cash flow timings. For the most part, shareholders pay attention to future cash flows of the firm , while managers are more concerned as to whether the firm's immediate cash flows are correlated to their individual gain. This dichotomy leads to a bias in favour of short-term accounting return projects at the expense of long-term projects (Dechow and Sloan 1991). Given the emphasis on cash flows, there is an increased likelihood that managers will, prior to leaving their position, employ accounting procedures to manipulate earnings to increase their bonus compensation (Healy 1985).

Managerial risk aversion conflicts arise because portfolio diversification can constrain managerial income. Financial investors hope to spread their control over managers with minimum cost, while managers hope to increase their individual control of the firm. Typically, the majority of directors are connected strongly to their firms, especially when performances are strong, which can lead to firm risk reduction in the financial market (Denis 2001) by encouraging diversifying investments and invalidating investing decision-making when the investment risk is high (Jensen 1986a). When the risks associated with investments are manifest, this increases the possibility of bankruptcy and can also harm a manager's reputation. Hence, the agency problem can potentially impact the financial policy of a firm, since increased debt can reduce managerial risk aversion (Jensen 1986a) and increase tax shields (Haugen and Senbet 1986). Thus, the existence of this risk may force managers to choose financing by equity instead of financing by debt to avoid bankruptcy and failure (Brennan 1995). Even so, as Demsetz and Lehn (1985) state, it is still difficult to replace a manager.

To reduce agency conflicts, firms tend to develop CG mechanisms based on the economic features of the business at hand (Agrawal and Knoeber 1996). Selecting effective CG mechanisms positively impacts on firm value and shareholder wealth,[17] leading to a weak correlation between the individual mechanism of managers and firm value (Furtado and Karan 1990). A variety of CG mechanisms (external and internal) are reviewed below.

Firstly, the *managerial labour market* can be used as an effective external mechanism to force a firm's managers to act on behalf of shareholder interests and to control the self-serving behaviour of top executives. In CG studies, poor managerial performance leads to managerial replacement when the poor performance of a manager is sustained over the long-term (Weisbach 1988). Furthermore, managerial labour markets tend to use previous manager performances to determine compensation schemes (Gilson 1989). Thus, as Fama (1980) stated, the process of revising salary via the market place ensures that the manager serves the interests of shareholders. However, as Jensen and Murphy (1990) and Kaplan and Reishus (1990) state, although managerial labour markets encourage managers to maximise shareholder value decisions, this may only be effective in disciplining poorly performing managers.

Secondly, effective *board of directors (BoDs)* can be used to monitor and control managerial behaviour, since expert BoDs have appropriate skill qualifications and valuable specific information about the firm's operations (Fama and Jensen 1983b). This internal CG mechanism is further discussed in Section 2.6.

Thirdly, *corporate financial policy* can reduce agency conflicts, since free cash flows are controlled by managers and have direct implications for a firm's financial structure. The debts in the financial structure can be used as a monitoring mechanism on manager actions, where the manager is forced to pay out the debts contractually rather than cutting down dividends which would be the case where the finance is derived primarily through equity(Jensen 1986a). This condition encourages a firm's manager to provide

[17] Shareholder wealth is defined as the present value of the expected future return to shareholders of the firm, which can be formed into divided payments and /or the process of stock sales (Moyer, McGuigan and Rao 2015).

the conditions for good firm value and adopt an effective strategy by bonding their personal interest to avoid bankruptcy (Easterbrook 1984). In this way, debts can be used as a function to discipline a firm's performance. In an optimal capital situation, equality between managerial costs and benefits of having debts is important in order to maximise firm value (Stulz 1990) and an inefficient manager's decision in using free cash flows can create problems with financial investment and increase the demands of harbouring debts (Harris and Raviv 1991).

Fourthly, *blockholders and institutional investors* (i.e., ownership structure) can be an effective CG mechanism. As McColgan (2001) points out, ordinary shareholders may not have the time, skill or interest to monitor managerial activities, in part due to the fact they own a small portion of the total shares. Furthermore, those that do have an interest might not have the access to information required to monitor managerial activities. The existence of blockholders (i.e., owners of a large number of shares), as well as institutional investors, can therefore help overcome this issue since they should have the necessary skills, time and greater financial incentive to closely monitor management (McColgan 2001). This CG internal mechanism is further discussed in Section 2.8.1.

Fifthly, the *market as a corporate control* suggests that takeovers tend to occur in response to fractured internal firm control systems during which misguided organisational policies waste resources, including substantial free cash flows. From a short-term perspective, firm control by markets can switch focus from monitoring a firm's assets to monitoring a manager's performance. An example of this mechanism is when a manager uses free cash flows for wealth-building investments which are designed to protect the manager from being fired (Safieddine and Titman 1999). The aim of any effective mechanism is to reduce and control the poor performance of managers and to achieve gains enabling a firm to keep an average position in the market compared with similar firms (Martin and McConnell 1991). In this sense, the market mechanism for firm control is at its most active in times of economic recession, where managers are encouraged to act professionally to keep their positions (Mikkelson and Partch 1997). However, this particular option is not common – and used only in the case of a really poorly performing manager – because of the high cost of applying such a mechanism (Denis and Kruse 2000; Jensen and Ruback 1983).

Sixthly, *managerial remuneration* is an incentive-based compensation scheme employed to encourage employees to undertake activities that facilitate achievement of the firm's objectives which increase firm value and enhance shareholder wealth (Banker et al. 1996, 2000; Flamholtz, Das and Tsui 1985; Gibbs et al. 2004; Jensen and Meckling 1976). Thus, shareholders can reduce moral hazard problems by developing incentive-based compensation schemes that play an important role in aligning the interest between shareholders and management (Baker, Jensen and Murphy 1988; Eisenhardt 1988, 1989a; Gibbs et al. 2004; McColgan 2001) and enhance a manager's performances to exert effort in increasing firm value (Chong and Eggleton 2007). However, the relationship between the extent of the reliance on the incentive compensation scheme and a manager's performance is moderated by the information asymmetry level between shareholders and managers. According to Chong and Eggleton (2007, p. 314):

> … a high reliance on incentive-based compensation schemes would be an appropriate motivational control tool to encourage subordinates (managers) to exert greater effort to enhance their performance when information asymmetry is high rather than when it is low.

Thus, the theory of separation between ownership and agent includes CG mechanisms that address the issues of agency conflicts caused by conflicting objectives between owners and managers, and the information asymmetry between owners and managers (Coase 1937; Fama and Jensen 1983a, 1983b; Jensen and Meckling 1976). As Eisenhardt (1989a) argued, the focus of agency theory is on achieving the most efficient contract governing the relationship between principals and agents. This goal is based on three key assumptions: (i) human assumptions: comprising self-interested, bounded rationality, and risk aversion; (ii) organisational assumptions: the interests of principals and agents may diverge; and (iii) informational assumptions: information as a valuable and purchasable commodity. Due to self-interest, managers tend to maximise their own position at the expense of firm shareholders (Watts and Zimmerman 1986). Agency theory posits that agents are motivated simply by self-interest, when '… *corporate behaviour in maximizing the welfare of the principal is not consistent with individual* *self-interest*' (Baiman 1990, p. 342). This understanding is based on the premise that '*… if both parties to the relationship are utility maximisers there is good reason to believe that the agent will not always act in the best interest of the principal*' (Jensen and Meckling 1976, p. 308). Some examples of conflicting interest include using firm resources for personal gain, and avoiding optimal risk investments while manipulating financial figures to optimise personal compensation. In attempting to avoid this situation, agency relationships often assume that a sound contract can be used as a good solution to reduce the differences of interest between contracting parties (Hart 1995).[18] However, Baiman (1990) emphasised that the contracting parties do not have unlimited 'computational ability' to acquire and process information. Hence, it is impossible to foresee all future possibilities that need to be included in a contract. For this reason, contracts alone may not be sufficient in the resolution of conflicts (Hart 1995). Baiman (1990) pointed out that differences in interest and incomplete contracts are the main factors in management failure to maximise the owner interests that ultimately create agency conflicts. For this reason, owners need to establish mechanisms for monitoring managerial activities and limiting any undesirable behaviour (Jensen and Meckling 1976) by implementing CG structures that help mitigate agency conflicts (Dey 2008).

An empirical study by Eisenhardt (1989a) examined past and future contributions within the management field to include business risk and information links. Business risk refers to risk or uncertainty arising with contracts between principals and agents. According to agency theory, information systems are intended to control agent opportunism, with good information systems to help boards control managers' behaviours in order to reduce performance-contingent pay. Further, when boards provide richer information, agents are more likely to engage in behaviours that are consistent with the stockholder's interest. Eisenhardt claimed that managerial behaviours can be measured by how often board meetings occurred, the tenure of board members, managerial and industry experience and the extent to which members represent ownership groups.

[18] Agency relationship is defined as the contract between the principal and agent to give authority to the agent to make business decisions and be responsible for such decisions (Jensen and Meckling 1976).

Typically, agency theory studies emphasise relationships between three key stakeholders in CG (i.e., shareholders, board members and management) that significantly impact on the roles and composition of the BoDs, independent directors and ownership structure (Jiang and Peng 2011; Prabowo 2010; Roche 2008). From an Indonesian context, Prabowo and Simpson (2011) analysed the relationships between board composition and firm value in Indonesian family-controlled firms. They found that: (i) independent leadership positively impacts firm value; (ii) a high proportion of independent directors has a weak impact on firm value; and (iii) concentrated ownership structure negatively impacts firm value. In a comparative study of eight Asian countries (Hong Kong, Malaysia, Singapore, the Philippines, South Korea, Thailand, Taiwan and Indonesia), Jiang and Peng (2011) examined the effects of family ownership and control on firm value to find that the legal and regulatory institutions governing shareholder protection significantly impact on these relationships in large firms. In countries with less developed institutions (e.g., Indonesia, the Philippines, South Korea and Thailand), having a family member as the chief executive officer (CEO) can significantly increase firm value, whereas having a pyramid structure significantly reduces firm value. Conversely, a pyramid structure significantly increases firm value in developed countries (e.g., Hong Kong, Singapore and Taiwan). Furthermore, as a less developed legal and regulatory institution, Indonesia is low in market capitalisation, market-to-book ratio, higher debt-to-asset ratio and firm value (Jiang and Peng 2011).

2.3.2 Transaction Cost Economics (TCE) Theory

Transaction cost economics (TCE) theory is focused on the governance of contractual relations between firms and outside partners that includes service suppliers and customers (Coase 1937; Williamson 1978, 1985). In this context, governance structures may be suited to managing transactions in a manner that ultimately minimises the costs of exchange (Williamson 1979). Since any business relationship has significant costs associated with transactions of exchange between parties, governance arrangements that allow the lowest transaction costs should prevail (Beccerra and Gupta 1999). As these costs primarily arise from the setup and running of governance structure and renegotiations arising from shifts in alignment, a firm’s main objective is to minimise such costs. Essentially, Williamson (1978, 1985) argues that theorists can ascertain a level of asset specificity for the transaction between two or more parties. For example, when the specificity of assets under exchange is high, the cost of market exchange is high. In this situation, a governance structure of 'hierarchy' may be efficient . In order to explain such relationships inside firms, Williamson (1981) developed TCE. He viewed firms as hierarchical structures that can be efficient in achieving good contractual relations between employer and employees (Williamson 1989). His hierarchical concept was strongly influenced by Chandler's (1977) idea of professionally managed firms, in which employees are regulated by purely authoritative relationships, which Williamson referred to as 'fiat'. However, Bowen and Jones (1986) argued that transaction cost could further be defined as the costs involved in negotiating, monitoring, and enforcing the exchanges between parties to transaction in order to measure transaction efficiency.

Transaction cost economics theory is based on three main assumptions: (i) bounded rationality; (ii) opportunities; and (iii) risk neutrality (Williamson 1985). According to Chiles and McMackin (1996), the first two assumptions have undergone much analysis, while the third, risk neutrality, has gone virtually unnoticed. Simmons, Winters and Patrick (2005) clarified bounded rationality as describing differences in information between contracting partners. However, because information is rare and costly, firms face bounded rationality due to their limited capacity for information processing. Bounded rationality refers to the impossibility of foreseeing all potential contingencies in a situation, particularly those that arise from opportunism. For this reason, it is not possible to design a contract that covers all contingencies prior to commitment (Frauendorf 2006). Such opportunism can occur when opportunities arise for taking advantage of situations that are detrimental to the contracted party in an agreement (Simmons, Winters and Patrick 2005). This kind of opportunism is why contracts exist and must not be left incomplete in the first place. However, the idea that unforeseen contingencies can be dealt with cooperatively with mutual benevolence is not realistic, because it does not take into account the phenomenon of opportunism (Nooteboom 1992; Williamson 1985). As bounded rationality and opportunism result in transaction costs from contracts being negotiated to reduce uncertainty, measures for cooperation need to be established and the exchange of activities and resources coordinated (Frauendorf 2006). Although this theory assumes that the firm is a nexus of contracts correlated with various aspects of production, the main problem is that it does not allow for the efficiency of transactions and the governance structures that carry out these transactions (Wieland 2005). As Williamson (1996, p. 397) explained, '… *a governance structure is thus usefully thought of as an institutional framework in which the integrity of a transaction or related set of transactions, is decided*'. Governance is understood as comprising formal and informal structures with rules for carrying out sound economic transactions.

Although TCE theory is broadly similar to agency theory, Kochhar (1996) classified five differences between them: (i) market characteristics; (ii) determination of relevant costs; (iii) the role of lenders; (iv) assumptions in governance properties; and (v) assets under governance. With market characteristics, TCE theory assumes that optimal contracts are difficult to achieve due to bounded rationality, whereas agency theory adopts the market efficiency assumption and seeks to find the optimal contract for the exchange. With respect to determination of relevant costs, TCE theory assumes that costs can be renegotiated after the contract has been established, and hence the emphasis is post-transaction (Barney and Ouchi 1986). Agency theory, on the other hand, focuses on the relevant contracting action before the incentive scheme is shown (Williamson 1990). In the case of the role of lenders, in agency theory debt is viewed as a potential CG mechanism in reducing agency cost, where prospective creditors are not willing to provide funds, especially when they assume that their investments are extremely risky (lacking safeguards), which ultimately increases costs for firms. Unlike its central importance in agency theory, it is merely incorporated into the wider TCE theory. For the assumptions in governance properties, both agency theory and TCE theory assign the same governance properties to debt, with all creditors possessing identical rights. However, as long as the firm can meet its obligations, creditors cannot interfere with managerial decisions, whereas shareholders as owners can continuously monitor and control managerial decisions of the firm. Thus, equity is viewed as a more important governance device than is debt. Thus, TCE theory can recognise the power differences between creditors and shareholders, whereas agency theory cannot. Finally, for assets under governance, agency theory views these transactions as profitable investment opportunities, since debt is not used, while in TCE theory, the use of both debt and equity is viewed as the preferred choice, even when the firm invests in profitable projects.

Empirical studies that have employed a transaction cost framework include Arifin (2006), Kleit (2001), Simmons, Winters and Patrick (2005), Steensma et al. (2000). An Indonesian study by Arifin (2006) analysed the transaction costs existing in upstream-downstream relations and reward mechanisms in watershed services. He found that non-government organisations (NGOs) play a crucial role in negotiation support systems since it focuses on developing multi-stakeholder strategies to minimise transaction costs and ensure conflict resolution among stakeholders in order to achieve sustainable resource management. In a survey of developed and developing countries (Australia, Indonesia, Mexico, Norway and Sweden), Steensma et al. (2000) found that in small-medium enterprises (SMEs) national culture can directly or indirectly influence the formation of technology alliances, with perceived technology uncertainty in alliance formation not being universal, but rather due to national culture.

2.3.3 Stewardship Theory

Stewardship theory states that management and board members in a firm may be motivated by aspects other than the desire for personal gain. This theory draws upon organisational psychology, where self-esteem, regardless of individual motivation or incentive, and fulfilment as proposed in Maslow's hierarchy of needs (Huitt 2004), significantly affect the firm's managerial decision-making (Donaldson and Davis 1991; Pande and Ansari 2014; Sundaramurthy and Lewis 2003). As Davis, Schoorman and Donaldson (1997, p. 25) argue, '… *a steward protects and maximises shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximised*'. Thus, stewards are intrinsically motivated (Wasserman 2006), autonomous (Davis, Schoorman and Donaldson 1997) and trusting (Hernandez 2008). By empowering executives and managers to act based on these key aspects (i.e., autonomy, trust, intrinsic motivation), stewardship theory claims that a firm's objectives will be maximised, including sales growth and profitability (Davis, Schoorman and Donaldson 1997; Pande and Ansari 2014). In addition, since inside directors understand the business better than outside directors, proponents of stewardship theory contend that superior corporate performance will occur because managers will naturally work to maximise profit for shareholders (Nicholson and Kiel 2007).[19] This view however is not held by all proponents of stewardship theory who identify a dilemma between a desire

[19] Nicholson and Kiel (2007) refers to firm value via return on assets (ROA).

to maximise firm value compared to meeting social standards of a firm. Thus, as Donaldson and Davis (1994) point out, part of stewardship theory lies in the ability of BoDs to access information and take a long-term view in the decision-making process (Donaldson and Davis 1994). This intrinsic motivation is in contrary to agency theory, thus monitoring a boards activities to impact firm value is unnecessary.

Although stewardship theory, like agency theory, seeks an alignment of the firm's executives with stakeholder interests, this theory is not able to appropriately explain the complex behaviour of the executives, especially in detecting whether executives tend to break trust or commit fraud and corruption (Martynov 2009). However, both agency and stewardship theories assume that the manager as an individual person is rarely perfectly self-serving or perfectly self-sacrificing (Albanese et al. 1997; Donaldson 1990; Martynov 2009). For example, fraudulent behaviour can be partly attributed to the board's lack of psychological independence from the firm's executives.[20] Although more prevalent in developed countries, directors tend to admire their corporate executives, and thus find it hard to penalise the latter even when the firm is underperforming. Given the notion of trust in stewardship theory, the lack of monitoring mechanisms – which does not occur under agency theory –can also constitute a tacit disregard of executives' fraudulent behaviour (Choo and Tan 2007).

Another stark contrast between agency theory and stewardship theory centres on CEO duality. Agency theorists insist on non-duality in order to enable greater scrutiny of managerial behaviour, which can lead to higher firm value (Millstein and Katsh 2003; Pande and Ansari 2014; Rechner and Dalton 1991), while stewardship theorists posit that separating the roles of CEO and chair can actually hinder the executive's autonomy in shaping and directing the firm's strategy. The resulting lack of authoritative decision-making can negatively impact on firm value (Corbetta and Salvato 2004; Davis, Schoorman and Donaldson 1997; Donaldson and Davis 1991).

[20] Psychological independence refers to the board's lack objectivity both affectively (e.g., directors can be blinded by their admiration for the executives' personal qualities) and cognitively (e.g., directors can be blinded by their belief in the firm executives' expertise) (Choo and Tan 2007).

The empirical tests of the relationship between CEO duality and firm value remain mixed and inconclusive (Braun and Sharma 2007; Brickley, Coles and Jarrell 1997; Chen et al. 2005; Coles, McWilliams and Sen 2001; Dalton et al. 1998; Dulewicz and Herbert 2004; Kang and Zardkoohi 2005; Peng, Zhang and Li 2007). Some studies support the role separation between CEO and chairman (Braun and Sharma 2007; Chen et al. 2005; Daily and Dalton 1994; He and Wang 2009), whereas others recommend combining these two roles as a good choice (Braun and Sharma 2007; Coles, McWilliams and Sen 2001; Quigley and Hambrick 2012). In addition, some studies have demonstrated a non-significant relationship between CEO duality and firm value (Al Farooque et al. 2007; Daily and Dalton 1997; Dalton et al. 1998; Dulewicz and Herbert 2004; Elsayed 2007).

In a comparative study, Ramdani and Witteloostuijn (2010) examined the effects of board independence and CEO duality on firm value in four Asian countries (Indonesia, Malaysia, South Korea and Thailand). They found that the effects could be different across the conditional quantiles of the distribution of firm value. For instance, CEO duality was found to be effective for average performing firms but not significant in enforcing the performance of under - and high-performing firms. Indonesia-specific studies by Gumanti and Prasetiawati (2012) and Murhadi (2009) found that CEO duality significantly influences earning retention practices in listed firms. That is, when listed firms have CEO duality, the practice of earnings management is extremely high largely due to a weak monitoring role. Thus, the aspect of CEO duality results in that person having undue influence on matters which are raised at meetings along with the nature of discussions in the boardroom. This condition results in greater CEO power over the BoCs which leads to greater motivation from CEOs to manage reported earnings.

In order to avoid financial statement fraud, the Indonesian CG structure adopted a two-tier system, separating the role of board and executives (non-CEO duality) (Zainal and Muhamad 2014). This move to non-CEO duality further aligns Indonesian CG practices with agency cost theory.

2.3.4 Contingency Theory

AsGalbraith (1973) proposed, the two main assumptions of contingency theory are: (i) there is no one best way to organise; and (ii) any way of organising is not equally effective under all conditions. Since there is no best way to organise, lead and make decisions for a firm, the optimal course of action is contingent (dependent) upon the internal and external situation. Firm decisions therefore are dependent upon internal aspects (e.g., the firm's organisation of resources, firm size, and firm age) or external aspects (e.g., sectoral competitors, and regulatory or institutional environments) (Aguilera et al. 2008; Aoki 2001; Deutsch 2005; Hermalin and Weisbach 1998). Consequently, as Aguilera et al. (2008), Hoque (2004) and Donaldson (2001) point out, contingencies linked with both internal and external organisation aspects impact on the effectiveness of particular CG practices. Under this scenario, a CEO or manager of a firm effectively applies their own style of leadership (and decision-making) to the right situation.

The aspect of resource-related contingencies is grounded on two theories: (i) resource-based view (RBV); and (ii) resource dependency theory (RDT) (the latter is reviewed in the next sub-section). The resource-based view focuses on the internal capabilities of the firm, including skills, knowledge and information (Barney 1991). According to contingency theory, no single organisational structure can be used effectively for all firms (Donaldson 2001). For example, the effectiveness of an independent board director is influenced by the presence of other complementary aspects, including strong involvement of shareholder and law protection for all investors (Aguilera et al. 2008).

According to Schoonhoven (1981), a limitation of contingency theory lies in its ambiguous theoretical nature. For example, it does not specifically differentiate between business environment and technology. Furthermore, it fails to provide a specific form to analyse the relationship between technology and governance structure, which then makes it very difficult to predict organisation effectiveness via econometric analysis.

Empirical studies have demonstrated that the effectiveness of various CG practices may differ based on contingent aspects (Certo et al. 2001; Filatotchev and Toms 2003; Ghofar and Islam 2014; Hambrick and D'Aveni 1992; Pearce and Zahra 1992; Sanders and Boivie 2004; Wong, Boon-Itt and Wong 2011). For example, Filatotchev and Toms (2003) and Hambrick and D'Aveni (1992) found that board diversity and director interlocks play a crucial role in a firm's crisis situation, since these boards develop larger networking opportunities, supported by greater access to resources. Studies have also shown that, for newly listed companies, board diversity can support wealth-creating aspects of CG in them (Certo et al. 2001; Filatotche vand Toms 2003; Sanders and Boivie 2004). However, board diversity can also have a negative impact by creating tension and disunity on boards if the interlock generates conflicts of interest (Pelled et al. 1999).

2.3.5 Resource Dependence Theory (RDT)

Resource dependence theory (RDT) was pioneered by Pfeffer and Salancik (1978), who refined the theoretical concepts in Thompson's (1967) open system view of organisations. The theory states that, since firms depend on external organisation contingencies, this produces uncertainty and interdependence, which ultimately impacts firm value. As Pfeffer and Salancik (1978, p. 1) argued, '… *to understand the behaviour of an organization you must understand the context of that behaviour – that is, the ecology of the organization*'. This theory identified the effect of external factors on firm behaviour that, depending on the firm connection to external factors, could reduce uncertainty (Thompson 1967). Such a reduction would lower transaction costs involved with external exchange (Williamson 1984) and firm value (Hillman 2005).

A crucial aspect of external interdependency and uncertainty for a firm's operation arises from the government via its policies and regulations (Hillman 2005; Hillman, Zardkoohi and Bierman 1999; Marsh 1998; Shaffer 1995). Initiatives such as deregulation, privatisation and negotiation of multilateral trade agreements materially affect firms (Hillman 2005). As Pfeffer (1972) claims, BoDs can help firms to minimise dependence or gain resources. Specifically, BoDs can be used as the key method for addressing an uncertain environment created by government policies and regulation due to their expertise (Boyd 1990; Hillman 2005; Hillman, Cannella and Paetzold 2000; Johnson, Daily and Ellstrand 1996). Since some firms operate in heavily regulated industries, they are significantly affected by public policies. To mitigate this issue under resource dependence theory, firms would endeavour to obtain a connection to the government. It could achieve this by, for example, appointing a retired military leader or high-level ministry officials (current or former) to be members of the BoDs (Hillman 2005). Firms that appoint a retired military leader or high-level ministry officials through election as BoDs members may gain benefits, including: (i) valuable advice and counsel related the public policy environment (Hillman, Zardkoohi and Bierman 1999); (ii) conduits to communicate with existing bureaucrats or politician decision makers; (iii) influence strategy formulation and other important decision making (Pfeffer 1972; Judge and Zeithaml 1992); (iv) access to resources (Mizruchi and Stearns 1994); and (v) legitimacy and adding value to the firm's reputation (Galaskiewicz and Wasserman 1989). However, appointing directors from retired military leaders and/or high-level ministry officials could be problematic and implies that such leaders have significant influence in government decision-making. Although this may not always apply in every case the impact can still be very distortive.

Some researchers have examined the effectiveness of the link between political backgrounds and skills on BoDs with firm value. In a US study, Hillman (2005) found that the number of BoDs members with a political background and skills had a significant positive impact on market-based measures of firm value (i.e., Tobin's Q), and an insignificant impact on accounting-based measures of firm value (i.e., return on assets [ROA] and return on sales [ROS]). Although the extent to which a director with political and government system experience improves firm value could not be definitively answered, Hillman's finding provides some support for resource dependence theory. Pugliese, Minichilli and Zattoni (2014) found that industry regulation significantly impacts BoDs performance in Italy due to the importance of board links with governments, which strengthen the firm's relationship with various stakeholders. However, Hillman, Withers and Collins (2009) argue that there is less discussion of the specific individual and personal motivation directors bring in their role in boards when they interact with external contingencies.

A study of 37 developed and developing countries[21] by Blumentritt and Nigh (2002) examined business-government cooperation in multinational firms. Using resource dependence theory, they found a significant relationship between the firms' strategies and political activities in international business. This result is not altogether surprising, given that large multinational firms are major operations and perceived as valuable additions to most foreign country economies, these multinational firms become targets of their host government It can be viewed that the network of various units for multinational firms is not limited on operational and competitive strategies, but it is also associated with the political activities where they operate (Blumentritt and Nigh 2002). Consequently, given the firms' importance, the host government is able to impact firm behaviour, while the firm is typically quite responsive to the host country's political and legal environment (Prahalad and Doz 1999). Hence, large multinational firms with politically connected BoDs may help navigate the firm through two major concerns: (i) political risk; and (ii) bargaining power (Blumentritt and Nigh 2002). Here, as a modification to RDT theory, '*bargaining power'* can be used as a strategic response to host government pressures (Blodgett 1991; Child and Tsai 2005**).** For instance, a firm may be able to adopt bargaining power by negotiating favourable outcomes based on exploiting legal loopholes, threatening legal action, or via the promise of employment creation (Leonard 2006).[22]

Table 2.1 provides a summary of the main CG theories reviewed in this chapter. In particular, the table summarises the key tenets and assumptions, main propositions, key limitations, and relevance to Indonesia.

---

[21] The 37 countries were: Argentina, Canada, the Dominican Republic, Hungary, Italy, Mexico, Peru, Singapore, Switzerland, Venezuela, Australia, Chile, Ecuador, India, Japan, Morocco, the Philippines, South Africa, Thailand, Belgium, China, France, Indonesia, Korea, the Netherlands, Poland, Spain, the United Arab Emirates (UAE), Brazil, Colombia, Germany, Ireland, Malaysia, Norway, Portugal, Sweden and the UK.

[22] This concept is based on corporate political strategy, which is defined as the proactive actions taken by firms to manage a public policy environment favourable with their business operation (Baysinger 1984). This concept was developed by Noble Prize winner Buchanan's work in political economy (1968,1987), which posits that political decision-makers as self-interested actors just actors are in economic marketplaces, thereby refusing the perception of a "public interest" independent from the competition between individual concerns. In this exchange view of politics, political decision makers provide public policy in return for information about constituents' preferences, financial intensive (e.g., campaign contributions) and constituency support (e.g., vote for election) (Hillman 2005).

Table 2. 1 Summary of Corporate Governance Theories

Theory	Key Tenet and Assumption(s)	Main Proposition	Key Limitation(s)	Relevance to Indonesia
Agency Theory	• Separation of ownership and control in firms. • Contract between agents and principals. • Assumptions are three-fold: (i) Human; (ii) Organisational; and (iii) Informational.	• When the principal has information to verify agent behaviour, the agent is more likely to act in the interest of the principals.	• Contracts alone may not be sufficient in the resolution of agency conflicts.	• Widely used in previous Indonesian CG studies. • Independent directors and ownership structure reflect aspects of Indonesian board structures.
Transaction Cost Economics (TCE) theory	• Transaction cost caused by misaligned managers. • Assumptions are three-fold: (i) Bounded rationality; (ii) Opportunities; and (iii) Risk neutrality.	Economic organisations must economise cost of transactions. Hence, governance structures may be suited to managing transactions in a manner that ultimately minimises the costs of exchange/ transactions.	• Assumptions of theory are not well-founded. • Firms are not merely substitutes for market mechanisms in forming efficient transactions.	• The behavioural assumption of transactional cost theory is questionable, which makes it less applicable to business decisions that influence a firm’s internal management.
Stewardship Theory	• Agents are stewards who manage the firm responsibly to enhance firm value. • Human assumptions: (i) Stewards act in the best interest of the principals; and (ii) Collectivism.	• The performance of a steward is affected by the structural situation of the organisation (e.g., CEO duality).	• Difficulties in explaining the complex behaviour of agents. • Stewardship theory fails to articulate what determines the alignment of interests. • It is of no practical use when the interests of stewards and principal are aligned.	• Indonesian listed firms incorporate a non-CEO duality. Hence, this weakens support for use of this theory.

Theory	Key Tenet and Assumption(s)	Main Proposition	Key Limitation(s)	Relevance to Indonesia
Contingency Theory	• Two main assumptions: (i) There is no one best way to organise; and (ii) Any way of organising is not equally effective under all conditions.	• The optimal course of action is contingent (dependent) upon internal and external organisational aspects.	• Has an ambiguous theoretical nature. • Limited in its ability to provide specific forms to make predictions via econometric analysis.	• Primarily used in Western country studies.
Resource Dependence Theory (RDT)	• The organisation is constrained by a system of interdependencies with external factors. • Three main assumptions: (i) Social context matters; (ii) Firms strategies required to enhance their autonomy; and (iii) Power is important for understanding internal and external actions of organisations.	• The board of directors acts primarily as providers, or links, to resources that enable the organisation to minimise external dependence for resources.	• Empirical application is quite narrow when used in isolation.	• This theory helps explain the appointments of former military officers or government ministers to the boards of Indonesian listed firms due to their high-level contacts.

The table demonstrates that no single theory encapsulates the wider environmental influencing forces impacting on firms in general, but especially Indonesian.As Christopher (2010) states, a multi-theoretic approach is required to overcome the limitations of the predominant agency perspective in the governance literature.[23] In keeping with the sentiments of Christopher (2010), the present research initially adopts a multi-theoretic CG approach that combines agency theory and resource dependence theory. The combination of these theories reflects the Indonesian environmental influences impacting firms, such as the two-tier board system, where the general meeting of shareholders (GMS)[24] has the highest authority in the firm with the power to appoint a board of commissioners (BoCs) similar to the BoDs in one-tier systems, and a board of management directors (BoMDs). Other aspects, such as the legal separation of ownerships rights (or principals) and managerial decision rights (or agents), the firm characteristic by owner controlled where the members of family founder to be board members and/or executive managers as well as the tendency for Indonesian firms to recruit directors who are retired military leaders and former and/or current high-level ministry officers, also reflect the need for a multi-theoretic approach.[25]

2.4 Corporate Governance Mechanisms

In reviewing CG mechanisms, the two CG systems most adopted in developed countries are the Anglo-American 'market-based' or 'shareholder' model and the 'relationship-based' or 'Rhineland' model (Abdullah 2006; Clarke 2007). Most developed countries, such as the UK and the US, use the Anglo-American model in which the capital market economy supports the interests of large shareholders and protects minority shareholders. However, in this system, creditors and banks have fewer rights than those countries, such as Germany and Japan that use the 'relationship-based' model.

---

[23] Christopher (2010) presented a conceptual case for a more holistic governance model incorporating agency theory with stakeholder theory, RDT and stewardship theory.

[24] GMS are meant to represent various types of shareholders or principals.

[25] The Indonesian board system will be discussed in depth in Section 2.7.

In contrast, Shleifer and Vishny (1997) found that many developing countries provide only weak legal protection for investors, with controlling shareholders and regulatory weaknesses in Asian countries obstructing the adoption of an Anglo-American model. This typically results from reforms that are internally driven, such as occurs in China or as a response to international demands as in Thailand, and South Korea (Young et al. 2008). In addition, regulatory issues pertaining to the enforcement of accounting requirements, firm disclosures and securities trading are either absent, inefficient, or do not operate as intended (Peng 2003, 2004). Hence, as Allen (2000) states, Asian countries tend to follow the form of CG rather than its substance.

In keeping with agency theory, the two CG mechanisms that operate firm business and control management behaviour can be explained as: (i) internal; and (ii) external (Weir, Laing and McKnight 2002). External mechanisms are those factors outside the firm, including the product market competitors (Allen and Gale 2000) that help stimulate the maximisation of efficiency in order to increase external capital at the lowest cost (Shleifer and Vishny 1997). In this way, product market competition is a mechanism that helps ensure GCG practices to discipline manager behaviour (Hart 1983) and improve firm value (Chou et al. 2011). This theory posits that managers are encouraged to produce high performance by making the best decisions for maximising profit, since failure to do so could result in both bankruptcy and job loss (Chou et al. 2011). Therefore, in order to prevent firm failure, market competition can act as a substitute for external CG mechanisms for corporate control (Allen and Gale 2000). Other external CG mechanisms include regulation, the business environment, capital market size and liquidity, and banking and financial institutions (Allen and Gale 2001; Bushman and Smith 2001; Douma and Schreuder 2008; Heinrich 2002). These external CG mechanisms play an important role in determining the market as a firm control on agent priorities that aims to enhance shareholder wealth (Weir, Laing and McKnight 2002). Thus, the main external CG mechanism providing firm control is the market (Jensen 1986b), which generates strong incentives for directors to work as diligently as possible (Kennedy and Limmack 1996; Martin, and McConnell 1991) in promoting both better firm value and shareholder interest (Weir, Laing and McKnight 2002).[26]

Not only do external CG mechanisms help stimulate firm value and shareholder wealth, the internal CG mechanisms of board control and ownership play a crucial role (Huang 2010). For example, the key CG report in the UK[27] strongly recommended that listed companies adopt the internal CG structures (e.g., BoDs) that were contained in the code of best practice. It adds that, if not adopted by UK listed firms, then a clear rationale for its non-adoption should be explained to all stakeholders. Thus, internal CG mechanisms for UK boards are highly prescriptive (Weir, Laing and McKnight 2002).

As the lynchpin of CG (Gillan 2006), BoDs and managing directors are required to establish strategic objectives for the firm, and develop tactical plans to assist in achieving the firm's objectives (Wan and Ong 2005). Consequently, the composition of board structure is also viewed as an important mechanism, because the existence of independent directors is a means of monitoring the executive manager's activities and of ensuring that the executive manager is pursuing policies consistent with all shareholder interests (majority and minority) (Fama 1980). Thus, strategic leadership becomes a crucial aspect in CG (Ingley and Van der Walt 2005; Thomas, Schermerhorn and Dienhart 2004), with BoDs' main responsibility being to identify changes in the market environment that may impact on firm value (Gandossy and Sonnenfeld 2004; Golden and Zajac 2001). Firm ownership can also play a crucial role in the CG mechanism due to its having a strong impact on firm decision-making and staff motivation (Cheng and Wall 2005; Nazari 2010). However, different types of ownership structures have different objectives (Egger 2000), with each owner having their own approach to decisions about strategy, operation and investment engagements aimed at increasing firm value (Gedajlovic and Shapiro 1998; Li and Simerly 1998). This study is restricted to board structure (i.e., board size and independent directors) and does not include other CG mechanisms associated with the sub committees (e.g., audit committee). This restriction is in keeping with

[26] Shareholder is defined as an individual and/or an institution owns some shares in the firm and therefore have right to receive dividends and to control on how the firm's business is operated.

[27] Cadbury (1992), Report of the Committee on the Financial Aspects of Corporate Governance.

previous CG and CSR studies (Harjoto and Jo 2011; Jo and Harjoto 2012).

Due to the separation of ownership and control in firm operations, the aim of CG mechanisms is to reduce agency cost and avoid any dilemmas between agents and principles that may occur (Padgett and Shaukat 2005). Good corporate governance includes the system, structure and mode of operation of a firm to safeguard the organisational culture and ensure that the firm operates in the best long-term interests of its shareholders (McGuire, Sundgren and Schneeweis 1988). By encouraging high levels of disclosure, transparency and accountability, GCG practices also provide potential economic benefits to protect and facilitate shareholder rights and key ownership functions, as well as ensuring equal treatment for minority and foreign shareholders in relation to all stakeholders' rights (Clarke 2004; OECD 2004). Thus, GCG is recognised as an effective method in the prevention of corporate failure and improvement of firm value (Du Plessis et al. 2010 cited in Bosch 2002; Kirkpatrick 2009; OECD 2004). However, a crucial question that is not yet resolved is whether the effectiveness of CG practices differs between developed and developing countries (Aguilera and Cuervo-Cazurra 2009; Gibson 2003).

In understanding the differences between CG practices across both developed and developing countries, degrees of legal protection for shareholders and creditors may be a major factor (Porta et al. 1999). Many studies have demonstrated that legal systems protecting investor rights vary across countries (López de Silanes et al. 1998). Variation in the legal protection of shareholders can carry over to CG performances that impact on dividends received, availability and costs of external finance, and market valuations (Claessens, Djankov and Lang 2000; Gibson 2003; Klapper and Love 2004; Porta et al. 1999; Porta, Lopez-de-Silanes and Shleifer 1999). Not surprisingly, other researchers have found that variations in firm-level CG mechanisms also contribute to the CG performance of a country (Black 2001; Maher and Andersson 1999; Shleifer and Vishny 1997). As Porta et al. (1999) posit, individual firms can still provide, via GCG, a strong legal environment for all shareholders despite the weak legal environment of the country they are situated in (Klapper and Love 2004). Zattoni and Cuomo (2008) argue that governments, under great pressure from external forces, are encouraged to improve their CG practices in order to legitimise the economic systems of their countries and attract foreign investment. However, although a number of studies have examined firm-level CG mechanisms in developed countries, including the US and Organisation for Economic Co-operation and Development (OECD) member countries, few studies have examined the differences in firm-level CG mechanisms across developing countries with emerging markets, including Russia, Brazil, India, China, Thailand, Indonesia, and Malaysia (Black 2001; Da Silveira et al. 2008; Krishnamurti, Sěvić and Šević 2005; Singh and Gaur 2009).

Moreover, Klapper and Love (2004) point out that studies examining differences in firm-level CG mechanisms of developing countries and the effectiveness of CG in both developed and developing countries have mixed results (Gertner and Kaplan 1996; Gibson 2003; Gompers, Ishii and Metrick 2003; Kaplan 1997; Klapper and Love 2004; Maher and Andersson 2000; Tian 2001; Wiwattanakantang 2001). For example, in the developed country of Japan, CG systems worked well in the high growth period of the 1960s and 1970s, but performed poorly in the 1990s, whereas in the US, CG evolved continuously from the 1960s until the 1980s, when a weakening in GCG finally led to its breakdown in the 2000s, leading to some large companies in the US, including the pioneering companies of Enron, Worldcom and Tyco, to experience total collapse (Jackson 2010). These examples serve as a warning to developing countries, including Indonesia, to carefully scrutinise their CG practices as they continue to grow and integrate into the global place (Gibson 2000).

Although some researchers implicitly assume that the institutional conditions found in developed countries are also present in developing countries (Young et al. 2008), organisational patterns in business activities can differ considerably between developed and developing countries (Wright et al. 2005). In the case of CG, Indonesia as a developing country, typically does not have an effective rule of law which ultimately creates a ‘weak government’ environment (Mitton 2002). This weaker environment is one of the reasons for the prevalence of concentrated firm ownership by a few family groups (Dharwadkar, George and Brandes 2000; Graham, Litan and Sukhtankar 2002; Haat, Rahman and Mahenthiran 2008), which has led to frequent conflicts between majority and minority shareholders over whether founding families control via informal means (Liu, Ahlstrom and Yeh 2006; Morck, Wolfenzon and Yeung 2004; Young et al. 2001). Hence, listed firms in developing countries might have adopted CG mechanisms from developed countries, but these mechanisms do not necessarily always function like their counterparts in developing countries (Young et al. 2008). However, despite some anomalies, a firm's CG practices in providing better financial reports and more transparent business information ultimately can promote greater market liquidity and capital formation in developing countries (Frost, Gordon and Hayes 2006).

Since CG forms a crucial role with investors, creditors, regulators, insurers, customers, suppliers, employees and other stakeholders (Haat, Rahman and Mahenthiran 2008), the question regarding CG practices in Indonesia is two-fold: (i) are Indonesian listed firms concerned about good governance practices?; and (ii) are good governance practices a prerequisite to good business and better firm value for Indonesian listed firms? Many studies have found that CG factors have a strong predicting power on firm value, mainly due to board control and ownership structures. The aspects of these broader CG mechanisms are reviewed below.

2.5 Role of the Board of Directors

The role of BoDs is to align the interests of managers and shareholders. In dealing with shareholder pressures and legal requirements, BoDs are responsible for developing and carrying out sound internal CG mechanisms (Walsh and Seward 1990). In becoming the firm's decision-making institution (Burke 2005; Hart and Sharma 2004), their role is governance through the setting of strategic directions, engaging with stakeholders, managing resources, dealing with social and environment issues, and monitoring and compensating the highest decision makers of the firm to maximise competitive advantage and shareholder value (Denis and McConnell 2003; Freeman, Edward, Harrison and Wicks 2007; Kurucz, Colbert and Wheeler 2008; OECD 2011). The BoDs' role includes all firm governance directions (strategy direction and formulating plans for main acquisitions), entry into new markets and partnerships, and other factors impacting on the direction of the firm (Johnson, Daily and Ellstrand 1996).

Under agency theory, BoDs are principally authorised as an internal control mechanism for the firm's management decisions (Hung 1998). From an Indonesian context, BoDs are viewed as the apex of the internal control mechanism that requires accurate financial and non-financial information to monitor and evaluate the firm's managerial decisions and business actions. The National Code of Corporate Governance ensures that Indonesian firms implement monitor effective mechanisms of governance practices in order to protect stakeholder interests (Wardhani 2008).

Boards of directors have the ultimate authority and responsibility for approving management's operational decisions (Reger 1997) and monitoring their conduct to maximise strategic business performance (Fama and Jensen 1983a). Their responsibilities include setting CEO salary, hiring and evaluating the CEO and other executive managers' performances, and ensuring the effective use of firm assets (Monks and Minow 2001). Board of directors must ensure that appropriate resources are available for the firm's ongoing operations. As Pfeffer and Salancik (2003) point out, members of the board need to be sufficiently informed in the affairs of the firm to know when to seek out additional information and counsel in order to make informed decisions relating to firm value and shareholder wealth, as well as other issues, including risk assessment, policy development and representation of the firm in society (Fernando 2009; Hillman and Dalziel 2003).

To maintain investor confidence in the Indonesian market, BoDs have authority to access firm information in order to ensure that the firm's assets are used effectively, to encourage disclosure accountability and transparency, to maintain internal control systems and for risk management (Kaihatu 2006; Nasution and Setiawan 2007; Setia-Atmaja, Tanewski and Skully 2009). Furthermore, BoDs also play a crucial role in developing the knowledge, structure and capability of the firm. Their effects can be identified through board structure (Webb 2004), stakeholder knowledge and engagement (Montgomery and Kaufman 2003); capability (Klapper and Love 2004), effective processes (Nadler 2004; Sonnenfeld 2002), and symmetric information (Hillman and Dalziel 2003; Roy 2011). As Mizruchi (1983) stated, BoDs are a crucial centre of control in the firm.

However, although BoDs play an essential role in creating good governance practices, Indonesian BoDs' role as an effective internal control mechanism has produced mixed results (Kaihatu 2006; Ujiyantho and Pramuka 2007). Some studies found that Indonesian boards were ineffective in their supervisory role (e.g., a larger board with a lower percentage of independent directors), which was cited as one of main reasons for poor CG implementation in Indonesian firms (Kaihatu 2006; Setia-Atmaja, Tanewski and Skully 2009; Ujiyantho and Pramuka 2007).

2.6 Structure and Composition of Boards of Directors

Corporate governance studies identify four aspects of board attributes: (i) composition; (ii) structure; (iii) characteristics; and (iv) process (Korac-Kakabadse, Kakabadse and Kouzmin 2001; Maassen 1999; Zahra and Pearce 1989). Board composition refers to the size of the board and the mix of different director demographics (independent or non-independent, male or female, and foreign or domestic), and the degree of affiliation directors have with the firm (Korac-Kakabadse, Kakabadse and Kouzmin 2001; Maassen 1999; Zahra and Pearce 1989). Board structure includes '… *board organization, the role of subsidiary boards in holding firms, board committees, independent directors, the leadership of boards and the flow of information between board structure*' (Korac-Kakabadse, Kakabadse and Kouzmin 2001, p. 25). Board characteristics include the backgrounds of board members (qualifications, experience, tenure and independence), directors' stock ownership, and other factors that affect the directors' interests and performance (Hambrick 1987; Korac-Kakabadse, Kakabadse and Kouzmin 2001; Zahra and Pearce 1989). Board process includes the '… *decision-making activities, styles of board, the frequencies and the length of board meetings, the formality of board proceedings and the evaluation of directors' actions*' (Korac-Kakabadse, Kakabadse and Kouzmin 2001, p. 25).

Although the role of BoDs has been well-documented as an effective CG mechanism, few studies have examined related theoretical and business practices (Denis and McConnell 2003; Harris and Raviv 2008). For example, in the US, although it is an uncommon practice, the CEO may also be the chairperson of the board (i.e., CEO duality). Board members may also include executive managers who need to be monitored. In some cases, these parties represent the dominant role in the board with strong authority in determining the composition of the board (Denis and McConnell 2003). For Indonesian firms, due to their two-tier system of CG, CEO duality practices are not allowed, because this tends to reduce the board's ability to monitor and ultimately it does not fully capture firm efficiency (Zainal and Muhamad 2014). However, the issue of the extent of control that founding families have in Indonesia can mitigate its effectiveness (Young et al. 2008).

In researching the effects of board structure, it is often overlooked that certain social factors, which are difficult to align with standard economic differences, can significantly influence board performance. Gillette, Noe and Rebello (2008) claim that these factors could have more influence than either the formal structure of the board or the legal system in which the firm operates. They state that developing countries such as China, Malaysia, Indonesia and Thailand may provide an interesting setting for examining these issues, since their CG systems have many unique characteristics, including listed firms with high ownership concentration where single investors have effective control of the firm (Arifin 2003; Firth, Fung and Rui 2007; Rahman and Ali 2006). In contrast, Cho and Rui (2009) point out that developing countries have a high proportion of state ownership and limited transferability of shares, suggesting that their active external CG mechanisms including takeovers are less likely to affect firms' executive managers or motivate their BoDs and supervisory board members to improve either performance or earnings informativeness. Thus, since government stakeholders have the power to access internal information of the firms (DeFond, Hung and Trezevant 2007), they are less likely to be interested in monitoring the quality of their financial reports (Cho and Rui 2009). Furthermore, government stakeholders often have aims that do not relate to profitability, and seek to install supervisory boards and management boards that are more sympathetic to their aims (Cho and Rui 2009). Other characteristics of developing countries such as China, Thailand and Indonesia are their weaker legal systems, negligible market control mechanisms and inefficient managerial labour markets.

2.6.1 Board Size and Firm Value

Although changes in board size usually follow when there has been a fundamental change in the firm's business environment, Denis and Sarin (1999) identify four factors that impact board size: (i) changes in the firm's characteristics; (ii) changes in owner-specific attributes; (iii) the external market for firm control activities; and (iv) changes in firm value.

With respect to changes in firm characteristics, the size and complexity of a firm will significantly impact on the relationships between composition of the board and firm value (Zahra and Pearce 1989). From RDT perspective, larger firms will require access to a greater range of resources and need to appoint more directors to provide access to those resources (Baker and Gompers 2003; Denis and Sarin 1999; Kiel and Nicholson 2003). With the next factor, changes in owner-specific attributes, studies by Wu (2000), Denis and Sarin (1999) and Gertner and Kaplan (1996) demonstrated that ownership structure significantly impacts on board size. Denis and Sarin (1999) found that changes in ownership structure were followed by changes in board composition in two ways: (i) concentrated managerial ownerships brought negative correlations with board size; and (ii) high concentrations of public ownership led to smaller board sizes (Baker and Gompers 2003; Kaplan and Minton 1994). For this factor, external markets for firm control activities, board size can change due to changes in the size and complexity of the production process (Anderson et al. 2000; Boone et al. 2007; Coles, Daniel and Naveen 2008; Eisenberg, Sundgren and Wells 1998). The final factor, changes in firm value, is reviewed below.

Many studies consider the board as an institution that can mitigate the impact of an agency problem existing in a firm (Dwivedi and Jain 2005). Typically, board members are influenced by two crucial aspects: (i) board composition (i.e., number of independent directors and board size); and (ii) executive compensation (Denis and McConnell 2003). In the case of executive compensation, agency theory posits that, even though this is increasing, it will rise or fall depending on the profitability of the firm (Murphy 1999; Tosi et al. 2000). However, with the Asian economic crisis in 1997-1998 and the global financial crisis beginning in late 2007, many now question the appropriateness of compensation levels, with questions raised as to whether the structure of this compensation might have encouraged actions that contributed to wider economic problems. Furthermore, although both anecdotal and empirical studies have been undertaken in the context of developed countries, those in developing countries also indicate that executive pay has no correlation with success of the firm (Barkema and Gomez-Mejia 1998; O'Reilly and Main 2010; Tosi et al. 2000). For this reason, the present study only discusses BoDs in terms of board composition.

As many BoDs are large decision-making groups, this can impact the decision-making process (Dwivedi and Jain 2005), and its ability to function effectively (Coles, Daniel and Naveen 2008). Specifically, a large board size can cause higher communication problems and difficulties in monitoring and controlling management behaviour, thus leading to agency problems arising from the separation of principle and agent (Jensen 1993; Yermack 1996). Numerous studies have been conducted on the issues related to board size and firm value. For example, Jensen (1993) argued that firms should carefully reconsider their board size when communication and coordination are becoming a problem. He pointed out that smaller board sizes are more cohesive, more productive and can monitor CEOs behaviour effectively, while larger board sizes have more difficulty doing this due to, in part, social loafing and high co-ordination costs. This, he adds, can lead to poorer coordination and ineffective communication which impairs the decision-making process and lowers the ability of boards to monitor and evaluate the CEO. The CEO then is free to influence and control the board. Consequently, CEOs can exercise greater influence over a board's decision-making process following an increase in board size (Jensen 1993). Previous literature indicates that, as CEOs become more powerful, firm value which in turn decreases (Adams, Almeida and Ferreira 2005; Amihud and Lev 1981;

Bertrand and Mullainathan 2003). Larger board size may also make it difficult for members to use their knowledge and skills effectively to coordinate contributions and effectively use their time, which then results in higher co-coordination costs (Jensen 1993; Lipton and Lorsch 1992). In these situations, the board becomes more symbolic and less a part of the management process (Hermalin and Weisbach 2003).

Jensen (1993) argued that, when board members number more than seven or eight, they are less likely to function effectively, and more likely to be subject to CEO control. Although Lipton and Lorsch (1992) advised that board members be limited to ten persons, the range of six to 12 members has been shown to present a higher possibility of financial loss in the firm. Yermack (1996) found that firms with small board size show higher firm value and stronger CEO performance, resulting from incentives such as compensation or threat of dismissal. For this reason, in US business practice, the Council of Institutional Investors has advised firms to have smaller board size with a majority of independent directors. This approach is echoed by the Institutional Shareholder Services, Inc. (2003), the National Association of Corporate Directors (2001), and the Business Roundtable (1997).

A study of board size in the US by Hermalin and Weisbach (2003) found that large board size negatively correlates with the quality of decision-making and firm value, thus providing empirical evidence for the notion that smaller boards perform better. Postma, van Ees and Sterken (2003) found a negative correlation between board size and firm value in Dutch listed companies, and suggested that smaller board size (three members) is optimal. Loderer and Peyer (2002) examined board overlap among Swiss listed firms in 1980-1995 and found that smaller board size is associated with higher firm value. They pointed out that firms with a large board size cannot operate as effectively as those with smaller boards. Furthermore, although the CG codes of Singapore and Malaysia do not specifically recommend particular ranges of board size, Mak and Kusnadi (2005) found a negative correlation between larger board size and firm value (i.e., Tobin's Q) in those countries. Similarly, in the developing country of Bangladesh, a study by Rashid et al. (2010) found that larger board size provides a significant negative explanatory power in firm value (i.e., ROA) due to the information asymmetry between insider and independent directors. Furthermore, following the Asian economic crisis, a study of seven East Asian countries (e.g., Indonesia, Malaysia, Thailand, Taiwan, Singapore, Hong Kong and South Korea) by Nowland (2008) found that smaller boards can more easily agree on the implementation of improvements in board governance than can larger boards.

Although many studies have found a negative relationship between board size and firm value, a few have shown the possibility of neutral effects, and some have identified a positive impact. In the case of a neutral effect, Leblanc (2003) could not find any evidence that more independent directors deliver a better performance or that a larger board size provides a worse performance. Haniffa and Cooke (2005) found that both smaller and larger board sizes are effective in Malaysian listed companies. In the US, Coles, Daniel and Naveen (2008) cast doubt whether smaller boards are necessarily effective in firms of all industry types. Harris and Raviv (2008) found that, although board size does not impact firm value, changes in information from other parties, profit potential and cost of independent directors may impact on both board size and firm value.

In regard to a positive impact between board size and firm value, studies by Dalton et al. (1999) and Pearce and Zahra (1992) showed that sometimes board size can have a positive correlation with firm value. Belkhir (2009) found that adding more members to boards in the banking industry can help improve firm value, as indicated by Tobin’s Q and the ROA measure. Belkhir also found that an increase in firm size was usually followed by an increase in the number of board members, which resulted in a better representation of people with different backgrounds, skills and qualifications to ultimately improve the quality of strategic decisions. Dwivedi and Jain (2005) found that large size is assumed to be associated with the wide range of views offered in firms’ planning processes, related to strategic changes within the firm. They found that larger board size in Indian listed companies improves the governance of firms due to lower agency cost, which positively correlates with firm value. Golden and Zajac (2001) explained that smaller boards may not recognise the need to initiate or support strategic change and lack confidence and clear understanding of possible alternatives. For this reason, Sarkar and Sarkar (2009) recommended higher limits on board size in developing countries than those adopted for the best practice in developed countries. For example, boards in developing countries such as India and Pakistan comprise ten to 20 members (compared to only three in the US and seven in the UK) (see Yammeesri and Herath 2010; Singh and Kumar 2013; Jackling and Johl 2009; Yasser et al., 2011; Guest 2009; Eisenberg, Sundgren and Wells 1998) . They argued that the larger board size in developing countries is needed to manage the supply constraints found in their managerial labour markets. Additionally, some industries in these countries (e.g., the banking industry) can adopt larger boards without necessarily impairing CG quality.

The impact of firm value on board size was demonstrated via Wu's (2000) study on the Forbes 500 firms (1988-1995), which showed that board size remains stable for firms that have good firm value. Therefore, board stability seems to be associated with firm value . In addition, Coles, Daniel and Naveen (2008) state that the relationship between board size and firm value can also be affected by firm complexity.

Although most studies have focused on developed countries, the few studies conducted on developing countries show mixed results. For example, Ramdani and Witteloostuijn (2010) found a negative impact of board size on the relationships between CEO duality and firm value in four countries: Malaysia, Thailand, Indonesia and South Korea. In these countries, increases in board size led to a reduction in CEO duality (CEO and chairman of the board represented by the same person). This is because, as board size increases, the decision-making procedures, coordination and communication became more difficult (Lin 1995; Yermack 1996). Studies by Coles, Daniel and Naveen (2008) and Dwivedi and Jain (2005) argue that, although smaller board size is more effective in developed countries, larger board size could provide the most effective performance in creating firm value in developing countries. Thus, the 'one size fits all' design of CG that has been applied to a wide variety of enterprises in both developed and developing countries may need to be more flexible in order to suit a range of different 'best practices', according to need (Ramdani and

Witteloostuijn 2010). For this reason, this study examines the impact of board size on firm value on Indonesian listed firms.

2.6.2 Independent Directors and Firm Value

Board structure composition has a crucial role in CG mechanisms, since the proportion of independent directors represents the level of monitoring management that occurs to ensure that firm directors are pursuing actions that serve shareholder interests (Duchin, Matsusaka and Ozbas 2010; Fama and Jensen 1983a). As stated in Table 1.1, an independent director is defined as a director elected by shareholders who is not affiliated with the firm’s management (Fama 1980; Fama and Jensen 1983b; Jo and Harjoto 2012). Effective boards include sufficient independent directors to contribute superior performance benefits due to operating in a financially independent way (Bhagat and Black 2001; Hermalin and Weisbach 2003; William 2010), with this independence implying that they have the ability to provide objective feedback and direct pointed questions to the CEO and other executive managers, without considering future board relationships (Westphal and Khanna 2003). In this way, executive managers can be deterred from taking benefits from their position by sacrificing shareholder interests (Yunos 2011). However, there remains a possibility that the CEO will negatively respond when independent directors provide inputs or advice that contrast with their position (Hermalin and Weisbach 2003; Westphal and Khanna 2003).

Thus, the recruitment of qualified independent directors plays an important role in board independence. However, there is difficulty appointing ethical leaders who are qualified and capable of accepting responsibility as independent directors (Fram and Team 2012). Moreover, in order to maintain control of the firm’s strategic procedures (O’Higgins 2002), new independent directors can be recruited based on their personal relationship with the CEO or share similarities in social demographics and background (Alexander 2003; Cyert, Kang and Kumar 2002).

However, this practice has diminished in the US following the 2002 Sarbanes-Oxley Act, which placed greater responsibility on the board to recruit experienced professional directors who can adequately address current firm needs (Fram and Team 2012; Hemphill 2005). The Sarbanes-Oxley Act emphasised the importance of having independent directors from outside (Craig 2004; Hanc 2004) that meet the specific needs of firms, such as financial and accounting, marketing, legal and strategic planning (Orlikoff 2004). In this context, independent directors are defined as those that '… *the board of directors affirmatively determines that [a] director has no material relationship with [the] listed company (either directly or as a partner, shareholder or officer of an organization that has relationship with the company)*' (New York Stock Exchange NYSE 2003, p. 10). Hence the qualities of existing independent directors are important in providing best performance to serve all stakeholder interests (Barratt and Korac-Kakabadse 2002; Orlikoff 2004). Consequently, recruited independent directors need the prescribed balance of capability, intelligence, leadership and independence (Keasey and Hudson 2002; O'Higgins 2002).

In order to provide better BoDs performance, many firms increase the proportion of their independent directors (Fram and Team 2012; Hemphill 2005; Lawler and Finegold 2005; Sherwin 2003). Agency theory recommends that a greater proportion of independent directors will help monitor and control any self-interested activities by managers, thereby minimising agency costs (Fama 1980; Fama and Jensen 1983b). This perspective is based on the belief that shareholder welfare can be enhanced by BoDs that are capable of monitoring manager behaviour, providing independent opinions on managerial performance, and distributing rewards based on these evaluations.

However, some researchers argue that using an independent board as a CG mechanism is not necessary (Baysinger and Butler 1985a; Leblanc 2006). Since other CG mechanisms such as product and capital market competition, managerial labour markets, corporation law, as well as the internal structure of the firm, can substitute for strongly independent boards (Baysinger and Butler 1985b; Faith, Higgins and Tollison 1984; Scott 1983; Williamson 1983). In broad terms, many studies have focused on board structure composition in CG in terms of independent directors in both developed and developing countries (Abdullah 2006; Coles, Daniel and Naveen 2008; Harris and Raviv 2008; Lefort and Urzúa 2008; Ramdani and Witteloostuijn 2010).

In addition, many studies have examined the relationship between the proportion of independent directors and firm value. For example, in the case of developed countries, a Japanese study by Kaplan and Minton (1994), examined the effectiveness of BoDs, focussing on independent directors who were previously employed by banks or non-financial corporations. They found that independent directors play an important role in effective CG mechanisms that provide better firm value. In the US, Baysinger and Butler (1985a) found that having more independent directors can provide better firm value, although that can also be achieved with fewer independent directors due to other contributing factors, including corporation laws, the market of managerial talent, capital markets, and competent executive directors. Thus, Baysinger and Butler (1985a) point out the importance of both independent directors and executive directors (CEOs, subsidiary managers, foundation directors, division heads and currently employed officers) in maximising firm value. A UK study by Peasnell, Pope and Young (2005) recommended a balance between independent and executive directors on the board, since executive directors, with their experience and knowledge, can add to the maximisation of firm value (Baysinger and Hoskisson 1990; Bhagat and Black 2000). Typically, though, firms generally prefer to have more independent boards with higher proportions of independent directors, as recommended by the Sarbanes-Oxley Act of 2002 (Hemphill 2005). Interestingly, Duchin, Matsusaka and Ozbas (2010) found that independent directors, as external experts, do not have as much information about firms as executive boards have, indicating that the effectiveness of independent directors depends on the legal requirements surrounding information availability as well as the cost of acquiring information. Duchin, Matsusaka and Ozbas (2010) found a negative correlation between the costs of acquiring information and the independent directors. They did state, however, that as firm value increases parallel to increases in the number of independent directors, this leads to lower information costs which contributes to improved firm value.

Although many studies have focused on the positive relationship between independent directors and firm value, other studies have identified neutral and negative relationships. For example, the US study by Hermalin and Weisbach (2003) found that, although independent director proportions have no impact on firm value, they do have an impact on better firm decisions in acquisitions, compensation for management directors and CEO turnover. Bhagat and Black (2002) found no correlation between independent directors and long-term firm value for US listed companies. Bhagat and Black found five theoretical arguments as to why there is no correlation between independent directors and firm value: (i) independent directors need more incentives; (ii) independent directors may not be truly independent; (iii) some independent directors have good qualifications, others do not; (iv) independent directors may contribute to firm value on condition that there is a good committee structure; and (v) some directors are bound to the firm or its CEO in ways that are not obvious in the usual assessments of independence. In contrast, Coles, Daniel and Naveen (2008), Kiel and Nicholson (2003), Yermack (1996) and Agrawal and Knoeber (1996) found a negative correlation between the proportion of independent directors and firm value (i.e., Tobin's Q). Complex firms, such as those that are diversified across industries and large firm size and large leverage, are likely to rely on advice from inside directors (Coles, Daniel and Naveen 2008; Kiel and Nicholson 2003). In this instance, specific knowledge of inside directors (such as research and development [R&D] intensive firms) on the board is relatively important for increasing firm value (Coles, Daniel and Naveen 2008).

Few studies have occurred in the context of developing countries. As Firth, Fung and Rui (2007) demonstrated, the two-tier board systems in some developing countries (e.g., China, Indonesia and Pakistan) have practices that are different to developed countries. For example, larger firms with active supervisory directors in China can improve firm value, reduce absolute discretionary accrual, and have high quality financial disclosures (Firth, Fung and Rui 2007). They also found that higher proportions of independent directors can play important roles in greater earnings informativeness and clear audit opinions. Here the role of a supervisory board in improving the quality of a firm's financial disclosure is influenced by both independent board members and good financial advisors and accountants. In a Spanish study, Giráldez and Hurtado (2014) found that independent directors tend to reduce the negative association existing between firm value and a large board size with significant insider ownership by board members. Fernando (2009) found that independent directors increase firm value in Chile.

Studies on developing countries which did not show a positive impact of independent directors on firm value include Rahman and Ali (2006), who found that, due to management dominance over boards, independent directors cannot discharge their monitoring duties in Malaysia. This resulted in no significant correlation between independent directors and earnings management of Malaysian listed companies. Rashid et al. (2010) found that, although independent directors have benefits for greater transparency in the firm’s disclosure, it did not add to firm value in Bangladesh.

With respect to Indonesia, studies have found a positive relationship between independent directors and firm value (Nam and Nam 2004; Siagian and Tresnaningsih 2011). For example, Siagian and Tresnaningsih (2011) demonstrated the important role that independent directors have on increased quality of earnings through improving the effectiveness and efficiency of internal control and monitor system. A study by Chen and Nowland (2010) on four Asian countries (Malaysia, Singapore, Hong Kong and Taiwan) with a similar ownership structure and institutional and cultural environment to Indonesian firms, found that a concave relationship exists between independent directors and firm value. This concave relationship shows that it is possible to identify an optimal level of board monitoring that equates to highest firm value. Family-owned firms with, on average, independent directors who comprise 38% of the board is when firm value is at its optimal. From a practical perspective, firm value is maximised when the boards contain one to two independent directors. The results suggest that high firm value can be achieved with a minimum requirement of independent directors on the board. Therefore, a positive relationship between independent director and firm value in the context of Indonesia can be inferred from this.

From an overall perspective, although the relationship between independent directors and firm value has provided mixed results in both developed and developing countries, developed countries have different ownership structures and institutional and cultural environments. Typically, a developed country (e.g., the US) is perceived as having strong law protection, dispersed ownership structures, active institutional investors, and a large and active market (Erickson et al. 2005; Porta, Lopez-de-Silanes and Shleifer 1999). Thus, as Matolcsy, Stokes and Wright (2004) argue, departures from this setting can impact on the firm-level CG structure, its effectiveness and firm value. As this study focuses on CG systems in Indonesian listed firms, the next section discusses the legislation that has begun to influence the structure and composition of BoDs in Indonesia.

2.7 Indonesian Board System

2.7.1 One-Tier and Two-Tier Board Systems

The CG systems of the US and UK predominately have a single board system, while Germany, the Netherlands, Austria, Denmark and Finland have used dualism, otherwise known as the two-tier board system (Jungmann 2006), consisting of both supervisory boards and management boards (Denis and McConnell 2003). Indonesia falls within this latter category. The main role of the supervisory board is to appoint and dismiss members of the management board, and to monitor their activities (Jungmann 2006). However, in some countries, including Germany, laws give authorisation for the supervisory board to intervene in managerial decision-making when firm interests are being seriously threatened (Kamal 2009). Although these board members have the right to elect management board members, they do not have the power to dismiss them (Kamal 2009). Supervisory board members have the right to insist that the management board submit quarterly reports to enable them to monitor the company, while the management board role is to run the firm’s operational management and to set up long-term objectives for maximising firm value. Therefore, there are separate responsibilities between the supervisory and the managerial boards (Jungmann 2006). The two-tier board system separates the legal requirements for executive directors and independent directors (Sheridan and Kendall 1992), with the CEO not being eligible to act as the chairman of the supervisory board (Maassen 1999). Under a one-tier board system, all the directors (e.g. executive directors and independent directors) form one board called the board of directors. Here, independent directors have the role of acting as a supervisory board, while executive directors/managers focus on management issues (Jungmann 2006).

The crucial question then is whether a one-tier or two-tier system can provide the most effective CG system (Jungmann 2006). Debates in favour of a one-tier system have generally been based on theoretical considerations rather than empirical research, preferring to concentrate on the replacement of a two-tier board with a one-tier board system (Jungmann 2006). Although the differences of ownership structure between one-tier and two-tier systems in various industries was a significant topic a few decades ago (Franks and Mayer 2001), this difference is no longer seen as an issue (Jungmann 2006). Studies show that, despite the different legal requirements in countries, they do not result in significant differences as long as CG systems maintain the principle of separation between ownership and control of the firm (Franks and Mayer 2001). Moreover, survey trends in the UK have revealed that ownership structure (using one-tier boards) has greatly diminished.[28] As a result, differences in ownership structures, which are a major factor in the effectiveness of CG systems, might no longer be the case (Schmidt 2004). Firms in different parts of the world tend to adjust their CG structures (e.g., Germany with a two-tier board system) when their CG structure becomes less efficient than the other CG system (e.g., the UK with a one-tier board system) (Moerland 1995).

As both one-tier and two-tier board systems have existed for well over a century, it is difficult to acknowledge that one is superior to the other (Charkham 1994). Development of CG systems and the associated legal requirements have occurred in response to corporate scandals resulting from corporate control failures in countries using both types of CG systems, rather than replacing one with the other (Jungmann 2006). The strengths and weaknesses of CG systems in the business and legal

[28] The proportion of UK shareholders by individual/household fell from 37.5% in 1975 to 14.1% in 2004, whereas about 80% of shares in UK listed firms were held by institutional investors (Jungmann 2006).

environment are reviewed below.

2.7.2 Strengths and Weaknesses of Two-Tier Board System

The strength of the two-tier system lies in its separation of control and management tasks and responsibilities (Guthrie and Turnbull 1995). In this context, control is exerted through open discussion between the supervisory and management boards and their trustful cooperation. In this system, members of the supervisory board are selected by all shareholders in a general meeting. These members are expected to monitor the management of the board's activities adequately and thoroughly. However, although members of the management board are elected by the supervisory board, Hopt and Leyens (2004) point out that members of the supervisory board are usually chosen by the management board and only formally elected in the general meeting. For this reason, members of the supervisory board are not purely independent when they control and monitor management board behaviours. They also found that this is most obvious in cases where members of the management board switch over to the supervisory board. However, despite this, their separation from management boards remains a strength of the system (Hopt and Leyens 2004).

A weakness of this system is that the division of board roles through the separation between management and supervisory boards does not guarantee a good integration of management and decision control (Maassen 1999). Typically, the role of a supervisory board is limited to monitoring and evaluating actions already taken by the management board. Thus, the role of the supervisory board as controllers tends to be passive and reactive (Jungmann 2006).

Although information access is equally applicable to one-tier board systems, deficiencies in a firm's operation to obtain information access is also identified as a weakness of the two-tier system since information possessed by executive directors may be superior to their supervisory directors (Baysinger and Hoskisson 1990). Thus, a strong information asymmetry exists between the supervisory and management boards. As Lutter (2000) states, supervisory boards' access to strategic information that could significantly affect the firm is limited, as all information received is provided by the management board (Lutter 2000). Thus, there is a significant possibility that the supervisory board will not identify deficiencies in firm operation (Maassen 1999). In this situation, Lutter (2000) suggest that frequent meetings between the two boards (at least four times a year) may reduce information asymmetry and help to adequately process high amounts of data and information.

2.7.3 Strengths and Weaknesses of One-Tier Board System

A strength of the one-tier system of CG is that board members are entrusted with the role of monitoring and strategy-setting and these are both incorporated into the same of group (Rickford 2005). Executive and independent directors have direct access to the same information (Jungmann 2006). One-tier systems also schedule board meetings more frequently and more regularly than two-tier systems. This significantly improves the board members' understanding of the firm's business environment and market (Lipton and Lorsch 1992; Owen and Espenlaub 1994). However, Turnbull (2000) expressed doubt as to whether these links of information were necessarily as good as the theory suggests, as information provided to the independent directors is prepared by management (Turnbull 2000). As Jungmann (2006) asserts, while information asymmetry exists between the supervisory and management boards, in the one-tier system information asymmetry occurs between board members.

Some researchers argue that boards in a one-tier system can give flexibility to management in controlling the flow of information, definition of alternatives, nominating processes and other agendas of decision-making (Daily 1991; Herman 1981; Mace 1971).

Since board members need to both make decisions and monitor them at the same time, board composition is vital. Boards dominated by executive directors and directors who combine the chairman and CEO position in a one-tier system seem to be more susceptible to potential conflicts of interest which can arise between agents and shareholders. Some studies have argued that a one-tier system should be composed of a majority of independent directors to ultimately enhance firm value

(Kesner and Johnson 1990; Maassen 1999; Pearce and Zahra 1992; Weisbach 1988). Furthermore, it is recommended that the chairman be independent and the chairman and CEO be separate (Jungmann 2006; Kesner and Johnson 1990), rather than have the CEO and chairman's position combined (Mulick 1993). This CEO duality can create a diffusion of board roles and erode the role of independent directors in controlling decision-making (Sheridan and Kendall 1992). It can eliminate the system of controls and balances in the boardroom (Dahya, Lonie and Power 1996).

2.7.4 Two-Tier Indonesian Board System

The development of legal and economic systems in Indonesia cannot be separated from the legacy of 350 years of a Dutch legislation system under colonial rule (Jaswadi 2013). The history of the two-tier board structure model in Indonesia was established under the Dutch *Verenigde Oostindiche Compagnie* in 1602.[29] As the first large commercial enterprise, the establishment of the supervisory board in 1632 could be described as a milestone for two-tier board CG systems in the world, well in advance of Germany and France introducing their two-tier CG systems at the beginning of the nineteenth century. However, the Indonesian two-tier board system of CG only formally began in 1995, with the enactment of the 1995 Capital Market Law No. 1 dealing with Limited Liability Companies.[30]

Along with Indonesia's legal reform supporting the implementation of GCG practices, on 16 August 2007, the Indonesian government promulgated Corporate Law No. 40 concerning the limited liability of shareholders (Kamal 2009). This law is considered central to Indonesia's formal legal framework for CG practice (Achmad 2007), requiring listed companies to use a two-tier system which includes the board of commissioners (BoCs) similar to the BoDs in one-tier systems, and BoMDs (Wibowo, Evans and Quaddus 2009). In the firms' CG system, BoCs and BoMDs have different tasks, with BoCs monitoring, controlling and supervising BoMDs, and reporting to GMS about board directors' policies for firm operation

[29] Hopt and Leyens (2004) presented a board model of the UK, Germany, France and Italy. Morck and Steir (2005) reviewed the history of two-tier board systems and CG in the Netherlands. In addition, Kamal (2009) examined the Global History of CG-An Introduction.

[30] The Indonesian Limited Liability Company is known as Perseroan Terbatas (PT), similar to the Naamloze Vennotschap (NV) in the Netherlands (Tabalujan 1996).

(Murhadi 2009). In the Indonesian two-tier system, Kamal (2009) identified BoCs as crucial for ensuring that management is undertaking its duty appropriately. This understanding is parallel to Fama and Jansen's requirement that, in line with agency theory, the board of a firm has monitoring duties that protect shareholder interests (Eisenhardt 1989a). Corporate Law No. 40 requires that a firm has at least one BoC member,[31] and two or more BoC members for larger firms.[32] All members of BoCs are selected by the GMS for a particular term and the possibility of being re-appointed,[33] with the GMS also stipulating their remuneration.[34]

In Indonesia's two-tier board system, BoMDs are identified as an important aspect to implement GCG (Kamal 2009). Under the two-tier system in Germany and France, shareholders can appoint and dismiss the BoCs while the BoCs can appoint, monitor and dismiss BoMDs. However, in Indonesia, the two-tier system is slightly different insofar as the GMS, which represents shareholders, can appoint and dismiss both BoCs and BoMDs (Jungmann 2006; Sari 2013). Despite this, BoCs are still characterised as being independent from the firm's management since they are tasked with monitoring and advising BoMDs. Hence, under the 2007 Law No. 40, although BoMDs are authorised to implement strategies, they cannot be independent because they are the firm's employees.[35][36] Regarding the number of BoMDs, although Kamal (2009) found that the law obliges firms to have at least one member,[37] due to a firm's predisposition to mobilise public funds, their responsibility to the public requires them to have at least two BoMD members.[38] Furthermore, as GMS legally (Corporate Law No. 40 of 2007) has authorities that are not given to BoCs and BoMDs, it is responsible for changing the firm's law, instigating mergers and liquidation. Furthermore, Kamal demonstrated that the GMS decides both the

31 Article 108 paragraph 3 Law No. 40 of 2007 about listed companies.
32 Article 108 paragraph 5 Law No. 40 of 2007 about listed companies.
33 Article 111 paragraph 3 Law No. 40 of 2007 about listed companies.
34 Article 113 Law No. 40 of 2007 about listed companies.
35 As stated in Table 1.1, an independent director is a director elected by shareholders who are not affiliated with the firm's management (Fama 1980; Fama and Jensen 1983b; Jo and Harjoto 2012). Hence, BoMDs are excluded.
36 Article 94 paragraph 3 Law No. 40 of 2007 about listed companies.
37 Article 97 paragraph 3 Law No. 40 of 2007 about listed companies.
38 Article 92 paragraph 4 Law No. 40 of 2007 about listed companies.

rights and obligations of shareholders, and publishes new shares and share/utilisations of the firm's return. Through the GMS, shareholders can also require either BoCs or BoMDs to share information regarding the firm's operations, as long as this action relates to the GMS programs and does not conflict with firm interests.

According to the BoCs structure, the role of an independent director is set in the one-tier board model of the UK, the US, Canada and Australia. In Anglo-Saxon countries, independent directors play an important role in the firm, because a firm has one board which undertakes both management and supervisory tasks. However, in the Indonesian context using a two-tier board system of CG, independent BoCs are referred to as non-executive directors (Kamal 2009). The development of Indonesian law covering independent directors and director commissioners in 2000 allowed the Jakarta Stock Exchange (JSX) (now known as the Indonesian Stock Exchange [IDX]) to issue rules regarding independent directors completing the *Badan Pengawas Pasar Modal dan Lembaga Keuangan* (BAPEPAM-LK) requirements. The BAPEPAM-LK is a division of the Ministry of Finance and a statutory body responsible for ensuring the capital market can operate in a fair and efficient manner to protect all investor interest and public interest. It has the authority to conduct both formal and criminal investigations in line with the Capital Market Law of 1995.

According to Siregar and Utama (2008), publicly listed companies were obliged to meet the requirements of a decision letter of the JSX (No.Kep-399/BEJ/07-2001) by 31 December 2001. Under this requirement, the number of independent BoC members was to be 30% of board size, and the category of independent board members to include individuals with: (i) no affiliated relationship with controlling shareholders in related firms; (ii) no affiliated relation with managers and/or board members in related listed firms; (iii) no engagement as officers in other firms affiliated with related listed firms; and (iv) an understanding of stock exchanges rules.

In 2004, a code of independent BoCs was proposed by the National Committee for Governance (NCG),[39] and then adopted by the Company Law No.40 of 2007 (Kamal 2009). This law obliges listed companies to have the number of independent BoCs, was to be 30% of all board members (Murhadi 2009). This requirement expects independent board members to be more effective in monitoring and controlling the firm's management activities (Brammer and Pavelin 2008). As Kamal (2009) states, Indonesian law makers neglected to honour the prevailing laws relating to the adoption of independent directors as independent BoCs members. Given that, as Zhuang (1999) posits, Indonesia has a relatively high concentration of family-based firm ownerships, hence as Prabowo (2010) argued, BoCs as monitoring boards are required to play an important role for Indonesian firms.

Although a few studies have examined the relationship between independent directors and firm value from an Indonesian context, they have provided mixed insights into board effectiveness. Ramdani and Witteloostuijn (2010) concluded that independent directors are significantly positive correlated with firm value. Prabowo (2010) and Wibowo, Evans and Quaddus (2009) found there was no significant relationship between independent directors and firm value. Wibowo, Evans and Quaddus (2009) argued that, although firms may comply with the form of internal CG mechanisms in term of independent directors, they have less power to interfere the executive manager decisions. The Audit Board of the Republic of Indonesia found that BoCs duties were rarely undertaken and proffered this as evidence of very limited governance (Badan Pemeriksaan Keuangan Republik Indonesia BPK-RI 2007). Furthermore, Prabowo (2010) found that Indonesian listed firms tend to appoint independent directors to simply fulfil the minimum requirement.

According to Praptiningsih (2009), a good monitoring mechanism of CG plays a crucial role in achieving better firm value and shareholder objectives. In Indonesia however, the combination of firms with a high concentrated ownership structure

[39] A detailed code for Independent BoCs (Pedoman Tenatng Komisaris Independent) was published by NCCG in 2004 (Jaswadi 2013).

(e.g., family-owned firms), and a weak legal environment, has meant that independent directors are expected to control opportunistic behaviour of the family group at the expense of other shareholders (Darmadi and Gunawan 2013).

2.7.5 Board of Commissioners Issues in Indonesia

With respect to the selection of BoCs, Indonesian organisational culture is typically identified as being highly group-oriented, possessing weak uncertainty-avoidance, male-dominated, and exhibits hierarchical practices (Gupta et al. 2002; Irawanto 2011). Hierarchical practices are identified as the natural way to order social and power relations (Blunt and Jones 1997). This practice is an important aspect of the organisational culture in Indonesian board systems, especially in hiring BoC members (Gupta et al. 2002). Although seniority, in terms of age, plays an important factor, the major factor is superior 'character and ability' to persuade and influence the process of decision-making in an organisation (Gupta et al. 2002; McKinnon 2000). The type of hierarchy practices based on seniority, trust, loyalty and fairness factors have been adopted in hiring BoC members in the Indonesian board system. Moreover, some BoCs of Indonesian listed firms were founder firms and his/her family members or colleagues were affiliated on the board.[40] In agreement with Tong (2014), personal trust becomes a crucial consideration in employee hiring, especially for high-level positions in Asian organisations.

According to Tricker (2012), BoCs should perform four major roles: (i) formulate strategies; (ii) make policy; (iii) supervise and monitor management activities; and (iv) provide disclosure of firm performances.[41] However, since Indonesian Corporate Law No. 40 of 2007 does not oblige BoCs to have a role in strategy formulation, policy making or providing disclosure on firm performance, these roles cannot be identified in the Indonesian board system of CG. BoCs are only required to ask

[40] Examples of founder family firms in the study population include, but are not limited to: (i) PT AKR Corporindo, Tbk: Soegiarto Adikoesoemo (the founder of AKR group) as president of BoCs since 1992; (ii) PT Jaya Real Property, Tbk: Dr. Ir.Ciputra (the founder of the Jaya group) as president of BoCs since 1994; (iii) PT Metrodata Electronics, Tbk: Candra Ciputra, MBA (the founder's family members - Dr. Ir.Ciputra) has received several high-level managerial positions before becoming president of BoCs since 2011.

[41] Firm performance is defined as the process wherein the firm manages its performance to fulfil the firm strategies and objectives (Bititci, Carrie and McDevitt 1997).

questions and approve the strategy and disclosure provided by BoMDs. The BoCs' involvement in strategy formulation is limited to discussions about annual strategic planning and budgets. They do not have the opportunity to discuss long-term planning and policies, formulation of vision, and the mission and direction of the firm. Since the role of BoCs is limited to a supervisory and advisory capacity to the BoMDs without being involved in policy making and strategic firm activities, they are not legally responsible when a firm fails or performs poorly, or when a mistake is made by the BoMDs (Sari 2013).

In the Indonesian board system flow of information, BoMDs directly show disclosures of the firm's operation procedures to the GMS, whereas BoCs only provide disclosures to the GMS about the level of BoMDs compliance with the principles of GCG. Consequently, BoMDs can ignore the important governing role of BoCs and bypass the bureaucracy by directly meeting with majority shareholders. This could then lead to transfers of interest and increased tendencies for BoMDs to have special connections with certain groups. However, these connections may jeopardise the sustainability of the firm through fraudulent activities and financial scandals (Sari 2013). Since CG is meant to effectively monitor firm entities (Clarke 2004), it is important to determine who controls whom (Syakhroza 2005). Governance structures therefore need to put BoCs in important positions with enough power to ensure that BoMDs can move their firms in the right direction (Sari 2013) and prevent agency problems (Garratt 2003; Kamal 2008).

In the Indonesian board system, the equal position of BoCs and BoMDs also causes the BoCs to lack power over BoMDs in supervising and monitoring BoMDs' activities. Thus, BoCs are unable to ensure that a firm's operations effectively correspond with the GCG code. Moreover, as partners, BoCs and BoMDs frequently clash due to having different opinions over strategic issues. Unfortunately, there is no significant action or punishment for BoMD members who do not follow BoCs' advice or instructions. The BoCs can only report such behaviours to the shareholders via the GMS if they feel it is necessary. Furthermore, as the majority of BoMD members have close relationships with legislative and government officials, the government does not pay attention and respond to negative BoCs reports. These close relationships have also had the effect of mitigating listing requirements as an effective monitoring procedure (Sari 2013). Furthermore, the structure of Indonesian boards are such that they cannot provide enough power for BoCs to represent shareholders by supervising BoMDs. Furthermore, the lack of clarity regarding BoCs responsibility means that some BoC members develop their own understanding of how to conduct their roles. This has resulted in BoCs taking varied, or inconsistent, actions and sometimes attempting to avoid taking responsibility from any mistakes made by BoMDs, due to fraudulent activities (Sari 2013).

For this reason, CG structures require good management of the BoCs to ensure transparency and appropriate systems are followed in: (i) recruitment and selection; (ii) development programs; (iii) performance assessment; and (iv) reward systems (Sari 2013).

2.8 Ownership Structure

A firm's ownership structure is one of the most researched indicators of CG (Himmelberg, Hubbard and Palia 1999; Morck, Shleifer and Vishny 1988b; Porta, Lopez-de-Silanes and Shleifer 1999; Ramaswamy, Li and Veliyath 2002), receiving attention from financial economists over many years (Denis and Sarin 1999; Dwivedi and Jain 2005). According to Dwivedi and Jain (2005), studies on ownership structure generally involve two important issues. The first focuses on the concentration or dispersion of equity ownership and large shareholders. For example, Maher and Andersson (1999) categorised systems of CG worldwide based on the level of ownership and control as well as the recognition of controlling shareholders that divide into two board systems – outsider with wide ownership dispersion (e.g., the UK or US) and insider with ownership or control concentration (e.g., Japan or Europe).

The second issue focuses on share ownership by board members, the CEO and higher management (Himmelberg, Hubbard and Palia 1999; Ofek and Yermack 2000; Short and Keasey 1999; Warfield, Wild and Wild 1995). Many researchers and business practitioners have argued that manager and shareholder interests are not always aligned, which may create agency problems that reduce firm value. Managerial ownership can be identified as a bridge to link the interests of insiders and shareholders and lead to better decision-making and higher firm value where shareholders are active in the decision-making processes of the firm's operations (Cunnningham, Coote and Holmes-Smith 2006). Furthermore, when managerial ownership is high, due to good alignment between managers and shareholders' interests, agency problems can be avoided. However, when the firm equity owned by management becomes too high, increases in managerial ownership may allow them to have sufficient shares to increase gains without reducing firm value (Ruan, Tian and Ma 2011). Thus, the relationship between managerial ownership and firm value does not always show a linear pattern (Cho 1998; McConnell and Servaes 1990; Shleifer and Summers 1988).

Literature on large ownership focuses on the extent to which the type of shareholder ownership compares with dispersed ownership (Sarkar and Sarkar 2000). However, theoretical and empirical studies present conflicting results on the role of large shareholders in enhancing firm value (Shleifer and Vishny 1997). The potential costs of large shareholders are identified in two hypotheses: 'conflict of interest' and 'strategic alignment'. Arguments on the cost of capital show that an increase in ownership concentration may reduce firm value as a result of raising a firm's cost of capital following decreased market liquidity or diversification on behalf of investors (Fama and Jensen 1983a). Consequently, the focus of large shareholders sometimes could be directed towards objectives other than profit maximisation. This condition could impact the interest of the minority shareholders. Moreover, large shareholders, such as institutional investors and managers, may find it to their benefit to work together to reduce firm value and harm the interests of monitory investors (Brickley, Lease and Smith 1988; Burkart, Gromb and Panunzi 1997; Pound 1988; Schmidt 1996; Shleifer and Summers 1988). However, other researchers point out the advantages of large ownerships under the 'convergence of interest' and the 'efficient monitoring' hypotheses (Dwivedi and Jain 2005; Sarkar and Sarkar 2000). Large shareholders are more efficient than the dispersed and small shareholders in monitoring management activities in the following ways: (i) they have substantial investment and significant power to protect their investment (Jensen and Meckling 1976; Ramaswamy, Li and Veliyath 2002; Shleifer and Vishny 1986); (ii) they help mitigate problems of collective action among dispersed and small shareholders (Dodd and Warner 1983); and (iii) they engage in reasoned investing and are more committed to the firm over the long term (Black 1998; Blair 1995).

Studies in ownership structure include those that examine: (i) the relationship between ownership structures and firm value (Himmelberg, Hubbard and Palia 1999; Lemmon and Lins 2003; Lins 2003; McConnell and Servaes 1990; Morck, Shleifer and Vishny 1988b); (ii) the impact of ownership characteristics on specific managerial decisions (Dhaliwal, Salamon and Dan Smith 1982; Pinho 2007); and (iii) comparisons of ownership characteristics across countries and industry sectors (Bhasa 2004; Dwivedi and Jain 2005; Jungmann 2006; Moerland 1995; Roe 1993). Studies examining the relationship between ownership structures and firm value differ across countries (Dwivedi and Jain 2005). Studies of ownership structure and firm value in CG systems worldwide have identified two categories: (i) market-based systems; and (ii) control-based systems (Clarke 2007; Thomsen, Pedersen and Kvist 2006).

Many researchers have emphasised the importance of legal systems and investor protection when explaining differences between these two CG systems (La Porta et al. 2002; López de Silanes et al. 1998; Porta, Lopez-de-Silanes and Shleifer 1999; Shleifer and Vishny 1997). Specifically, laws for investor protection have been identified as key determinants in the increased investment by small shareholders who wish to reduce the private gains that controlling shareholders may extract at their expense. For example, Gedajlovic and Shapiro (1998) identified statistically significant differences in the relationship between ownership concentration and firm value in five developed countries (the UK, US, Canada, France and Germany). Thomsen and Pedersen (2000) also found differences across 12 European countries in examining relationship ownership patterns and CG. The pattern of ownership concentration identified as a factor for propensity in monitoring manager behaviours also varies across developed countries (Porta, Lopez-de-Silanes and Shleifer 1999; Ramaswamy, Li and Veliyath 2002). Thus, ownership structures in developing countries like Indonesia are an important aspect of CG and its relationship to firm value (Prabowo and Simpson 2011). Consequently, this study incorporates ownership structure as part of its CG mechanisms.

2.8.1 Ownership Concentration

The traditional agency conflict presented by Jensen and Meckling (1976) argues that managers active in the firm's daily business have tendencies to create information asymmetry and modify shareholder value (Bhasa 2004; Eriotis, Vasiliou and Ventoura-Neokosmidi 2007). This action is intended to maximise private gains, including high salary and job security, compensation packages, direct control of firm's cash flows and avoidance of debt covenants (Eriotis, Vasiliou and Ventoura-Neokosmidi 2007; Holthausen, Larcker and Sloan 1995), without considering the morality of risks that are not being taken in shareholders' interests. In contrast, when managers become part owners of a firm, their interests will certainly align with the shareholders. The alignment with the assumption of managerial ownership based on agency theory, managerial ownership is perceived to solve agency conflicts between controllers and owners (Denis and McConnell 2003; Shleifer and Vishny 1997; Jensen and Meckling 1976). However, other researchers have different explanation about manager performance based on the proportion of manager shareholders. They posit that the assumption of managerial ownership could not be used to solve agency conflicts in countries that have high degrees of concentrated ownerships (Cho and Rui 2009; McConnell and Servaes 1990; Morck, Shleifer and Vishny 1988a; Yunos 2011). Previous studies also demonstrated a negative relationship between manager performance and firm value, when they owned large percentage shares (concentrated share ownership). Additionally, this study defines concentrated ownerships as a stakeholder who owns 5 percent or more of the votes (Cronqvist and Nilsson 2003; Li, et al. 2006; Thomsen, Pedersen and Kvist 2006).

Unlike developed countries, which tend to have dispersed shareholdings, developing countries with emerging capital markets, such as Indonesia, Thailand, Malaysia, China, India and Lebanon, are characterised by concentrated shareholdings and different cultural traditions, histories and aspirations (Arifin 2003; Charbel, Elie and Georges 2013; Chin et al. 2006; Claessens, Djankov and Lang 2000; Claessens and Yurtoglu 2013; Dharwadkar, George and Brandes 2000; Khanna and Palepu 2005; Rahman and Ali 2006). Many listed firms in these countries are family-owned or controlled, having evolved from traditional family-owned enterprises. These family owners, or controllers, are managers and their families occupy core management positions, enabling them to interfere in the operation and cash-flow rights of their firms (Charbel, Elie and Georges 2013), as well as possessing legal controls over voting rights and equity distribution (Rondinelli and London 2002; Villalonga and Amit 2006). Hence, agency problems may occur when the controlling owners take advantage of their power over managers to extract firm wealth for their own benefit because of their executive accessibility to private information. Furthermore, decisions made by these owners (based on their advantageous position) may compromise the interests of minority shareholders (Yunos 2011). In addition, since executive managers may be family members or friends, owners may use their relationships to further extract private benefit from control (Charbel, Elie and Georges 2013; Dyck and Zingales 2004; Nenova 2003). In these cases, high ownership concentration can create conflicts of interest between majority and minority shareholders that ultimately lead to lower firm value (Ghofar and Islam 2014).

Lee (2006) argued that the long-term presence of founding families within firms can stimulate competitive advantages. For instance, founding families may view their firms as an asset which can be passed on to successive generations, hence the ability of the firm to succeed is extremely important. Thus, as Davis (1983) states, managerial ownership via the founding family tends to encourage and facilitate good employee performance by maintaining a strong relationship with its employees. Davis (1983) adds that this promotes a sense of stability and commitment to the firm by employees. This shows the importance of trust in mitigating the moral hazard problem between principals and agents, which can raise the agent's effort and productivity of the agent and ultimately enhance firm value (Lee 2006). According to Fama and Jensen (1983b) and DeAngelo and DeAngelo (1985), although founding families have the ability to monitor and discipline managers and employees in order to enhance firm efficiency, the family business will typically perform poorer when trust is weak resulting in agency problems.

A lack of legal protection for minority shareholders can also significantly contribute to agency problems (Gomes 2000; Kung, Cheng and James 2010). For example, Nenova (2003) computed the voting premium associated with controlling shareholders in 18 countries and found that those with strong laws in investor rights protection and pro-investor takeovers have lower voting premiums. This finding is consistent with the lower private benefits of control in those countries (Da Silveira and Dias 2010). In European countries, Thomsen, Pedersen and Kvist (2006) also found that concentrated ownership tends to exceed the level which maximises firm value from the viewpoint of minority shareholders. As Fama and Jensen (1983a), Morck, Shleifer and Vishny (1988b) and Shleifer and Vishny (1997) concluded, high ownership concentration can lead owners and managers expropriating the wealth of minority shareholders. The owners' portfolio risk increases with exposure, which may then affect both risk taking and expected returns (Bolton and Thadden 1998).

According to Holderness' (2009) study on 375 US public firms, 96% of all firms have at least one blockholder who owns 5% or more of the votes. Even among the S&P 500 firms, after controlling for firm size, 89% have at least one blockholder. These findings contradict the conventional wisdom that US public corporations are predominantly widely held and, more generally, that ownership of public firms is less concentrated in countries with stronger investor protection (Baker and Anderson 2010). Thus, as Holderness (2009) states, this finding raises doubts about the empirical foundation and validity of the notion that legal systems can fully explain cross-country differences. The findings also partially contradict the characterisation of the US as having an outsider CG system with dispersed ownership (Baker and Anderson 2010).

In a study of ownership structure in nine East Asian countries (Hong Kong, Indonesia, Japan, South Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand), Claessens, Djankov and Lang (2000) found that the largest ownership control (i.e., blockholders) occurred in Thailand, Indonesia and Malaysia, with ownership, on average, of 35%, 34% and 28%, respectively.[42] Their study found that family ownership in Indonesian listed firms is extremely high (67%), while diffused ownership is rare (only 0.6%). Indonesian listed firms also had a stronger correlation with managerial and family ownership concentration, with institutional investors tending to be more actively involved in the managerial decision process than non-institutional shareholders (Achmad et al. 2008; Brickley, Lease and Smith 1988; Siregar and Utama 2008). Therefore, the conflict of interest between controlling and minority shareholders created through concentrated ownership is a major issue in most developing countries with emerging capital markets (Da Silveira and Dias 2010; Yunos 2011).

Other studies, such as that from Porta, Lopez-de-Silanes and Shleifer (1999), found that concentrated owners are able to expand their control rights beyond a direct control of the cash flow of the firm to eventually gain total control. They are also more prone to destroy or sacrifice other shareholders' interests to deplete the firm's assets the firm (Kung, Cheng and James 2010), and tend to contribute less to improving the income of the firm due to manipulating accounting disclosures or obscuring faulty business activities in financial reports to misrepresent firm value to the capital market (Klassen 1997). Although concentrated ownership can mitigate or exacerbate agency problems, countries with weak governance mechanisms are more likely to experience negative impacts (Setia-Atmaja 2009). For this reason, Kothari, Shu and Wysocki (2009), found potential investors prefer to not use annual reports for investment decisions but rather access other credible and easily available sources of information. Furthermore, insiders tend to obscure or delay any bad news that may negatively affect firm value in order to help modify or avoid losses in the capital market (Kothari, Shu and Wysocki 2009). Thus, concentrated ownership can adversely affect the CG system when it becomes involved in earnings management

[42] Conversely, the largest ownership control in Japan, Korea, and Taiwan is only 10%, 18% and 19%, respectively.

(Cho and Rui 2009; Leuz, Nanda and Wysocki 2003) and is subject to weaker internal CG mechanisms (Yunos 2011).

In order to more fully understand the conflict of interest caused by concentrated ownership and control, and poor institutional protection for minority shareholders, Dharwadkar, George and Brandes (2000) developed a new view of CG called principal-principal (PP). Principal-principal conflicts are indicators of weak CG and low firm valuations (Claessens et al. 2002; Lins 2003; Porta et al. 1999), associated with lower levels of dividend payouts (La Porta et al. 2000), less information about share prices (Morck, Yeung and Yu 2000), inefficient business strategies (Filatotchev et al. 2003; Wurgler 2000) and less investment in innovation (Morck, Yeung and Yu 2000). Other negative effects of ownership concentration include distractions from capital allocation efficiency (Maher and Andersson 1999) and weak internal controls that increase risk of expropriation (Bozec and Bozec 2007). Fan and Wong (2002) also found that concentrated ownership structures in East Asian countries may reduce the informativeness of accounting reports. For example, Chin et al. (2006) investigated the earnings' forecasts of companies in Taiwan, and found that those with concentrated ownership released forecasts that were less accurate.

2.8.2 Ownership Structure and Firm Value

Although some researchers have argued that large shareholders tend to have greater power and incentives in maximising firm value and enhancing shareholder wealth (incentive alignment hypothesis) (Burkart, Gromb and Panunzi 1997; Jensen and Meckling 1976; Zeckhauser and Pound 1990), it has been shown that ownership structure (via concentrated ownership) above a certain point may lead to owner-managers expropriating minority shareholders' wealth (Fama and Jensen 1983a; Morck, Shleifer and Vishny 1988b; Shleifer and Vishny 1997).[43] Thus, shareholder risk increases with this exposure which can influence both risk taking and expected

[43] Some studies have identified concentrated ownership as a person or organisation holding from 5% to 20% of the firm's common shares (Claessens, Djankov and Lang 2000; Faccio, Lang and Young 2001; Thomsen, Pedersen and Kvist 2006; Yen and André 2007). However, the Indonesian Capital Market Law article (1) 1995 identified a person or organisation holding at least 20% of the firm's common shares is called a 'substantial shareholder' (Achmad et al. 2008).

returns (Bolton and Thadden 1998).
Many studies have examined the effect of concentrated ownership on firm value (Anderson and Reeb 2003; Claessens and Fan 2002; Cronqvist and Nilsson 2003; Demsetz and Villalonga 2001; Gordon and Roe 2004; Gugler 2001; Kothari, Shu and Wysocki 2009; Singh and Davidson 2003) with mixed results. For example, Thomsen, Pedersen and Kvist (2006) found that concentrated ownership can have both a positive and negative feedback effects on firm value. For example, positive feedback can occur when large shareholders have a strong preference for remaining in control (control preference hypothesis), when higher market prices are creating the possibility of financing an investment by issuing a lesser amount of stock to outside ownerships (La Porta et al. 2002). Thus, in agreement with the pecking-order hypothesis of Myers and Majluf (1984), when the incumbent owners hold on to larger number of shares in high value firms, firm value may have a positive impact on their shares. Thomsen, Pedersen and Kvist (2006) further explain that increases in share prices and firm value allow managerial and concentrated ownership to finance certain levels of investment by issuing less shares and relying on debt and internally generated funds. In contrast to the positive effects of firm value on concentrated ownership, negative effects may occur when the degree of concentrated ownership declines parallel to an increase in firm value resulting from selling their shares when the price is high (Zeckhauser and Pound 1990). In this case, the opportunity cost hypothesis posits that the absolute risk and opportunity cost of owning a given stake in a firm tends to increase with its value (Thomsen, Pedersen and Kvist 2006). Therefore, based on these three contrasting theoretical explanations, the relationships between concentrated ownership and firm value are complex and inconclusive (Thomsen, Pedersen and Kvist 2006).

This is further reinforced via a study of nine East Asian countries (Hong Kong, Indonesia, Japan, South Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand) by Claessens and Fan (2002). Their study concluded that firm value declines when control rights on dominant shareholders surpass cash flow ownerships to create private gains of control. A study by Stulz (1988) on 228 large firms in the US found that firm value increases parallel to the voting rights of insider ownerships up to 50%. However, firm value decreased when insider ownerships reached or exceeded 50%. A study by Molz et al. (1988) found an increase in firm value (e.g., Tobin's Q) when the level of managerial ownership (board members) was between 0% and 5% and above 25%, whereas firm value decreased when managerial ownership was between 5% and 25%. Expanding on Molz et al.'s research, using 228 large firms in the US, Riahi-Belkaoui (1996) found that firm value decreased when managerial ownership (top management) was between 0% and 5% and over 25%, but increased when managerial ownership was between 5% and 25%. These contradictory results reinforce the contested nature of CG mechanisms in the academic literature. Specifically, that although optimal ownership structures can differ for firms typically firms that do not possess these characteristics will have a lower firm value. Riahi-Belkaoui (1996) concluded that management and shareholder interests could be aligned, with firm value increasing as managerial ownership increases up to a certain point. Using small firms as a basis for a US study, McConnell and Serveas (1990, 1995) found a positive relationship for firms with up to 40% to 50% of managerial ownership and a negative relationship for firms outside that proportion. As Kole (1995) states, the relationship between managerial ownership and firm value can differ according to firm size.

In the case of outside concentrated ownership, effective monitoring mechanisms can be provided by improving information flows (Azofra, Castrillo and del Mar Delgado 2003; Yeo et al. 2002; Yunos 2011). Since outside concentrated ownership is generally active in monitoring, it may be instrumental in generating firm value (Singh and Davidson 2003). In fact, Allen and Phillips (2000) and Shome and Singh (1995) found an improvement in firm value following larger purchases from outside shareholdings (outsider), and Bethel, Liebeskind and Opler (1998) showed that large purchases of shares from outsiders frequently lead to firm restructuring, increases in share price, and industry advantages. Thus, as Singh and Davidson (2003) concluded, firms try to attract institutional traders (as the outsider) to be part of the firm's ownership in order to improve share performance. Institutional shareholders also tend to be more actively involved in the managerial decision process than non-institutional shareholders (Brickley, Lease and Smith 1988), since they often own a significant proportion of the firm's total shares and cannot easily sell their shares. Thus, the incorporation of institutional ownership is an effective way to monitor firm operations by top management (Brickley, Lease and Smith 1988). As a developing country, Indonesian firms mostly resemble inside concentrated ownership (Claessens, Djankov and Lang 2000). Studies by Achmad et al. (2008), Prabowo and Simpson (2011) and Siregar and Utama (2008) found that inside concentrated ownership has detrimental impacts on firm value. Therefore, it can be concluded that while inside concentrated ownership has detrimental impacts on firm value; outside concentrated ownership can provide good CG mechanisms and increase firm value.

2.9 Summary

In this chapter, the literature relating to CG theories and CG mechanisms has been reviewed. The main CG theories were presented to determine a valid and justifiable theoretical basis for the use of CG in the analysis. Upon completion of the review, a multi-theoretic approach to CG was adopted that will utilise agency theory and resource dependence theory, since these were determined to be the most appropriate fit for the context of this study. In addition, CG mechanisms were reviewed with respect to their impact on firm value generally, and then within an Indonesian context, along with a review of the Indonesian board system. It was determined that the following CG mechanisms (board size, independent directors and ownership structure) were important to firm value. In Chapter 3, literature relating to CSR is discussed, with a focus on examining the key theories underpinning CSR, from an accounting and non-accounting perspective, and the impact of CSR on firm value. Furthermore, the next chapter focuses on information quality and its role in the relationship between CSR and firm value.

In the past, corporate governance was quite narrowly defined. We feel that it is becoming much broader and we need to look at issues that influence the long-term competitiveness of firms such as environmental and economic sustainability, the way risk is managed. CSR is also becoming part of the governance picture.
(Hancock 2004, p.173)

Chapter 3: Literature Review: Corporate Social Responsibility, Information Quality and Firm Value

3.1 Introduction

In Chapter 2 academic literature relating to corporate governance (CG) theories and mechanisms was discussed. The current chapter reviews the literature on corporate social responsibility (CSR), information quality and firm value generally and within an Indonesian context.

The organisation of this chapter is as follows. Initially, a brief review of CSR definitions is undertaken prior to settling on an operational term to be adopted for this study. This is followed by a review of CSR and its theories, as well as the factors that affect a firm's CSR behaviour. Studies of CSR on developing countries, including Indonesia, are then examined. The measurement of CSR is reviewed with a focus on accounting and non-accounting proxies. The remainder of the chapter focuses on reviewing information quality and firm value and their relationship with CSR.

3.2 Defining Corporate Social Responsibility

As with CG, definitions of CSR abound (Fifka 2009). Dahlsrud (2008) cited at least 37 different definitions employed in the CSR literature. Although this has led to some confusion (Justice 2003), it does not mean that CSR is a vague and meaningless concept (Bice 2011). Some scholars have argued for a standardised definition that provides a clear starting point for comparative studies across both academia and industry (Crane et al. 2008; Donaldson et al. 2008; Williams and Aguilera 2008). However, others, such as Crane et al. (2008), disagree, maintaining that a universal definition is not necessary, given the concept's subjective nature

(Jamali 2008). With this understanding, it is important that an operational definition is derived to suit the specific purposes of this study.

Mintzberg (1983) argued that CSR should be practised in its purest form, with firms not acting in self-interest by expecting returns or payback for their ethical position. However, Jones (2003) disagrees with Mintzberg, maintaining that firms acting out of self-interest are not necessarily unethical, while Wan-Jan (2006) argues that firms active in CSR should expect benefits to emerge for the firm.

Carroll developed the 'Four Faces' of CSR (Carroll 1979), in which the definition of social responsibility aimed to fully address the entire range of obligations that business had for society: (i) economic; (ii) legal; (iii) ethical; and (iv) discretionary. 'Economic' is described as the primary social responsibility of business to sell products and make a profit. 'Legal' is the firm's obligation to obey the law. Although Carroll's definition of 'ethical' behaviour is unclear, it can be approximately described as society's expectation of business over and above legal requirements. 'Discretionary' covers philanthropic contributions and other non-profit activities. Carroll (1991) further developed the four faces model into a pyramid of CSR that placed great emphasis on economic, then on legal aims, and substituted the term 'discretionary' with 'philanthropic'. Schwartz and Carroll (2003) modified Carroll's two earlier models to form a new model entitled the 'three-domain model of CSR', where the discretionary aspect was omitted due to being 'supererogatory' and not an action of responsibility. This conception of CSR aligns with the operational definition in Table 1.1 which stated that CSR is when firms go above and beyond legal requirements and firm interests to serve the community, environment and its inhabitants (Cui, Jo and Na 2016; Ioannou and Serafeim 2015; Margolis and Walsh 2003; Orlitzky, Schmidt and Rynes 2003).

Schwartz and Carroll argued that advancements in business strategy can only be achieved when economic and ethical domains overlap due to firms' passive compliance with legal requirements (Wan-Jan 2006). Although there is a clear correlation between CSR as incorporating ethics and business, it is primarily viewed as a business strategy (Wan-Jan 2006). As stated in Chapter 1, many CSR studies generally refer to the fact that firms need to go above and beyond legal requirements and firm interests to serve the community, the environment and its inhabitants (CEC 2002; Cui, Jo and Na 2016 ; Margolis and Walsh 2003; Orlitzky, Schmidt and Rynes 2003; World Business Council for Sustainable Development WBCSD 1999).

3.3 Brief Historical Context of Corporate Social Responsibility

Bowen (1953, p. 6) argued that business practices have a responsibility to '… *pursue those policies, make decisions and follow those lines of action which are desirable in terms of the objectives and values of our society*'. Bowen's idea has been acknowledged as the basis of modern scholarly discussion on social responsibility in business (Bohl 2012; Carroll 1999; Wartick and Cochran 1985), with numerous scholars further developing the concept of social responsibility (Carroll 1979; Cheit 1964; Davis and Blomstrom 1966; Greenwood 1964; Mason 1960).

Corporate stewardship was an initial focus of CSR where firms were seen as '… *public trustees and stewards of broad-scale economic interest*' (Frederick 2008, p. 524). For example, in the US during the 1960s and 1970s, firms were primarily concerned with the diverse variety of social issues generated by poverty, urban decay, minority rights (racial and sexual discrimination), lack of environmental protection, lack of health and safety conditions in the work place, inappropriately priced products, and bribery activities (Frederick 2008). As a result, political changes in this period contributed to the creation of new ideas about CSR, focusing on social and philanthropic contributions to community projects (Bohl 2012; Porter and Kramer 2002). Consequently, CSR became identified with furthering some social good that goes beyond firm interest or legal requirements (McWilliams and Siegel 2001).

Increases in government regulations became more burdensome for firms who felt that this affected the prioritisation of shareholder interests (Frederick 1986, 1994). Consequently, CSR transformed to prioritise shareholder interest (Bohl 2012) where financial returns were the prime concern of shareholders (Wartick and Cochran

1985). Thus, by adopting a shareholder view, firms could best demonstrate their CSR, while both fulfilling their obligations to general society (Peters 2007) and adding financial benefits to the firm (Bohl 2012). Such benefits could derive from the moral capital or goodwill created via CSR activities,[44] as well as offering protection to shareholder wealth when negative events occur (Gardberg and Fombrun 2006; Godfrey, Merrill and Hansen 2009). For example, when negative events do occur, a firm can experience direct losses via a boycott of products or business and indirectly via a diminished brand reputation, loss of valuable employees, tightened terms with suppliers, and increased costs in restoring firm image, and these ultimately contribute to higher levels of future financial distress.[45] However, firms with CSR activities have the presence of a moral capital that can protect them from potential sanctions (Godfrey, Merrill and Hansen 2009).

Hence, CSR activities can play a crucial role in generating and preserving economic value through the creation of stronger relationships with customers and employees, forestalling government intervention, and enhancing future growth (Lev, Petrovits and Radhakrishnan 2006).

Although economic responsibility is the first and major responsibility of a firm (Wartick and Cochran 1985), some managers have disregarded the interests of other stakeholders. This, as Peters (2007) points out, can result in threats to firm survival and ultimately lead to firm ineffectiveness and possible failure (Clarkson 1995; Wood 1991). Thus, the idea that firms are not only responsible to shareholders, but also to other stakeholders, led to a further advancement of CSR via stakeholder theory (Bohl 2012).

---

[44] Activities which demonstrate the inclusion of environmental and community aspects in the firm's business operation and communication with various stakeholder groups (Pedersen 2006).

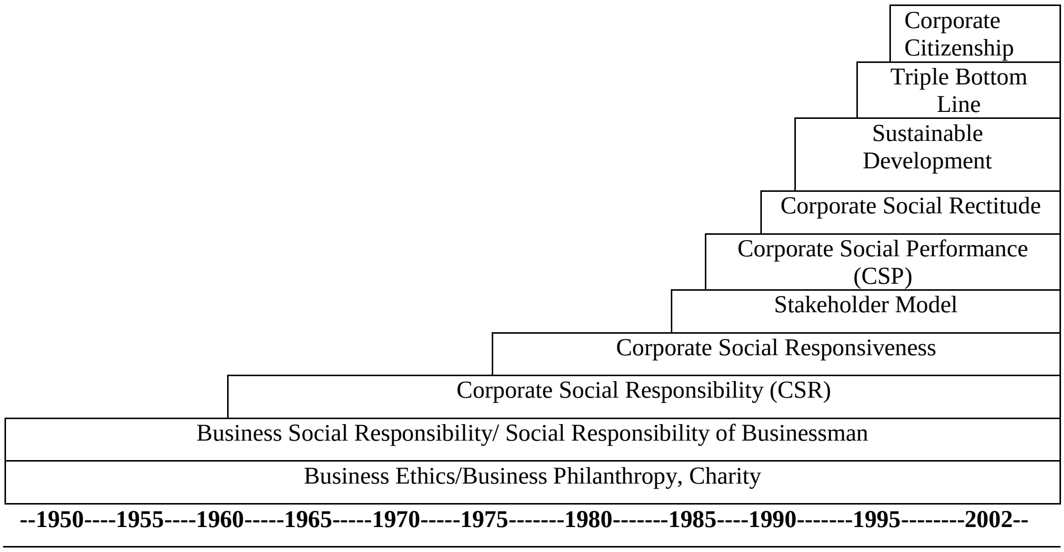
[45] An example of this is the Chiquita-Banana case in Colombia. Chiquita Brands International, Inc provided financial support and weapon delivery to guerrilla and paramilitary organisations (i.e., Revolutionary Armed Forces of Colombia/FSRC; National Liberation Army/ELN and Self-Defense Forces of Colombia/AUC) from 1989 to 2004 in order to protect the safety of its workers from attacks. However, Chiquita-Brands was identified as a terrorist group under the US anti-terrorist law. In 2007, the US Department of Justice investigated and filed criminal charges against Chiquita under the US anti-terrorist law. Chiquita is settled its charges with the US government by pleading guilty to a charge of engaging in giving financial support to terrorist groups and agreeing to a US$ 2.5 million fine (Maurer 2009).

The concept ‘stakeholder’ was first introduced in 1963 by the Stanford Research Institute, suggesting that a firm’s objectives should reflect shareholder demands to ensure continued survival of the firm (Freeman 1984). However, as the next section will demonstrate in detail, stakeholder theory formalisation has frequently been attributed to Freeman, who argued that managers must pay attention to groups or individuals that ‘can affect’ or be ‘affected by’ actions of the firm (Laplume, Sonpar and Litz 2008). Thus, a firm’s manager needs to meet stakeholder demands by creating a sound corporate strategy to ensure the continued survival of the firm.

In this situation managers need to understand their stakeholders in order to identify which ones have the greatest impact on the firm’s ability to succeed in the marketplace (Bhattacharya and Korschun 2008). Thus, developing mutually beneficial relationships with stakeholders becomes the key determinant to firm value (Choi and Wang 2009; Post, Preston and Sachs 2002b), and failure to understand the relative importance of stakeholders can destroy its future viability (Freeman 1984; Post, Preston and Sachs 2002b; Smith, Drumwright and Gentile 2010). Firm management therefore plays an important role as a communication tool in identifying and interpreting stakeholder needs and demands. This tool allows the development of a common language for CSR in order to give greater credibility and ensure that the CSR is clearly translated and verified (Tsoi 2010).

Although CSR is viewed as a means to unify business and society, scholarly developments in the field have been hindered by the introduction of new concepts and sub-disciplines such as strong overlaps between corporate citizenship and CSR (Carroll 1999; De Bakker, Groenewegen and Den Hond 2005). Figure 3.1 presents a historical overview of the sequence and range of development in the constructs used for CSR (Mohan 2003).

Figure 3.1 Developments in CSR-Related Concepts



Source: Mohan (2003, p.74).

Although a review of all these CSR-related concepts is beyond the scope of the present research, it does illustrate the emergence over the last few decades of CSR (and related aspects) in both academic research and firm development, particularly in developed countries (Harrison and Freeman 1999; Klein and Dawar 2004; Sen and Bhattacharya 2001; Waddock and Smith 2000).

With respect to firms, a 2008 survey found that 75% of executive managers believe that their firms need to involve CSR into their business strategies (Franklin 2008). This supports Jo and Harjoto (2012) and Harjoto and Jo (2011), who argue that firms adopting CSR activities can be used as an effective strategy to resolve conflicts of interest among stakeholder groups which ultimately may reduce agency conflict, and ultimately increase firm value and enhance shareholder wealth. Despite studies showing a positive relationship between CSR and firm value (Lubin and Esty 2010; Verschoor 1998; Webley and More 2003), many managers are constrained in moving forwards on CSR involvement due to lack of resources, limited budgets and lack of qualified employees (Welford and Frost 2006).

In broad terms, the CSR concept has evolved to include a mutual dependence between firms, stakeholders, government, the environment and society, together with the indicators that influence these relationships (Aguilera et al. 2007; Maignan, Ferrell and Hult 1999; Saeed 2011; Stanwick and Stanwick 1998). Firms involved in CSR do so not only to fulfil obligations from regulatory and various stakeholder groups, but also due to enlightened-self-interest considerations such as improving firm value and enhancing shareholder wealth (Bansal and Roth 2000; Klein and Dawar 2004; Waddock and Smith 2000). However as the CSR concept, and its attributes, has evolved this has led to various CSR theories. These are reviewed below.

3.4 Corporate Social Responsibility Theories

Central themes surrounding CSR relate to its financial benefits, ethical considerations, and stakeholders. To deal with the complexity of CSR and to identify the social drivers that can inhabit CSR the following theories are reviewed in the context of developed and developing countries: stakeholder theory; social contract theory (SCT); legitimacy theory; resources based view (RBV) theory; and the multilevel theory of social change.

3.4.1 Stakeholder Theory

Stakeholder theory posits that the nature, expectations and influence of all firm stakeholders determine firm behaviour and performance (Donaldson and Preston 1995; Freeman 1984; Jones 1995; Phillips 2003; Post et al. 1996). Here, stakeholders are defined as a person, group or organisation that has interest or concern in an organisation (Freeman 1984) . The firm's relationships with its various stakeholders provides managers with a practical focus that enables them to understand and manage the firm's responsibilities within the wider society (Neville 2008). Thus, managers are central to the formal and informal contracts that exist with multiple stakeholders (Jones 1995). In fact, Freeman (1984) associates stakeholder theory with strong organisational management base and business ethics that address moral values in managing an organisation. This perspective eschews the singularly focused goal espoused by Friedman (1962, 1970) and Jensen (2002).

Since firms depend on stakeholders for survival and success, managers need to focus on the relationships with each stakeholder according to demand and expectation of resources. Frooman (1999) warns against neglecting stakeholder interests to solely focus on risk of penalties for shareholders, as this can miss potential rewards that can be delivered by the stakeholders. Donaldson and Preston (1995) take this further by arguing for the need of a clear distinction between those who have influence over the firm and the firm's stakeholders. They posit that stakeholder theory has two major ideas: (i) stakeholders are identified as persons or groups with certain interests in procedural and/or substantive factors of firm operation. Hence, the interest of stakeholders can be identified; and (ii) the interests of all stakeholders are viewed as having intrinsic value.[46] That is, that each stakeholder should be considered for its own sake rather than, for example, whether it can promote shareholder interest.

Since identifying relevant stakeholders is a key factor for successful stakeholder management (Post, Preston and Sachs 2002a), Freeman (1984) categorised stakeholders into primary and secondary groups based on their level of power and stake of each group in the firm's operations, while Mitchell, Agle and Wood (1997) proposed a model for identifying stakeholder types and their relative importance based on power, legitimacy and urgency. Their model identified a comprehensive typology of stakeholders to predict firm manager behaviour towards each stakeholder type. It also examined the consequences for firm management action when these stakeholder types changed from one type to another. These types include: (i) power (the extent to which stakeholders impose their will in their relationship with the firm); (ii) legitimacy (when actions towards the firm are desirable and appropriate in the socially constructed system of norms, values and beliefs of society); and (iii) urgency (the extent to which stakeholder efforts call for a firm's immediate attention). The reason for the classification of stakeholders is to help firm managers achieve certain firm goals while still addressing stakeholder needs (Agle, Mitchell and Sonnenfeld 1999; Mitchell, Agle and Wood 1997).

---

[46] The term 'intrinsic value' is referred to here in its ethical context rather than its finance-based context.

Agle, Mitchell and Sonnenfeld (1999) argued that a manager's action can help moderate concerns from prominent stakeholders. For example, managers can reconcile divergent interests by making strategic decisions and allocating strategic resources in a manner that is most consistent with the claims of other stakeholder groups. According to David, Bloom and Hillman (2007), this could encompass meeting CSR performance goals demanded by salient stakeholders (i.e., those with power, legitimacy and urgency).[47]

In addition to placating key stakeholders, stakeholder theory expects managers to successfully balance the competing demands of various stakeholder groups and effectively allocate competing claims to the firm's resources and outcomes (Harrison and Freeman 1999; Hosseini and Brenner 1992; Sundaram and Inkpen 2004b). As Clarkson (1995) argues, all stakeholder groups play an important role in a firm's business operations, where no one group of stakeholders is more dominant than another. However, if a firm's manager treats all stakeholder groups with the same priority, the manager will find it difficult to manage the firm's business strategy due to various stakeholder groups having different interests. For example, suppliers expect high prices, whilst customers expect good quality products and services with lower prices. Satisfying both of these stakeholder groups demands would be difficult to achieve when also trying to add value for another stakeholder group, the shareholders (Sundaram and Inkpen 2004a). Consequently, a potential conflict of interest among stakeholders will occur and ultimately harm firm performance, since stakeholder-based firms that adopt either an egalitarian or equalitarian[48] interpretation are generally unable to obtain equity or any other financial services (Phillips, Freeman and Wicks 2003).[49] Furthermore, Freeman and Wicks argue that stakeholder theory excludes the factor of opportunistic managers who act in their own self-interest by claiming that their decisions actually provide benefits for

[47] CSR performance is defined as the business firm's configuration of making CSR applicable and focusing it into the practice (Maron 2006).

[48] Egalitarianism is defined as distribution based on Rawls (2009) difference concept, while equalitarianism is defined as share equality for all stakeholders (Phillips, Freeman and Wicks 2003).

[49] Equity finance has a significant effect for the firm and providers of this capital, who will collect a substantial portion of economic benefits. Hence, managerial considerations in the decision-making is important (Phillips, Freeman and Wicks 2003).

particular stakeholder groups.

According to Marcoux (2000, p. 97), '*All but the most egregious self-serving managerial behaviour will doubtless serve the interest of some stakeholder constituencies and work against the interests of others*'. From their perspective, it is necessary for a firm's manager to adopt CG strategies and policies that can maintain an appropriate balance among various stakeholder groups in a way that is economically successful (Ogden and Watson 1999). Thus, balancing stakeholder interests and reducing managerial opportunism are driven by fundamental stakeholder strategies, including keeping score (Freeman 1984), prioritising (Mitchell, Agle and Wood 1997), conducting constructive negotiations (Frooman 1999), and involving stakeholder analysis (Friedman and Miles 2004, 2006).

A UK study by Ogden and Watson (1999) found that potential conflicts of interest between two different stakeholder groups were moderated through the respective roles of managers and legal systems. The legal system provides an opportunity to test stakeholder claims where the objectives and responsibilities of firms extend beyond the maximisation of shareholder returns (Freeman 1984; Freeman and Evan 1990). However, most importantly, Ogden and Watson (1999) emphasised that the system may be beset with legal challenges to the regulator's decisions if it is not supported by a high level of mutual trust between stakeholder groups. Hence, firms that utilise trust and cooperation will have a competitive advantage over those that do not use such criteria (Jones 1995). In this context, Jones provides not only an explanation for altruistic firm behaviours but also a basic tenet for the instrumental theory of stakeholder management (Ogden and Watson 1999). Furthermore, a US study by Scott (2003) found that some firm managers prefer to use the cross-decision approach. This approach assumes that firms operate in a complex network of relationships, where simple cause and effect predictions cannot describe the myriad of impacts shaping modern firm outcomes (Barnard 1968; Buckley 1968; Katz and Kahn 1978; Scott 2003; Senge 1997). The cross-decision approach is viewed as more ethical with respect to balancing various stakeholder interests (Scott 2003), and represents one of stakeholder management's central premises of good ethics being good for business (Davis 1994).

Neville (2008) posits that stakeholder theory is particularly appropriate for its coherent approach to reflecting the relationship between CSR and firm value. This is primarily due to the mediating role of stakeholders, which is in contrast to the non-stakeholder explanations of the relationship (Frooman 1999; Wood and Jones 1995). In this latter approach, Porter and Kramer (2002) argued that relationships between CSR and firm value are positive due to the firm's requiring sustainability benefits for both society and the firm via enhanced firm reputation. However, as Neville (2008) explains, an analysis of stakeholder expectations and potential actions (such as rewards or penalties) can provide a more comprehensive framework to examine the relationship between CSR and firm value. Table 3.1 below describes how the expectations and actions of each stakeholder group can affect others.

Table 3.1 Stakeholder Expectations and Actions[50]

Stakeholder group	Expectations	Action (reward/penalty)
Shareholders	Return on investment (ROI), CG and the executive compensation.	Buying or selling shares, shareholder activism.
Customers	Price or value or quality, truthful advertising.	Buying or boycotting products and services.
Employees	Benefits, safety, stimulation, equal opportunities.	Work effort or shirking, applying for employment or turnover.
Business partners	Relationships sustained, payment of bills, technology transfer, reputation protection.	Relationship choice/ maintenance/refusal or termination.
Governments and regulatory bodies	Tax contribution, local economic impact, law abidance.	Providing/removing social license to operate, regulations and financial subsidies.
Local community	Charity, community investment, sponsorship.	Providing or removing social license to operate, political support.
Natural environment	Sustainable materials, water or air emissions,	Supply or non-supply of resources and sinks,

[50] A limitation of Table 3.1 (Neville 2008, p. 23) is the high level of homogeneity it exhibits which is typically not the case for stakeholder theory.

Stakeholder group	Expectations	Action (reward/penalty)
	energy efficiency, waste management.	support or protest by representative group and bodies.
Media	Media releases, public relations.	Editorial support or criticism.

Source: Neville (2008, p. 23)

Studies that have examined CSR via stakeholder theory in the context of developing countries have been conducted by, amongst others, Azizul Islam and Deegan (2008), Chapple and Moon (2005), Gunawan (2007), Jamali and Mirshak (2007), Wanderley et al. (2008). In a comparative study of eight countries,[51] Wanderley et al. (2008) found that country of origin had a greater impact on CSR information disclosure on the world wide web than industry type. Gunawan (2007) identified the three main motives of Indonesian listed firms practicing CSR disclosure,[52] which are to: (i) develop a good firm image; (ii) show that firms act in an accountable and responsible manner; and (iii) comply with stakeholder expectations and demands.

As Indonesian firms are increasingly aware of stakeholder demands in providing CSR disclosure (Oeyono, Samy and Bampton 2011), there is growing recognition that each stakeholder of the firm has intrinsic value in CSR activities that can be used as an instrument to maximise firm value (Donaldson and Preston 1995; Freeman 1984).

3.4.2 Social Contract Theory

Social Contract Theory (SCT)[53] has, at its roots, a concern for social ethics, including moral contractarianism[54](Kimmel, Smith and Klein 2011; Sayre-McCord 2000). Weiss (2008, p. 161) defines social contract as '… *the set of rules and assumptions about behavioral patterns among the various elements of society*'. According to this,

[51] The eight countries in the study were Brazil, Chile, China, India, Indonesia, Mexico, Thailand and South Africa.

[52] CSR disclosure is defined as the information that a firm disclose about assessing the social and environmental impact of firm operations, measuring effectiveness of CSR activities and its relationship with its stakeholders by means of relevant communication links (Campbell 2004; Gray et al. 2001; Parker 1986).

[53] Social contract theory has its roots in the works of Rousseau (1920).

[54] This was widely used in philosophy in the twentieth century.

SCT views the set of society's ethical principles in social norms as the basis for ethical rules of human behaviour (Hartman, Shaw and Stevenson 2003). Thus, a firm's moral and/or political obligations are dependent upon a contract or agreement between parties to form the society in which they live.

Drawing on SCT, Donaldson (1982, 1989) proposed a social contract for business that provides for firm legitimacy in society based on its agreement with all communities. Firms only exist through cooperation and commitment of the society in which they are based. Donaldson invokes a clear and simple concept of moral duties for firms that distinguish between the two parties involved in a contract, such as workers and customers/potential customers. Wempe (2005) later divided Donaldson's moral norms for business into two groups: (i) those that maximise benefits and minimise drawbacks to workers and customers; and (ii) those that are harmful to them.

Through the use of SCT, Donaldson (1982) established a normative framework to represent the social responsibilities of firms. Corporations were considered to be productive when they maximised benefit and minimised harm, although Donaldson conceded that trade-offs in contracts were inevitable, particularly when this concerned the interests of customers (lower prices) and workers (higher wages). Hence, welfare trade-offs were allowable but acts of injustice were not. Based on this reasoning, productive firms should '… *avoid deception or fraud, show respect for their workers as human beings, and avoid any practice that systematically worsens the situation of a given group in society*' (Donaldson 1982, p. 53). As a result, SCT is grounded in a mutual trust, or implied understanding, between individuals or groups that there exists a balance in the distribution of wealth (Donaldson and Preston 1995).

Critics of SCT state that it is simply a heuristic device Kultgen (1986). A heuristic device Kultgen (1986) takes issue with Donaldson's distinction between direct and indirect obligations. Although direct obligations were described as being explicit and formal (e.g., regulations, unions, firm charters), involving people conducting business (e.g., employees and customers), indirect obligations were absent (e.g., competitors, the public and local communities) from the formal agreement. Although Donaldson (1989) disputed this criticism at the time, his later work (Donaldson and Dunfee 1994, 1995, 1999) proposed an Integrated Social Contract Theory (ISCT). This framework comprised two levels at which norms can operate: macro and micro. The macro-social contract offered a criterion to help provide resolutions for conflict between local, community-specific norms, as well as a filtering-test to assist in resolving difficulties in micro-social contracts.

Social contract theory has been applied in a range of business fields (Ellen Gordon and De Lima-Turner 1997; Giovannucci and Ponte 2005; Robertson and Anderson 1993; Robertson and Ross Jr 1995). However, although the majority of studies in the business area have been undertaken in order to enhance understandings about the ethical and social responsibility provided in developed countries, relatively few have been undertaken in developing countries (Al-Khatib et al. 2005; Rogers, Ogbuehi and Kochunny 1995). In a study of the relationships between transnational firms and social contracts in developing countries, Rogers, Ogbuehi and Kochunny (1995) argued that transnational firms need to consider using modified views of SCT to help identify social contract perspectives that are appropriate in the context of developing countries. To the best of the researcher's knowledge, no Indonesian empirical and/or case studies have applied the SCT approach.

3.4.3 Legitimacy Theory

According to Suchman (1995), legitimacy is a generalised perception, or assumption, that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions. Legitimacy theory gives explicit consideration to the societal expectations of a firm (referred to as the 'social contract' between the firm and the society with which it interacts), and whether that actually complies with expectations (Deegan 2006). Since this theory is based on perception, firm actions should be disclosed, since the firm's activities which are not published will not assist in changing public perspectives of the firm (Cormier and Gordon 2001; Magness 2006). In the process of attaining legitimacy, the firm can use

CSR disclosure to: (i) correct the public's misunderstanding of its performance if a 'legitimacy gap' has arisen through stakeholder misunderstanding; (ii) change expectations of performance (i.e., the firm argues that people have unrealistic expectations); (iii) provide how the firm has improved performance (i.e., the firm was seen to have failed in a perceived role); and (iv) deflect attention away from performance (e.g., the firm emphasises its charitable contributions to direct public attention away from their pollution problems) (Lindblom 1994, cited in Magness 2006).

When discussing legitimacy theory, it needs be acknowledged that there is considerable overlap between a numbers of theories (particularly stakeholder theory). Deegan (2006) states that to treat legitimacy theory as a discrete theory would be incorrect. For example, Deegan and Blomquist (2006) argue that both theories conceptualise the organisation as part of the broader society in which they interact, but they differ in that legitimacy theory discusses expectations of the society in general, whereas stakeholder theory refers to particular stakeholder groups within society. Stakeholder theory posits that, as different stakeholder groups have different perspectives on how the firm should operate, various social contracts need to be negotiated, rather than having only one contract with society in general, as is the case with legitimacy theory.

Despite considerable overlap between legitimacy theory and stakeholder theory, there are slight differences in the aspects that motivate managerial behaviour (Gray, Kouhy and Lavers 1995; O'Donovan 2002). This has led some scholars to consider both theories in order to provide a clearer explanation of management actions. As Gray, Kouhy and Lavers (1995, p. 67) argued in relation to social disclosure:

> … the different theoretical perspectives need not be seen as competitors for explanation but as sources of interpretation of different factors at different levels of resolution. In this sense, legitimacy theory and stakeholder theory enrich, rather than compete for, our understanding of corporate social disclosure practices.

Thus, researchers employ legitimacy theory to provide firm disclosure, while adopting insights from stakeholder theory to assist in identifying groups that are relevant to various management decisions and which firm expectations require attention. As firms are subject to a range of social contracts, it is important to carefully view the similarities between legitimacy theory and stakeholder theory to maximise their benefits in revealing the wider impacts of CSR on firms and society as a whole.

The employment of legitimacy theory in developed country studies can be seen in Deegan (2006), Deegan and Blomquist (2006), Gray, Kouhy and Lavers (1995), O'Donovan (2002). In addition, a highly cited study by Patten (1992) focused on changes in the extent of environmental disclosures in North American oil firms both prior to and after the Alaskan Exxon Valdez petroleum incident of 1989. Consistent with their need for legitimation following public pressure, Patten found that petroleum firms increased their environmental disclosures after the incident in order to restore public confidence.

Several studies have been conducted in the context of developing countries, such as Bangladesh, China, Malaysia, Indonesia, and Qatar (Gunawan 2007; Islam and Deegan 2008; Liu and Anbumozhi 2009; Nik Nazli and Sulaiman 2004). An Indonesian study by Gunawan (2007) found that the extent of social disclosure practices in Indonesian listed firms is extremely low. In this case, the most important information on social disclosure for stakeholders related to "*product safety*", with information on "*community*" being the least important. Gunawan concluded that in the early stage of conducting CSR activities, the majority of Indonesian firms aim to create a good image by acting transparently and complying with their stakeholders' demands to provide social disclosures.

3.4.4 Resource-Based View (RBV) Theory

The resource-based view (RBV) theory is the basis for the competitive advantage of a firm, based on a collection of productive resources, including the human and material resources it processes and deploys (Penrose 1959; Wernerfelt 1984). This theory, with its focus on endogenous and heterogeneous resources, addressed the imbalance in management theory and explained variations in firm performance based on a firm's exogenous aspects (Porter 1980; Wernerfelt 1984). Under RBV lens, a firm's sustainable competitive advantage is underpinned by its unique combination of resources, which help predict firm value (Barney 1991; Peteraf 1993; Wernerfelt 1984). Studies employing RBV theory, focus on the development of competitive advantage constructs conferred by a firm's resources (Rodney 2005), with its crucial contribution being the '… *ability to bring together several strands of research in economics, industrial organisation, organization science and strategy itself*' (Rugman and Verbeke 2002, p. 770).

In essence, RBV theory analyses the relationship between internal firm capabilities and firm performance. The differentials in performance are explained primarily by the existence of a firm's resource characteristics (Branco and Rodrigues 2006). Porter (1985) proposed that two important resources for competitive advantage are: (i) a low-cost position, which enables a firm to use aggressive pricing to achieve a high sales volume; and (ii) a differentiated product to create brand loyalty and position reputation facilitating premium pricing. According to RBV theory, sustainable competitive advantages as value creation strategies by the firm are difficult for competitors to duplicate (Hart 1995). In this context, a firm's resources should increase the barriers to imitation (Rumelt 1984). Furthermore, Barney (1991) identified four key resource characteristics that can be sources of sustainable competitive advantage for a firm: (i) they are rare (a small number of firms and/or unique); (ii) they are valuable (worth something, they improve efficiency and effectiveness); (iii) they are inimitable (they cannot easily be sold or traded); and (iv) they are non-substitutable (not easily copied or imitated). Priem and Butler (2001) argued that sustainable advantages are not only limited to how a firm uses its resources, but how the firm also provides differences in value creation, based on Schoemaker's (1990) view of systematically creating above-average returns.

Teece, Pisano and Shuen (1997) raised an important question about how firms achieve sustainable competitive advantage. They suggested that the main factor in developing advantage is creating and maintaining distinctive competence. Based on

RBV theory, distinctive competence commences with an understanding of the firm's environment, including markets, technology, and economic and regulatory conditions. However, most importantly, distinctive competence begins with an understanding of the collective intelligence and skills of employees to develop a greater organisational knowledge base as resources for competitive advantage (Bollinger and Smith 2001; Oder and DiMattia 1997). Furthermore, Lado and Wilson (1994) posited that the system of human resources can be unique, causally ambiguous and synergistic in how employees increase firm competencies, and thus might be inimitable. In this way, firms involved in CSR activities can achieve competitive advantages (Branco and Rodrigues 2006). According to McWilliams, Siegel and Wright (2006), engaging in CSR activities when firms are expected to benefit is a behaviour that can be examined through the RBV lens.

Branco and Rodrigues (2006) suggest that RBV can be used to explain why firms are involved in CSR activities and disclosures. According to Russo and Fouts (1997), firms need to be able to assemble, integrate and manage these bundled resources, in order to maximise firm value and improve competitive advantage. The RBV theory can assist in analysing CSR by offering understanding on how CSR activities influence firm value. For example, a firm's investment in CSR may provide internal benefits by helping management to develop new capabilities and resources in know-how and corporate culture, especially related to employees, thus leading to a more efficient use of firm resources (Branco and Rodrigues 2006; Orlitzky, Schmidt and Rynes 2003). For instance, firms that attract highly skilled and qualified employees also tend to improve current employee motivation, morale, commitment and loyalty to the firm and the firm will achieve competitive advantage. Regarding the external benefits of CSR, Gardberg and Fombrun (2006) found that CSR not only protects the firm from negative actions or criticisms but also enhances its reputation capital. In agreement, Godfrey (2005) argued that philanthropic acts generate a 'moral capital' that acts as a buffer in times of uncertainty. Gardberg and Fombrun (2006) also maintain that CSR provides advantages for the wider institutional environment in which it operates.

According to Ray, Barney and Muhanna (2004), a limitation of RBV theory is it may not be ideal for employment in isolation to examine the relationship between CSR and firm value. This is because such a focus does not distinguish between areas of a firm that possess a competitive advantage and those that do not. In addition, areas with competitive advantage may not show up as an increase in firm value, because stakeholder groups may have already apportioned potential profits.

Although the RBV has provided a compelling theory of diversification in developed countries (Markides and Williamson 1996; Peteraf 1993), few studies have been concerned with understanding how business groups[55] manage their internal firm resources and capabilities in developing countries. However, as stated previously, CSR engagement[56] can be used as a recruiting tool in order to recruit employees with high quality skills and qualifications. Adopting such an approach could assist Indonesian firms to attract highly skilled and qualified employees, while also improving current employee motivation, morale, commitment and loyalty to the firm. This should lead the firms to achieve greater competitive advantage.

3.4.5 Multilevel Theory of Social Change in Organisation

Aguilera et al. (2007) propose a multilevel theoretical model to understand why firms are increasingly engaging in CSR activities. This model integrates theories of organisational justice, CG and varieties of capitalism. The model is used to identify the pressures imposed by internal and external actors[57] on firms to address the inclusion of CSR in their strategic goals to not only change corporate culture, but also impart true societal change. Aguilera et al. (2007) proposed three main motivations of internal and external actors as driving firms to be involved in CSR activities: (i) instrumental (e.g., self-interest driven); (ii) relational (e.g., focused on relationships between group members); and (iii) moral value (e.g., ethical standards

[55] In the RBV, business groups '… *may add value to member firms by pooling and distributing heterogeneous resources through related and unrelated diversification*' (Yiu, Bruton and Lu 2005, p. 184).

[56] CSR engagement is defined as the system in which the firm's managers analyse CSR-related activities, manage resources to involve these kind activities, and use the knowledge acquired from these kind activities for economic benefits (Tang, et al. 2012).

[57] Internal actors comprise shareholders and managers, while external actors comprise customers, suppliers, governments, and non-government organisations (NGOs).

and moral principles).

With respect to instrumental motives, two different types of CG systems, the Anglo-American model and the continental model, have specific instrumental motives to push for CSR engagement. In the Anglo-America model, the motive of the firm's CSR engagement is correlated to greater competitive advantage, including protecting the firm's reputation or image (Bansal and Clelland 2004; McWilliams and Siegel 2001), whereas in the continental model, the motive is long-term profitability, including the promotion of employee well-being and investing in the research and development (R&D) of high quality products (Hall and Soskice 2001).

For relational motives, pressure imposed by organisational-level actors to encourage firms to engage in CSR efforts can be observed via stakeholder theory (Clarkson 1995; Rowley and Moldoveanu 2003). Although a firm's business strategy is oriented to stakeholder wealth-maximising interests, they may also consider social legitimation to survive in global business. Legitimation is viewed as a relational motive, since it refers to how the firm's activities are perceived by the public. According to legitimacy theory, the firm's managers and owners are likely to engage in CSR activities to emulate their peers and/or competitors to maintain their social legitimacy (Suchman 1995). The prevention of negative images ensures the firm's long-term survival, due to its being socially accepted as an ethical business (Livesey 2001; Meyer and Rowan 1977; Zucker 1977).

Moral motives, on the other hand, refers to stewardship theory (Davis, Schoorman and Donaldson 1997), and it drives firms to engage in social change via CSR initiatives that arise from organisational actors who have deontic motives. Logsdon and Wood (2002) believe that organisational actors may have moral motives that involve bringing about a more equitable world and to correct unfair balances in wealth, gender, religion, etc. When these actors perform according to stewardship interests, they can instigate social and moral actions that include CSR initiatives in their strategies, which can lead to social change.

Aguilera et al. (2007) identified limitations in this approach. Firstly, it is difficult to apply broadly, since the varying interests of multiple actors in different geographic regions present various motives that differently impact on the degree of pressure to adopt CSR policies. Secondly, this approach does not differentiate between firms adopting CSR activities at a superficial level and firms adopting CSR in their business strategy (Weaver, Trevino and Cochran 1999). In addition, there is no comparison of the effectiveness of top-down (e.g., regulations) and bottom-up (e.g., employee, customers, investors and non-government organisations [NGOs]) relations. Although not widely employed, this theory has been applied in the study of some developed countries (Dam and Scholtens 2012; Ntim and Soobaroyen 2013).

Table 3.2 below provides a summary of the main CSR theories reviewed in this chapter. In particular, the table reviews the key tenets and assumptions, the main propositions, key limitations, and the relevance to Indonesia.

Table 3.2 Summary of Corporate Social Responsibility Theories

Theory	Key Tenet and Assumption(s)	Main Proposition	Key Limitation(s)	Relevance to Indonesia
Stakeholder Theory	• Firms should be managed in the interest of all their constituents, not only in the interest of shareholders. • The basic objective of a firm is to create value for its stakeholders.	• Advocates participation of stakeholders in CG strategies and policies to arrive at a socially optimal outcome.	• Fails to acknowledge the complexity of network interactions. Hence, potential conflicts of interest among stakeholders are ignored. • Utilises competing aspects: (i) normative; and (ii) empirical.	• Widely used in Indonesian studies. • Reflects Indonesian key stakeholder concerns.
Social Contract Theory (SCT)	• Societal obligations are dependent upon a contract or agreement.	• A mutual trust or implied understanding between two or more parties regarding the fair distribution of wealth.	• Absence of indirect obligations in formal agreement. • Perceived as a heuristic device.	• No Indonesian studies have examined CSR via this theory.
Legitimacy Theory	• For a firm to exist, it must act in congruence with society's values and norms.	• A firm acts to remain legitimate in the eyes of those whom it considers are able to affect its legitimacy.	• The expectations of the society are not specified into specific groups. • Considerable overlap with stakeholder theory.	• Used previously in Indonesian studies as an alternative to stakeholder theory.
Resources Based View (RBV) Theory	• Resources are the basis of a firm's competitive advantage. • Four key resource characteristic requirements: (i) rare; (ii) valuable; (iii) inimitable; and (iv) non-substitutable.	• A firm's sustainable competitive advantage is underpinned by the unique combination of resources at its disposal.	• Should not be used in isolation to examine the relationship between CSR and firm value.	• Used in Indonesia as a basis for recruiting employees with high quality skills and qualifications.
The Multilevel Theory of Social Change in Organisation	• Integrates multiple theories to identify three main motivations driving firms towards CSR activities: (i) instrumental; (ii) relational; and (iii) moral values.	• Engagement in CSR is due to pressure from internal and external actors.	• No differentiation among CSR types. • No comparison of the effectiveness of top-down and bottom-up relations.	• Helps identify the different motivations for each shareholders.

The above Table demonstrates that there is no single theory that dominates the practices of CSR within an Indonesian context. Thus, as stated in Chapter 2, a multi-theoretic approach is required to overcome the limitations of any one single theory. This multi-theoretic approach to CSR incorporates aspects of stakeholder theory, RBV theory and multilevel theory of social change in organisation. The combination of these theories reflects the Indonesian environmental influences impacting firms, such as how the relationship between CSR engagement and firm value can be described by RBV theory, while the multilevel theory of social change in organisation can be used to analyse the correlation of CSR activities and the motive and interest of the owners, especially, public ownership.

3.5 Corporate Social Responsibility and Firm Behaviour

Although many firms have adopted good CSR practices, some ignore their responsibility to society and the environment (Berns et al. 2009; Campbell 2007). This raises a question related to CSR, which is: '… *under what conditions are firms more likely to act in socially responsible ways than not*?' (Campbell 2007, p. 947). In response to this question, many governments have acted to pass legislation to protect societal rights. For example, in the US, laws such as the Wagner Act, the Consumer Product Safety Commission, the Uniform Commercial Code, the Foreign Corrupt Practices Act and the Environmental Protection Agency have been enforced (Bohl 2012). There are many levels and types of CSR practices and conditions under which CSR is conducted (e.g., France, the Netherlands, the UK and the US), but, as Bohl (2012) points out, the need for creating such laws highlights the lack of ethical behaviour of many firm leaders.

Using a comparative political and economic institutional analysis to develop an understanding of firm behaviour in CSR, Campbell (2007) found that firm behaviour is governed by a wide range of political and economic institutional conditions. Since institutions differ across countries, their impact on economic activities related to CSR involvement differs (Scott 2003). Thus, the ways firms commit to stakeholder needs depends on the country in which they operate (Hall and Soskice 2001). For example, a study by Maignan and Ralston (2002) across four developed countries (France, the

Netherlands, the UK and the US) identified three motivations for being involved in CSR activities: (i) managers value CSR involvement in its own right; (ii) managers believe this behaviour may improve firm value and enhance shareholder wealth; and (iii) stakeholders force firms to become involved in CSR activities. The study also found that country-specific political, cultural and other institutions are major factors in firm behaviours across the four countries. Specifically, variations in these factors may affect the degree to which stakeholders influenced managers.

Campbell (2007) showed that primary economic factors, including a firm's financial condition, the economic health of the country and the degree of competition play an important role in the extent to which firms involve themselves in CSR activities. For example, firms with weak firm value are less likely to be involved in CSR activities than firms with good firm value (Margolis and Walsh 2001; Orlitzky and Benjamin 2001). Typically, this is due to low profit firms having fewer resources to support CSR than firms with higher profit (Waddock and Graves 1997). According to Campbell (2007), if firms operate in weak economic conditions, where inflation rates are high, productivity growth unstable, and consumer confidence is low, firms will be relatively unlikely to engage in CSR activities. Firms also tend to be less active in CSR if they have either too many or too few competitors. For example, when firm competition is too high, profits become so narrow that firm survival and shareholder wealth are threatened. In this case, firms must save money wherever possible, with social responsibility making way for issues of survival. This can cause quality of products to suffer and cause unease among labour and suppliers (Campbell 2007; Kolko 2008; Schneiberg 1999). Conversely, Campbell (2007) also pointed out that firms can be less involved in CSR when they are in a monopoly market due to their customers and suppliers having limited product alternatives. Consequently, there is a correlation between firms' CSR behaviour and the level of competition they face.

Campbell (2007) went on to add that the relationship between economic conditions and firms' CSR behaviours is mediated by institutional factors, including: (i) legal (public and specific industry regulations); (ii) NGOs and other independent institutions; (iii) institutionalised norms; (iv) associative behaviours among firms; and (v) organised dialogues between firms and their stakeholders. In essence, firms are more inclined to be involved in CSR when there are strong state regulations in place that enforce socially responsible firm behaviour. However, even though firms do not resist imposed regulations, they may seek to influence lawmakers to soften their approach towards the behaviours of those firms that regulations are supposed to control (Kolko 2008; Vogel 2003; Weinstein 1981).

Since stakeholders pay great attention to monitoring regulation processes to ensure that firms comply, Campbell (2007) advises that governments need to carefully design and configure regulations that help balance both political and social pressures. For example, in the US, deregulation was undertaken in the 1980s and 1990s that allowed firms to operate in more socially irresponsible ways than previously. Although firms may soften their approach to CSR in a less regulated environment, this is not always the case. Industries can establish their own regulatory standards of fair practice, quality products and safety in the workplace and expect their members to follow (Campbell 2007). In these situations, good CSR practices can occur via pressure from the firm’s primary stakeholders (Martin 2002). Furthermore, Doh and Guay (2006) and Teegen, Doh and Vachani (2004) found that firms tend to engage in CSR activities when NGOs, the media, institutional investors and other stakeholders actively monitor their operations. Many NGOs have increased their presence in the institutional field in which firms have potential involvement in CSR. Similarly, as important actors control huge amounts of money in investments, institutional investors and financial intermediaries play an important role in monitoring firm behaviour and pressing them to be active in CSR (Armour, Deakin and Konzelmann 2003). The media also play a significant part in monitoring and exposing the CSR behaviour of firms (Campbell 2007). In these ways, outsiders (other than government) are sufficiently strong in providing a counterbalance to firm behaviour (Schneiberg and Bartley 2001).

In regard to instutionalised norms, firms are actively involved in CSR when their institutional environments treat such behaviour as a norm. Many academic studies have emphasised that the cognitive frames, mindsets, conceptions of control and world views of managers play an important role in determining how they operate their firms

(Aguilera and Jackson 2003). Managers generally learn these mental constructs by absorbing the messages that are transmitted to them from their education curriculum and professional business publications (Campbell 2007). Publications such as the *Harvard Business Review* have identified academic articles advocating CSR in firm behaviour (Harvard Business School Press 2003). This topic is also an ethics subject in business school curricula in the US, the UK, Australia and New Zealand (Rundle-Thiele and Wymer 2010; Small 1992; Vogel 1992).

With respect to associative behaviour and organised dialogues, firms are more likely to practise CSR when they are members of trade or employer associations and involved in dialogue with employees, unions and other stakeholders. This can help firms develop a long-term view rather than maintain short-term goals. In this context, legal institutions can play an important role in facilitating dialogue between firms and stakeholder groups (Campbell 2007). For example, in the 1990s many US firms were members of trade association networks that facilitated communication, and encouraged them to support government interventions, such as job training and health care. As a result, firms had deeper understandings of the ways in which government intervention could improve the well-being of their workers to improve firm value in the long term (Campbell 2007).

Based on these explanations, the factors of firm value, the economic condition of the country, the competition between firms, outsider monitoring and firm peer pressure significantly impact on the degree of firm involvement in CSR. However, the degree of these factors has been found to vary across countries, depending on their economic and political institutions, with most studies being conducted in developed countries (Belal 2001; Dobers and Halme 2009; Jamali and Mirshak 2007; Luken 2006). Furthermore, institutional standards, which are the foundation of CSR in Europe and the US, are comparatively weaker in developing countries (Kemp 2001). Studies by Fox (2004), Prieto-Carrón et al. (2006) and Dobers and Halme (2009) were conducted on developing countries where concentration of power is in a small elite group and there is arbitrary law enforcement, weak professional government service (civil responsibility), high levels of ethnic fragmentation, insecure property rights, and corruption, with similar findings. As a result, CSR practices in developing countries may present different patterns than in developed countries (Jamali and Mirshak 2007; Kuznetsov, Kuznetsova and Warren 2009) and such research can offer insights into differences from Western norms (Belal 2001; Dobers and Halme 2009).

3.6 Corporate Social Responsibility Context in Developing Countries

Typically, CSR studies on developing countries employ Carroll's (1991) 'four faces' CSR model because of its ability to be successfully adapted into various developing country contexts.[58] For example, under 'economic responsibilities', the economic contribution of firms is crucial for helping to sustain employment and alleviate poverty in developing countries (Visser 2008). Fox (2004) argues that this condition can be suitably adapted to a development-oriented approach to CSR by enabling responsible businesses and promoting economic equity for sustainable development. In this way, CSR can be seen as a pro-poor development strategy that provides good quality work to help lift people out of their poverty trap (Mayoux 2005) and build human capital (Visser 2008).

Thus, in developing countries, the concept of CSR emphasises the importance of improving investment and income, producing safe goods and services, creating job opportunities, developing good human resources, establishing local business linkages, spreading international business standards, supporting technology transfer, and building infrastructure (Nelson 2003). In this way, firms that operate in developing countries are increasingly fulfilling their economic responsibilities by constructing an economic value added (EVA) approach to CSR (Visser 2008). Porter and Kramer (2006) maintain that, in analysing their prospects for developing sound CSR strategies to guide their competitive position, these firms would find that, rather than being just an added cost, constraint or charitable deed, CSR can not only be a source of great opportunity for a leverage of the firm's resources and capabilities, innovation and competitive advantage, but can also bring benefits to local communities.Jamali and Mirshak (2007) found that there is also academic value added by analysing the levels of conceptual understandings and implementations of CSR in developing countries. They assessed that such CSR

[58] Carroll's CSR model, which forms the basis for the CSR measurement adopted in this study, is discussed further in Section 3.8.

practices in these countries have now matured beyond simple compliance and public relations to economic considerations. This is in line with part of the current study's objective which is to incorporate an aspect of the economic benefit of CSR engagement for Indonesian listed firms that can bring about increased firm value via the use of accounting and non-accounting proxies.

With respect to 'philanthropic responsibilities', in developing countries philanthropy is an important dimension of CSR (Ahmad 2006; Amaeshi et al. 2006; Arora and Puranik 2004; Weyzig 2006). Corporate Social Responsibility practices have strong, deep-rooted indigenous cultural traditions and religious roots (Visser 2008), where business practices are based on moral principles (Blowfield and Frynas 2005). For example, in a survey of 1,300 small-medium enterprises (SMEs) in Latin America, Vives (2006) found that religious beliefs are one of the primary motivations for CSR practices. Nelson (2004) showed that the Buddhist philosophy closely aligns with the concept of CSR, with Khan (2008, p. 636) noting that '… *business practices based on moral principles were advocated by the Indian statesman and philosopher Kautilya in the 4th century BC*'. Similarly, as the most populous Muslim country in the world, the primary sources, the Qur'an and Sunnah or Hadith,[59] became extensive principles and guidelines in conducting the philanthropic aspects of the Islamic system in Indonesian society (Beekun and Badawi 2005). This system provides clear guidelines for the moral filter required to conduct business in a way that respects the rights of various social groups to help prevent exploitation, bribery and nepotism (Beekun and Badawi 2005; Rice 1999). Thus, religious understanding of respecting others can play an important part in motivation good CSR practices.

In addition, Visser (2008) identifies four factors which explain why philanthropy plays an important role in the business practices of developing countries: (i) socio-economic needs are so great that philanthropy is the norm and considered the honourable way to do business; (ii) firms realise that they cannot be successful without a philanthropic factor that improves prospects of local communities and achieves long-term

[59] The Qur'an is the Muslim holy book revealed by God to the Prophet Muhammad in seventh century Arabia, while the Sunnah or Hadith are not the words of God verbatim, but another form of revelation through recorded sayings and behaviours of the Prophet (Beekun and Badawi 2005).

maximisation of firm value to enhance shareholder wealth; (iii) over the last 50 years, reliance on foreign aid and donor assistance has created an ingrained culture of philanthropy; and (iv) although businesses are generally at an early stage of maturity in CSR, they do equate this with philanthropy, despite being slow to reach the more embedded approaches found in developed countries.

The 'legal responsibilities' aspect of Carroll's CSR model entails accountability and accuracy in annual firm reports to ensure that products meet all legal standards, avoid discrimination in employee recruitment and compensation, and meet all environmental regulations (Maignan and Ferrell 2001). Jamali and Mirshak (2007) state that these laws are necessary because the public expects business practitioners to meet their economic objectives within a legal framework. However, as firms operate in a competitive market, their ability to carry out long-term strategies that ensure benefits to both firms and society is significantly affected in the context of developing countries. This is due to the competitive context[60] in which legal requirements that govern competition aim to ensure transparency, encourage investment, and guard against corruption and bribery practices (Porter and Kramer 2006). Conversely, in developed countries, CSR activities are generally identified as policies and activities that go beyond the expected economic and legal requirements due to their having strong institutional environments (Dobers and Halme 2009). However, although the regulations in developing countries are designed to make firms comply with their requirements, they face greater difficulties in compliance due to such laws not always being applied (Bansal 2002). For example, the weak legal institutions and lack of independence, resources, and administrative efficiency found in developing countries in Asia, South America and Africa place a lower priority on the 'legal responsibilities' aspect of firms (Visser 2008).

In most developing countries, such as those in South America and Africa, weak legal environments, non-compliance, tax evasion and fraud are experienced as a norm rather

[60] The four broad areas of competitive context are: (i) the quantity and quality of business input resources (e.g., human resources, infrastructure); (ii) legal requirements and intensives that govern competition; (iii) the size and sophistication of local demand (e.g., standards for product quality and safety, consumer rights and fairness in government purchasing); and (iv) local support for the industry (e.g., service providers and machinery producers) (Porter and Kramer 2006).

than an exception, and abiding by rules and regulations may well only be manifested in highly responsible corporations (Dobers and Halme 2009; Jamali and Mirshak 2007). However, despite a weak capacity for enforcement, countries such as South Africa have been the experiencing some progress in strengthening their social and environmental aspects through legislative action which is a necessary but not sufficient condition for CSR (Visser 2006). In the Indonesian context, government initiatives and legislation encourages Indonesian firms to participate in CSR, along with business organisations and NGOs (Gunawan 2016). However, the extent of the government emphasis on the non-economic aspects of CSR could be improved. For instance, numerous local Indonesian firms only conduct CSR by involving in charitable activities which is also in keeping with Islamic religious beliefs (Gunawan 2008), while other impacts on the environment and community are ignored (Gunawan 2016; Karoff 2012).

The notion of 'ethical responsibilities' play an important role in the various aspects of organisational effectiveness, and include quality of products, communications, profits, competitiveness, survival efficiency and stakeholder satisfaction (Singhapakdi et al. 2001). However, the importance of ethical and social responsibility determinants of organisational effectiveness can vary between countries according to differences in culture, economic development and legal environment (Singhapakdi et al. 2001).

Since business and economic environments in developing countries are still evolving, business practitioners' perceptions of the importance of ethical and social responsibility are generally lower than their counterparts' perceptions in developed countries (Crane and Matten 2007; Singhapakdi et al. 2001). This is despite some developing countries having made moves towards improved governance (Reed 2002). For example, the 1992 King Report in South Africa was the first global CG code to mention stakeholder issues and emphasise the importance of CSR and business accountability beyond shareholder interests (King Committee on Corporate Governance 1994). Following this, the 2002 revised King Report was the first CG code to mention an '… *integrated sustainability reporting*' (Visser 2008, p. 491) that included social, ethical, health and safety aspects, along with environmental management policies and practices (King Committee on Corporate Governance 2002). However, this kind of progress has remained the exception rather than the rule, with the Transparency International's Annual Corruption Perception Index and Global Corruption Barometer reporting that most developing countries rank poorly. Survey respondents from these countries reported that bribery and corruption significantly impacts on the majority of business practices (Visser 2008). According to the 2013 International Global Corruption Barometer, Indonesia compared poorly with most of the Southeast Asian countries on the key aspect of bribery, with 36% of households having paid a bribe within the past year to government officers. This was only second to Cambodia with 57% (Hardoon and Heinrich 2013).[61] In the 2015 Corruption Perception Index, Indonesia was ranked at 88 out of the 167 countries surveyed (Transparency International 2015).

Clearly, the majority of developing countries (including Indonesia) need to implement strategies that reduce the practices of corruption and bribery through internal systematic changes in firm behaviour. As deeply held shared values and beliefs can be strong motivators for forming a healthy firm culture (Shellenbarger 1999), McCarthy (1999) believed that the best ethical programs are those that combine firm culture and values that involve employees who are provided with avenues to vent their grievances internally. Firm managers need to wholeheartedly support their ethics programs if they expect these to be taken seriously. Setiyono and McLeod (2010) maintain that developing countries, including Indonesia, need to ensure that they meet their legal obligations to provide all government employees with salaries that are fair and commensurate with work responsibilities if they expect to reduce the prevailing levels of corruption and bribery.

3.7 Corporate Social Responsibility in Indonesia

In answering the question of who or what drives CSR practices in Indonesia, Kemp (2001) argues that the forces are external. An early example of this (1992-1993) was when the head of the American Federation of Labor and Congress of Industrial Organisation (AFL-CIO)[62] Jakarta office made contact with Indonesian workers at the

[61] Other scores for the Southeast Asia region included: Malaysia (3%); Philippines (12%); Thailand (18%); and Vietnam (30%).

[62] American Free Labour Institute and Council of Industrial Organizations, now superseded by the American Central for International Labour Solidarity (ACILS) (Kemp 2001).

Nike factory. Together with the Jakarta Urban Mission, the AFL-CIO started a campaign to raise awareness that, while Nike's annual profit was over US$180 million per year, and their advertising budget was US$20 million, Nike workers in Indonesia were earning less than 90 cents a day (US$270 per year) (Suziani 1999). Kemp points out that, in 1992, the Levi Strauss factory in Indonesia also attracted a human rights report stating that workers were physically assaulted when they did not reach production targets. As a result, Levi Strauss took strong measures to ensure that all managers complied with their agreed Terms of Engagement.[63] Furthermore, although the reasons for noncompliance with Indonesian worker rights are complex, some groups have been active in influencing social responsibility in Indonesian firms. For example, Indonesia Business Links (IBL), supported by a British-led information group of 50 foreign businesses, was involved in '… *generating a new era in Indonesian private enterprise*' (Kemp 2001, p. 12). Indonesia Business Links's activities were aimed at creating social safety net activities in small business development, and identifying activities that supported CSR including social accounting and workshops on business ethics.

Although CSR was only considered an image projector in Indonesian firm management strategy in the 1990s, by 2001 it was being considered a necessary part of national survival, generating a new language and teams of experts. As CSR management had become a new and emerging skill in Indonesia, process-oriented cultural changes needed to be made within firms. However, the necessary high levels of skill and active consultant processes 'between equals' required for implementing CSR were not in keeping with the top-down patriarchal leadership style in Indonesian business (Kemp 2001). While Indonesia was attempting to embrace modernity, tradition and corrupt authoritarianism continued to dominate its business, political and community culture. This hindered the acceptance and utilisation of CSR in Indonesia (Kemp 2001). According to Birch (2002), a 1999 survey of 33 countries by Environics International Ltd (in collaboration with the U.K. Prince of Wales Business Leaders Forum and The Canadian Conference Board) found that while 35% of Indonesians believed firms

[63] Levi Strauss was one of the first firms to establish a Code of Conduct in 1991, which they named Terms of Engagement, after complaints of violence against workers were lodged (Kemp 2001).

should '… *set higher ethical standards and help build a better society*' (Birch 2002, p. 5). Kemp found that Asian leaders in general were less likely to punish firms that were not socially responsible, with only 14 out of 38 respondents willing to take action and 24 stating they had only thought about it (Kemp 2001). Thus, compared to US and European firms, Indonesian firms are passive about their environmental and social responsibilities.

Although business watchdogs, ethical investment organisations and NGOs were increasingly active in monitoring and reporting firm behaviours in Indonesia, PricewaterhouseCoopers (PwC) in Indonesia argued that monitoring was ineffective due to insufficient support, and that stronger regulations, as opposed to voluntary initiatives, would be more effective. For example, PwC normally sets schedules for compliance and monitoring activities accompanied by the firm's senior executives, but trade unions are given no opportunity to participate. Furthermore, any major breaches found by their monitoring teams are usually resolved at head office with no input from the local communities. Therefore, although CSR practices in Indonesia are being pushed by outsiders such as NGOs, the media and business investors, Indonesian firms remain vulnerable in a CSR process that is extremely difficult to implement (Kemp 2001).

Corporate social responsibility has been described as constituting two competing categories, implicit and explicit CSR. Implicit CSR refers to the business-society-government relations within particular political systems that have developed values and norms that necessitate legal requirements for firms to fulfil stakeholder needs, while explicit CSR is voluntary and implemented through the strategic decisions made by each individual firm (Matten and Moon 2008). The problem, however, is how to clearly distinguish the differences between these two categories. For example, some argue that CSR should be a voluntary activity (ISO 26000 2010), whereas others claim that CSR should be mandatory, with governments endorsing and facilitating CSR through partnerships and soft regulation (Waagstein 2011). Both perspectives of CSR, as Frisko (2012) states, have their own merits, depending on the context in which they operate.

Due to enormous pressure from NGOs (e.g., Business Watch Indonesia [BWI] and the Public Interest Advocacy Centre [PIAC]), institutional investors, customers, suppliers and the public, the Indonesian government responded by introducing new legislation for CSR to be mandatory (Oktavia and Meaton 2014). In 2007 the Indonesian government established Law No. 40 and Investment Law No. 25, making CSR a mandatory requirement for all firms.[64] More recently, the government established the 2012 Government Regulation No. 47, requiring Social and Environmental Responsibility for all Indonesian listed firms. Although these laws have become debated amongst academic and business practitioners and social organisations, they have played an important role in achieving the institutionalisation of CSR in Indonesia (Oktavia and Meaton 2014). In line with government motives to take the CSR agenda seriously, Ward et al. (2007) provide two justifications as to why developing countries like Indonesia become active in promoting CSR. They are: (i) defensive; and (ii) proactive. The defensive justification comes from outside investments to minimise any potential adverse effects of CSR on local communities, environments and the market. The proactive justification provides opportunities for the increase of domestic public benefits through CSR practices, in terms of economic, social and environmental practices. In addition, Kitthananan (2010) points out four main factors as to why governments need to strengthen their CSR within the Association of Southeast Asia Nation (ASEAN): (i) the objectives of government relating to sustainable development; (ii) the competitiveness of CSR between the countries; (iii) the need to include CSR in governance frameworks; and (iv) the growing recognition of government's contributions in shaping CSR**.**

Thus, from an Indonesian perspective, CSR issues are becoming increasingly embedded in national policies in order to develop a healthier environment based on more appropriate approaches to economic activity (Cui, Jo and Na 2016; Ioannou and Serafeim 2015; Margolis and Walsh 2003; Orlitzky, Schmidt and Rynes 2003). Here, the members of BoCs and BoMDs collaborate to formulate and implement CSR policy in order to develop the commitment of all units that exist within the firm's management structure (e.g., executive management and employees) to assure that the implementation

[64] The mandatory CSR laws are briefly reviewed in Section 3.8.3.1.

of CSR is in line with the firm's objective and societal values (Susiloadi 2008). At the same time, legal requirements and stakeholder demands (e.g. from potential investors) also impacts board policies regarding good CSR practices. Typically, this results in higher quality CSR disclosures to attract FDI (Donaldson 2005; Goyal 2006). However, in fact, the implementations of CSR is still at a relatively early stage, as evidenced by the fact that some Indonesian firms view CSR as mandatory while others view it as voluntary. Consequently, Indonesian firms tend to implement CSR programs based on their own initiative (Wowoho 2009). This, as Waagstein (2011) points out, suggests that the laws surrounding CRS implementation (e.g. Law 40) are poorly enforced. This legal uncertainty has meant that existing judiciary mechanisms struggle to keep firms responsible and prevent corruption (Waagstein 2011). An example of this is evidenced via the sanction imposed for non-compliance of CSR implementation for Indonesia firms, which is initially administrative in nature and comprises a warning letter from the government (the first stage sanction).[65] Thus, an Indonesian firms decision to implement CSR is primarily due to legal requirements. This is followed by MNCs who desire to follow CSR as part of their public image as well as the Indonesian Chamber of Commerce and Industry (Kamar Dagang and Industri [KADIN]).

The CG system in Indonesia shares many characteristics with other developing countries, particularly those from Asia. As Claessens and fan (2002) point out, such shared characteristics are family-ownership concentration, low degree of minority right protection, and weak board control mechanisms. Given these similarities, the CG and CSR framework proposed for the Indonesian context could also be applied to other developing countries. This framework however could not be adopted by developed countries since the CSR concepts and tools derive from western ideas and practices, (Chapple and Moon 2005).

3.8 Measuring Corporate Social Responsibility

With respect to measuring CSR, despite the various CSR definitions and theories, Carroll's four-part conceptualisation is not only the most durable and widely cited in

[65] Although sanctions are not as strict as other countries, the ultimate sanction is to cancel the firm's operation. Article 1 and 2 paragraph 34 Investment Law no.25 of 2007.

literature Crane, Matten and Moon (2004), it has, as evidenced by Section 3.6, also been successfully adopted into the various contexts of developing countries (Visser 2008). As Visser (2006) states, Carroll (2004) reproduced his 1991 CSR pyramid, but this time attempted to incorporate the notion of stakeholders. According to Visser (2006, p. 35):

> … economic responsibility contains the admonition to ‘do what is required by global capitalism’, legal responsibility holds that companies ‘do what is required by global stakeholders’, ethical responsibility means to ‘do what is expected by global stakeholders’, and philanthropic responsibility means to ‘do what is desired by global stakeholders.

The widespread use of Carroll’s CSR model is partly due to its intuitive appeal and its ability to assimilate various competing themes such as corporate citizenship and stakeholders (Visser 2006). The model has been empirically tested and supported by the findings and its placement of the economic dimension as the highest priority in the model is favoured by business scholars and practitioners (Visser 2008). In fact, Visser (2008) examined how CSR is interpreted in the context of developing countries, including Asia, Africa and South America continents, using Carroll’s CSR model. Given its widespread use, the present research also employs this model as part of the CSR measurement.

Endeavours to measure CSR activities led academics and business practitioners to focus on measures which could assess whether CSR financially benefitted firms, stakeholders and the society in general (Husted and Allen 2007; Turker 2009). Although recent studies investigating the relationship between CSR activities and firm value have provided some support for the existence of a business case for CSR, there are limited studies that assist managers of firms in their evaluation of CSR involvement (Weber 2008). However, these studies do not enable managers to determine whether CSR engagement can increase firm value via an evaluation from the sources of financial reports, share prices and other information of the firm’s operation. McWilliams, Siegel and Wright (2006) perceive CSR as a form of investment in which firms need to evaluate its role in firm value. This study adopts a similar notion, as it examines whether firms involved in CSR activities increase their firm value via achieving economic benefits and various types of competitive advantage.

Typically, Asian countries have viewed CSR engagement as an investment that does not drive larger profits for firms (Haniffa and Cooke 2005). According to Darwin (2004), this is due to a lack of awareness about the important role that CSR can play in these countries. These limitations also apply for Indonesian listed firms where managers face difficulties in evaluating their CSR involvement from an economic perspective. Hence, most related studies in Indonesia adopt a non-accounting proxy of CSR (e.g., CSR disclosure index [CDI]) to measure their implementation of CSR (Edwin 2008; Fauzi and Idris 2009; Kartadjumena, Hadi and Budiana 2011; Oeyono, Samy and Bampton 2011; Sayekti 2007; Sembiring 2005; Wibowo 2012). Given the focus on the economic benefits of CSR, this study adopts a measurement of CSR engagement that incorporates both accounting and non-accounting proxies, similar to Weber (2008) and Hackston and Milne (1996). The CSR measures consist of: (i) three key performance indicators (KPIs); (ii) CSR value-added (CVA); and (iii) CDI. These components are reviewed below.

3.8.1 Key Performance Indicators (KPIs)

According to Weber (2008), companies should develop and measure relevant KPIs that indicate an improvement of company competitiveness due to CSR. The KPIs for CSR consist of up to five indicators: (i) monetary brand value; (ii) reputation; (iii) customer attraction and retention; (iv) employer attractiveness; and (v) employee motivation and retention. According to Schaltegger and Burritt (2005), the KPIs show the complex relationships between the economic, environmental and social aspects of the processes and firm value. Furthermore, Perrini, Pogutz and Tencati (2006) argue that the KPIs can act as an essential tool to communicate information to different stakeholder groups, although, as Weber (2008) states, apart from reputation, the remaining KPIs are directed to customers and employees as stakeholders.

With respect to monetary brand value, valuation is established by the financial market valuation of the firm’s future cash flows (Simon and Sullivan 1993). However, this valuation approach has several limitations (Anderson 2011) – for example, brand equity changes as soon as new (microeconomic and macroeconomic) information is available on the market.[66] Hence, changes to brand equity will occur not only due to new product introductions or new sales campaigns, but will also fluctuate due to exogenous issues not related to brand.[67] Since changes in valuation will not necessarily be due to any impact on brand image associations, obtaining a monetary brand value from the current share market value of the firm deducting total assets (including intangible and tangible assets) is very problematic (Sšderman and Dolles 2013) and not appropriate for this study.

Although other measures for brand value exist based on surveys and interview techniques (First and Khetriwal 2010; Lai et al. 2010; Trong Tuan 2012), they are not employed in this study due to the fact that the measures do not capture the monetary aspect of brand value. Therefore, this study will not employ monetary brand value, as part of its KPIs to measure a firm's CSR activities. Firm reputation is viewed as a general firm attribute that describes the extent to which the public perceives a firm (Wartick 2002). Many US studies employ the annual survey of *Fortune 1000 America's Most Admired Corporations* as a proxy measure for US firm reputation (Rahman and Post 2012; Roberts and Dowling 2002; Smith, Smith and Wang 2010; Zyglidopoulos 2001). Although firm ranking data does exist for Indonesian listed firms, via the SWA magazine, this provides data only for the 100 best positioned Indonesian listed firms. The data availability via this source for the study period and sample population (2007-2013; and listed firms actively engaged in CSR) is quite poor, with less than half the sample size available. Hence, this proxy measure is not suitable for the study.[68]

---

[66] Fama (1970) developed the efficient market hypothesis, which posits that stock prices reflect the information available in the market. Hence, the market quickly responds based on the existing information (changes to inflation, exchange rates, oil prices, etc.), which will affect stock price movement.

[67] According to Chandra (2015) and Mei and Guo (2004), factors of inflation, the currency exchange rate and political conditions (e.g., an election and interregnum) have significant effects on stock prices in the Indonesian capital market.

[68] The firms available are: AKR Corporindo, Tbk; Aneka Tambang,Tbk; Astra Argo Lestari, Tbk; Astra International, Tbk; Astra Otoparts, Tbk; Bakrie & Brothers, Tbk; Barito Pasific, Tbk; Bumi Resources, Tbk; Ciputra Surya, Tbk; Fajar Surya Wisesa, Tbk; Gudang Garam, Tbk; H. M Sampoerna, Tbk; Holcim Indonesia, Tbk; Indocement Tunggal Prakasa, Tbk; Indofood Sukses Makmur, Tbk; Indosat, Tbk; Jaya Real Property Tbk; Kalbe Farma, Tbk; Kawasan Industri Jabakeka, Tbk; Lippo Karawaci, Tbk; Matahari Putra Prima, Tbk; Medco Energi Corp, Tbk; Plaza Indonesia Reality, Tbk; PP London Sumatera Indonesia Tbk; Ramayana Lestari Sentosa, Tbk; Semen Indonesia Tbk; Summarecon Agung, Tbk; Telekomunikas Indonesia, Tbk; Timah, Tbk; Tunas Ridean, Tbk; Unilever Indonesia, Tbk; United Tractor, Tbk; Energi Mega PErsada, Tbk; Global Mediacon, Tbk.

Other firm reputation measures, such as the closed-end measures versus open-end measures of corporate image proposed by Van Riel, Stroeker and Maathuis (1998), and the personification metaphor proposed by Davies et al. (2001) are more suitable for case studies and are not suitable for this study.

Given this study's adoption of a comprehensive CSR measurement (i.e., accounting and non-accounting), three of Weber's (2008) KPIs will be employed. The three KPI constructs comprise one component of the three aforementioned components which make up the CSR measure (i.e., KPIs, CVA and CDI) to be used in the study. The three KPIs are reviewed below.

3.8.1.1 Customer Attraction and Retention

The attraction and retention of customers is an important aspect for any business organisation striving to become a market leader (Subroto 2002). Becker-Olsen, Cudmore and Hill (2006) noted that many studies show strong relationships between a firm's CSR and price, perceived quality, purchase intention, and good customer response (Brown and Dacin 1997; Ellen, Mohr and Webb 2000). Piercy and Lane (2009) also found that social responsibility has a significant influence on customer relationships, long-term customer loyalty, and the acceptance of firms' products by customers. For example, Mohr and Webb (2005) found that CSR significantly affects customer purchase intention, with environmental aspects having a stronger effect on purchase intent when compared to the price factor. Similarly, Brown and Dacin (1997) found that negative CSR associations can have a detrimental effect on overall product evaluations, whereas positive CSR associations can enhance product evaluation. This has been reinforced in other studies (Becker-Olsen, Cudmore and Hill 2006; Levy 1999; Melo and Galan 2011; Tsao 2013). However, some customers are not necessarily influenced by firms that actively promote their CSR activities (Becker-Olsen, Cudmore and Hill 2006). In fact, a 2000 CSR Europe survey of 12,000 customers from 12 European countries found that one in five customers was willing to pay extra for socially responsible and environmentally friendly products (Wessels and Hines 2000). Those that were willing to pay extra have been termed 'maintainers', according to Mohr's socially responsible consumer behaviour model (Mohr, Webb and Harris 2001).

This review has shown that firms actively engaged with CSR can lead to higher levels of customer attraction and retention. This can result in improved market share and increased firm value (Becker-Olsen, Cudmore and Hill 2006; Brammer and Millington 2008; Du, Bhattacharya and Sen 2007; Leverin and Liljander 2006). The customer attraction and retention indicator can be measured through several methods, including questionnaires (Cronin, Brady and Hult 2000; Yüksel and Rimmington 1998) and economic returns (Anderson, Fornell and Lehmann 1994; Rust and Zahorik 1993; Weber 2008). The Swedish Customer Satisfaction Barometer (SCSB) provides a standard set of customer-based performance measurements that can be suitable to use with financial performance measures. Such measures include market share and ROI (Anderson, Fornell and Lehmann 1994). However, as McPee's (1963) double jeopardy theory states, firms with large market share have higher market penetration, greater buying frequency and more loyal customers, whereas firms with low market share do not. Given the widespread use of market share as an indicator for customer attraction and retention, this study will use market share as a proxy measure for customer attraction and retention based on Weber (2008) and Rust and Zahorik (1993).

3.8.1.2 Employer Attractiveness

The relationship between environment and organisation plays an important role in workplace development activities, including new employee recruitments (Davenport 2000; Singhapakdi et al. 2001). Firms increasingly recognise the importance and the competitive advantage associated with recruiting and retaining a highly skilled workforce (Fitz-Enz 2000; Pfeffer 1994). Recent studies on employer attractiveness have concluded that the monetary aspect is *not* the most important factor that drives a potential employee to apply for a job (Schwaiger, Raithel and Schloderer 2009). According to Chatman (1989), individuals are attracted to be part of a firm that has the values and norms that she/he deems to be important, and a firm actively employed in CSR activities indicates a firm that has socially responsible values and norms (Turban and Greening 1997). Bauer and Aiman-Smith (1996) and Turban and Greening (1997) found that firms actively engaged in CSR were viewed as more attractive employers than firms with poor or zero engagement. According to Popovich and Wanous (1982), the correlation between the organisation's reputation and a person's identity can be particularly strong, while Lievens and Highhouse (2003) point out that employees often use their firm's CSR image to quantify how the public are judging them.

Studies in the US by Fombrun and Shanley (1990) and Turban and Greening (1997) demonstrated a role between the firm's CSR activities of the firm and employee recruitment. They showed that firm CSR activity impacted upon the applicant's perception of the recruiting firm's reputation, which in turn affected their attraction to that particular firm. However, these studies were not able to isolate how much of this improvement was due to CSR per se, legal compliance, stability or sustainability. This is a common issue in these studies. Nonetheless, the finding was reinforced by Albinger and Freeman (2000), who found that a firm's CSR activities of the firm significantly impacted on employer attractiveness in the US. Studies in Asia have shown that, when a labour shortage exists, good CSR practices tend to increase a firm's ability to hire high quality workers (Welford and Frost 2006). Although CSR is not identical with overall reputation, such results nevertheless suggest that firms with more positive reputations will be perceived favourably by employers (Turban and Cable 2003).

As Berthon, Ewing and Hah (2005) state, the notion of employer attractiveness is closely related to the concept of employer branding (EB) or the firm's image as an employer. Employer branding is used to describe how firms market their offerings to potential and existing employees, communicate with them and maintain their loyalty by promoting, both within and outside the firm, a clear view of how participating in CSR activities makes a firm different and more desirable for an employer (Backhaus and Tikoo 2004). The measurement of EB can be calculated via financial and non-financial avenues (AON Hewitt 2012; Knox and Freeman 2006; Weber 2008; Xiang, Zhan and Yanling 2012). When deciding on the appropriate measurement approach, the most important consideration is the firm's objective. In keeping with previous CSR studies (e.g., the 1983 Employment Management Association [EMA], the 1984 Saratoga Institute's Human Resources Effective Report, O'Brien-Pallas et al. (2006), Waldman et al. (2004) and Abbasi and Hollman (2000), the present research will adopt the variable cost per hire (CPH) to measure employer attractiveness. The CPH measurement calculates the costs associated with the recruiting, sourcing and staffing activities borne by an employer to fill an open position in the firm. Thus, a high CPH reflects higher internal costs due to the employer attractiveness of a CSR engaged firm as demonstrated via larger numbers of job applicants who apply for an employment vacancy.

3.8.1.3 Employee Motivation and Retention

Employees are the key stakeholders of firms, and become an integral part of the firm's assets in generating its competitiveness and distinguishing it from any rivals (Navickas and Kontautiene 2012). Research by Phillips and Connell (2003), McKeown (2002) and Glanz (2002) identified the main factors which drive employee retention: (i) compensation; (ii) work environment; (iii) appreciation and respect; (iv) development and career growth; and (v) communication. As Eweje and Bentley (2006) point out, these factors also tend to be influenced by the firm's level of CSR engagement. Brammer, Millington and Rayton (2007) argue that, when a firm is actively engaged in CSR, employees are prouder and committed to being part of that firm. Similarly, Marquis, Thomason and Tydlaska (2010) posit that employees want to be part of a firm that is concerned about societal welfare, and CSR activities can satisfy those needs. By engaging in CSR activities firms can bolster employees' motivation, commitment and loyalty to the firm, which Branco and Rodrigues (2006) cite as an internal benefit. Thus, socially responsible employment activities, such as fair wages, clean and safety working environments, training programs, providing childcare facilities, and health and education programs for workers and their families, can deliver benefits to a firm by increased employee motivation, commitment and productivity. It can also lead to reductions in absenteeism and employee turnover (ETO). Other productivity benefits include reductions in new employee recruitment and training costs (Branco and Rodrigues 2006).

In order to demonstrate the link between CSR activities and employee motivation and retention, a 2002 survey by Environics International was undertaken in 25 countries in North American and European countries. The study found that 80% of workers felt greater motivation and loyalty toward their jobs and companies the more socially responsible their employers were (Zappalà 2004). According to Perrin (2008), a firm's CSR engagement ranked eighth for employee attraction, tenth for employee retention and third for employee engagement. As Navickas and Kontautiene (2012) and Gross (2011) point out, previous studies demonstrated that CSR activities positively affect the enhancement of employee motivation and retention. Furthermore, a study in China by Welford and Frost (2006) found that, since introducing CSR practices, one of the factories in their study reduced turnover rates from 18% to 8% per year, resulting in significant cost saving.

In terms of how employee motivation and retention are measured, this study employs the ETO indicator used by Weber (2008). As Weber (2008) and other studies have shown, unsatisfied employees are less motivated and more likely to leave their firm. Firms that experience this, typically experience higher ETOs, thus making it an appropriate measurement to capture the employee motivation and retention construct (Akerlof et al. 1988; Freeman 1977; Lévy-Garboua, Montmarquette and Simonnet 2007).

3.8.2 Corporate Social Responsibility Value-Added (CVA)

The second main component of the CSR measure is CVA. As part of their CSR activities, firms must integrate social, economic and environmental aspects in their operations and interactions to suit the aspirations of shareholders (European Commission 2002; Morsing and Schultz 2006). From a shareholder perspective, Figge and Schaltegger (2000) found that, although investments can improve firm value through generating higher returns than the cost of capital (current and fixed assets), CSR activities linked with the concepts of sustainability and stakeholder orientations (Zink 2005) can improve their ability to not only minimise transaction costs and conflicts with shareholders, but also increase financial outcomes from the intangible assets of employees and reputation (Freeman and McVea 2001). Moreover, CSR activities can positively impact cash flows of firms and thus improve their economic value (Figge and Schaltegger 2000) and long-run operational costs (Molson Group of Companies Annual Report, 1992, cited in Richardson, Welker and Hutchinson 1999). Thus a firm’s environmentally friendly program can maximise net present value (NPV) by avoiding the cost of future law suits and restorations (Richardson, Welker and Hutchinson 1999), and increase profit from environmentally friendly campaigns (Figge and Schaltegger 2000). These benefits are reflected in the firm value even when they explicitly disclose the source of these effects (Güler, Asli and Ozlem 2010). As Bennett Steward, creator of EVA, argued (Birchard 1995, p. 49), '… *to increase shareholder value, a company must address the needs of its stakeholders more efficiently and effectively than the company against which it competes*'.

According to Koller, Goedhart and Wessels (2010), shareholder value is identified as the discounted net current value of a firm's future cash flow. Thus, shareholder value is future-oriented and based on a sustainable (long-term) increase in firm value (Figge and Schaltegger 2000). Although financial accounting and shareholder value approaches cannot explicitly adopt environmental objectives, such approaches tend to focus on economic aspects. Both approaches (financial accounting and shareholder value) have a strong, direct influence on the business activities of management (Figge and Schaltegger 2000), and an indirect effect on the environmental impact. This results in an economically efficient environmental protection, which is characterised by the fact that the desired protection of the environment is achieved at cost saving or additional profits, or both. According to Weber (2008), Burritt and Saka (2006), Figge and Hahn (2004), and Figge and Schaltegger (2000), the CVA is calculated by using discounted cash flows. The value added to the firm is described as the residual value that remains after benefits have been reduced by the external environmental costs caused by the firm's economic activities. The analysis of costs and benefits can only be deducted if this analysis is measured in the same unit (i.e., monetary) (Figge and Hahn 2004). Some scholars have recognised that the residual value in accounting measures is compatible with the NPV rule, where the cash flows incurred are discounted to the firm's project start (Pfeiffer 2004). Furthermore, this economic evaluation through the analysis of costs and benefit is crucial in the selection of alternatives where the focus on the time value of money and service life is required to clearly evaluate the firm's profitability (Lim et al. 2006). A few studies have used this discount cash flow (or NPV) approach to measure the firm's economic evaluation related to social responsible activities (Hsieh, Dye and Ouyang 2008; Keca, Keca and Pantic 2012; Lim et al. 2006; Santhakumar and Chakraborty 2003).

3.8.3 Corporate Social Responsibility Disclosure Index (CDI)

The third, and final, component of the CSR measure is CDI. The term CSR is inherently about disclosure and the properties of disclosure: compliance, accuracy and relevance. It is the ability of firms to incorporate its responsibilities to society in a transparent manner. Studies using a CDI tend to comprise summary indicators of particular CSR stakeholder interests. According to Clarkson (1995), each stakeholder presents different interests and impacts how a firm behaves. Clarkson proposed six CSR dimensions: (i) company (e.g., industry background, organisation structure, economic performance), which reflects Carroll's economic responsibility; (ii) employee relations (e.g., compensation, training and development, health and safety, unions, and employee equity and discrimination); (iii) shareholder relations (e.g., shareholder communications and complaints, and shareholder advocacy and rights); (iv) customer relations (e.g., product safety and customer complaints); (v) supplier relations (e.g., relative power and other supplier issues); and (vi) public stakeholder issues (e.g., environmental issues, community relations and social investment and donations).[69]

Another study by McGuire, Dow and Argheyd (2003) developed a scale to evaluate a firm's CSR performance by employing the Kinder, Lindenberg and Domini (KLD) database. The KLD database is categorised into four dimensions: (i) employee (e.g., health and safety, job security, and unions); (ii) community (e.g., providing education and housing facilities); (iii) product (e.g., product safety, illegal business and marketing practices); and (iv) environmental (e.g., avoiding animal testing, recycling and pollution control). The KLD database is the leading CSR rating agency that assesses US firms. Furthermore, the Canadian Social Investments Database (CSID) was employed by Mahoney and Thorne (2005) and assesses the seven CSR dimensions. These seven consist of the four employed by McGuire, Dow and Argheyd (2003) along with international operations (e.g., human rights, community and employee relations, environment management), diversity (e.g., sexual orientation, gender and disability), and others (e.g., excessive compensation, dual-class share structure and ownership in other firms).

[69] The checklist of the items that comprise the CSR Disclosure Index is located in Appendix 1.

The major CSR studies to date have focused on developed countries such as the US (Arora and Dharwadkar 2011; Barako, Hancock and Izan 2006), where the use of the KLD rating of CSR is widely employed.[70] Another database source, the CSID, has also been used to measure the firm's CSR activities for each of its seven dimensions. Although the above databases present some key stakeholder relationships, they have a limited area of assessment. That is, they are typically designed to evaluate firms in developed countries (Turker 2009).

In developing countries, although the publication of annual reports is a statutory requirement, firms usually voluntarily disclose information in excess of mandatory requirements. Barako, Hancock and Izan (2006) state that disclosures include financial and non-financial information that assists with investment decision-making and can lead to economic benefits for the firm. These publication requirements, however, also provide the possibility to derive new measures for CSR activities (Abbott and Monsen 1979). Such possibilities have increased since information about CSR has become more readily accessible due to the increased attention that firms pay to social disclosure regarding communities, employee relations, environmental, product quality and diversity issues (Gray, Kouhy and Lavers 1995; Khan 2010; Korathotage 2012). The growing body of literature on CSR reporting has increased the use of content analysis as a method in measuring CSR activities (Turker 2009). Self-reported disclosure as a means of constructing a quantitative scale can be used as a method of measuring CSR activities. This is known as the social disclosure scale (Abbott and Monsen 1979; Ruf, Muralidhar and Paul 1998). This method has been widely used in CSR studies in developing countries, including Malaysia, Bangladesh, Qatar, Sri Lanka and Indonesia (Edwin 2008; Haniffa and Cooke 2005; Khan 2010; Korathotage 2012; Naser et al. 2006).

In 2006, in line with the emphasis on the demand to increase the quality of financial reporting and governance by Indonesian listed firms, the Ministry of Finance through

---

[70] The KLD database contains 82 indicators across eight major CSR dimensions: (i) community; (ii) employee relations; (iii) diversity; (iv) environment; (v) product quality; (vi) governance and transparency; (vii) human rights; and (viii) other aspects (Arora and Dharwadkar 2011).

BAPEPAM-LK issued an annual report guideline in Indonesia.[71] This report guideline emphasised on financial and non-financial aspects. Non-financial aspects include firm profile, ownership structures, the board (e.g., composition, qualifications, committees, meetings), auditor independence, R&D, employee information, environmental and social reporting, and value-added information.[72] The Indonesian government also introduced mandatory laws related to CSR dimensions of the environment, human rights, employees, corruption, bribery control, and customer protection.[73] However, although these mandatory laws and disclosure guideline have included several designations for a firm's CSR disclosure, there is no CSR disclosure standard published by boards in Indonesia (Edwin 2008; Frisko 2012). For instance, environmental and social information in annual reports is presented in an unstructured manner (Frisko 2012). In addressing this problem, the organisation of the National Centre for Sustainability Report (NCSR) actively encourages Indonesian firms to use the Global Reporting Initiative (GRI) (Frisko 2012). The GRI developed a framework that has been used by firms worldwide in their CSR reporting and focuses on: (i) economic; (ii) environmental; (iii) employee relations; (iv) community; (v) human rights; and (vi) product responsibilities (Bouten et al. 2011; Dumay, Guthrie and Farneti 2010; Farneti and Guthrie 2009). Furthermore, GRI is a reporting standard based on the triple bottom-line (economic, social and environment aspects) at a firm level, based on self-reporting. Thus, it is not necessary for firms to produce their CSR reports in compliance with the GRI guidelines (Gjølberg 2009). As Hedberg and von Malmborg (2003) posit, the GRI acts only as a guide. Thus, not all firms use the GRI guidelines as a model for their reports.[74]

The CSR disclosure of Indonesian firms is mostly qualitative, although some activities involve a quantitative figure. The dimension of CSR disclosure used in Indonesian firms

[71] The regulation of No. KEP-134/BL/2006.

[72] Financial Accounting Standard Statement (PSAK) No.1 year 2004, the ninth paragraph: 'company could also present additional statement such as environmental statement, and value added statement, especially for industries where environmental factor hold an important role and for industry which considers its worker as a group of report user, whose hold an important role.

[73] Mandatory laws related to CSR dimensions refer to Section 3.8.3.1.

[74] Some large Indonesian firms have used the GRI guideline as a model or source of inspiration for their CSR disclosure. They include: Astra International Tbk, Aneka Tambang Tbk, Holcim Indonesia Tbk, Perusahaan Gas Negara Tbk, Semen Gresik Tbk, Tambang Batubara Bukit Asam Tbk and Telekomunikasi Indonesia Tbk.

might differ, depending on the requirements of each firm and its stakeholders (Edwin 2008). The classification of CSR dimensions typically includes: (i) environment; (ii) energy (some studies combine these two categories into one dimension); (iii) health and work safety; (iv) other workers (or employee profiles); (v) product quality; (vi) social involvement; and (vii) others (Hackston and Milne 1996). These dimensions aim to measure the environmental and social costs and benefits produced by a firm when meeting their CSR obligations (Edwin 2008). Thus, the dimensions of the CSR disclosure relate to the CDI measure and are employed to assess the benefits of CSR engagement. The CDI operationalises firm level CSR engagement via a checklist of firm level CSR activities/items that comprise the CDI (see: Appendix 1). This has been widely used in Indonesian studies (Edwin 2008; Sayekti 2007; Sembiring 2005; Tjia and Setiawati 2012; Siregar and Bachtiar 2010).

Overall, the nature of CSR studies in general along with the relative infancy of the proxies that have been used for measurement mean that the research findings associated with this study need to be interpreted with caution.

3.8.3.1 Mandatory Laws on Corporate Social Responsibility

In measuring and evaluating the effect of CSR activities, Indonesian firms were required to demonstrate transparency and accountability by publishing CSR disclosures that provide information about firm activities (Wibisono 2007). In keeping with this, the Indonesian government introduced mandatory laws related to CSR dimensions (Frisko 2012). These mandatory laws provide boundaries regarding (i) what firms should or should not do to provide their social responsibilities (Frisko 2012; Waagstein 2011); and (ii) the reporting of these activities within firm annual reports. The nine mandatory laws related to CSR in Indonesia are as follows:

1) *The 1997 Environmental Management Law No. 23*[75] is to develop environmentally sustainable development through implementation of a strong environmental planning policy aimed at encouraging rational CSR exploitation, development, maintenance, restoration, supervision and environment control. The articles of this

[75] 1997 Law No.23 was later repealed by 2009 Law No. 23.

law present environmental management, as follows: mandatory environmental effect analysis and a requirement for firms to obtain a business licence to operate; full implementation of waste treatment and management; a requirement that a firm performs environmental audits; firm responsibility for environmental protection; the right for local communities and NGOs to take legal action against a firm (Oktavia and Meaton 2014).

2&3) *The 1999 Law No. 39* and *the 2000 Law No. 26 on Human Rights* cover mandates linked to the human rights courts and inquiries into gross violations of human rights (Lindsey 2008). Some aspects of these laws linked to CSR dimensions include the main principle of the human right to life, self-development and justice, freedom from slavery, religious and political freedom, freedom of assembly, freedom from discrimination, freedom of movement and activities in Indonesia, and the rights to welfare and freedom from fear (Oktavia and Meaton 2014).

4) *The 1999 Law No. 8 on Consumer Protection* covers producer responsibility to protect consumer rights. Some aspects of the law related to CSR include consumer and producer rights and responsibilities, illegal and offensive advertising and the right of customers and public to monitor the quality of products (goods and services) in the market (Oktavia and Meaton 2014).

5) *The 1999 Law No. 31 on the Eradication and of Criminal Act of Corruption,* deals with mitigation of corruption and bribery actions, as well as collusion. Furthermore, this law allows the public to demand transparency and accountability of firms' information (Oktavia and Meaton 2014). Another anti-corruption law, *The 2002 Law No.15 on Money Laundering*, specifically covers these criminal actions in the banking industry and other financial institutions (Oktavia and Meaton 2014).

6) *The 2012 Law No. 50 on Safety and Occupational Health System Management.* The purpose of this law is to: (i) manage risk that is related to operational activities in the workplace in order to create safe work environments that are efficient and productive; (ii) ensure and protect the safety and health of workers through prevention of occupational accidents and diseases; (iii) produce good quality products; and (iv) provide workers with a fair salary and appropriate welfare agreement (Oktavia and Meaton 2014).

7) *The 2006 Law No. 31 on the System of National Job Training* aims to improve and develop job competence, productivity, discipline and work ethic to meet prescribed levels of skill and expertise qualification (Oktavia and Meaton 2014).

8) *The 2002 Law No. 13 on Manpower* covers equal opportunities regarding obtaining job contracts and training, and protection against violence and discrimination in the workplace. It also states that no children should be economically exploited (child labour) and that labour union rights should be protected, while safety protection in the workplace and fair salaries and welfare are also covered (Oktavia and Meaton 2014).

9) *The 2003 Law No. 19 on State Owned Enterprises,* obligates state-owned enterprises (SOEs) to allocate 2% of net profit to support SMEs developments (Oktavia and Meaton 2014). This program is now known as the *Program Kemitraan dan Bina Lingkungan* or *Partnership Program and Environmental Building*. Other regulations, including the Ministerial Decree (Minister of State-Owned Companies) No. 236/MBU/2003 and Ministerial Regulation No. 05/MBU/2007, mandate SOEs to allocate up to 4% of net gains for PPEB (Frisko 2012), depending on their level of profit.

3.9 Corporate Social Responsibility and Information Quality

Some scholars have found various benefits of CSR engagement for firms in terms of information quality (information asymmetry), including: (i) the high number of analysts following the firm (Hong and Kacperczyk 2009); (ii) favourable recommendations from analysts (Ioannou and Serafeim 2015); (iii) improving communications with shareholders on financial aspects (Fieseler 2011); (iv) reducing cost equity (Dhaliwal et al. 2011; El Ghoul et al. 2011); and (v) increasing the credit rating (Attig et al. 2014). All these benefits ultimately increase analyst forecast accuracy (Dhaliwal et al. 2012). According to Jo (2003), financial analysts have an incentive to follow CSR, since it continues to meet the growing demands and psychology of the investment community, who combine the usual investment purpose with CSR. Jo also found that a firm with a good CSR reputation is typically followed by more financial analysts, since a quality relationship between the firm and stakeholders has an effect on the firm's financial performance.

Typically, there are two different perspectives for reviewing the relationship between CSR and information asymmetry[76]: agency theory and stakeholder theory. According to agency theory, a firm's CSR disclosure might derive from the existence of information asymmetry between capital control and its shareholders (Jensen and Meckling 1976). Thus, to reduce information asymmetry, firms can choose to disclose their environmental and social activities (Daily and Dalton 1994; Van Beurden and Gössling 2008). This drives the firm to produce more informative disclosure and external investors can better assess the firm's future value-creation potential (McGuire, Sundgren and Schneeweis 1988). Thus, CSR disclosure helps to mitigate the information asymmetry distribution between corporate managers and shareholders (Orlitzky and Benjamin 2001). According to stakeholder theory, firms are subject to discursive scrutiny by stakeholders other than shareholders, such as NGOs, government and the media (Freeman 1984; Harjoto and Jo 2015; Jo and Harjoto 2011, 2012; Makni, Francoeur and Bellavance 2009). Thus, managers consider the firm's fiduciary and moral responsibility toward stakeholders in order to build the firm's reputation (Aguilera et al. 2007; Cai, Jo and Pan 2011). High levels of CSR activity are correlated with an information environment that improves the firm's reputational capital (Cui, Jo and Na 2016), while also reducing information asymmetry (Diamond and Verrecchia 1991; Sufi 2007).

With respect to information quality[77], firm managers can use their discretion to employ CSR disclosure as a tool to improve information transparency and business strategy (Dhaliwal et al. 2011; Wood 1991). This principle of managerial discretion identifies managers as moral actors who should act responsibly and improve information transparency (Wood 1991) through investing in CSR and disclosure of their CSR activities to the public (Dhaliwal et al. 2011). Thus, as Cui, Jo and Na (2016) point out, the firm investing in CSR tends to be more transparent about its operations (Cui, Jo and Na 2016), making CSR important for enhancing information quality (Kim, Park and

[76] Information asymmetry is defined as information problems that exists in every relationship between parties that have information differences and conflicting interests (Akerlof 1995; Brown and Hillegeist 2007).

[77] Information quality is defined as the level of information should be addressed by recipients, which generally cover data quality factors such as accuracy, timeliness, precision, reliability, currency, completeness, and relevancy (Wang and Strong 1996).

Wier 2012). Kim, Park and Wier (2012) add that socially responsible managers tend to produce high quality reliable financial reports which ultimately reduce the issue of earnings conflict. Due to the strong relationship between CSR activities and information quality, enhancing CSR disclosures can help the firm to reduce information asymmetry between insiders (i.e., agents) and outsiders (i.e., shareholder/principal and other stakeholders) (Cui, Jo and Na 2016; Jo and Kim 2008; Jo, Kim and Park 2007). Therefore, the present research posits that firms providing CSR disclosure will enhance information transparency and reduce information asymmetry between the firm and its shareholders, as well as others, such as financial analysts and potential investors.

3.10 Firm Value

There are a few performance measurements that are often used to analyse a firm's expenditure and revenue over different periods (Dufrene 1996) reflecting the market value of business (Moyer, McGuigan and Rao 2015). Typically, firm value[78] measurements are divided into two subcategories: (i) accounting-based; and (ii) market-based (Saeed 2011). Accounting-based measures include ROI, return on equity (ROE), return on sales (ROS), and return on assets (ROA), while market-based measures include Tobin's Q, NPV and market to book value ratio of equity (M/B = market value divided by the book value of common stock) (Brine, Brown and Hackett 2007; Hackston and Milne 1996; Jo and Harjoto 2011; Pauwels et al. 2004; Tobin 1969; Waddock and Graves 1997; Weber 2008). Accounting measures are used to reflect short-run profitability, while market-based measures are used to reflect market evaluation for future profitability (Cochran and Wood 1984). However, a major weakness in the accounting-based measures is their inability to accurately quantify a firm's future business success as well as its restricted nature due to dependence on the accounting standards (Figge and Schaltegger 2000). Moreover, the different types of sectors (manufacturing, trade and services) and business risks influence how measures should be considered when using the accounting-based method (Güler, Asli and Ozlem 2010). To compensate for this shortcoming, market-based measures such as Tobin's Q

[78] Many literature and empirical studies that examine firm value have used the term 'financial performance' instead. As stated in Chapter 1, the interpretation of financial performance as a proxy for firm value is a common practice in accounting and financial empirical studies (Al-Najjar and Anfimiadou 2012; Lee and Park 2009; Bolton 2004; Lenham 2004).

reveal how investors examine a firm's capability to produce future profit (Luo and Bhattacharya 2006). For instance, firms experiencing quick growth typically seek funds via leverage or equity. Obtaining this at a reasonable cost requires the provision of high quality information to key stakeholders regarding firm business operations (Jang, Tang and Chen 2008; Smith and Stulz 1985; Smith Jr and Watts 1992). Thus, as Fadul (2004) argued, Tobin's Q is more dynamic and forward-looking with respect to firm value, and is based on past performance and future expectation.

Following Jo and Harjoto (2011, 2012), Simpson and Kohers (2002) and Waddock and Graves (1997), this study will employ Tobin's Q, ROA and ROE to examine firm value. Tobin's Q has been widely used to measure firm value in accounting and finance studies. Lindenberg and Ross (1981) describe Tobin's Q as the ratio of the market value of the firm to the replacement cost of its assets. The calculation of Tobin's Q requires making assumptions about rates of depreciation and inflation to estimate the firm's replacement value (Berger and Ofek 1995).[79]

The variable ROA will be used to proxy profitability, in keeping with the link between profits and CSR, as demonstrated by Haniffa and Cooke (2005) and Simms (2002), who found that approximately 70% of global chief executives believe that CSR has an important role in impacting their firm's profitability. In this study, ROA is measured by the ratio of net income to total assets (tangible and intangible assets) and typically proxies whether a manager uses their assets efficiently to generate earnings. It also proxies the extent to which the firm's cash flows affect the firm's returns. The variable ROS is generally used to determine the profit operating margin attained by products and services offered by a firm (Cool and Dierickx 1993; Griffin and Mahon 1997; Zahra and Covin 1993). This measure is less sensitive to the effects of inflation and to accounting conversions compared to ROA (Boubakri and Cosset 1998). Therefore, this study uses both ROA and ROS to assess profitability, as well as the efficiency levels of asset utilisation and reinvested earnings (Bodie, Kane and Markus 1993).

[79] The calculation of Tobin's Q is explained in greater detail in Chapter 5.

3.11 Corporate Social Responsibility and Firm Value

Empirical studies of the relationship between CSR and firm value are essentially divided into two groups (McWilliams and Siegel 2000). The first group of studies employs an event study methodology to examine the short-run financial effects (abnormal returns) when firms are involved in CSR activities. Studies of this group have shown mixed results (Zu and Song 2009). For example, using the meta-analysis of 27 event studies, Frooman (1997) found that the market reacted negatively to firms that committed socially irresponsible or illegal acts. Marcus (1989) examined the market reaction to an auto industry recall for the period 1967 to 1983 and found that lower CSR performance led to lower firm value, which is an indication of a potential positive link between CSR and firm value, ceteris paribus.

Chen et al. (2001) analysed the relationship between layoffs (i.e., a labour issue), firm value and shareholder wealth. They found that layoff announcements were generally correlated with a significant negative share market response, but firm layoffs also improved firm productivity and/or performance, which ensured firm survival. Furthermore, Palmon, Sun and Tang (1997) found that the share market responds negatively when layoffs are due to declining product demand, and positively when layoffs are efficiency motivated. Thus, the reasons for the layoffs are perceived as a signal for the firm's future profitability. Contrarily, Hahn and Reyes (2004) demonstrated a positive market reaction in restructuring-related layoffs on the announcement date.

The second group of studies examined the relationship between CSR and firm value, using accounting-based and market-based measures. The studies of this group also demonstrated mixed results (Zu and Song 2009). For example, using firm size, risk and industry type as control variables, Waddock and Graves (1997) found a positive correlation between CSR and firm value. Preston and O'Bannon (1997) conducted a study of 67 US firms between 1982-1992 that also resulted in a positive relationship between CSR and firm value. However, some studies have also shown negative relationships between CSR and firm value (Davidson, Chandy and Cross 1987; Marcus 1989). Furthermore, McWilliams and Siegel (2000) found that CSR engagement had neutral effects on firm value when R&D was involved in the equation. They also suggested that more refined studies are needed in examining the relationship between CSR and firm value.

As Baron and Kenny (1986, p. 1174) argued, a moderator '… *affects the direction and/or strength of the relation between an independent or predictor variable and a dependent or criterion variable*'. The relationship between CSR and firm value can be weakened via a low level of moderation environment. The weakening of a direct relationship is identified as a buffering interaction (Frazier, Tix and Barron 2004). Frazier et al. suggest that moderators can be employed when the result of a direct relationship has been unexpectedly weak and inconclusive. A meta-analysis undertaken by Margolis and Walsh (2003) reviewed 127 studies which examined the relationship between CSR and firm value during the period 1972 to 2002. Although they found that the majority of studies showed positive relationships, they also found that there were inconsistent variables and use of methodologies. Furthermore, Harjoto and Jo (2011) found that CSR firm value (i.e., Tobin's Q and ROA) can affect the choice of a firm's CSR activities, suggesting that CSR activities positively impact on firm value. Using stakeholder theory, (Jensen 2002), Calton and Payne (2003) and Scherer, Palazzo and Baumann (2006) posit that the firm's CSR activities can reduce conflict of interests between managers and its stakeholders, which ultimately increases firm value (the conflict-resolution hypothesis). These empirical studies demonstrate that the relationship between CSR and firm value is complex (Jo and Harjoto 2012).

3.12 Summary

In this chapter, the literature relating to the key theories underpinning CSR, from an accounting and non-accounting perspective, has been reviewed. The main CSR theories were presented to determine a valid and justifiable theoretical basis for the use of CSR in the analysis. Upon completion of the review, a multi-theoretic approach to CSR was adopted that will utilise stakeholder theory, RBV theory and multilevel theory of social change in organisations, since these were determined to be the most appropriate fit for the context of this study. In addition, CSR measurements were reviewed that led to the selection of three KPIs (customer attraction and retention; employer attractiveness; and employee motivation and retention), and CVA and CDI as being valid and appropriate to capture both the accounting and non-accounting proxies in the measurement of an Indonesian listed firm’s CSR engagement.

The literature relating to information quality and firm value was also reviewed. The link between CSR and information quality was made, where improved information quality (i.e., reduction in information asymmetry between corporate managers and shareholders) led to improved firm value. As a result of this, information quality affects the relationship between CSR and firm value. In Chapter 4, literature relating to associations between the variables in the study and the theoretical underpinnings of the concepts will be discussed, leading to the development of hypotheses employed in the study. The conceptual framework for the study is also set out in full.

Methodological strategy will hinge upon what can constitute a meaningful argument in relation to your puzzle, be it developmental, causal, mechanical, and so on. (Mason 2002, p. 32)

Chapter 4: Conceptual Framework and Methods

4.1 Introduction

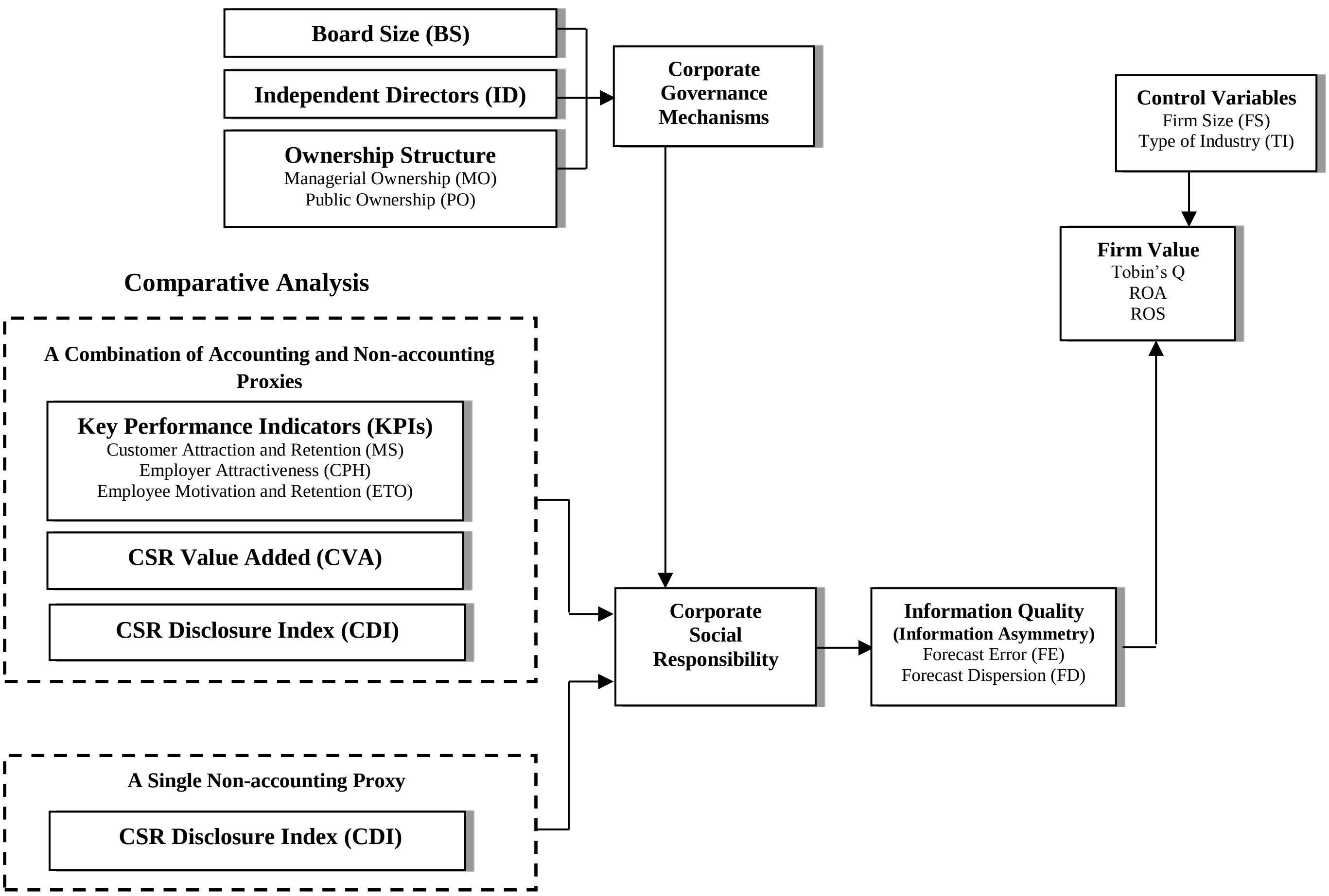
This chapter summarises the associations between the variables under investigation based on the theoretical underpinnings examined in Chapters 2 and 3. These associations provide the basis for the development of the conceptual framework for the study, which examines the relationship between corporate governance (CG), corporate social responsibility (CSR) and information quality on the firm value of listed firms in Indonesia. The framework, which adopts a comprehensive CSR measurement, provides an extension to the CSR literature. This chapter also provides details of the methods used to test the model. The methods employed in this chapter are chosen in order to capture the associations between the various variables in the framework. Hence, to help achieve this, the chapter will provide a justification for the research method employed, which is simultaneous equation models: ordinary least squares (OLS) and two-stage least squares (2SLS) regression. This will be followed by a review of the data that was used for analysis.

The organisation of this chapter is as follows. Section 4.2 presents the conceptual framework. A summary of the associations of the framework variables on firm value is then presented, along with the research hypotheses proposed for the study. Section 4.3 reviews the methods applied in previous CG and/or CSR studies. Section 4.4 focuses on the identification and justification of the research method approach utilised in this study. Section 4.5 outlines the research design and approach. Section 4.6 provides a brief explanation of generic research design approaches. Section 4.7 examines the data collection process employed. Section 4.8 reviews the sample size, generalisability and statistical power of the research. Section 4.9 examines the variables used and their associated measurements. Section 4.10 provides details of the econometric model, explaining how the simultaneous equation models construct the complex relationship between CG, CSR, information quality and firm value in order to achieve the research objectives. Finally, Section 4.11 presents a chapter summary.

4.2 Conceptual Framework

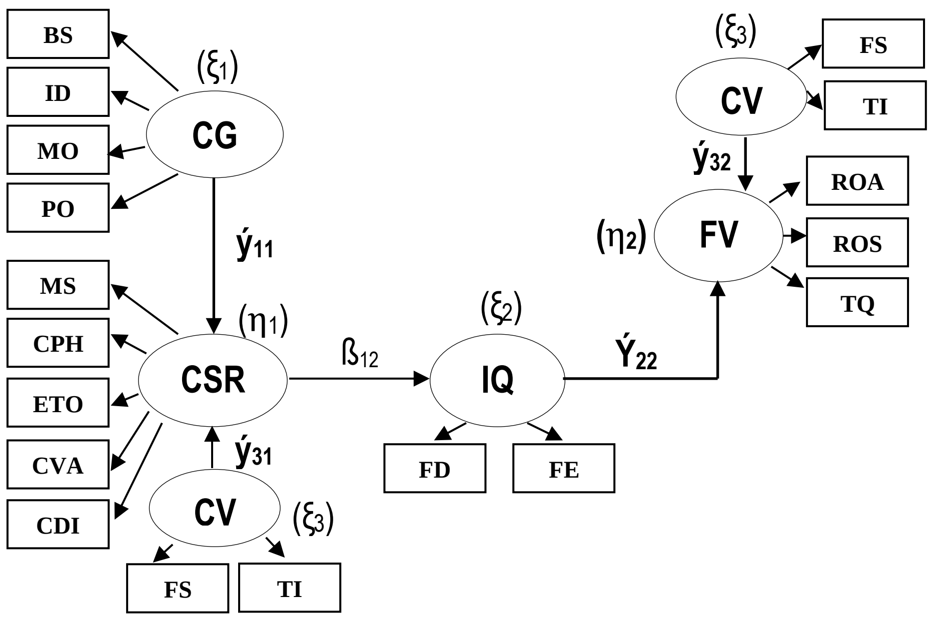
Based on the literature review in Chapters 2 and 3 and the research questions to be investigated, a conceptual framework has been developed to encompass the associations between CG, CSR and information quality on the firm value of Indonesian listed firms. The framework was derived by integrating diverse perspectives of CG, CSR, information quality and firm value via a multi-theoretic approach that incorporates aspects of: (i) agency theory; (ii) stakeholder theory, (iii) resource dependence theory (RDT); (iii) resource-based view (RBV) theory; and (v) multilevel theory of social change in organisations. The framework serves as the foundation for this study and is presented in Figure 4.1 below.

Figure 4.1 The Conceptual Framework for the Study



As the conceptual framework illustrates, the value of CSR is measured using key performance indicators (KPIs), CSR value added (CVA) and the CSR disclosure index (CDI), whereas the value of CG mechanisms is based on board size, independent directors and ownership structure (i.e., managerial ownership and public ownership). Firm value is evaluated based on the variables, return on assets (ROA), return on sales (ROS), and Tobin's Q. This study also analyses the role of information quality (i.e., information asymmetry) between CSR and firm value via the forecast dispersion and forecast error of financial analysts. Furthermore, firm size and type of industry are employed as control variables. The variables identified in the conceptual framework are used to develop the following structural model for the study (see Figure 4.2).

Figure 4.2 The Structural Model for the Study



The structural model comprises three exogenous unobserved factors: ξ_1 refers to CG mechanisms, measured by four indicators (board size [BS], independent directors [ID], managerial ownership [MO], and public ownership [PO]); ξ_2 represents information quality, measured by two indicators (forecast error [FE] and forecast dispersion [FD]); and ξ_3 represents the control group variables employed in the study measured by two indicators (firm size [FS] and type of industry [TI]). There are two endogenous latent constructs: CSR (η_1), measured by five indicators (market share [MS], cost per hire

[CPH], employee turnover [ETO], CSR value added [CVA], and CSR disclosure index [CDI]); and the firm value construct (η_2), measured by three indicators (return on assets [ROA], return on sales [ROS], Tobin's Q [TQ]). In the regression, endogenous and exogenous latent variables represented by (ý) also consist of: $ý_{11}$, which is the coefficient matrix relating ξ_1 to η_1; $ý_{22,}$ which is the coefficient matrix relating ξ_2 to η_2; $ý_{32,}$ which is the coefficient matrix relating ξ_3 to η_2; and $ý_{31,}$ which is the coefficient matrix relating ξ_3 to $\eta_{1.}$ In the regression, endogenous and endogenous latent variables represented by (ß) also have $ß_{12}$, which is the coefficient matrix relating η_1 to η_2. Furthermore, ζ_i represents the error for each equation.

Based on this framework, there are two structural equations:

$$\eta_1 = ý_{11}\,\xi_1 + ý_{31}\,\xi_3 + \zeta_1 \tag{4.1}$$

$$\eta_2 = ß_{12}\,\eta_1 + ý_{22}\,\xi_2 + ý_{32}\,\xi_3 + \zeta_2 \tag{4.2}$$

The first equation represents CSR (η_1) as a function of two indicators, including CG mechanisms (ξ_1) and the control variables (ξ_3). The second equation represents firm value (η_2) as a function of three indicators, including CSR (η_1), CG mechanisms (ξ_1), and the control variables (ξ_3). These functions also include one coefficient-related matrix, $ß_{12}$, to represent the association between CSR (η_1) and firm value (η_2). These describe CSR (η_1) as having a significant impact on reducing information asymmetry (ξ_2) to ultimately increase firm value (η_2). Therefore, information asymmetry (ξ_3) is identified as an exogenous observed variable because it affects the relationship of CSR (η_1) and firm value (η_2).

The present research employs simultaneous equation models which are estimated under the OLS and 2SLS approaches. The 2SLS is included in order to capture the interdependence, if any, of CG mechanisms, CSR, information quality and firm value. The two estimates are employed in a complementary manner (Dreher and Vaubel 2004). For instance, 2SLS is able to handle the issue with endogeneity which has presented difficulties in previous empirical studies into CG and CSR (Bhagat and Black 2002; Black 2001; Durnev and Kim 2005; Gompers, Ishii and Metrick 2003; Bartholomeusz and Tanewski 2006; Börsch-Supan and Köke 2002; Hermalin and Weisbach 2003), while the inclusion of the OLS estimates enables this study to facilitate comparison with past studies (see Beiner, Drobets, Schimid and Zimmermann 2006; Berger, Ofek and Yermack 1997).

4.3 Summary Effects and Research Hypotheses

Based on the explanations provided in Chapters 2 and 3, the following hypotheses are developed regarding the relationship between CG, CSR and information quality on the impact on firm value of Indonesian listed firms.

4.3.1 Effect of CG Mechanisms on the Level of CSR Engagement

Although some studies have posited that the relationship between CG and CSR is largely incompatible (Farooq, Ullah and Kimani 2015), the majority of the literature and empirical studies have shown that they are not only compatible, but typically exhibit a significantly positive relationship (Deakin and Hobbs 2007; Harjoto and Jo 2011; Ho 2005; Jamali, Safieddine and Rabbath 2008; Jo and Harjoto 2011, 2012; Roberts and Mahoney 2004).Specifically, Bhimani and Soonawalla (2005) argue that the relationship between CSR and CG is two sides of the same coin, with a mutually strengthening effect (i.e., good CSR means good CG). Moreover, Jensen (2002) and Aguilera et al. (2007) argue that both CG and CSR are manifestations of a firm's fiduciary and moral responsibility towards shareholders and other stakeholders. Jamali, Safieddine and Rabbath (2008) posit that there is a discernible overlap between CG and CSR, with good corporate governance (GCG) having a responsibility to serve and meet all stakeholder interests. They proposed three models to explain the relationship between CG and CSR: (i) an effective CG system as a foundation for solid and integrated CSR activities; (ii) CG as a dimension of CSR; and (iii) CG and CSR as coexisting aspects of the same continuum. In addition to their strong theoretical review of the positive relationship between CG and CSR, Jo and Harjoto (2012) proposed two competing perspectives: agency theory and stakeholder theory.

As stated in Chapter 2, under agency theory, Berle and Means (1932) argued that the agency relationship is viewed as a contract between the principal (e.g., owner), who grants the agent the authority to make business decisions, and that agent (e.g., manager) (Jensen and Meckling 1976). Consequently, the executive managers who run the business are appointed to act as agents acting in the best interest of shareholders (Graves and Waddock 1994). However, managers may be overconfident when making operational decisions for the firm if they are not monitored and insulated from takeovers (Hart and Oulton 1996; Malmendier and Tate 2005). This can result in over-investing in CSR activities in order to enhance the firm's reputation as a good player in society (Jo and Harjoto 2011). However, this managerial decision may also be driven by the wish for personal financial gain (Barnea and Rubin 2010). Malmendier and Tate (2005) found that a firm's over-investment in CSR is exacerbated by over-confident managers. Similarly, Waddock and Graves (1997) found a strong correlation between overconfident managers and over-investment, resulting in the delivery of value destroying investments and loss to the firm (Arora and Dharwadkar 2011). This, in turn, results in CSR engagement having a negative effect on firm value and share prices (Jo and Harjoto 2011). However, if firms use effective CG and monitoring mechanisms in the implementation of CSR to reduce conflict of interest between managers and various stakeholder groups, then CSR engagement can have positive links with firm value (Jo and Harjoto 2011).

With respect to stakeholder theory, the role of firms is to serve the interests of shareholders and other stakeholders (Scherer et al,. 2006; Calton and Payne 2003; Jensen 2002; Jo and Harjoto 2011, 2012). However, as Jamali (2008) confirmed, when a firm's primary concern is to serve its shareholders, its success in doing so is likely to be affected by other stakeholders (Foster and Jonker 2005; Hawkins 2006) who want to exert greater influence on organisation approaches by influencing the specifications of requirements, establishment of legal precedents, directions of investments, creation of perceptions and publication of available information (Business Ethics Network 2008; Corporate Ethics International 2008; The Ethical Investment Association 2008). Hence, the CG system requires firm managers to not only achieve the firm's objectives for shareholder interests, but also to fulfil their responsibility to other stakeholders (Jo and Harjoto 2012; Rodriguez, Ricart and Sanchez 2002; Spitzeck 2009). As Jones and Wicks (1999, p. 207) stated, "… *the interests of all (legitimate) stakeholders have* *intrinsic value, and no set of interests is assumed to dominate the others*". This view reflects the highest level of a firm's CSR performance (Jawahar and McLaughlin 2001). However, firms tend to favour some stakeholders while ignoring others (Gioia 1999), depending upon the degree of stakeholder impact on resources critical to firm survival. Therefore, firms have varying responses when attempting to meet both their economic and non-economic responsibilities to each stakeholder (Jawahar and McLaughlin 2001). Thus, a manager's ability to successfully balance the competing demands of various stakeholder groups becomes crucial. This, to an extent, involves the skills of the executive managers as well, because they are responsible for the firm's business operations. Although this strategy negatively impacts on short-term profitability, it will increase firm value over the long-term period (Harrison and Freeman 1999). As Basu and Palazzo (2008) argued, an understanding of the mechanisms underlying a firm's CSR decision is required. As a result, CG mechanisms that are stakeholder-friendly are widely used by management in business practices in order to maximise long-term value (Gill 2008) and also to use their resources productively to create competitive advantages..

Hence, both theories emphasise the important role that CG mechanisms have in determining the level of a firm's CSR engagement. As a CG mechanism, effective board directors may provide valuable resources to the firm including advice, counsel and links to all stakeholders (Hillman and Dalziel 2003). This can manifest itself via firms better managing CSR issues (Bear, Rahman and Post 2010) with the increased involvement of board directors (BoDs) (or boards of commissioners [BoCs] in a two-tier system) (Wang and Dewhirst 1992). Given the board's critical function of monitoring management on behalf of shareholders (Fama and Jensen 1983a), a board's composition can impact on a firm's level of CSR performance (Hillman and Dalziel 2003).

As Oh and Chang (2011) argue, different type of shareholders have different motivations and preferences related to CSR investment.[80] As Claessens et al. (2000)

[80] CSR investment is defined as the firm's investment focusing on social welfare (McWilliam and Siegel 2001; Godos-Diez et al 2011).

points out, owner manager firms, which are generally associated with founder families, and somewhat common among Indonesian firms may use their share ownership to adopt policies for personal/family gain at the expense of other shareholders. Not surprisingly, this type of firm tends to invest less in CSR activities since the cost of investment in these activities would far overweigh its potential profits (Ghazali 2007). Thus, from an Indonesian perspective, managerial ownership is associated with lower levels of CSR involvement. Conversely, prior studies demonstrate that the level of CSR involvement and voluntary CSR disclosure increases when firm ownership is more dispersed (Chau and Gray 2002; Cullen and Christopher 2002; Ullmann 1985; Keim 1978). Thus, public ownerships (or individual investors), who are not affiliated with the firm, can have a crucial role in enhancing the CSR strategy of a firm (Suto and Takehara 2012). Since the firm is publicly held the issue of public accountability is more important. Publicly owned firms therefore, are expected to have more pressure to disclose CSR activities due to increasing accountability and visibility (Khan, Muttakin and Siddiqui 2013). Therefore, public ownership is associated with higher levels of CSR involvement.

Along with board composition, ownership structure also impacts the level of CSR performance with higher independent director percentages being associated with higher CSR performance (Barnea and Rubin 2010; Harjoto and Jo 2011). Therefore, it can be noted that CG mechanisms are significantly correlated to a firm’s CSR engagement level. Accordingly, to answer Research Question 1, the study proposes a number of hypotheses.

RQ1. Do CG mechanisms impact the level of CSR engagement?

The present study proposes 20 hypotheses for OLS estimates as set out in Table 4.1.

Table 4. 1 Proposed Hypotheses for OLS Estimates of the Relationship between CG Mechanisms and CSR

Dependent Variable*	Positive Impact	Negative Impact
Market share (MS)	Independent directors (H_{2A}) Public ownership (H_{4A})	Board size (H_{1A}) Managerial ownership (H_{3A})
Cost per hire (CPH)	Independent directors (H_{2B}) Public ownership (H_{4B})	Board size (H_{1B}) Managerial ownership (H_{3B})
Employee turnover (ETO)	Independent directors (H_{2C}) Public ownership (H_{4C})	Board size (H_{1C}) Managerial ownership (H_{3C})
CSR value added (CVA)	Independent directors (H_{2D}) Public ownership (H_{4D})	Board size (H_{1D}) Managerial ownership (H_{3D})
CSR disclosure index (CDI)	Independent directors (H_{2E}) Public ownership (H_{4E})	Board size (H_{1E}) Managerial ownership (H_{3E})

Note: * Market share variable represents the KPI: customer attraction and retention; cost per hire represents the KPI: employer attractiveness; and employee turnover represents the KPI: employee motivation and retention.

The present study also proposes five hypotheses for 2SLS estimates as in Table 4.2.

Table 4.1 Proposed Hypotheses for 2SLS Estimates of the Relationship between CG Mechanisms and CSR

Dependent Variable*	Positive Impact	Negative Impact
Market share (MS)		Board size (H_{5A})
Cost per hire (CPH)	Public ownership (H_{6A})	
Employee turnover (ETO)		Board size (H_{5B})
CSR value added (CVA)	Public ownership (H_{6B})	
CSR disclosure index (CDI)		Board size (H_{5C})

Note: * Market share variable represents the KPI: customer attraction and retention; cost per hire represents the KPI: employer attractiveness; and employee turnover represents the KPI: employee motivation and retention.

4.3.2 Relationship between CG, CSR, Information Quality and their Impact on Firm Value

When the goals of CG and CSR align (i.e., focus on long-term increase in firm value), stakeholders will readily accept CSR (Gill 2008). However, if the objective of CG mechanisms is to maximise short-term value, this typically comes at the cost of CSR activities (Arora and Dharwadkar 2011). Owners concerned with meeting their short-term objectives may not want their managers to invest in CSR activities due to conflicting time horizons and uncertainty of outcomes (Bushee 1998). Thus, some firms may face additional pressure to reduce the level of CSR engagement (Arora and

Dharwadkar 2011). However, as Dunlop (1998) and Huang (2010) state, CG cannot work effectively without involving CSR because, apart from creating value for shareholders, firms must respond to demands for a social and environmental responsibility that is delivered in a transparent, accountable and trustworthy way.

CSR activities that generate firm value can be identified, in part, through the lens of RBV theory. In this, CSR activities help firms to develop sustainable competitive advantages by effectively controlling and modifying their resources and capabilities that are valuable, rare, difficult to be imitated and substituted by competitors (Branco and Rodrigues 2006). Consequently, CSR activities and disclosures provide internal and/or external benefits to firms.

Internal benefits relate to resources and capabilities regarding to know-how and firm culture, especially those associated with employees. Corporate Social Responsibility positively affects the attraction of new employees with good skills and qualifications, as well as improving employees' motivation, morale, commitment and loyalty through socially responsible employment activities. These employment activities can help the firm to create competitive advantage by developing a skilled workforce that effectively carries out the firm's business strategy and ultimately increases firm value (Branco and Rodrigues 2006). External benefits are correlated to firms' external parties, such as customers, with studies showing that CSR engagement plays an important role in developing strong relationships with customers (Brown and Dacin 1997) and enhances revenue growth (Lev, Petrovits and Radhakrishnan 2006). Studies employing a meta-analysis approach, such as those of Orlitzky, Schmidt and Rynes (2003) and Wu (2006), demonstrate that a positive correlation exists between CSR and firm value.

As discussed previously, information asymmetry, which is strongly correlated to a firm's information quality (Brown and Hillgeist 2007; Brown, Hillgeist and Lo 2004), occurs when managers are in possession of private information relating to their area of responsibilities to which shareholders have no access (Dunk 1993). The standard agency theory model assumes that shareholders cannot gain access to this information at no cost, and that managers tend to be work-averse and risk-averse (Baiman 1990), all of which leads to self-interested behaviour (Chong and Eggleton 2007). Richardson (2000) argued that a firm with high degrees of information asymmetry is evidence of shareholders without sufficient resources, incentives or access to relevant information to monitor manager's actions. This can lead to agency costs and earning management practices that decrease firm value (LaFond and Watts 2008). Hence, CSR disclosure can help mitigate the information asymmetry distribution between corporate managers and shareholders (Cho, Lee and Pfeiffer Jr 2013; Orlitzky and Benjamin 2001) and reduce agency costs (e.g., monitoring costs) (Naser et al. 2006). This drives the firm to disclose greater amounts of information, thereby allowing external investors to better assess the firm's future value-creation potential (McGuire, Sundgren and Schneeweis 1988). Thus, the firm's CSR disclosure may improve a firm's transparency and ultimately reduce information asymmetry (Diamond and Verrecchia 1991; Lambert, Leuz and Verrecchia 2007).

Since CSR performance can directly affect investors' wealth, investors seek to analyse relevant information about the firm's CSR performance through private and public links before making their investment decisions (Canadian Institute of Chartered Accountant CICA 2010; Cohen et al. 2011; Social Investement Forum 2010). Good CSR performance may reflect a manager's ethical behaviour and encourage accountability and transparency of firm value (Kim, Park and Wier 2012), and reduce search and evaluation costs (Kennett 1980). Similarly, strong firm transparency in CSR performance has a positive correlation with the firm's accessibility to the capital market (Cheng, Dhaliwal and Neamtiu 2011). Furthermore, although Cho, Lee and Pfeiffer Jr (2013) argued that legal action could be taken in order to reduce the adverse selection problem faced by less-informed investors, CSR disclosure not only reduces information asymmetry problems (Orlitzky and Benjamin 2001), but also reduces the average cost of equity (Chang, Khanna and Palepu 2000; Panaretou, Shackleton and Taylor 2012), debt capital (Lang and Lundholm 1996), and bid-ask spreads (Castello and Lozano 2009; Jo and Na 2012), and increases share liquidity (Brickley, Coles and Terry 1994; Linck, Netter and Yang 2008). All of these desirable outcomes are crucial in maintaining resource allocation efficiency in the share market (McGuire, Sundgren and Schneeweis 1988).

Since CSR engagement has an important impact on a firm's information quality by reducing information asymmetry, and can lead to improved firm value, information quality relating to CSR disclosure can be identified as influencing the relationship between CSR and firm value. Yet very few studies have examined this influence. The present study asserts that forecast error and dispersion are, as identified by Byard, Li and Yu (2011), negatively correlated with information quality. Accordingly, to answer the second research question, the study proposes a number of hypotheses.

RQ2: Does information quality affect the relationship between CSR and firm value?

This study proposes 33 hypotheses for OLS estimates, set out in Table 4.3.

Table 4. 3 Proposed Hypotheses for OLS Estimates of the Relationship between CG Mechanisms, CSR, Information Quality and Firm Value

Dependent Variable*	Positive Impact	Negative Impact
Return on assets (ROA)	Independent directors (H_{7B}) Public ownership (H_{7D}) Market share (H_{7E}) Cost per hire (H_{7F}) Employee turnover (H_{7G}) CSR value added (H_{7H}) CSR disclosure index (H_{7I})	Board size (H_{7A}) Managerial ownership (H_{7C}) Forecast dispersion (H_{7J}) Forecast error (H_{7K})
Return on sales (ROS)	Independent directors (H_{8B}) Public ownership (H_{8D}) Market share (H_{8E}) Cost per hire (H_{8F}) Employee turnover (H_{8G}) CSR value added (H_{8H}) CSR disclosure index (H_{8I})	Board size (H_{8A}) Managerial ownership (H_{8C}) Forecast dispersion (H_{8J}) Forecast error(H_{8K})
Tobin's Q (TQ)	Independent directors (H_{9B}) Public ownership (H_{9D}) Market share (H_{9E}) Cost per hire (H_{9F}) Employee turnover (H_{9G}) CSR value added (H_{9H}) CSR disclosure index (H_{9I})	Board size (H_{9A}) Managerial ownership (H_{9C}) Forecast dispersion (H_{9J}) Forecast error (H_{9K})

Note: * The dependent variables ROA, ROS and TQ each proxy firm value.

This study proposes six hypotheses for 2SLS estimates as in Table 4.4.

Table 4. 4 Proposed Hypotheses for 2SLS Estimates of the Relationship between CG Mechanisms, CSR, Information Quality and Firm Value

Dependent Variable*	Positive Impact	Negative Impact
Return on assets (ROA)	Cost per hire (H_{10A})	Forecast dispersion (H_{10B})
Return on sales (ROS)	Market share (H_{11A})	Forecast dispersion (H_{11B})
Tobin's Q (TQ)	CSR value added (H_{12A})	Forecast dispersion (H_{12B})

Note: * The dependent variables ROA, ROS and TQ each proxy firm value.

With respect to the third and final research question, only a few studies have integrated elements of the CSR disclosure index (CDI) when examining CSR in developing countries such as Indonesia (Oeyono, Samy and Bampton 2011; Shauki 2011; Siregar and Bachtiar 2010). Hence, there is a significant gap between foundation theories and practical applicability in relation to CG and CSR issues. Consequently, the present study utilised a comprehensive CSR measurement (i.e., accounting and non-accounting proxies) to examine a firm's CSR activities by using KPIs, CVA and CDI. This has not been used previously and therefore contributes to the literature. These proxies are expected to provide greater information for managers in order to help them examine the firm value of their CSR engagement. Accordingly, Research Question 3 is as follows:

RQ3: Does a comprehensive measure of CSR (i.e., accounting and non-accounting proxies) provide a more appropriate analysis of CSR and firm value?

Although no hypothesis directly answers this research question, the outcomes from the above-stated hypotheses that employ accounting proxies for CSR will be compared with the outcomes from the hypotheses that employ non-accounting proxies for CSR in order to draw an acceptable conclusion from the findings of this research (Maxwell 2008). For example, the present research will determine whether the findings identified by the comprehensive CSR measure will enable firm managers to better understand the contributions made by CSR to firm value which then can be incorporated into policies to improve firm value (Fox 2004; Idemudia and Ite 2006; Jamali and El-Asmar 2009; Quazi 2003).

4.4 Research Methods Review

Having established the conceptual framework and research hypotheses for the study, the focus shifts to the research method which will be employed. Since the conceptual framework allows for association between CG, CSR, information quality and firm value, it is important that a research method is adopted which can accommodate this.

4.4.1 Research Methods Employed in Previous Studies

Studies on CG practices and CSR engagement are generally categorised according to two types: conceptual and empirical (Brennan and Solomon 2008; Eisenhardt 1989a;

Salzmann, Ionescu-Somers and Steger 2005). A survey by Taneja, Taneja and Gupta (2011) found that 86% of the CSR studies are empirical, although Parker (2007) states that broader theoretical and conceptual studies are becoming increasingly popular in the literature. For example, CG has been transformed recently from a traditional shareholder-centric approach towards a more stakeholder-oriented approach (Brennan and Solomon 2008). Moreover, stakeholder theory is widely used to analyse CG (Coyle 2007; Solomon 2010; Wheeler and Sillanpää 1997). With CSR, Carroll's (1991) CSR pyramid and Wood's (1991) CSR performance have been identified as the main theoretical frameworks employed to analyse the nature of the relationship between CSR and firm value (Salzmann, Ionescu-Somers and Steger 2005).

Empirical studies have apparently diverged in two different directions: (i) instrumental; and (ii) descriptive. The aim of instrumental studies is to empirically support or reject the hypothesis of the CSR-firm value relationship, while the aim of descriptive studies is to investigate how a firm involved in CSR activities effectively manages its assets to ultimately achieve greater firm value, without testing any explicit hypotheses (Salzmann, Ionescu-Somers and Steger 2005). In addition, there is also a range of analytical techniques that can be applied to CG and/or CSR research. For example, there are newly developed econometric techniques, focus group studies, content analysis and archival analysis (Brennan and Solomon 2008; Jamali, Safieddine and Rabbath 2008; Jo and Harjoto 2011, 2012). More recently, there has been research on the correlation between CG and CSR (Cobb et al. 2005; Jamali, Safieddine and Rabbath 2008; Jo and Harjoto 2011, 2012).

In broad terms, instrumental studies can be grouped according to: (i) case study; and (ii) quantitative analysis (Salzmann, Ionescu-Somers and Steger 2005). The case study approach is taken when concepts and contexts are poorly defined since it allows for the derivation of in-depth understanding and description (Blaikie 2007; Eisenhardt 1989b). It is also used when a radical and unpredictable change has occurred in the study context (Matthyssens and Vandenbempt 2003). Given the stated research objectives and the country chosen, Indonesia, this approach has not been utilised.

According to Salzmann, Ionescu-Somers and Steger (2005), quantitative analysis is typically divided into three different approaches: (i) portfolio analyses, which compare the performance of constructed model portfolios against a benchmark index; (ii) event studies, which assess the impact of good and bad environmental or social incidents on a firm's share price; and (iii) multivariate analyses, which examine the relationship between different measures of two or more variables, with some studies also incorporating control variables such as firm size and industry type.

According to Taneja, Taneja and Gupta (2011), although many studies have measured CSR, there is an increasing trend towards employing econometric techniques, theories and hypothesis related to social facts (Neuman 2005). The measurement of CSR performance has developed from single-dimension measures to multidimensional measures as evidenced by the index of Kinder, Lydenberg, and Domini (KLD) (US), the Canadian Social Investments Database (CSID) (Canada), and the Vigor Database (European countries) (Girerd-Potin, Jimenez-Garcès and Louvet 2012; Griffin and Mahon 1997; Mahoney and Thorne 2005). Amongst quantitative studies examining the relationship between CSR and firm value, the more popular methods employed are descriptive statistics, regression analysis, correlation analysis, factor analysis and variance analysis (Hahn and Reyes 2004; Harjoto and Jo 2011; McWilliams and Siegel 2000; Preston and O'Bannon 1997; Waddock and Graves 1997).

A study by Lorsch and Young (1990), evaluated the strengths and weaknesses of five methodologies used for BoDs studies in the US, ranging from quantitative to interpretative methods (Clarke 1998, pp. 58-59):

1) Database analysis from published sources (Fortune 500, FTSE 100, and firm annual and sustainability reports). The advantages of this method are a broad sample size and the possibility of generalisations, while the disadvantages are limited to a focus on visible issues of CG (e.g., director compensation and board membership) and difficulty in assessing internal board issues.

2) Questionnaire surveys (i.e., they describe the firm's current board practices). The advantages of this method are its description of reality based on the firm's board practices, opportunity for a better design sample and interpretation about cause and effects. The disadvantages are response bias and difficulty in undertaking appropriate causality testing.

3) Interview surveys (e.g., studies on compensation of directors). The advantages centre on specificity, which allows issues to be explored in greater detail enabling a greater focus on decision dynamics. The disadvantages are difficulties accessing potential interviewees and the costs (time and money) involved in obtaining an adequate sample size.

4) Boardroom observation. The advantages of this method are that a firm's internal board issues can be observed intensively, while the disadvantages are access and issues dealing with confidentiality and other legal restrictions.

5) Mixed methods (e.g., combining questionnaires and interviews). The advantage of this method is that it allows for broader data sources to be used, resulting in a deeper analysis of causality relationships. Disadvantages can occur due to minimal integration between the methods and an overly intensive use of time and resources.

4.4.2 Research Method for the Present Study

The majority of CG studies use a single CG mechanism to measure the relationship between good CG practices and firm value (Daily et al. 2003). However, as Larcker, Richardson and Tuna (2004) point out, some previous studies have used a single CG mechanism that contained ill-defined and complex CG constructs, such as independent directors. They argued that this proxy was not able fully to reflect independency from a behavioural factor, such as a manager's motivation (e.g., short-term personal gain or long-term firm value). Consequently, Donker and Zahir (2008) stated that it would be preferable to employ simultaneous equations to assess the CG construct. In addition, they suggest that further studies should focus on the endogenous relations between various CG variables and firm value through the use of panel data.

As this study focuses on testing hypotheses to address both accounting and non-accounting proxies in examining the value of CSR, multivariate measures using secondary data sources to incorporate social facts are employed (Neuman 2005). Data from secondary sources, including annual reports and share price listed companies by the Indonesian Stock Exchange (IDX), DataStream and other resources (e.g., the Orbis-Bureau van Dijk and DataStream databases) are examined in order identify the set of measurements. Furthermore, various CG mechanisms (board size, independent directors and ownership structures) are employed to reflect CG practices in Indonesian listed firms. Both accounting-based and market-based measures (i.e., ROA, ROS and Tobin's Q) are employed to reflect firm value via current profitability and potential future profitability of the firm (Cochran and Wood 1984). This study also employs the control variables of firm size and industry type. The data analysis adopted by the study consists of simultaneous equation models with OLS and 2SLS. Information quality is used to assess the CSR–firm value relationship for Indonesian listed firms. The research method approach is discussed in more detail below.

4.5 Research Method Approach

The usefulness of business studies depends, in part, upon the appropriateness and accuracy of the methods adopted (Scandura and Williams 2000). This is because design choices regarding instrumentation, data analysis, and construct validation influence the soundness of the conclusions drawn from the findings (Sackett and Larson Jr 1990). In this section, this study describes the econometric methods by which the theoretical model can be tested. This study outlines previous econometric models used in CG and CSR studies and the econometric method utilised in this study: simultaneous equation models with OLS and 2SLS.

4.5.1 Econometric Methods

Thomsen, Pedersen and Kvist (2006) reviewed prior empirical studies of CG. In early research, econometric models used to examine and analyse CG were limited to single regression linking CG to a single aspect of firm performance: profitability (Eisenberg, Sundgren and Wells 1998; Eng and Mak 2003; Gedajlovic and Shapiro 1998; Mak and Kusnadi 2005). However, when dealing with complex organisations, single regression may not adequately capture the dynamics of this complex relationship. Thus, econometric models are required that can accommodate multiple competing objectives, growth and firm value (Al-Tuwaijri, Christensen and Hughes 2004; Bhagat and Bolton 2008; Cho and Pucik 2005; Schendel and Patton 1978). Due to the sophistication of its underlying theory, and its potential for addressing important substantive questions, both structural equation modelling and simultaneous equation models have recently become two of the preferred multivariate econometric methods (Cheng 2001; Huang 1993; Martínez-López, Gázquez-Abad and Sousa 2013; Schendel and Patton 1978).

Structural equation modelling is an econometric method employed to specify, estimate and evaluate models of linear relationships among observable (i.e., indicators) and unobserved variables (i.e., latent variables or constructs). Thus, the purpose of adopting structural equation modelling is to verify whether the model is valid in order to arrive at a suitable model for analysis (Gefen, Straub and Boudreau 2000; Shah and Goldstein 2006; Stephenson, Holbert and Zimmerman 2006). Structural equation modelling is mainly supported by three aspects: path analysis; synthesis of latent variables and measurement models; and the estimate of the parameters of structural models (Bollen 1987; Hair et al. 2006). Although widely used for theory testing (Martínez-López, Gázquez-Abad and Sousa 2013; Steenkamp and Baumgartner 2000), serious errors still occur in its application (Hampton 2015; Wynne 1998).

In broad terms, the main issues associated with structural equation modelling include: identifying the optimal number of indicators for each construct (Bollen 1987; Steenkamp and Baumgartner 2000); the impact of sample size on model fit (Boomsma and Hoogland 2001; Hoyle 1995; Kline 2005; Loehlin 1998); the handling of missing data (Brown 1994), the validation of structural equation modelling for the generalisation of the proposed theoretical models (i.e., statistical power) (Martínez-López, Gázquez-Abad and Sousa 2013; McQuitty 2004); and the assessment of model fit (i.e., covariance versus correlation matrices) (Cudeck 1989; Hayduk et al. 2007).

Of the main issues listed above, the most problematic is assessment of model fit. Typically, when assessing the fit of a structural equation modelling, the implied covariance or correlation matrix is structured as a result of freeing or constraining parameters (such as relationships between constructs, and the relationship between constructs and indicators) in the structural model, such that covariance or correlation matrix are minimised. The desired result in estimating a structural model is found when the null hypothesis is not rejected (indicated by the non-significant Chi-square test statistic). However, an acceptable model fit does not ensure that the theorised relationships between constructs or the explanatory power of the structural equation modelling will have statistical significance.

In the absence of an acceptable model fit, there is little to be gained from analysing theorised relationships or explanatory power (Hampton 2015). Furthermore, as Hayduk et al. (2007) argued, identifying a structural equation model that suits the covariance data does not mean the model is the appropriate model. Rather, the model may be one of several causally different models that are consistent with the data.

The problem of confounding causal relationships can be addressed systematically by separating dependent variables and independent variables, while imposing on the econometric model identification restrictions and using a relevant simultaneous equation estimation technique (Ehrlich and Brower 1987). Several empirical studies have used this approach to obtain more reliable estimates of the causal effects of two variables (Buzzell and Wiersema 1981; Chow 1987; Faggian and McCann 2006).

Previous studies have incorporated CG, CSR, information quality and firm value as variables by using simultaneous equation models (Agrawal and Knoeber 1996; Al-Tuwaijri, Christensen and Hughes 2004; Bhagat and Bolton 2008; Wagner et al. 2002). Primarily, their studies consisted of three propositions: (i) CG mechanisms affect firm value; (ii) CSR activities affect firm value; and (iii) information quality affects firm value. The present study will develop and estimate simultaneous equation models in order to explain the CG, CSR, information quality and firm value relationships for the selected broad sample of Indonesia listed companies. Given the problematic nature of structural equation modelling, this study employs simultaneous equation models as the most suitable and valid econometric approach (Bhagat and Bolton 2008).

4.5.2 Simultaneous Equation Models

Most of the previous research into the valuation effect of CG has focused on particular aspects of CG in isolation such as takeover defences (Gompers, Ishii and Metrick 2003), top executive compensation (Loderer and Martin 1997), board size (Eisenberg, Sundgren and Wells 1998; Yermack 1996), board composition (Bhagat and Black 2002; Hermalin and Weisbach 1991), and block shareholders (Demsetz and Lehn 1985; Demsetz and Villalonga 2001). However, using alternative CG mechanisms or combining CG with other aspects, such as CSR and information quality, may create missing variable bias and spurious relationships (see Beiner et al. 2006). In keeping with Beiner et al. (2006), Al-Tuwaijri, Christensen and Hughes (2004) and Agrawal and Knoeber (1996), this study allows for the association between CG, CSR, information quality and firm value via the specification of simultaneous equation models, where each of these is the dependent variable in one of the equations. This association allows for the parameters to be estimated simultaneously.

Simultaneous equation models include random variables (observed variables and error terms) and structural parameters (constants provided intercepts and the relationships among several variables). The variable of simultaneous equation models is connected through direct, indirect and reciprocal relationships, feedback loops or causality relationship between disturbances (Gujarati 2006; Studenmund 2011; Wooldridge 2010). The simplest and most widely used purpose for estimates using simultaneous equation models is to change the stochastic endogenous regressor (linking to the error and sourcing the bias) for one that is non-stochastic and independent of the error term (Asteriou and Hall 2011). The following is an illustration of the hypothetical system of simultaneous equation models based on Gujarati and Porter (2009, p. 674):

$$Y_{1i} = \beta_{10} + \beta_{12} Y_{2i} + \gamma_{11} X_{1i} + u_{1i} \qquad (4.3)$$

$$Y_{2i} = \beta_{20} + \beta_{21} Y_{1i} + \gamma_{21} X_{1i} + u_{2i} \qquad (4.4)$$

where:

Y_{1i} and Y_{2i} are stochastic endogenous variables;

X_{1i} is an exogenous variable; and

u_{1i} and u_{2i} are the stochastic disturbance terms.

The two equations show that the stochastic explanatory variable Y_2 in equation (4.3) is distributed independently of u_1, and that the stochastic explanatory variable Y_1 in equation (4.4) is distributed independently of u_2. When Y_{1i} increases (when β_{21} is positive), Y_{2i} will also increase due to the relationship in equation (4.3), but when Y_{2i} increases in equation (4.3), it also increases equation (4.4) where it is an explanatory variable. It can be concluded that an increase in the error term of one equation creates an increase in the explanatory variable in the same equation (Gujarati and Porter 2009).

Therefore, when such a correlation exists, applying OLS in these two equations individually may create inconsistent estimates and biases (Asteriou and Hall 2011; Gujarati and Porter 2009). Hence, the 2SLS estimates procedure can be used to complement the OLS estimates to address the issue of omitted-variable bias (Angrist and Imbens 1995; Studenmund 2005).

Asteriou and Hall (2011) also argue that one benefit of 2SLS is that, when an equation is exactly identified, it allows for an over-identified equation with more than one value for one or more parameters in the model (e.g., when the total number of all variables is larger than the total number of endogenous variables minus one). Thus, the 2SLS estimates is associated with the over-identification test statistic, which equals the objective function minimised by the estimates (Newey 1985). Asteriou and Hall (2011, p. 239) described the 2SLS procedure as follows:

> Stage 1: … regress each endogenous variable that is also a regressor, on all the endogenous and lagged endogenous variables in the entire system by using simple OLS (this is equivalent to estimating the reduced form equations) and obtain the fitted values of the endogenous variables of these regressions (Ý)…
>
> Stage 2: … use the fitted values from stage 1 as proxies or instruments for the endogenous regressors in the original (structural form) equations.

Studenmund (2011, pp. 471-472) also identified the five following characteristics of 2SLS:

1) 2SLS estimates retain bias for small samples;
2) Bias in 2SLS for small samples tends to produce the opposite sign of the bias in OLS;

3) If the fit of the reduced-form equation is quite poor, then 2SLS will not rid the equation of bias even in a large sample;
4) 2SLS estimates have increased variances and SE ($\hat{\beta}$)s; and
5) 2SLS parameters produce more robust results for hypothesis t-testing than OLS estimators.

The main exception to this common rule is when fit of the reduced-form equation (only exogenous and predetermined variables on the right-hand side) has a small sample size. For this reason, Studenmund recommends using the usual *t*-test and F-tests for hypothesis testing. Unlike OLS, however, Bussmann (2001) pointed out that the individual R^2 in 2SLS is not statistically meaningful, and even though a negative R^2 might appear, this will not be a problem. In this case, the residual sum of squares can be calculated using a different set of regressors, rather than the total sum of squares that are not restricted to being smaller. However, when a residual sum of squares is higher than the total sum of squares, the R^2 and mean sum of squares may be negative. In this case, the model sum of squares can be calculated by using the actual value of the endogenous variable of the right hand side.

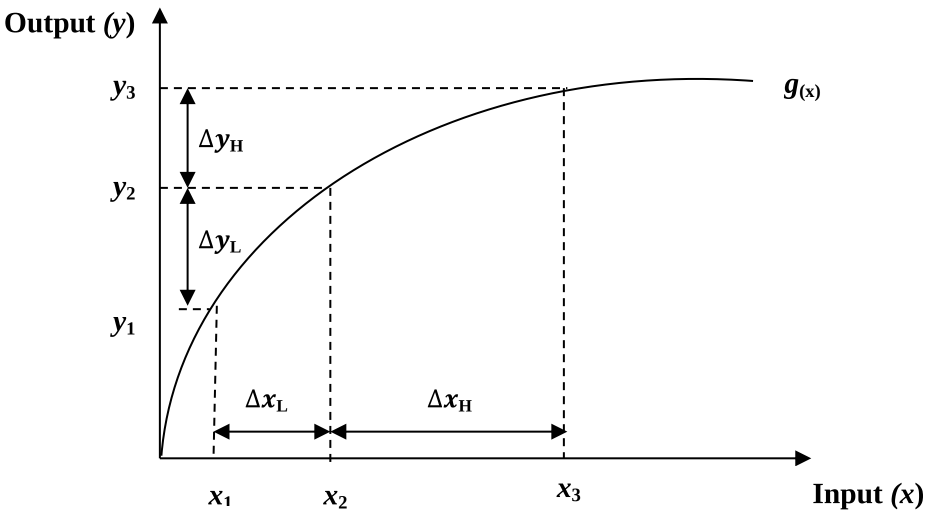
4.5.3 Cobb-Douglas Functional Form

The econometric model of the Cobb-Douglas function form was initially proposed due to its property of diminishing returns and has gained widespread acceptance, primarily in production economics. The general expression of the model is:

$$Y = A\, L^{\alpha} C^{\beta}$$

In this formulation, α and β are the respective elasticities of the explanatory variables, and are less than 1. The present study proposes the testing of constant returns to explanatory variables in CG. The implied hypothesis is that, if the Cobb-Douglas formulation produces better fit compared to the linear formulations, this is an indication that there is a stronger non-linear relationship, which in turn implies diminishing returns. The model parameters are conveniently estimated in its log transformation.

Figure 4.3 Test for Diminishing Returns to Scale



Source: Harris (2007, p. 36)

In order to examine the impact of functional form assumption in the CG and CSR study, this study uses the translog functional form proposed by Lau (1971).

4.6 Research Design and Approach

Research design is identified as a blueprint that guides researchers to collect and analyse data (Iacobucci and Churchill 2009). There are three basic kinds of research designs: exploratory, descriptive, and causal research designs. Under these research designs, researchers generally use two approaches: quantitative (metric); and qualitative (non-metric) (Hair et al. 2010; Taneja, Taneja and Gupta 2011). This research uses a quantitative research approach since it focuses on ways to measure CSR engagement from an economic perspective by using accounting and non-accounting measurements, and the effect of CG, CSR and information quality on the relationship to firm value.

4.7 Data Collection

This study uses data from firms that are listed in the IDX and other secondary resources. This type of data source is typically straightforward, since the data does not need to be created by the researchers (Easterby-Smith, Thorpe and Jackson 2012). Not surprisingly, secondary data sources are the most popular data source in CSR studies (82%) compared to primary and mixed (combining primary and secondary data) (18%).

Secondary data sources are commonly used in CSR research because CSR outcomes take longer to eventuate.

Data for empirical testing is generally collected from several sources. This study collects data from four resources: annual financial reports; the IDX Fact Book; Indonesian Capital Market Directory (ICMD); and other data sources, such as the Orbis-Bureau van Dijk and Datastream databases. Thus, the data collection was divided into three phases:

- The *first phase* focused on share prices and the annual financial statements of listed companies in Indonesia. These were collected from the IDX official website.
- The *second phase* focused on market share data for measuring customer attractiveness and retention (one of the KPI proxies), along with data for the number of employees for each listed firm in the IDX. This was extracted from the Indonesian Capital Market Fact Book published by the IDX and the ICMD.
- The *third phase* is the firm value of each listed firm in the IDX, including profitability. This was collected from the Orbis-Bureau van Dijk and Datastream databases.

4.8 Sample Size, Generalisability and Statistical Power

Using secondary data sources, 396 Indonesian listed firms in the IDX from 2007 were identified. A purposive sampling method was employed to select firms. Specifically, selected firms had to meet initial three-pronged criteria: (i) provide CSR information or disclosures for the study period (2007 to 2013);[81] (ii) possess complete data for the study period; and (iii) be classified into a non-quaternary sector.[82] The quaternary sector (i.e., banking sector) was excluded since this sector is subject to different CG requirements in Indonesia as evidence by the 2006 regulation No. 8/14/PBI/2006 regarding good CG practices for the Indonesian banking industry. Furthermore, this

[81] Indonesian firms that were identified as being CSR active over the sample period, and thus included in the study sample, was determined via The Indonesian Program for Pollution Control, Evaluating and Rating (PROPER). This program was introduced starting in June 1995 in cooperation between the Environmental Impact and Management Agency (BAPEDAL) and the World Bank.

[82] ‘Quaternary sector’ refers to the knowledge-based part of the economy and includes, but is not limited to banks, financial institutions, securities companies, information technology and insurance.

sector significantly differs in its accounting and reporting practices (Gelb and Strawser 2001) which hinders comparison. Based on these criteria, the number of firms was reduced to 103. From there, an additional 22 firms were omitted from the study sample since they contained outliers. Hair et al. (2010) suggest that outliers should be eliminated from the data sample.[83] Finally, since this study adopts the translog linear function, and the variables in the study need to be measured as their natural logs, a further five firms were omitted because they included negative values. The final sample size of the study was 76 firms (see Table 4.5, below) with a total of 450 observations. Not all firms provided observations for the entire study period: 2007-2013 (i.e., unbalanced observations).

Table 4. 5 Study Sample

Firm Sample Size	Firms
Total Indonesian listed firms in 2007	396
Less:	
• Quaternary sector (i.e., Bank, financial institutions, securities companies, insurance and others).	(70)
Total Indonesian listed firms, non-quaternary sector in 2007	326
• Entry and exit firms during the period of 2007-2013	(78)
Total Indonesian listed firms, non-quaternary sector, that operated from 2007 to 2013	248
Less:	
• Annual reports not provided on the IDX website and firm official website in 2007 - 2013, or annual reports that could not be downloaded.	(145)
• Outliers	(22)
• Negative value of all indicators which cannot be measured as their natural logs.	(5)
Final Sample	**76**

Consistent with previous CG, CSR and firm value studies, this study includes yearly observations of the fluctuation in the degree of linkage between CG, CSR and firm value (Brammer and Millington 2008; McWilliams and Siegel 2001). The seven-year period (2007 to 2013) is selected as the observation study period, since the National Code was created in 2001 (Wibowo 2008), and later revised in October 2006, prior to the establishment in 2007 of a law that made CSR a mandatory requirement (Waagstein

[83] The 22 firms excluded based on outliers follows a standard econometric technique regarding handling the data. Specifically, datasets that lie three or more standard deviations away from the sample mean were excluded.

2011). The observation period enables this study to adequately review the implementation effect of the latest CG code and CSR law.

Table 4. 6 The Shareholder Characteristic of Indonesian Listed Firms

Shareholders	Type of Industry		
	Primary	Secondary	Tertiary
Managerial	0%	1%	2%
Institutional			
• Domestic	9%	13%	11%
• Foreign	6%	18%	15%
Company			
• Domestic	20%	24%	25%
• Foreign	5%	13%	3%
Indonesian government	18%	5%	5%
Treasure stock	2%	0%	0%
Corporative	0%	0%	0%
Public	40%	26%	39%
Total	**100%**	**100%**	**100%**

Sources: Indonesian Capital Market Directory (ICMD) 2008-2014

Table 4.6 above shows that the three sectors of Indonesian firms have similar shareholder characteristics. The majority shareholders across all sectors are owned by individuals who have less than 5 percent of total shares. The lowest shareholder percentage lies in the managerial area of firms.

A minimum sample size is required for the results of the study to be both generalisable to the wider population and to have necessary statistical power to detect statistically significantly effects. For the results to be generalisable, Hair et al. (2010) suggest that the minimum ratio of total observations to the variables is 5:1 and the recommended ratio is between 15:1 to 20:1. Since the present research employs two endogenous variables, the firm sample size of 75 with 450 total observations is considered to be adequate for generalisability purposes.

It is important for estimates to possess statistical power, which is the probability that a statistically significant finding will be indicated if it is truly present. As Hair et al. (2010) indicate, a power level of 80% is considered adequate for most social science studies.[84] Hence, using the indicators of sample size of 76 firms, alpha (α) of 0.10, number of predictors of 3, and expected effect size (R^2) of 0.15, the statistical power for this study is equal to 0.92. Thus, the sample size of 76 firms results in an acceptable statistical power of 92% confidence that a significant finding (of $R^2 = 0.15$) will be obtained.

4.9 Variables and Related Methods

As part of the literature review undertaken in Chapters 2 and 3, the present research reviewed and justified the selection of the variables to be incorporated into this study. Consequently, this section will, for the most part, focus on the method of measurement adopted for the selected variables.

4.9.1 Method of Measuring Corporate Governance Mechanisms

Previous studies examining the impact of CG typically concentrate on specific aspects of CG in isolation (Beiner et al. 2006). However, the measurement error presented by using a single indicator may cause the regression coefficients to be inconsistent. As Larcker, Richardson and Tuna (2004) point out, similar issues can occur when multiple indicators are used to form a CG index. To overcome this, multiple indicators are needed to measure the same underlying concept in order to develop reliable and valid measures; otherwise, the result will contain measurement error and be difficult to interpret. With this in mind, this study employs four indicators of CG that are important in influencing the level of CSR engagement, information quality and ultimately the firm value of Indonesian listed firms.

4.9.1.1 Board Size

Many studies consider the board as an institution that can mitigate the impact of an agency problem existing in the firm (Dwivedi and Jain 2005). As BoDs are large decision-making groups, this can determine the effectiveness of the decision-making process (Dwivedi and Jain 2005), with the total number of board members playing an important role in its ability to function effectively (Coles, Daniel and Naveen 2008).

---

[84] The minimum sample size required to have statistical power of 80% (0.8) can be calculated by using an online tool: http://www.danielsoper.com/statcalc3/calc.aspx?id=9.

Here, board size is identified as one of the essential aspects of board effectiveness (Denis and McConnell 2003).

However, in accordance with Indonesia's formal legal framework for CG practice (Achmad 2007), listed firms use a two-tier system which includes a board of commissioners (BoCs) similar to BoDs in one-tier systems, and a board of managing directors (Wibowo, Evans and Quaddus 2009). Boards of commissioners and boards of managing directors have different roles in the firm system. The role of BoCs is to monitor, control and supervise the board of managing directors (BoMDs) and report to the general meeting of shareholders (GMS) on board directors' policy in the operation of their firms (Murhadi 2009), while board managing directors are authorised to implement strategies. Given the role of BoCs, the present study uses the number of BoC members to represent board size in CG mechanisms for the study period. Similar to Abor (2007), Carter, Simkins and Simpson (2003), Klein (2002), Eisenberg, Sundgren and Wells (1998) and Yermack (1996), the logarithm (log) of the number of board of commissioner members is employed.

4.9.1.2 Independent Directors

With respect to the Indonesian context, in accordance with Patelli and Prencipe (2007), Chen and Jaggi (2001) and Hermalin and Weisbach (2001), this study measures independent directors as the proportion of independent commissioners divided by the total number of commissioners on the board. The IDX determines that an independent commissioner should be an individual without any affiliation with executive directors, other dependent commissioners and controller shareholders, and not on duty as a commissioner in other affiliated firms (interlocking commissioner).[85]

4.9.1.3 Ownership Structure

The present study characterises a firm's ownership structure via a measure of: (i) managerial ownership and; (ii) public ownership. In order to measure the degree of concentration of managerial ownership, the percentage of shares held by the firm's

[85] The regulation relating to this is: SE-03/PM/2000, Kep-315/BEJ/06-2000, and Kep-339/BEJ/07-2001 art C.2. Although these findings are in contrast to Argenti (2004), it must be noted that Argenti focused on BoMDs while this study focuses on BoCs.

management (BoCs or/and managerial members) is employed. This has been used previously by Cahan and Wilkinson (1999), Mehran (1995) and Short and Keasey (1999). As stated in Chapter 2, controlling ownership is defined as a BoC or managerial member who holds a 5% or greater share of the firm (Cronqvist and Nilsson 2003; Li et al. 2006; Thomsen, Pedersen and Kvist 2006). With respect to public ownership, the greater the concentration the more monitoring occurs, along with greater financial transparency, which can lead to increased firm value and market valuation (Bai et al. 2004; Shleifer and Vishny 1986; Singh and Davidson 2003). The variable, public ownership, is measured by considering the percentage of shares held by outsider shareholders (individuals who are non-controlling shareholders), as previously employed by Bai et al. (2004); Dam and Scholtens (2012) and Cahan and Wilkinson (1999).

4.9.2 Method of Measuring Key Performance Indicators (KPIs)

Firms routinely apply KPIs to measure the success and quality of meeting strategic objectives, enacting processes, delivering products, and evaluating performances in service and target markets (Barone et al. 2011).

4.9.2.1 Customer Attraction and Retention

As Chapter 3 demonstrated, CSR can be linked to customer satisfaction, which is typically positively correlated with market share (Anderson, Fornell and Lehmann 1994; Rust and Zahorik 1993), which should ultimately increase firm value (Kamakura et al. (2002). This, ultimately, will increase the firm’s future market share of the firm. Given this link, the present study uses market share as a proxy measure for customer attraction and retention. Market share is formulated by the proportion of the total sales of products or services achieved by the firm divided by total sales on the market of specific industry. This has been used previously by Weber (2008) and Rust and Zahorik (1993).

4.9.2.2 Employer Attractiveness

As stated in Chapter 3, firms that utilise CSR tend to create more attractive workplaces for their employees. This can lead to competitive advantages where employees internalise firm value, leading to higher employee retention (Dell and Ainspan 2001). In keeping with previous CSR studies (e.g., 1983 the Employment Management Association [EMA], 1984 the Saratoga Institute's Human Resources Effective Report, O'Brien-Pallas et al. (2006), Waldman et al. (2004), Abbasi and Hollman (2000)), the present research adopts the variable cost-per-hire (CPH) to measure employer attractiveness. This measurement is widely used by many organisations (American National Standards Institute ANSI 2012). The CPH measurement calculates the costs associated with the recruiting, sourcing and staffing activities borne by an employer when filling an open position in the firm.[86] The formula representation is below:

$$\text{Cost Per Hire (IDR)} = \text{internal costs} + \text{external costs} + \text{company visit expenses} + \text{direct fees}$$

where:

Internal costs	is employment or recruiting office salaries and benefits;
External costs	is third party agency - fees and consultants;
Company visit expenses	is interviewing costs, candidate travel, lodging and meals; and
Direct fees	is advertising costs, job fairs, agency search fees, cost awarded for employee referrals and college recruiting.

4.9.2.3 Employee Motivation and Retention

As pointed out in Chapter 3, by engaging in CSR activities firms can bolster employees' motivation, commitment and loyalty to the firm, which Branco and Rodrigues (2006) cite as an internal benefit. Hence, employee retention significantly affects organisational effectiveness with respect to knowledge of firm strategy and customer objectives (Schneider and Bowen 1985). Thus, firms with a higher employee turnover (ETO) find they have a more inexperienced workforce, which ultimately has a negative impact on a firm's economic outcomes. Conversely, lower ETO leads to the cost efficiency of a firm's hiring and training activities (Koys 2001). This has been used in previous studies (Hom and Griffeth 1994; Kim et al. 1996; Koys 2001; Lee et al. 1992; Mueller and

[86] All costs are measured by nominal IDR currency. Here, IDR is defined as the Indonesian Rupiah (IDR).

Lawler 1999; Schmit and Johnson 1996). Given this, the present research uses ETO as an indicator of employee motivation and retention for Indonesian listed firms. The variable ETO is measured using the standard deviation of the total number of employees in accordance with Ghofar and Islam (2014) and Bentley, Omer and Sharp (2013). This proxy is used to measure employee fluctuations of the firm actively involved in CSR. Other factors that impact the value of ETO (e.g., firm growth, employee spinoffs and merger) are viewed as ceteris paribus. The formula representation is below:

$$\text{Employee turnover } = \sqrt{\frac{1}{N}\sum_{i=1}^{N}(x-\bar{x})^2}$$

where:

x is the total number of employees;

$\bar{x}$ is the average number of total employees; and

N is the number of years in the observation period.

4.9.3 Method of Measuring CSR Value Added (CVA)

Chapter 3 stated that CSR activities can positively impact the cash flows of firms (Figge and Schaltegger 2000) and improve long-term operational costs (Molson Group of Companies Annual Report 1992, cited in Richardson, Welker and Hutchinson 1999). Studies by Weber (2008), Burritt and Saka (2006) and Figge and Schaltegger (2000) have employed a measure to determine the valuation effects of socially responsible and irresponsible activities on cash flows and earnings of a firm. The present research adopts this approach to measure CSR value added (CVA), which is calculated by using discounted cash flows. The formula representation is below:

$$\text{CSR value added} = \sum_{n=1}^{n=\infty}\left(B_n^{CSR} - C_n^{CSR}\right)\times\frac{1}{(1+i)^n}$$

where:

B^{CSR} is CSR benefits;

C^{CSR} is CSR costs;

n is the number of years observation; and

i is the discount rate.

With respect to the four components used to measure CVA, the first component, CSR benefits, is associated with the increase in sales, revenue and price margins (Schaltegger and Sturm 1998). These can be driven by CSR marketing campaigns or CSR-specific products (Brockhaus 1996). Other CSR benefits include the reduction of internal costs (Weber 2008), calculated from the reduced costs of products, market development (Epstein and Roy 2001), and tax reductions for environmentally-friendly technologies (Schaltegger and Sturm 1998). The second component, CSR costs, is measured either by a one-time CSR cost and/or ongoing CSR costs. A one-time cost includes a donation, investment or other cost related to a CSR activity, while ongoing CSR costs include regular donations to CSR causes, personnel recruitment, and materials related to the firm's CSR engagement (Weber 2008). Additionally, the source of information concerning about CSR benefits and CSR costs would be found in Indonesian firm annual reports 2007 to 2013. The third component, discount rate, is used in cost-benefit analysis (Quiggin 1997) to show the value of outputs at different points in time commensurate with each other as equivalent present-values (Feldstein 1964). Since this study deals with the present value of CSR activities of a firm, it will use market interest rates – specifically, the Indonesian central bank interest rates (BI rates). The fourth component, time period, comprises the present research study period, which is 2007 to 2013.

4.9.4 Method of Measuring CSR Disclosure Index (CDI)

The CSR disclosure index (CDI) has been frequently used in previous studies to evaluate a firm's CSR engagement. The CSR disclosure index is calculated based on the information disclosed by firms' annual reports and sustainability reports, including official websites and business magazines. As Cooke's (1989) study demonstrates, the process of CSR disclosure index incorporates three stages.

The first stage is the selection of items related to CSR activities that have been reported in the entire contents of the annual report and sustainability reports (the firm's official website, business magazines and newspapers). The selection is based on items that have been included in prior CSR studies, or in the firm's annual report as recommended by the accepted accounting standard (statement of financial accounting standard applicable in Indonesia [PSAK]), or due to legal requirements. The second stage is the implementation of a scoring scheme to capture a firm's CDI level. This study adopts a dichotomous procedure in which an item with CSR dimensions scores one (1) if it is disclosed by the firm report and scores zero (0) if it is not disclosed by the firm report. This procedure has been used in many previous CSR studies (Gray, Kouhy and Lavers 1995; Hossain, Perera and Rahman 1995; Hossain, Tan and Adan 1994; Said, Zainuddin and Haron 2009). The total CSR disclosure scores for each firm (CSR-TD) is formulated as follows:

$$\text{CSR-TD} = \sum_{i=1}^{n} di$$

where:

d_i is described as 1 when an item of CSR dimensions (i) is disclosed; conversely d_i is 0 when an item of CSR dimensions (i) is not disclosed; and

n is the total number of items of CSR dimensions.

All CSR disclosure scores used in this study are unweighted in order to eliminate bias inherent in a weighted score. As Chow and Wong-Boren (1987) argue, using an unweighted score permits an analysis independent for the perceptions of a particular user group. Several previous studies have used an unweighted scoring approach (Ahmed and Nicholls 1994; Cooke 1989; Gray, Meek and Roberts 1995). The applied assumption of an unweighted score is that each item of CSR dimension is equally important for all users of firms' annual reports. Although this assumption cannot be practical, previous studies have shown the resulting favouritism is lower than it would be if weights had been assigned to the items (Chauand Gray 2002; Cooke 1989).

The third stage is the CSR disclosure index. The index is a ratio of the actual scores awarded to a firm to the scores which that firm is expected to earn. Thus, a firm should not be penalised for an item when that item is not relevant. For instance, if one item of CSR dimensions is not disclosed or found in the firm's annual and sustainable reports, it can be assumed that this item is not relevant. Therefore, the highest scores (CSR-M) a firm can obtain is calculated as follows:

$$\text{CSR-M} = \sum_{i=1}^{n} di$$

where:

di is the expected item of CSR dimension (90 items of the CSR dimension); and

n is the number of items of CSR dimension that is expected to be disclosed by the firm.

The present study includes six main CSR dimensions containing 90 items based on the CSR checklist developed by Hackston and Milne (1996).[87] Thus, the maximum possible score applicable to Indonesian listed firms (or CSR-M) is 90. The value of CDI for each firm is calculated as CSR-TD / CSR-M. There are four factors that justify the appropriateness of this disclosure index for firms: (i) a firm may deliberately refuse to disclose an item; (ii) a firm may disclose certain items only; (iii) the item may not be applicable to the firm's operations; and (iv) the item may to be too small (not material) to warrant disclosure (Morris and Gray 2010).

4.9.5 Method of Measuring Information Quality (Information Asymmetry)

Prior studies have demonstrated that when financial analysts identify a firm that has a high level of quality information disclosure to the public, it is typically correlated with low value forecast error and dispersion figures (Byard, Li, and Yu 2011). As Lang and Lundholm (1996) argued, firms with high information quality have smaller forecast error and forecast dispersion. The initial proxy for information asymmetry, forecast error, is the absolute difference between actual earnings per share (EPS) and mean forecasted EPS scaled by the share price at the beginning of the financial year (Lang and Lundholm 1996; Panaretou, Shackleton and Taylor 2012). The use of forecast earnings for information asymmetry has been used by Thomas (2002). The second proxy, forecast dispersion, measures the standard deviation of the analyst's forecast of EPS and has been previously employed by (Chang, Khanna and Palepu 2000; Panaretou, Shackleton and Taylor 2013).[88] The forecast error formula is represented by:

[87] The checklist of the items that comprise the CSR Disclosure Index is located in Appendix 1.

[88] Although prior studies, which mostly focus on developed countries, have used the number of financial analysts for the source of information quality (information asymmetry), the present research which focused on a developing country – Indonesia, was not able to utilise this proxy due to lack of available

$$\text{F Error}_t = \frac{|\text{Actual EPS}_t - \text{For EPS}_t|}{\text{Share Price}_{t-1}}$$

The forecast dispersion formula is represented by:

$$\text{F Disp}_t = \frac{\text{St Dev (For EPS}_t)}{|\text{For EPS}_t|}$$

where:

Actual EPS_t	is the actual earnings per share (EPS);
For EPS_t	is the mean forecast EPS resources from last institutional broker's system reporting months prior to the announcement of actual EPS;
Share Price $_{t-1}$	is share price at the beginning of the financial year; and
St Dev	is standard deviation of the forecast EPS.

4.9.6 Method of Measuring Firm Value

As stated in Chapter 3, the measurements adopted in this study for firm value (i.e., ROA, ROS and Tobin's Q) have received theoretical and empirical support in many studies (Jo and Harjoto 2011; Khan 2010; Li and Atuahene-Gima 2001; Simpson and Kohers 2002; Waddock and Graves 1997).

4.9.6.1 Tobin's Q

Many studies dealing with the measurement of Tobin's Q have utilised different measurements (Lewellen and Badrinath 1997). The Tobin's Q calculation adopted in this study was developed by Chung and Pruitt (1994) and is considered theoretically suitable displaying a 96.6% similarity with Tobin's Q original model. The formulation of Tobin's Q is as follows:

$$\text{Tobin's Q} = \frac{(\text{MVS} + \text{D})}{\text{TA}}$$

where:

MVS is the market value of the firm's share;

data. Specifically, the data availability via the IDX and other secondary data sources (e.g., The Orbis-Bureau van Dijk database and official firm websites) was not available. Hence, this particular proxy measure could not be used for this study. The proxies employed in the present research are typically used for developing country studies.

D is the firm's debt; and

TA is the total assets of the firm.

The first component of the measurement, market value of the firm's share (MVS), is obtained from the firm's share price and the number of common stock shares outstanding. The second component, the firm's debt (D) $= (\mathrm{AVCL} - \mathrm{AVCA}) + \mathrm{AVLTD}$, is a net value figure obtained from the value of short-term liabilities (AVCL) minus the value of short-term assets (AVCA). The value of long-term debt (AVLTD) is then added to the net figure. The third component, TA, represents the total assets of the firm (current and fixed assets) (Chung and Pruitt 1994).

Thus, firms with a high value of Tobin's Q, or q ratio > 1.00, are deemed to have good investment opportunities (Lang, Stulz and Walkling 1989), good management performances with the assets under its authority (Lang, Stulz and Walkling 1989), and high growth opportunities (Brainard and Tobin 1968; Yoon and Starks 1995). Where firms have an equal value of Tobin's Q, or Q ratio $= 1.00$, this suggests that the firm's market value is reflected by their assets. Firms with a low value of Tobin's Q, or Q ratio < 1.00, are deemed to have poor management performance with the assets under its authority (Weir, Laing and McKnight 2002). Smith Jr and Watts (1992) argue that firms with a low q ratio tend to have more assets in place, fewer growth options and high dividend pay-out ratios.

4.9.6.2 Return on Assets (ROA)

Return on assets (ROA) is one of the most common financial ratios used to evaluate the firm's operation and investment performance[89] (Altman 1968; Beaver 1966; Jewell and Mankin 2010; Selling and Stickney 1989). The variable ROA is adopted since it reflects a return that is more directly under the control of firm's management. A higher ROA implies an effective use of firms' assets in serving shareholder interests through increasing profit margin by means of product differentiation strategy or increasing asset turnover through cost leadership strategies (Haniffa and Hudaib 2006; Selling and Stickney 1989). According to Mankin and Jewell (2012), there are 11 versions of the

[89] The three most frequently presented ratios in the business literature are: (i) the current ratio; (ii) inventory turnover ratio; and (iii) ROA (Jewell and Mankin 2010).

ROA ratio in the business literature. In financial studies, ROA is typically formulated using net income divided by total assets (Hossari and Rahman 2005). Hence, this study will use the ROA ratio of net income to total assets. The formula is below.

$$\text{Return on Assets } = \frac{\text{Net Income}}{\text{Total Assets}}$$

4.9.6.3 Return on Sales (ROS)

Return on sales (ROS) is also a widely used financial ratio that represents the profit operating margin achieved by products and services offered by a firm (Cool and Dierickx 1993; Griffin and Mahon 1997; Zahra and Covin 1993). An increasing ROS implies that a firm is growing efficiently, while a declining ROS is an indicator of potential financial distress. As a profitability ratio, ROS is less impacted by changes to the inflation rate compared to ROA and return on equity (ROE) (Boubakri and Cosset 1998). The formula for ROS is below.

$$\text{Return on Sales} = \frac{\text{Net Income}}{\text{Total Revenue}}$$

4.9.7 Control Variables

Although the present study focuses on the effect of CG, CSR and information quality on firm value, it is acknowledged that other variables may influence this relationship. Therefore, control variables are included to avoid misspecification. Previous studies have identified a positive relationship between CSR disclosure, firm size (Khan 2010) and type of industry (Barnea and Rubin 2010; Gamerschlag, Möller and Verbeeten 2011). Thus, in order to understand the quality of CSR disclosure, many studies have used firm size and type of industry as control variables affecting profitability and firm value (Chand and Fraser 2006; Gray, Kouhy and Lavers 1995; Udayasankar 2008). Thus, to counter the possibility of bias in the result, the present study will employ firm size and type of industry as control variables.

4.9.7.1 Firm Size

Similar to many previous studies, the control variable, firm size, is measured using the natural logarithm of total assets (Fisman, Heal and Nair 2005; Harjoto and Jo 2011; McWilliams and Siegel 2001). The natural logarithm is used here to log transform the firm size variable, since firm size is generally skewed and may violate the assumption of normality (Arora and Dharwadkar 2011).

4.9.7.2 Type of Industry

The control variable, type of industry, is employed, given that previous studies have demonstrated that type of industry is generally associated with CSR disclosures (Bonsón and Escobar 2004; Gul and Leung 2004; Hassan and Ibrahim 2012). In fact, Rowley, Behrens and Krackhardt (2000) recommend that CSR performance should be narrowly identified in operational terms according to each particular industry. This is reiterated by Chand and Fraser (2006), Griffin and Mahon (1997) and Rowley and Berman (2000). Thus, measures need to account for this aspect. For example, Griffin and Mahon (1997), using industry type as a boundary condition, found that higher CSR performance is linked to higher firm value, while lower CSR performance is linked to lower firm value. Therefore, type of industry is an important consideration when examining the relationship between CG, CSR and firm value.

With respect to Indonesia, Kenessey (1987) identified four major sectors of the economy: (i) the primary sector (i.e., agriculture, forestry, mining and fishing); (ii) the secondary sector (i.e., manufacturing, and real estate and building construction); (iii) the tertiary sector (i.e., transportation, telecommunication, electric, gas and sanitary services, and wholesale and retail trades); and (iv) the quaternary sector (i.e., finance, insurance and public administration services). As stated previously, the present study excludes the quaternary sector; hence, three industry types are considered in this study: primary, secondary and tertiary. A list of the operational variables employed in this study is provided in Table 4.7.

Table 4.7 Operational Variables Employed in the Study

No	Construct	Variable		Proxy	Source of Information	Data Measurement
1	Corporate governance (CG) mechanisms	Board size		The logarithm (log) of the number of BoCs (BS)	ICMD and firm annual report	Refer to Appendix 7
		Independent directors		The proportion of independent board members (ID)	ICMD and firm annual report	Refer to Appendix 7
		Ownership structures		The proportion of public ownership (PO)	ICMD and firm annual report[90]	Refer to Appendix 7
				The proportion of managerial ownership (MO)	ICMD and firm annual report [91]	Refer to Appendix 7
2	Corporate social responsibility (CSR)	Key performance indicators (KPIs)	Customer attractiveness and retention	Market share (MS)	Refer to Appendix 7	Refer to Appendix 7
			Employer attractiveness	Cost per hire (CPH)	Refer to Appendix 7	Refer to Appendix 7
			Employee motivation and retention	Employee turnover (ETO)	Refer to Appendix 7	Refer to Appendix 7
		CSR value added		CSR value added (CVA)	Firm annual report	Refer to Appendix 7
		CSR disclosure index		CSR disclosure index (CDI)	Firm annual report	Refer to Appendix 7
3	Information quality (IQ)	Information asymmetry		Forecast error (FE)	The Orbis-Bureau van Dijk database and firm annual report	Refer to Appendix 7
				Forecast dispersion (FD)	The Orbis-Bureau van Dijk database and firm annual report	Refer to Appendix 7
4	Firm value (FV)			Tobin's Q (TQ)	ICMD and firm annual report	Refer to Appendix 7
				Return on assets (ROA)	the Orbis-Bureau van Dijk and Datastream databases	Refer to Appendix 7
				Return on sales (ROS)	ICMD and firm annual report	Refer to Appendix 7
5	Control variables (CV)	Firm size		Natural log of total assets (FS)	ICMD and firm annual report	Refer to Appendix 7
		Type of industry		Type of industry (TI)	The IDX fact book	Refer to Appendix 7

[90] Public ownership refers to individual ownership that own less than 5% share and are not affiliated with the firm's managerial members.
[91] Managerial ownership refers to managerial members' ownership and BoCs members are affiliated with managerial members and shareholders.

4.10 Econometric Models

Since this study has more than one endogenous variable, simultaneous equation models are employed to capture the relationship between CG, CSR, information quality and firm value. An exogenous variable is also included. Variables identified in the conceptual framework are used to develop the following models that consist of three equations:

1) CG-CSR correlation;
2) Information quality; and
3) Firm value.

In order to examine the relationship between CG mechanisms, CSR, information quality and firm value, this study estimates the system of equations using OLS and 2SLS, as shown in Figure 4.4 and Figure 4.5.

Figure 4.4 Hierarchical Model for CSR Indicators Using both Accounting and Non-Accounting Proxies

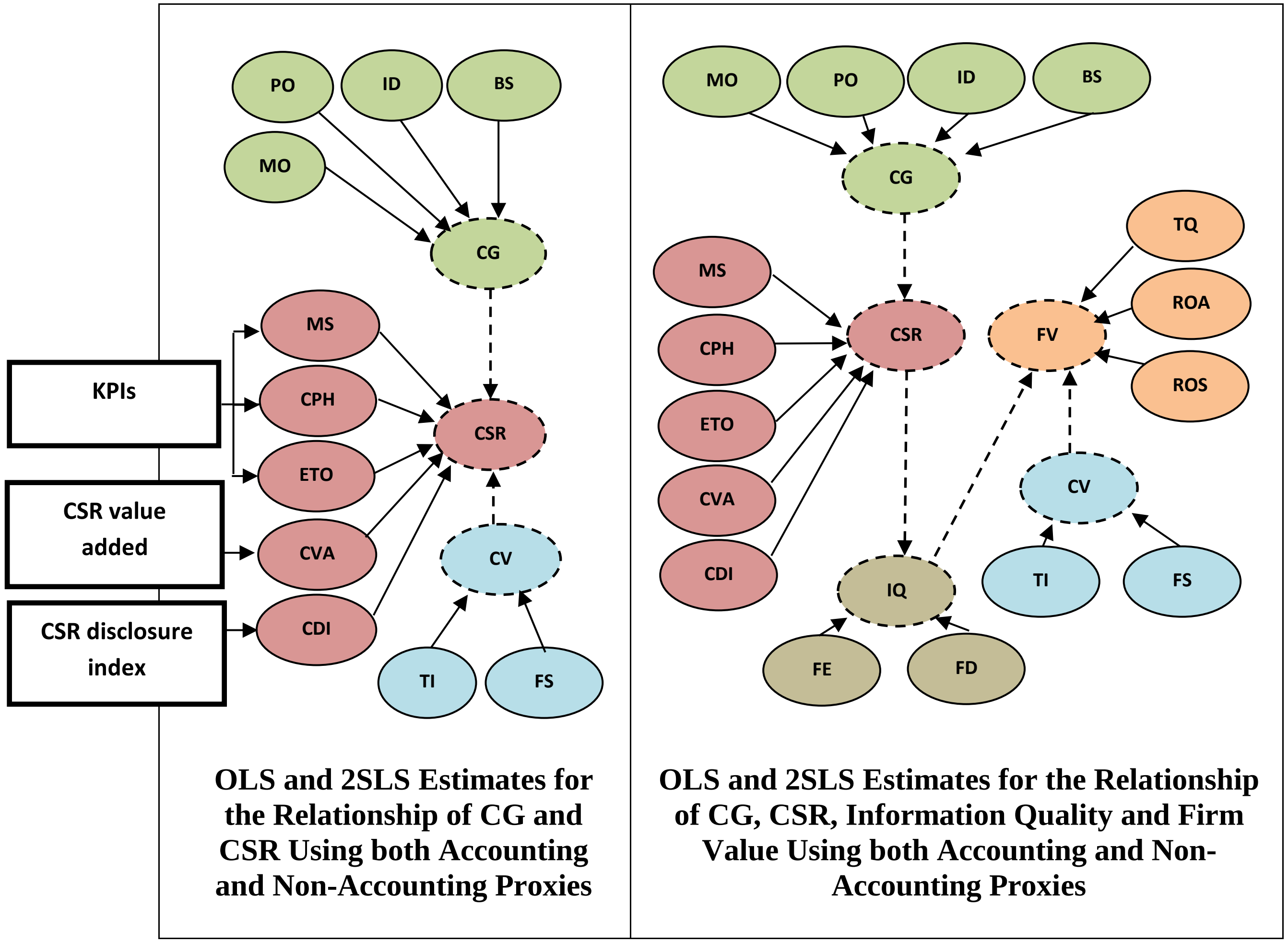
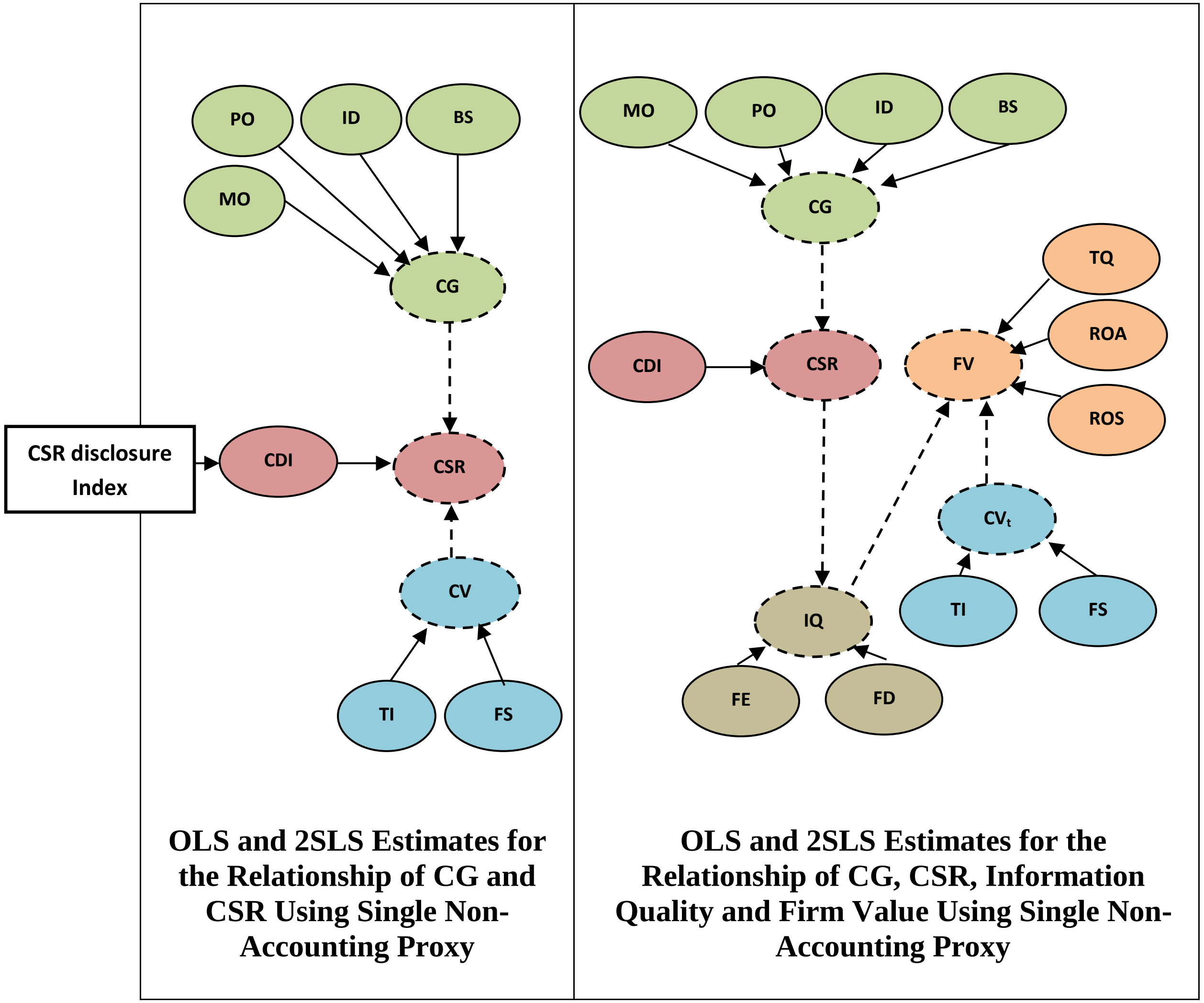


Figure 4.5 Hierarchical Model for CSR Indicators Using Single Non-Accounting Proxy



Using a system of simultaneous equation models, the relationship between these variables, is estimated with the following:

$$CSR_t = f_1\ (BS_t, ID_t, MO_t, PO_t, FS_t, TI_t), \qquad (4.5)$$
$$FV_t = f_2\ (CSR_t, FE_t, FD_t, MS_t, CPH_t, ETO_t, CVA_t, CDI_t, FS_t, TI_t), \qquad (4.6)$$

Having defined the theoretical model, the present study proposes the following structural equations as an empirical model to test the hypotheses. There are five variables of CSR: market share (MS); cost per hire (CPH); employee turnover (ETO); CSR value added (CVA); and CSR disclosure index (CDI). Each of these variables will be expressed in terms of:

$$MS_t = \alpha_1 + \alpha_{11}BS_t + \alpha_{12}ID_t + \alpha_{13}MO_t + \alpha_{14}PO_t + \alpha_{15}FS_t + \alpha_{16}TI_t + \varepsilon_{11} \qquad (4.7)$$
$$CPH_t = \alpha_2 + \alpha_{21}BS_t + \alpha_{22}ID_t + \alpha_{23}MO_t + \alpha_{24}PO_t + \alpha_{25}FS_t + \alpha_{26}TI_t + \varepsilon_{21} \qquad (4.8)$$
$$ETO_t = \alpha_3 + \alpha_{31}BS_t + \alpha_{32}ID_t + \alpha_{33}MO_t + \alpha_{34}PO_t + \alpha_{35}FS_t + \alpha_{36}TI_t + \varepsilon_{31} \qquad (4.9)$$
$$CVA_t = \alpha_4 + \alpha_{41}BS_t + \alpha_{42}ID_t + \alpha_{43}MO_t + \alpha_{44}PO_t + \alpha_{45}FS_t + \alpha_{46}TI_t + \varepsilon_{41} \qquad (4.10)$$
$$CDI_t = \alpha_5 + \alpha_{51}BS_t + \alpha_{52}ID_t + \alpha_{53}MO_t + \alpha_{54}PO_t + \alpha_{55}FS_t + \alpha_{56}TI_t + \varepsilon_{51} \qquad (4.11)$$

There are three variables of firm value: ROA; ROS and Tobin's Q. Each of these variables will be expressed in terms of:

$$ROA_t = \delta_1 + \delta_{11}BS_t + \delta_{12}ID_t + \delta_{13}MO_t + \delta_{14}PO_t + \delta_{15}MS_t + \delta_{16}CPH_t + \delta_{17}ETO_t$$
$$+ \delta_{18}CVA_t + \delta_{19}CDI_t + \delta_{110}FD_t + \delta_{111}FE_t + \delta_{112}TI_t + \delta_{113}FS_t + \varepsilon_{11} \qquad (4.12)$$
$$ROS_t = \delta_2 + \delta_{21}BS_t + \delta_{22}ID_t + \delta_{23}MO_t + \delta_{24}PO_t + \delta_{25}MS_t + \delta_{26}CPH_t + \delta_{27}ETO_t$$
$$+ \delta_{28}CVA_t + \delta_{29}CDI_t + \delta_{210}FD_t + \delta_{211}FE_t + \delta_{212}TI_t + \delta_{213}FS_t + \varepsilon_{21} \qquad (4.13)$$
$$TQ_t = \delta_3 + \delta_{21}BS_t + \delta_{32}ID_t + \delta_{33}MO_t + \delta_{34}PO_t + \delta_{35}MS_t + \delta_{36}CPH_t + \delta_{37}ETO_t$$
$$+ \delta_{38}CVA_t + \delta_{39}CDI_t + \delta_{310}FD_t + \delta_{311}FE_t + \delta_{312}TI_t + \delta_{313}FS_t + \varepsilon_{31} \qquad (4.14)$$

The endogenous variables employed in the simultaneous equation models are briefly reviewed below.

Corporate Governance (CG) Mechanisms

The CG mechanisms consist of two crucial aspects: board control and ownership (Huang 2010). Here, effective boards include board size (BS_t) and independent board of directors ($\mathrm{ID_t}$), since boards are identified as large decision-making groups that impact the effectiveness of a firm's decision-making process (Dwivedi and Jain 2005). Firm ownership structure also plays a crucial role in the CG mechanism due to its strong impact on firm decision-making and staff motivation, including managerial ownership ($\mathrm{MO_t}$) and public ownership ($\mathrm{PO_t}$) (Cheng and Wall 2005; Nazari 2010).

Corporate Social Responsibility (CSR)

Previous studies have measured the firm's CSR activities in several ways (Girerd-Potin, Jimenez-Garcès and Louvet 2012; Hackston and Milne 1996; Jo and Harjoto 2011; Turker 2009). One of the most frequently used measures in developing countries is the CSR disclosure index ($\mathrm{CDI_t}$) (Fauzi and Idris 2009; Kartadjumena, Hadi and Budiana 2011; Said, Zainuddin and Haron 2009; Wibowo 2012). Although previous studies have used the CSR disclosure index as a single non-accounting proxy in measuring the firm's CSR engagement, this study employs both accounting and non-accounting approaches. These include: (i) KPIs including market share ($\mathrm{MS_t}$), cost per hire ($\mathrm{CPH_t}$), and employee turnover ($\mathrm{ETO_t}$); (ii) CSR value added ($\mathrm{CVA_t}$); and (iii) the CSR disclosure index ($\mathrm{CDI_t}$).

Information Quality (IQ)

This research classifies information quality (i.e., information asymmetry) as an endogenous variable and employs both forecast error ($\mathrm{FE_t}$) and forecast dispersion ($\mathrm{FD_t}$) as proxies. Furthermore, due to the correlation between CG, CSR and information quality, both CG mechanisms and CSR are incorporated into the simultaneous equation estimation for information quality.

Firm Value (FV)

According to Greene (2003), firm value is sourced from two main factors of unique features: CG mechanisms and CSR activities choice. Consequently, this study classifies firm value as an endogenous variable and employs three indicators: return on assets ($\mathrm{ROA_t}$); return on sales ($\mathrm{ROS_t}$); and Tobin's Q ($\mathrm{TQ_t}$). Furthermore, due to the effects of CG and CSR on firm value, both CG mechanisms and CSR are also incorporated into simultaneous equation estimation for firm value.

Based on the literature review and conceptual framework, the present study identifies that CSR engagement has an important influence on increasing information quality (i.e., reducing information asymmetry) which can lead to improved firm and shareholder value. Thus, information quality is viewed as having an impact on the relationship between CSR and firm value. Hence, information quality, as proxied by (FE_t) and (FD_t), is included in the simultaneous equation estimation for firm value. Furthermore, as exogenous variables, control variables are acknowledged as other variables that may influence the relationship between CG, CSR, information quality and firm value. Hence, the control variables, firm size (FS_t) and type industry (TI_t) are also included to avoid misspecification.

4.11 Summary

In this chapter, the conceptual framework was derived via a multi-theoretic approach that incorporated: (i) agency theory; (ii) stakeholder theory; (iii) resource dependence theory (RDT); (iii) resources-based view (RBV) theory; and (v) multilevel theory of social change in organisation. This provides the foundation for this study. Hypotheses were developed which articulated the relationship between the various components in the conceptual framework. A step-by-step review of the arrival at the final sample size was conducted and the study period selection was explained and justified; it incorporated the need to adequately review the implementation effect of the latest CG code and CSR law.

This chapter also explained the variables selected and the methods used in the study. The variables chosen were supported, as were their specific methods of measurement. An overview of various research method techniques was provided to explain the use of accounting and non-accounting proxies as a source of data input. In addition, the most appropriate research method for the stated research questions and objectives was discussed. A justification was given for the use of simultaneous equation models using OLS and 2SLS as the most appropriate means of examining CG, CSR, information quality and firm value relationship. Furthermore, this chapter presented two valid and justifiable control variables in order to understand the quality of CSR disclosure. The following chapter presents the results of this study.

Complete ‘realism’ is clearly unattainable, and the question whether a theory is realistic ‘enough’ can be settled only by seeing whether it yields predictions that are good enough for the purpose in hand or that are better than predictions from alternative theories. (Friedman 1953, p. 41)

Chapter 5: Results and Discussion

5.1 Introduction

Chapter 4 presented the formal hypotheses of the study in relation to corporate governance (CG) and corporate social responsibility (CSR), as well as the impact of information quality on the relationship between CSR and firm value. In particular, it was argued that information quality can be strengthened by high levels of CSR engagement, which ultimately can increase firm value. This chapter examines this argument empirically, beginning with a statistical summary of industry categories, and the endogenous and exogenous variables employed in the empirical analysis. The chapter then presents the key part of the analysis - results from the simultaneous equation models. Tests of endogeneity of the variables CG, CSR, information quality and firm value in the equation model are also presented. A discussion of the results of the hypothesis testing using simultaneous equation models with the ordinary least squares (OLS) and two-stage least squares (2SLS) is then undertaken.

5.2 Industry Category

As discussed in Chapter 4, the firms presented in Table 5.1 represent a wide range of industry types. There are three main sectors in this study: (i) the primary sector, which focuses on natural raw materials for conversion into commodities; (ii) the secondary sector, which focuses on manufacturing and assembly processes for products that are to be consumed by individuals; and (iii) the tertiary sector, which focuses on commercial services that support the production and distribution process. Of the 76 firms in the sample, the tertiary sector comprises approximately half (n=37, or 48%), followed by the secondary sector (n=28, or 36%) and the primary sector (n=11, or 14%). On average, the selected firms have been in existence for 39.4 years and are amongst Indonesian’s largest firms. The analysis of the CG, CSR, information quality and firm value relationship, however, is discussed in a broader context, incorporating the three sectors.

Table 5. 1 Industry Category

Industry Category	Sample Size (Firms)	%
Primary sector (*e.g., agriculture, forestry, mining and fishing*)	11	15%
Secondary sector (*e.g., manufacturing, and real estate and building construction*)	28	37%
Tertiary sector (*e.g., transportation, telecommunications, electric, gas and sanitary services, and wholesale and retail trades*)	37	48%
Total Firms	**76**	**100%**

5.3 Descriptive Statistics

The relevant descriptive statistics for all variables in Table 5.2 are calculated based on a sample size of 76 firms (450 observations). The table contains the variables that comprise the following subsets: (i) CG mechanisms; (ii) information quality; (iii) firm characteristics; (iv) CSR; and (v) firm value. The first three subsets are employed as exogenous variables, while the fourth and fifth subsets are employed as endogenous variables.

With respect to CG mechanisms, the mean size of boards in the sample was six members, ranging from a minimum of two to a maximum of 12. The median value was five directors. The standard deviation and coefficient of variation (CV) figures (2.02 and 0.34, respectively) suggest that variation is relatively low. All firms in the sample meet the statutory minimum requirement of two directors.[92] The Indonesian Stock Exchange (IDX) regulation requires at least 30% of the directors to be independent. The average percentage of independent directors in the study sample was 42%, with a median of 40%. In the sample, 97% of firms had complied with this requirement.[93]

[92] Company Law 1995, articles 94 (2) and 79 (2).

[93] Three percent of the sample size (n=2 or 3%) were found to be dominated by insider directors, which Klein (2002) defines as current employees of firms or corporate officers.

Table 5. 2 Descriptive Statistics of Exogenous and Endogenous Variables

Data Subset	Abbvn	N	Mean	Median	SD	CV	Skewness	Minimum	Maximum
(i) CG Mechanisms									
Board size (the number of members)	**BS**	450	6.00	5.00	2.02	0.34	0.67	2.00	12.00
Independent director	**ID**	450	42%	40%	11%	0.26	1.2	14%	88%
Managerial ownership	**MO**	450	1%	0%	4%	4.00	4.57	0%	25%
Public ownership	**PO**	450	34%	34%	21%	0.61	0.61	0%	95%
(ii) Information Quality									
Forecast error	**FE**	450	0.03	0.01	0.15	5.00	16.79	0.00	2.91
Forecast dispersion	**FD**	450	2.53	0.65	11.94	4.72	15.46	0.08	225.84
(iii) Firm Characteristics									
Firm size	**FS**	450	14,929.15	6,333.96	23,919.60	1.60	3.95	331.06	213,994.00
(iv) CSR									
Customer attraction and retention	**MS**	450	21%	13%	20%	0.95	1.44	0%	91%
Employer attractiveness	**CPH**	450	109.34	46.23	241.61	2.21	6.62	1.82	2,718.68
Employee motivation and retention	**ETO**	450	0.03	0.02	0.04	1.33	3.34	0.00	0.24
CSR value added	**CVA**	450	11,162.54	3,684.21	31,642.45	2.83	5.97	93.20	234,915.64
CSR disclosure index	**CDI**	450	0.52	0.52	0.16	0.31	-0.19	0.04	0.91
(v) Firm Value									
Tobin's Q	**TQ**	450	1.68	1.06	2.10	1.25	3.30	0.01	15.10
Return on assets	**ROA**	450	0.10	0.08	0.09	0.90	1.76	0.00	0.51
Return on sales	**ROS**	450	0.13	0.11	0.11	0.85	1.48	0.00	0.68

Note: Abbvn = abbreviation of data variable name, **N** = number of observations, **SD** = standard deviation, **CV** = coefficient of variation; **BS** = the number of board members, **ID** = independent director, **MO** = managerial ownership, **PO** = public ownership, **FE** = forecast error, **FD** = forecast dispersion, **FS** = firm size (in IDR billions), **MS** = market share, **CPH** = cost per hire (in IDR billions), **ETO** = employee turnover, **CVA** = CSR value added (in IDR billions), **CDI** = CSR disclosure index, **TQ** = Tobin's Q, **ROA** = return on assets, **ROS** = return on sales.

With respect to managerial ownership, about 7% of the firms in the sample are characterised by concentrated shareholdings (5% or more shareholding). Interestingly, the high CV of 4.0 suggests that there is a wide range of managerial ownership structures across Indonesian firms. For public ownership, the mean and median figures were both 34%.

For information quality, both forecast error and forecast dispersion display high CV values (5.0 and 4.72, respectively). This high value indicates the presence of high information asymmetry between managers and stakeholders, such as financial analysts and investors, regarding the firm's operations. In addition, the very high positive skewness figures for both variables (16.79 and 15.46, respectively) suggest that overestimation is occurring. With respect to firm size, the mean of total firm assets that were active in CSR between 2007 and 2013 was IDR 14,929.15 billion, ranging from a minimum of IDR 331.06 billion to a maximum of IDR 213,994.00 billion. The median value was IDR 6,333.96 billion.[94] The CV of 1.60 indicates firm size disparities across the study sample.

The CSR descriptive statistics show that the mean of market share was 21%, ranging from a minimum of 0% to a maximum 91%. The median value was 13% with the majority of firms (75%) having less than a 30% average market share. The results of employer attractiveness show that the mean of its proxy cost per hire is IDR 109.34 billion, ranging from a minimum of IDR 1.82 billion to a maximum IDR 2,719.68 billion. The median value was IDR 46.23 billion. The standard deviation of cost per hire and the CV value are relatively high at IDR 241.61 billion and 2.21, respectively. This indicates that notable disparities in cost per hire exist across the Indonesian firms involved in CSR. The results of employee motivation and retention show that the mean of employee turnover was 0.03, ranging from a minimum of 0.00 to a maximum 0.24. The median value was 0.02. The CV value is relatively high at 1.33, which indicates wide disparities in employee turnover across Indonesian firms involved in CSR.

[94] IDR = Indonesian Rupiah, the Indonesian currency; US$ 1 in 2007: IDR 9,419; US$ 1 in 2008: IDR 10,950; US$ 1 in 2009: IDR 9,400; US$ 1 in 2010: IDR 8,991; US$ 1 in 2011: IDR 9,068; US$ 1 in 2012: IDR 9,670; US$ 1 in 2013: IDR 12,189 (Source: Bank Indonesia [BI]).

The mean CSR value added for the Indonesian firms in the study sample was IDR 11,162.54 billion, ranging from a minimum of IDR 93.20 billion to a maximum of IDR 234,914.64. The median value was IDR 3,684.21 billion. The high CV value of 2.83 indicates that there are wide CSR value added disparities across the sample. The CSR disclosure index had a mean of 0.52 and ranged from 0.04 to 0.91. The median value was 0.52. The CV figure of 0.31 suggests that there are various levels of CSR disclosures occurring across the study sample, albeit fairly consistent. A test for reliability was conducted via the Cronbach Alpha test using SPSS. The results showed that CDI had a high internal consistency (0.86) indicating that the CDI measure was reliable.

The descriptive statistics for firm value show that the mean value of Tobin's Q in the study sample was 1.68, ranging from a minimum of 0.01 to a maximum of 15.10. The median value was 1.06. The standard deviation and CV figures (2.10 and 1.25, respectively) suggest that variation is relatively high. In addition, the mean value of ROA in the study sample was 0.10, ranging from a minimum of 0.00 to a maximum of 0.51. The median value was 0.08. The standard deviation and CV figures (0.09 and 0.90, respectively) suggest that variation is relatively low. Finally, the mean value of ROS in the sample was 0.13, ranging from a minimum of 0.00 to a maximum of 0.68. The median value was 0.11. The standard deviation and CV figures (0.11 and 0.85, respectively) suggest that variation is relatively low.

5.4 Results of Ordinary Least Squares (OLS) and Two-Stage Least Squares (2SLS) Estimates

This study estimated two different regression functional forms: linear and non-linear Cobb-Douglas type functions. Each functional form was estimated under two methods: 1) ordinary least squares (OLS); and 2) two-stage least squares (2SLS), producing a set of four results. Ordinary least squares and 2SLS estimates of the relationship between CG mechanisms, information quality, CSR and firm value were designed to test the proposed hypotheses outlined in Chapter 4. The sample size comprised 76 firms, with a total of 450 observations for the period 2007 to 2013, as explained in detail in earlier chapters.

The results demonstrated that the non-linear Cobb-Douglas type function provided greater statistical significance of the coefficients estimates of the simultaneous equation models compared to the linear function. This would suggest that all equation functions, the relationship of CG mechanisms and CSR as well as the relationship of CG mechanisms, CSR, information quality and firm value have disminishing marginal returns (DMR) properties. Consequently, the OLS and 2SLS estimates of the linear functions are not discussed in the main text of the thesis and can be found in Appendices 2 and 3. This study also estimated two different sets of CSR approaches: (i) single non-accounting proxy (i.e., CSR disclosure index); and (ii) a comprehensive CSR measurement (i.e., both accounting and non-accounting proxies). The results demonstrated that a comprehensive CSR measurement was able to better capture the relationship between CSR and firm value. The results of the OLS and 2SLS estimates using a single non-accounting proxy of CSR (e.g., CSR disclosure index) provided fewer statistical significance of the coefficients estimates of the simultaneous equation models compared to the comprehensive CSR measurement. In addition, the fitness statistic models regarding the relationship of CG mechanisms and CSR, and the relationship of CSR and firm value were not as robust. The results are presented in Appendices 4 and 5. Hence, the following sections present and discuss the results of the OLS and 2SLS estimates using the non-linear Cobb-Douglas type functions.[95] In the discussion of the tests of hypotheses the descriptions 'supported' and 'not supported' refer to the alternative hypothesis, implying the null hypothesis is rejected or not rejected, respectively.

5.4.1 Results of OLS Estimates for the Relationship between CG Mechanisms and CSR

The relationship between CG mechanisms and CSR using accounting and non-accounting proxies were estimated under the Cobb-Douglas functional form, with all variables being measured as their natural logs. The results are presented in Tables 5.3 to 5.7 and are discussed below. The OLS functions were estimated by the following dependent variables: (i) customer attraction and retention by market share (MS); (ii) employer attractiveness by cost per hire (CPH); (iii) employee motivation and retention

[95] Correlation tests of the variables for both functional forms are located in Appendix 6. The results show no issue with multicollinearity.

by employee turnover (ETO); (iv) CSR value added (CVA); and (v) CSR disclosure index (CDI). The F-values for all OLS estimates are significant at the 0.01 level. The adjusted R-square ranges between 0.100 and 0.609.

Table 5.3 shows the results of the OLS translog linear estimates for the relationships between CG mechanisms and CSR.

Table 5. 1 OLS Estimates for Market Share

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-10.34106***	0.783408	-13.20009	0.0000
Log Board Size (LBS_t)	0.030585	0.087245	0.350569	0.7261
Log Independent Director (LID_t)	0.047464	0.075087	0.632120	0.5276
Log Managerial Ownership (LMO_t)	0.012775	0.013913	0.918193	0.3590
Log Public Ownership (LPO_t)	-0.028304	0.022008	-1.286096	0.1991
Log Firm Size (LFS_t)	3.486069***	0.279295	12.48169	0.0000
Log Type of Industry (LTI_t)	-0.139588***	0.051470	-2.712019	0.0069

Dependent Variable: Log Market Share (LMS)
F-statistic = 38.14011; *p*-value < 0.01; Adj. R^2 = 0.33169; Jarque-Bera statistic = 292.1955 and Prob (JB) = 0.00000; White test statistic = 149.2592.
*** is significant at the 0.01 level.

Based on Table 5.3, the OLS estimates of the logarithmic transformation for the relationship between CG mechanisms and the dependent variable market share are:

$$LMS_t = -10.341^{***} + 0.031\, LBS_t + 0.047\, LID_t + 0.013\, LMO_t - 0.028\, LPO_t + 3.486\, LFS_t^{***} - 0.140\, LTI_t^{***}$$

This is expressed in the original form as:

$$MS_t = -10.341^{***}\, BS_t^{0.031}\, ID_t^{0.047}\, MO_t^{0.013}\, PO_t^{-0.028}\, FS_t^{3.486***}\, TI_t^{-0.140}{}^{***}$$

This result indicates that the estimated equation is statistically significant, implying that the variables in the model are capable of collectively explaining the variations in market share. The fitness statistic indicates that about 33% of the variation in market share can be explained by the OLS estimates. The usual diagnostic tests did not indicate any problems with the estimates.

With respect to the individual variables, none of the CG mechanism variables had statistically significant impacts on the CSR proxy (i.e., market share). This finding, confirms the previous works of Prado-Lorenzo and Garcia-Sanchez (2010), and Cheng and Courtenay (2006), and is further discussed in Section 5.5.1. The study also included control variables. The result demonstrated that firm size and type of industry had significant impacts on market share at the 1% level. The significant relationship between firm size, type of industry and CSR are supported by the previous works of Melo and Garrido-Morgado (2012), Gallo and Christensen (2011), Reverte (2009), Said, Zainuddin and Haron (2009), Ghazali (2007), Chand and Fraser (2006), Haniffa and Cooke (2005), and Gray et al. (2001).

Table 5. 4 OLS Estimates for Cost Per Hire

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-21.37564***	1.927204	-11.09153	0.0000
Log Board Size (LBS_t)	0.184621	0.214625	0.860206	0.3901
Log Independent Director (LID_t)	0.129612	0.184716	0.701682	0.4832
Log Managerial Ownership (LMO_t)	-0.003899	0.034227	-0.113929	0.9093
Log Public Ownership (LPO_t)	-0.249287***	0.054139	-4.604555	0.0000
Log Firm Size (LFS_t)	11.46832***	0.687072	16.69158	0.0000
Log Type of Industry (LTI_t)	0.205672	0.126618	1.624348	0.1050

Dependent Variable: Log Cost Per Hire (LCPH)
F-statistic = 62.94211; *p*-value < 0.01; Adj. R^2 = 0.452874; Jarque-Bera statistic = 11.2371 and Prob (JB) = 0.0036; White test statistic = 203.7933.
*** is significant at the 0.01 level.

Based on Table 5.4, the OLS estimates in the logarithmic transformation for the relationship between CG mechanisms and the dependent variable cost per hire are:

$$LCPH_t = -21.376^{***} + 0.185\ LBS_t + 0.130\ LID_t - 0.004\ LMO_t - 0.249\ LPO_t^{***} + 11.468\ LFS_t^{***} + 0.206\ LTI_t$$

This is expressed in the original form as:

$$CPH_t = -21.376^{***}\ BS_t^{0.185}\ ID_t^{0.130}\ MOt^{-0.004}\ PO_t^{-0.249}{}^{***}\ FS_t^{11.468}{}^{***}\ TI_t^{0.206}$$

This result indicates that the estimated equation is statistically significant, implying that the variables in the model are capable of collectively explaining the variations in cost per hire. The fitness statistic indicates that about 45% of the variation in cost per hire can be explained by the OLS estimates. The usual diagnostic tests did not indicate any problems with the estimates.

Table 5.4 shows the estimates on the independent variable and their levels of significance. As shown in the table, only one CG mechanism variable, public ownership, had a significant impact on cost per hire at the 1% level, while the remaining CG mechanism variables were statistically insignificant. However, the proposed hypothesis of a positive impact of public ownership on cost per hire was not supported. The negative coefficient of the variable was in contrast to that posited in the hypothesis and thus H_{4B} is not supported. The finding is consistent with the work of Dam and Scholtens (2012). Furthermore, the non-significant relationship between CG mechanisms (e.g., board size and independent directors) and CSR is reinforced by the findings of Prado-Lorenzo and Garcia-Sanchez (2010) and Cheng and Courtenay (2006) and is further discussed in Section 5.5.1. The results for the control variables show that firm size had a significant impact on cost per hire at the 1% level, while type of industry was statistically insignificant. The finding is consistent with the previous works of Said, Zainuddin and Haron (2009), Ghazali (2007), Haniffa and Cooke (2005), Gray et al. (2001), Trencansky and Tsaparlidis (2014) and Perrini (2006).

Table 5. 5 OLS Estimates for Employee Turnover

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	***p*-value**
Constant	-6.795320***	1.570858	-4.325866	0.0000
Log Board Size (LBS_t)	0.165300	0.174940	0.944897	0.3452
Log Independent Director ($LID_{t)}$	0.091497	0.150562	0.607702	0.5437
Log Managerial Ownership (LMO_t)	-0.050800*	0.027898	-1.820910	0.0693
Log Public Ownership (LPO_t)	0.003735	0.044129	0.084641	0.9326
Log Firm Size (LFS_t)	0.787576	0.560030	1.406311	0.1603
Log Type of Industry (LTI_t)	0.684532***	0.103206	6.632692	0.0000

Dependent Variable: Log Employee Turnover (LETO)
F-statistic = 9.278684; *p*-value < 0.01; Adj. R^2 = 0.099609; Jarque-Bera statistic = 31.96571 and Prob (JB) = 0.0000; White test statistic = 44.8241.
*** is significant at the 0.01 level; * is significant at the 0.10 level.

Based on Table 5.5, the OLS estimates in the logarithmic transformation for the relationship between CG mechanisms and the dependent variable employee turnover are:

$$\text{LETO}_t = -6.795^{***} + 0.165\ \text{LBS}_t + 0.091\ \text{LID}_t - 0.051\ \text{LMO}_t{}^{*} + 0.004\ \text{LPO}_t + 0.788\ \text{LFS}_t + 0.685\ \text{LTI}_t{}^{***}$$

This is expressed in the original form as:

$$\text{ETO}_t = -6.795^{***}\ \text{BS}_t{}^{0.165}\ \text{ID}_t{}^{0.091}\ \text{MO}_t{}^{-0.051*}\ \text{PO}_t{}^{0.004}\ \text{FS}_t{}^{0.788}\ \text{TI}_t{}^{0.685***}$$

This result indicates that the estimated equation is statistically significant, implying that the variables in the model are capable of collectively explaining the variations in employee turnover. The fitness statistic indicates that about 10% of the variation in employee turnover can be explained by the OLS estimates. The usual diagnostic tests did not indicate any problems with the estimates.

Table 5.5 shows the estimates on the independent variable and their levels of significance. As shown in the table, the CG mechanism variable of managerial ownership had a significant impact on employee turnover at the 10% level, while the remaining CG mechanism variables were statistically insignificant. The finding supports the proposed hypothesis that management ownership had a negative impact on employee turnover (H_{3C}). A negative relationship between managerial ownership and employee turnover is consistent with the finding from previous study of Lee (2006). The result is further discussed in Section 5.5.1. For the control variables, only type of industry had a significant impact on employee turnover at the 1% level. The significant relationship between type of industry and CSR (e.g., employee turnover) is confirmed by Zheng and Lamond (2010), Melo and Garrido-Morgado (2012), Gallo and Christensen (2011), Zheng and Lamond (2010), Reverte (2009), Chand and Fraser (2006) and Gray et al. (2001).

Table 5. 2 OLS Estimates for CSR Value Added

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-30.08166***	1.834499	-16.39776	0.0000
Log Board Size (LBS_t)	-0.573258***	0.204300	-2.805957	0.0052
Log Independent Director (LID_t)	-0.584928***	0.175831	-3.326651	0.0010
Log Managerial Ownership (LMO_t)	0.027991	0.032580	0.859134	0.3907
Log Public Ownership (LPO_t)	-0.270210***	0.051535	-5.243225	0.0000
Log Firm Size (LFS_t)	16.18282***	0.654021	24.74356	0.0000
Log Type of Industry (LTI_t)	-0.035471	0.120527	0.294300	0.7687

Dependent Variable: Log CSR Value Added (LCVA)
F-statistic = 117.3452; *p*-value < 0.01; Adj. R^2 = 0.608568; Jarque-Bera statistic = 4.4750 and Prob (JB) = 0.1067; White test statistic = 273.8556.
*** is significant at the 0.01 level.

Based on Table 5.6, the OLS estimates in the logarithmic transformation for the relationship between CG mechanisms and the dependent variable CSR value added are:

$$LCVA_t = -30.082^{***} - 0.573\ LBS_t^{***} - 0.585\ LID_t^{***} + 0.028\ LMO_t - 0.270\ LPO_t^{***} + 16.183\ LFS_t^{***} - 0.035\ LTI_t$$

This is expressed in the original form as:

$$CVA_t = -30.082^{***}\ BS_t^{-0.573***}\ ID_t^{-0.585***}\ MO_t^{0.028}\ PO_t^{-0.270***}\ FS_t^{16.183***}\ TI_t^{-0.035}$$

This result indicates that the estimated equation is statistically significant, implying that the variables in the model are capable of collectively explaining the variations in CSR value added. The fitness statistic indicates that about 61% of the variation in CSR value added can be explained by the OLS estimates. The usual diagnostic tests did not indicate any problems with the estimates.

Table 5.6 shows the estimates for the independent variable and their levels of significance. As shown in the table, three CG mechanism variables, board size, managerial ownership and public ownership, had significant impacts on CSR value added at the 1% level, while the remaining CG variable was statistically insignificant. The finding for board size supports the proposed hypothesis that there is a negative impact of board size on CSR value added (H_{1D}). This finding confirms the previous work of Cheng (2008). With respect to the hypothesis that there is a positive impact of independent directors on CSR value added, the expected sign of the variable coefficient was in contrast to that posited in the hypothesis and thus H_{2D} is not supported. The finding is not supported by previous Indonesian studies (e.g. Badjuri 2011).

Similarly, the negative coefficient sign of the public ownership variable was in contrast to that posited in the hypothesis and thus H_{4D} is not supported. The finding is consistent with the work of Dam and Scholtens (2012). Furthermore, the explanation for these results is discussed in Section 5.5.1. With respect to the control variables, firm size had a positive impact on CSR value added at the 1% level, while the type of industry was statistically insignificant. A positive relationship between firm size and CSR is confirmed by Said, Zainuddin and Haron (2009), Husted and Allen (2006), Ghazali (2007), Haniffa and Cooke (2005) and Gray et al. (2001).

Table 5. 7 OLS Estimates for CSR Disclosure Index

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-4.425873***	0.753327	-5.875105	0.0000
Log Board Size (LBS_t)	0.197887***	0.083895	2.358748	0.0188
Log Independent Director (LID_t)	-0.007908	0.072204	-0.109526	0.9128
Log Managerial Ownership (LMO_t)	-0.014927	0.013379	-1.115748	0.2651
Log Public Ownership(LPO_t)	-0.021944	0.021163	-1.036920	0.3003
Log Firm Size (LFS_t)	1.325143***	0.268570	4.934064	0.0000
Log Type of Industry (LTI_t)	-0.198110***	0.049494	-4.002714	0.0001

Dependent Variable: Log CSR Disclosure Index (LCDI)
F-statistic = 13.40779; *p*-value < 0.01; Adj. R^2 = 0.142224; Jarque-Bera statistic = 1279.989 and Prob (JB) = 0.00000; White test statistic = 6033.5055.
*** is significant at the 0.01 level.

Based on Table 5.7, the OLS estimates in the logarithmic transformation of the relationships between CG mechanisms and the dependent variable, CSR disclosure index are:

$$LCDI_t = -4.426^{***} + 0.198\ LBS_t{}^{***} - 0.008\ LID_t - 0.015\ LMO_t - 0.022\ LPO_t + 1.325\ LFS_t{}^{***} - 0.198\ LTI_t{}^{***}$$

This is expressed in the original form as:

$$CDI_t = -4.426^{***}\ BS_t^{\,0.198\ ***}\ ID_t^{\,-0.008}\ MO_t^{\,-0.015}\ PO_t^{\,-0.022}\ FS_t^{\,1.325\ ***}\ TI_t^{\,-0.198 ***}$$

This result indicates that the estimated equation is statistically significant, implying that the variables in the model are capable of collectively explaining the variations in the CSR disclosure index. The fitness statistic indicates that about 14% of the variation in the CSR disclosure index can be explained by the OLS estimates. The usual diagnostic tests did not indicate any problems with the estimates.

Table 5.7 shows the estimates for the independent variable and their levels of significance. As shown in the table, the CG mechanisms, only board size had a significant impact on CSR disclosure index at the 1% level. The remaining CG mechanisms were statistically insignificant. With respect to the proposed hypothesis that there is a negative impact of board size on CSR disclosure index, the sign of the coefficient variable was in contrast to that posited in the hypothesis and thus H_{1E} is not supported. The finding supports those in previous studies of Frias-Aceituno, Rodriguez-Ariza and Garcia-Sanchez (2013) and Esa and Anum Mohd Ghazali (2012). The explanation for these results is discussed in Section 5.5.1.

Both control variables used in this study, firm size and type of industry, had significant impacts on the CSR disclosure index at the 1% level. The important role of firm size and type of industry on CSR disclosure has been discussed in various studies in developed and developing countries (Chand and Fraser 2006; Gallo and Christensen 2011; Gray et al. 2001; Haniffa and Cooke 2005; Reverte 2009; Said, Zainuddin and Haron 2009).

Table 5. 3 Summary of Hypotheses Tests for the OLS Estimates of the Relationship between CG Mechanisms and CSR

	MS		CPH		ETO		CVA		CDI	
BS	**PI**	H_{1A} is ***not supported***	**PI**	H_{1B} is ***not supported***	**PI**	H_{1C} is ***not supported***	**NS**	H_{1D} is ***supported***	**PS**	H_{1E} is ***not supported***
ID	**PI**	H_{2A} is ***not supported***	**PI**	H_{2B} is ***not supported***	**PI**	H_{2C} is ***not supported***	**NS**	H_{2D} is ***not supported***	**NI**	H_{2E} is ***not supported***
MO	**PI**	H_{3A} is ***not supported***	**NI**	H_{3B} is ***not supported***	**NS**	H_{3C} is ***supported***	**PI**	H_{3D} is ***not supported***	**NI**	H_{3E} is ***not supported***
PO	**NI**	H_{4A} is ***not supported***	**NS**	H_{4B} is ***not supported***	**PI**	H_{4C} is ***not supported***	**NS**	H_{4D} is ***not supported***	**NI**	H_{4E} is ***not supported***
Control Variables										
FS	**PS**		**PS**		**PI**		**PS**		**PS**	
TI	**NS**		**PI**		**PS**		**PI**		**NS**	

Note: MS = Market share; **CPH** = Cost per hire; **ETO** = Employee turnover; **CVA** = CSR value added; **CDI** = CSR Disclosure Index; **BS** = Board size; **ID** = Independent board of director; **MO** = Managerial ownership; **PO** = Public ownership; **FS** = Firm size; **TI** = Type of industry; **PS** = Positive and significant; **NS** = Negative and significant; **PI** = Positive and insignificant; **NI** = Negative and insignificant.

As demonstrated in Table 5. 8 above, the results for the OLS estimates in Tables 5. 3 to 5.7 point to different directions regarding the relationships between CG mechanisms and CSR. Each variable of the CG mechanisms had a different impact on CSR, depending on the CSR measure employed (i.e., accounting or non-accounting). This study found that board size had a significant positive impact on CSR disclosure index (non-accounting proxy), while it had a significant negative impact for CSR value added (accounting proxy), and hypothesis H_{1D} therefore was supported. Furthermore, management ownership had a significant negative impact on employee turnover, which supports hypothesis $H_{3C.}$ For the control variables, firm size had a significant impact on four proxies of CSR (e.g., market share, cost per hire, CSR value added, and CSR disclosure index), while type of industry had a significant impact on three proxies of CSR (e.g., market share, employee turnover and CSR disclosure index). Based on the OLS estimates, only two hypotheses were supported: first, for hypothesis H_{1D}, there was a significant negative impact of board size on CSR value added; and second, for hypothesis H_{3C}, there was a significant negative impact of managerial ownership on employee turnover. The remaining 18 hypotheses regarding the relationships between CG mechanisms and CSR were not supported.

5.4.2 Results of OLS Estimates for Relationships between CG Mechanisms, CSR and Information Quality, and their Relationship Impacts on Firm Value

The results of the three OLS estimates of relationships between CG mechanisms, CSR and information quality, and their impacts on firm value were assessed using the Cobb-Douglas functional form, with all variables being transformed into their natural logs. These results are presented in Tables 5.9 to 5.11, and are discussed below. The OLS functions were estimated by the following dependent variables: (i) Return on assets (ROA); (ii) Return on sales (ROS); and (iii) Tobin's Q (TQ). The results show that the F-values for all the OLS estimates are significant at the 0.01 level, and the adjusted R-square ranges between 0.230 and 0.453.

Table 5.9 shows the results of the OLS translog linear estimates for the relationships between CG mechanisms, CSR and information quality, and their impacts on the dependent variable ROA.

Table 5. 9 OLS Estimates for Return on Assets (ROA)

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	11.70244***	2.035210	5.749989	0.0000
Log Board Size (LBS_t)	-0.229375	0.170225	-1.347481	0.1785
Log Independent Director (LID_t)	0.401491***	0.146448	2.741532	0.0064
Log Managerial Ownership (LMO_t)	-0.045015	0.027343	-1.646324	0.1004
Log Public Ownership (LPO_t)	-0.021879	0.044261	-0.494314	0.6213
Log Market Share (LMS_t)	-0.047756	0.106139	-0.449937	0.6530
Log Cost Per Hire ($LCPH_t$)	0.361509***	0.044482	8.127123	0.0000
Log Employee Turnover ($LETO_t$)	0.008830	0.045888	0.192421	0.8475
Log CSR Value Added ($LCVA_t$)	0.121423***	0.050585	2.400363	0.0168
Log CSR Disclosure Index ($LCDI_t$)	0.354101***	0.094662	3.740706	0.0002
Log Forecast Dispersion (LFD_t)	-0.312598***	0.032077	-9.745382	0.0000
Log Forecast Error (LFE_t)	0.114382***	0.030924	3.698763	0.0002
Log Firm Size (LFS_t)	-6.761504***	0.849298	-7.961286	0.0000
Log Type of Industry (LTI_t)	-0.644321***	0.106065	-6.074778	0.0000

Dependent Variable: Log Return on Asset (LROA)
F-statistic = 29.6062; *p*-value < 0.01; Adj. R^2 = 0.453027; Jarque-Bera statistic = 28.2897 and Prob (JB) = 0.0000; White test statistic = 203.8622.
*** is significant at the 0.01 level.

Based on Table 5.9, the OLS estimates in the logarithmic transformation for relationships between CG mechanisms, CSR and information quality and the impact of this relationship on the dependent variable ROA are:

$$LROA_t = 11.702^{***} - 0.229\ LBS_t + 0.401\ LID_t^{***} - 0.045\ LMO_t - 0.022\ LPO_t - 0.048\ LMS_t + 0.362\ LCPH_t^{***} + 0.009\ LETO_t + 0.121\ LCVA_t^{***} + 0.354\ LCDI_t^{***} - 0.313\ LFD_t^{***} + 0.114\ LFE_t^{***} - 6.762\ LFS_t^{***} - 0.644\ LTI_t^{***}$$

This is expressed in the original form as:

$$ROA_t = 11.702^{***}\ BS_t^{-0.229}\ ID_t^{0.401}{}^{***}\ MO_t^{-0.045}\ PO_t^{-0.022}\ MS_t^{0.048}\ CPH_t^{0.362}{}^{***}\ ETO_t^{0.009}\ CVA_t^{0.121}{}^{***}\ CDI_t^{0.354}{}^{***}\ FD_t^{0.313}{}^{***}\ FE_t^{0.114}{}^{***}\ FS_t^{-6.762}{}^{***}\ TI_t^{-0.644}{}^{***}$$

This result indicates that the estimated equation is statistically significant, implying that the variables in the model are capable of collectively explaining the variations in ROA. The fitness statistic indicates that about 45% of the variation in ROA can be explained by the OLS estimates. The usual diagnostic tests did not indicate any problems with the estimates.

Table 5.9 shows the estimates for the independent variables and their levels of significance. As shown in the table, among the CG mechanism variables, only independent director had a statistically significant impact on ROA at the 1% level, which supports the proposed hypothesis that an independent director has a positive impact on ROA (H_{7B}). This finding confirms the earlier works of Chiang and Lin (2011) and Sahin, Basfirinci and Ozsalih (2011).

Three CSR variables, cost per hire, CSR value added and CSR disclosure index, had statistically significant impacts on ROA at the 1% level. The results also support the three proposed hypotheses: (i) there is a positive impact of cost per hire on ROA (H_{7F}); (ii) there is a positive impact of CSR value added on ROA (H_{7H}); and (iii) there is a positive impact of CSR disclosure index on ROA (H_{7I}). Overall, the findings suggest that there are aspects of CSR engagement which can be profitable and beneficial for Indonesian firms (as measured by ROA), which is widely supported by Jo and Harjoto (2012), Harjoto and Jo (2011), Guenster et al. (2011), Saleh, Zulkifli and Muhamad (2010), Simpson and Kohers (2002) and Waddock and Graves (1997).

Both of the information quality variables, forecast dispersion and forecast error, had significant impacts on ROA at the 1% level. The coefficient variable of forecast dispersion supports the proposed hypothesis there is a negative impact of forecast dispersion on ROA (H_{7J}). This finding is consistent with Gaspar and Massa (2006). With respect to the hypothesis that there is a negative impact of forecast error on ROA, the sign of the coefficient variable was in contrast to that posited in the hypothesis and thus H_{7K} is not supported. The finding are those of confirmed by Casey and Grenier (2014) and Dhaliwal et al. (2012). The explanation of these results is further discussed in Section 5.5.2. Furthermore, the control variables, firm size and type of industry, had significant impacts on ROA at the 1% level. The finding is supported by the works of Jo and Harjoto (2012) and Harjoto and Jo (2011).

Table 5. 4 OLS Estimates for Return on Sales (ROS)

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-10.59994***	2.260282	-4.689655	0.0000
Log Board Size (LBS_t)	-0.228870	0.189050	-1.210630	0.2267
Log Independent Director (LID_t)	0.515265***	0.162643	3.168070	0.0016
Log Managerial Ownership (LMO_t)	-0.023960	0.030366	-0.789018	0.4305
Log Public Ownership (LPO_t)	0.108864**	0.049156	2.214674	0.0273
Log Market Share (LMS_t)	-0.518492***	0.117877	-4.398575	0.0000
Log Cost Per Hire ($LCPH_t$)	0.153051***	0.049401	3.098139	0.0021
Log Employee Turnover ($LETO_t$)	0.036099	0.050962	0.708341	0.4791
Log CSR Value Added ($LCVA_t$)	-0.229130***	0.056179	-4.078555	0.0001
Log CSR Disclosure Index ($LCDI_t$)	0.370624***	0.105130	3.525386	0.0005
Log Forecast Dispersion (LFD_t)	-0.251127***	0.035624	-7.049417	0.0000
Log Forecast Error (LFE_t)	0.058835*	0.034344	1.713081	0.0874
Log Firm Size (LFS_t)	4.008626***	0.943221	4.249932	0.0000
Log Type of Industry (LTI_t)	-0.276919***	0.117795	-2.350866	0.0192

Dependent Variable: Log Return on Sales (LROS)
F-statistic = 13.61160; p-value < 0.01; Adj. R^2 = 0.267478; Jarque-Bera statistic = 23.7793 and Prob (JB) = 0.0000; White test statistic = 120.3651.
*** is significant at the 0.01 level; ** is significant at the 0.05 level; * is significant at the 0.10 level.

Based on Table 5.10, the OLS estimates on the logarithmic transformation for the relationship between CG mechanisms, CSR and information quality and the impact of this relationship on the dependent variable ROS, are presented as:

$$\begin{gathered} LROS_t = -10.599^{***} - 0.229\ LBS_t + 0.515\ LID_t^{***} - 0.024\ LMO_t + 0.109\ LPO_t^{**} \\ -0.518\ LMS_t^{***} + 0.153\ LCPH_t^{***} + 0.036\ LETO_t - 0.229\ LCVA_t^{***} \\ +0.371\ LCDI_t^{***} - 0.251\ LFD_t^{***} + 0.059\ LFE_t^{*} + 4.009\ LFS_t^{***} - 0.277\ LTI_t^{***} \end{gathered}$$

It can be expressed in the original form as:

$$ROS_t = -10.599^{***}\, BS_t^{-0.229}\, ID_t^{0.515\,***}\, MO_t^{-0.024}\, PO_t^{0.109**}\, MS_t^{-0.518***}\, CPH_t^{0.153***}\, ETO_t^{0.036}\, CVA_t^{-0.229***}\, CDI_t^{0.371\,***}\, FD_t^{-0.251***}\, FE_t^{0.059*}\, FS_t^{4.009***}\, TI_t^{-0.277***}$$

This result indicates that the estimated equation is statistically significant, implying that the variables in the model are capable of collectively explaining the variations in ROS. The fitness statistic indicates that about 27% of the variation in ROS can be explained by the OLS estimates. The usual diagnostic tests did not indicate any problems with the estimates.

Table 5.10 shows the estimates on the independent variables and their levels of significance. As shown in the table, of the CG mechanism variables, independent directors had a significant impact on ROS at the 1% level and public ownership had a significant impact on ROS at the 5% level. The former finding supports the proposed hypothesis that independent directors have a positive impact on ROS (H_{8B}). This result is consistent with the work of Fich and Shivdasani (2005) and Johnson and Greening (1999). Similarly, the latter finding for public ownership supports the proposed hypothesis that there is a positive impact of public ownership on ROS (H_{8D}), which confirms the works of Backx, Carney and Gedajlovic (2002) and Wei, Varela and Hassan (2002), who documented that public ownership can impact on a firm's growth and profitability.

Two CSR variables, cost per hire and CSR disclosure index, had significant impacts on ROS at the 1% level, which supports the proposed hypothesis that there is a positive impact of cost per hire on ROS (H_{8F}). Similarly, the finding for the CSR disclosure index supports the proposed hypothesis that CSR disclosure index has a positive impact on ROS (H_{8I}). This finding confirms the earlier work of Waddock and Graves (1997). Other CSR variables, market share and CSR value added, had significant impacts on ROS at the 1% level. However, both variables produced negative coefficient values which were in contrast to that posited in hypotheses H_{8E} and $H_{8H.}$ Consequently, these hypotheses are not supported.

The two variables representing information quality, forecast dispersion and forecast error, had a significant impact on ROS at the 1% level and 10% level respectively. The former finding supports the proposed hypothesis that there is a negative impact of forecast dispersion on ROS (H_{8J}). With respect to the hypothesis that there is a negative impact of forecast error on ROS, the positive coefficient value is in contrast to that posited in hypothesis and thus H_{8K} is not supported. The control variables, firm size and type of industry, had significant impacts on ROS at the 1% level. This result is further discussed in Section 5.5.2. The significant relationship between firm size and type of industry on ROS is supported by Waddock and Graves (1997).

Table 5. 11 OLS Estimates for Tobin's Q

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	3.319173	2.733729	1.214156	0.2253
Log Board Size (LBS_t)	-0.109924	0.228649	-0.480753	0.6309
Log Independent Director (LID_t)	0.114581	0.196711	0.582483	0.5605
Log Managerial Ownership (LMO_t)	0.038974	0.036727	1.061185	0.2892
Log Public Ownership (LPO_t)	-0.141928***	0.059452	-2.387272	0.0174
Log Market Share (LMS_t)	0.122012	0.142568	0.855813	0.3926
Log Cost Per Hire ($LCPH_t$)	0.101516*	0.059749	1.699041	0.0900
Log Employee Turnover ($LETO_t$)	0.084758	0.061637	1.375112	0.1698
Log CSR Value Added ($LCVA_t$)	0.156768**	0.067947	2.307214	0.0215
Log CSR Disclosure Index ($LCDI_t$)	0.055814	0.127151	0.438956	0.6609
Log Forecast Dispersion (LFD_t)	-0.171609***	0.043086	-3.982960	0.0001
Log Forecast Error (LFE_t)	-0.267079***	0.041538	-6.429714	0.0000
Log Firm Size (LFS_t)	-2.489260**	1.140792	-2.182045	0.0296
Log Type of Industry (LTI_t)	-0.795989***	0.142468	-5.587129	0.0000

Dependent Variable: Log Tobin's Q (LTQ)
F-statistic = 11.30358; p-value < 0.01; Adj. R^2 = 0.229775; Jarque-Bera statistic = 75.0727 and Prob (JB) = 0.0000; White test statistic = 103.3988.
*** is significant at the 0.01 level; ** is significant at the 0.05 level; * is significant at the 0.10 level.

Based on Table 5.11, the OLS estimates in the logarithmic transformations for the relationship between CG mechanisms, CSR and information quality, and the impact of this relationship on the dependent variable Tobin's Q, are:

$$LTQ_t = 3.319 - 0.110\ LBS_t + 0.115\ LID_t + 0.039\ LMO_t - 0.142\ LPO_t^{***} + 0.122\ LMS_t + 0.102\ LCPH_t^{*} + 0.085\ LETO_t + 0.157\ LCVA_t^{**} + 0.056\ LCDI_t - 0.172\ LFD_t^{***} - 0.267\ LFE_t^{***} - 2.489\ LFS_t^{**} - 0.796 LTI_t^{***}$$

This is expressed in the original form as:

$$TQ_t = 3.319\, BS_t^{-0.110}\, ID_t^{0.115}\, MO_t^{0.039}\, PO_t^{-0.142***}\, MS_t^{0.122}\, CPH_t^{0.102*}\, ETO_t^{0.085}\, CVA_t^{0.157**}\, CDI_t^{0.056}\, FD_t^{-0.172***}\, FE_t^{-0.267***}\, FS_t^{-2.489**}\, TI_t^{-0.796***}$$

This result indicates that the estimated equation is statistically significant, implying that the variables in the model are capable of collectively explaining the variations in Tobin's Q. The fitness statistic indicates that about 23% of the variation in Tobin's Q can be explained by the OLS estimates. The usual diagnostic tests did not indicate any problems with the estimates.

Table 5.11 shows the estimates for the independent variable and their levels of significance. As shown in the table, among the CG mechanism variables, only public ownership had a significant impact on Tobin's Q at the 1% level. However, with respect to the hypothesis that there is a positive impact of public ownership on Tobin's Q, the negative coefficient value was in contrast to that posited in hypothesis and thus H_{9D} is not supported. With respect to CSR, the variable CSR value added had a significant impact on Tobin's Q at the 5% level while the cost per hire variable had a significant impact on Tobin's Q at the 10% level. The coefficient variables support the two proposed hypotheses: (i) there is a positive impact of cost per hire on Tobin's Q (H_{9F}); and (ii) there is a positive impact of CSR value added on Tobin's Q (H_{9H}). The positive relationship between CSR and Tobin's Q is consistent with the previous studies of Jo and Harjoto (2011, 2012), Choi, Kwak and Choe (2010) and Luo and Bhattacharya (2006).

The two information quality variables, forecast dispersion and forecast error, both had significant impact on Tobin's Q at the 1% level. The coefficient variables support the two proposed hypotheses: (i) there is a negative impact of forecast dispersion on Tobin's Q (H_{9J}); and (ii) there is a negative impact of forecast error on Tobin's Q (H_{9K}). This finding is supported by Harjoto and Jo (2015). With respect to the two control variables, firm size had a significant impact on Tobin's Q at the 5% level, while type of industry had a significant impact on Tobin's Q at the 1% level. This finding is consistent with the previous works of Jo and Harjoto (2012) and Harjoto and Jo (2011). This result is further discussed in Section 5.5.2

Table 5.12 Summaries of Hypotheses Tests for the OLS Estimates of the Relationships between CG Mechanisms, CSR and Information Quality, and their Relationship Impacts on Firm Value

	ROA		ROS		TQ	
BS	**NI**	H_{7A} is ***not supported***	**NI**	H_{8A} is ***not supported***	**NI**	H_{9A} is ***not supported***
ID	**PS**	H_{7B} is ***supported***	**PS**	H_{8B} is ***supported***	**PI**	H_{9B} is ***not supported***
MO	**NI**	H_{7C} is ***not supported***	**NI**	H_{8C} is ***not supported***	**PI**	H_{9C} is ***not supported***
PO	**NI**	H_{7D} is ***not supported***	**PS**	H_{8D} is ***supported***	**NS**	H_{9D} is ***not supported***
MS	**NI**	H_{7E} is ***not supported***	**NS**	H_{8E} is ***not supported***	**PI**	H_{9E} is ***not supported***
CPH	**PS**	H_{7F} is ***supported***	**NS**	H_{8F} is ***supported***	**PS**	H_{9F} is ***supported***
ETO	**PI**	H_{7G} is ***not supported***	**PI**	H_{8G} is ***not supported***	**PI**	H_{9G} is ***not supported***
CVA	**PS**	H_{7H} is ***supported***	**NS**	H_{8H} is ***not supported***	**PS**	H_{9H} is ***supported***
CDI	**PS**	H_{7I} is ***supported***	**PS**	H_{8I} is ***supported***	**PI**	H_{9I} is ***not supported***
FD	**NS**	H_{7J} is ***supported***	**NS**	H_{8J} is ***supported***	**NS**	H_{9J} is ***supported***
FE	**PS**	H_{7K} is ***not supported***	**PS**	H_{8K} is ***not supported***	**NS**	H_{9K} is ***supported***
Control Variables						
FS	**NS**		**PS**		**NS**	
TI	**NS**		**NS**		**NS**	

Note: MS = Market share; **CPH** = Cost per hire; **ETO** = Employee turnover; **CVA** = CSR value added; **CDI** = CSR disclosure index; **BS** = Board size; **ID** = Independent board of directors; **MO** = Managerial ownership; **PO** = Public ownership; **CV =** Control variable**; FS** = Firm size; **TI** = Type of industry; **FD =** Forecast dispersion; **FE =** Forecast error; **ROA** = Return on assets; **ROS** = Return on sales; **TQ** = Tobin's Q; **PS** = Positive and significant; **NS** = Negative and significant; **PI** = Positive and insignificant; **NI** = Negative and insignificant.

As demonstrated in Table 5. 12 above, the results of the OLS estimates in Tables 5. 9 to 5. 11 point to different directions regarding relationship between CG mechanisms, CSR, information quality and their impact on firm value. With respect to the CG mechanism variables, independent directors had a significant positive impact on firm value of accounting-based measures (i.e., ROA and ROS), which supports hypotheses H_{7B} and $H_{8B.}$ The variable, public ownership, had a significant positive impact on ROS, which supports hypothesis H_{8D}. For the CSR variables, cost per hire had a significant positive impact on all proxies of firm value, which meant that the three hypotheses of $H_{7F,}$ H_{8F} and H_{9F} were supported. In addition, the CSR value added variable had significant positive impacts on ROA and Tobin's Q, but a significant negative impact on ROS. Consequently, hypotheses H_{7H} and H_{9H} were supported, while H_{8H} was not. With respect to the CSR disclosure index variable, there was a significant positive impact on firm value as measured by ROA and ROS, but an insignificant impact on Tobin's Q. Therefore, hypotheses H_{7I} and H_{8I} were supported, while H_{9I} was not. For the variables comprising information quality, forecast dispersion had a significant negative impact on all firm value proxies, while forecast error had a significant positive impact on the accounting-based measures of firm value (i.e., ROA and ROS), but a significant negative impact on the market-based measure (i.e., Tobin's Q). Thus, four hypotheses H_{7J}, H_{8J}, H_{9J} and H_{9K}, were supported, while two hypotheses H_{7K} and H_{8K} were not supported. Both of the control variables, firm size and type of industry, had significant impacts on all proxies of firm value.

5.4.3 Results of 2SLS Estimates for the Relationship between CG Mechanisms and CSR

This section presents the results for the relationship between CG mechanisms and CSR, using accounting and non-accounting proxies and employing the technique of 2SLS estimates. This study adopts the translog linear function (or Cobb-Douglas function), with all variables being transformed into their natural logs. Five equations were estimated, one for the log transformation of each of the following dependent variables: CSR Disclosure Index (CDI); Market Share (MS); Cost Per Hire (CPH); Employee Turnover (ETO); and CSR Value Added (CVA). The F-values for all the 2SLS estimates are significant at the 0.01 level. The adjusted R-square ranges from 0.089 to 0.430.

Table 5. 13 Two SLS Estimates for Market Share

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-9.351905***	1.211695	-7.718032	0.0000
Log Board Size (LBS_t)	0.365091	0.380851	0.958618	0.3383
Log Firm Size (LFS_t)	3.038036***	0.501752	6.054858	0.0000
Log Type of Industry (LTI_t)	-0.112126**	0.055601	-2.016633	0.0443

Dependent Variable: Log Market Share (LMS)
F-statistic = 75.64277; p-value < 0.01; Adj. R^2 = 0.310923; Jarque-Bera statistic= 278.0230 and Prob (JB) = 0.0000; White test statistic = 139.9154.
*** is significant at the 0.001 level; ** is significant at the 0.05 level.

Based on Table 5.13, the 2SLS estimates in the logarithmic transformation for the relationship between CG mechanisms and the dependent variable market share are:

$$LMS_t = -9.352^{***} + 0.365\ LBS_t + 3.038\ LFS_t^{***} - 0.112\ LTI_t^{**}$$

This is expressed in the original form as:

$$MS_t = -9.352^{***}\ BS_t^{\,0.365}\ FS_t^{\,3.038***}\ TI_t^{\,-0.112**}$$

The results indicate that the estimated equation is statistically significant, implying that the variables in the model are capable of collectively explaining the variations in market share. The fitness statistic indicates that about 31% of the variation in market share can be explained by the 2SLS estimates. The usual diagnostic tests did not indicate any problems with the estimates.

Table 5.13 shows the estimates for the independent variable and their levels of significance. As shown in the table, the CG mechanism variable, board size, had a statistically insignificant impact on market share. Other studies that found a statistically insignificant relationship between board size and CSR are those are Kiliç, Kuzey and Uyar (2015), Sufian and Zahan (2013), Cheng and Courtenay (2006) and Halme and Huse (1997). Furthermore, the control variables, firm size and type of industry, had a significant impact on market share at the 1% level and 5% level respectively. The finding is supported by the previous studies of Bayoud, Kavanagh and Slaughter (2012), Melo and Garrido-Morgado (2012), Gallo and Christensen (2011), Dwyer et al. (2009), Reverte (2009) and Barako, Hancock and Izan (2006). This result is further discussed in Section 5.5.3.

Table 5. 14 Two SLS Estimates for Cost Per Hire

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	***p*-value**
Constant	-24.35628***	2.809620	-8.668889	0.0000
Log Public Ownership (LPO_t)	-0.501693*	0.266500	-1.882527	0.0604
Log Firm Size (LFS_t)	12.41283***	0.910076	13.63933	0.0000
Log Type of Industry (LTI_t)	0.242049**	0.126378	1.915276	0.0561

Dependent Variable: Log Cost Per Hire (LCPH)
F-statistic = 114.0329; p-value < 0.01; Adj. R^2 = 0.429620; Jarque-Bera statistic = 5.8278 and Prob (JB) = 0.0542; White test statistic = 193.3290.
*** is significant at the 0.001 level; ** is significant at the 0.005 level; * is significant at the 0.10 level.

Based on Table 5.14, the 2SLS estimates display the logarithmic transformation for the relationship between CG mechanisms and the dependent variable cost per hire as:

$$LCPH_t = -24.356^{***} - 0.502\, LPO_t^{\,*} + 12.413\, LFS_t^{\,***} + 0.242\, LTI_t^{\,**}$$

This is expressed in the original form as:

$$CPH_t = -24.356^{***}\, PO_t^{\,-0.502*}\, FS_t^{\,12.413***}\, TI_t^{\,0.242**}$$

The results indicate that the estimated equation is statistically significant, implying that the variables in the model are capable of collectively explaining the variations in cost per hire. The fitness statistic indicates that about 43% of the variation in cost per hire can be explained by the 2SLS estimates. The usual diagnostic tests did not indicate any problems with the estimates.

Table 5.14 shows the estimates for the independent variable and their levels of significance. As shown in the table, the variable of CG mechanisms, public ownership, had a significant impact on cost per hire at the 10% level. However, the proposed hypothesis (H_{6A}) of a positive impact of public ownership on cost per hire is not supported by the results. This result is consistent with the work of Dam and Scholtens (2012). The finding is further discussed in Section 5.5.3. The control variables, firm size and type of industry, had a significant impact on cost per hire at the 1% level and 5% level respectively. This result is consistent with the works of Bayoud, Kavanagh and Slaughter (2012), Melo and Garrido-Morgado (2012), Gallo and Christensen (2011), Dwyer et al. (2009), Reverte (2009) and Barako, Hancock and Izan (2006).

Table 5. 15 Two SLS Estimates for Employee Turnover

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-8.099232***	2.406697	-3.365289	0.0008
Log Board Size (LBS_t)	-0.215794	0.756455	-0.285270	0.7756
Log Firm Size (LFS_t)	1.378909	0.996591	1.383626	0.1672
Log Type of Industry (LTI_t)	0.678212***	0.110435	6.141262	0.0000

Dependent Variable: Log Employee Turnover (LETO)
F-statistic = 17.05204; *p*-value < 0.01; Adj. $R^2 = 0.089085$; Jarque-Bera statistic= 23.3870 and Prob (JB) =0.0000; White test statistic = 40.0883.
*** is significant at the 0.001 level.

Based on Table 5.15, the 2SLS estimates in the logarithmic transformation for the relationship between CG mechanisms and the dependent variable employee turnover, are presented below:

$$LETO_t = -8.099^{***} - 0.216\ LBS_t + 1.379\ LFS_t + 0.678\ LTI_t^{***}$$

This can be expressed in the original form as:

$$ETO_t = -8.099^{***}\ BS_t^{-0.216}\ FS_t^{1.379}\ TI_t^{0.678***}$$

The results indicated that the estimated equation is statistically significant, implying that the variables in the model are capable of collectively explaining the variations in employee turnover. The fitness statistic indicates that about 9% of the variation in employee turnover can be explained by the 2SLS estimates. The usual diagnostic tests did not indicate any problems with the estimates.

Table 5.15 shows the estimates for the independent variable and their levels of significance. As shown in the table, the CG mechanism, board size, had a statistical insignificant impact on employee turnover. This study also included control variables. The results demonstrated that type of industry had a significant impact on employee turnover at the 1% level, while firm size was statistically insignificant. A significant relationship between type of industry and CSR are found other studies by Melo and Garrido-Morgado (2012), Gallo and Christensen (2011), Godfrey, Merrill and Hansen (2009) and Reverte (2009). These results are further discussed in Section 5.5.3.

Table 5. 16 Two SLS Estimates for CSR Value Added

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-19.85304***	3.314623	-5.989530	0.0000
Log Public Ownership (LPO_t)	0.567735*	0.314401	1.805768	0.0716
Log Firm Size (LFS_t)	12.96910***	1.073654	12.07941	0.0000
Log Type of Industry (LTI_t)	-0.117063	0.149093	-0.785168	0.4328

Dependent Variable: Log CSR Value Added (LCVA)
F-statistic = 208.6237; *p*-value < 0.01; Adj. R^2 = 0.373202; Jarque-Bera statistic = 9.2400 and Prob (JB) = 0.0099; White test statistic = 167.9409.
*** is significant at the 0.001 level; * is significant at the 0.10 level.

Based on Table 5.16, the 2SLS estimates in the logarithmic transformation for the relationship between CG mechanisms and the dependent variable CSR value added is:

$$LCVA_t = -19.853^{***} + 0.568\ LPO_t^{\ *} + 12.969\ LFS_t^{\ ***} - 0.117\ LTI_t$$

This is expressed in the original form as:

$$CVA_t = -19.853^{***}\ BS_t^{\ 0.568*}\ FS_t^{\ 12.969***}\ TI_t^{\ -0.117}$$

The results indicated that the estimated equation is statistically significant, implying that the variables in the model are capable of collectively explaining the variations in CSR value added. The fitness statistic indicates that about 37% of the variation in CSR value added can be explained by the 2SLS estimates. The usual diagnostic tests did not indicate any problems with the estimates.

Table 5.16 shows the estimates for the independent variable and their levels of significance. As shown in the table, the CG mechanism variable public ownership had a statistically significant impact on CSR value added at the 10% level. The coefficient variable supports the proposed hypothesis that there is a positive impact of public ownership on CSR value added (H_{6B}). This study also included control variables. The results demonstrated that firm size had a significant impact on CSR value added at the 1% level, while the variable type of industry was statistically insignificant. The positive impact of firm size on CSR practices has been demonstrated by Trencansky and Tsaparlidis (2014), Bayoud, Kavanagh and Slaughter (2012), Dwyer et al. (2009), Barako, Hancock and Izan (2006) and Perrini (2006). This result is further discussed in Section 5.5.3.

Table 5. 17 Two SLS Estimates for CSR Disclosure Index

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-3.390766***	1.163878	-2.913334	0.0038
Log Board Size (LBS_t)	0.513804	0.365821	1.404522	0.1609
Log Firm Size (LFS_t)	0.926033**	0.481951	1.921425	0.0553
Log Type of Industry (LTI_t)	-0.181569***	0.053406	-3.399752	0.0007

Dependent Variable: Log CSR Disclosure Index (LCDI)
F-statistic = 24.17914; p-value < 0.01; Adj. R^2 = 0.117531; Jarque-Bera statistic = 1050.119 and Prob (JB) = 0.0000; White test statistic = 52.8890.
*** is significant at the 0.001 level; ** is significant at the 0.05 level.

Based on Table 5.17, the 2SLS estimates in the logarithmic transformation for the relationship between CG mechanisms and CSR disclosure index are:

$$LCDI_t = -3.391^{***} + 0.514\ LBS_t + 0.926\ LFS_t^{**} - 0.182\ LTI_t^{***}$$

This is expressed in the original form as:

$$CDI_t = -3.391^{***}\ BS_t^{0.514}\ FS_t^{0.926**}\ TI_t^{-0.182***}$$

The results indicated that the estimated equation is statistically significant, implying that the variables in the model are capable of collectively explaining the variations in CSR disclosure index. The fitness statistic indicates that about 12% of the variation in CSR disclosure index can be explained by the 2SLS estimates. The usual diagnostic tests did not indicate any problems with the estimates.

Table 5.17 shows the estimates on the independent variable and their levels of significance. As shown in the table, the CG mechanism variable board size had statistical insignificant impacts on CSR disclosure index. The study also included control variables. The result demonstrated that firm size had a significant impact on CSR disclosure index at the 5% level, and type of industry had a significant impact on CSR disclosure index at the 1% level. This result is consistent with the works of Trencansky and Tsaparlidis (2014), Bayoud, Kavanagh and Slaughter (2012), Melo and

Garrido-Morgado (2012), Gallo and Christensen (2011), Dwyer et al. (2009), Reverte (2009) and Barako, Hancock and Izan (2006).

Table 5. 18 Summary of Hypotheses Tests for the 2SLS Estimates of the Relationship between CG Mechanisms and CSR

	MS	CPH	ETO	CVA	CDI
BS	**PI** H_{5A} is ***not supported***		**PI** H_{5B} is ***not supported***		**PI** H_{5C} is ***not supported***
PO		**NS** H_{6A} is ***not supported***		**PS** H_{6B} is ***supported***	
Control Variables					
FS	**PS**	**PS**	**PI**	**PS**	**PS**
TI	**NS**	**PS**	**PS**	**NI**	**NS**

Note: **MS** = Market share; **CPH** = Cost per hire; **ETO** = Employee turnover; **CVA** = CSR value added; **CDI** = CSR disclosure index; **BS**= Board size; **PO**= Public ownership; **FS** = Firm size; **TI** = Type of industry; **PS** =Positive and significant; **NS** = Negative and significant; **PI** = Positive and insignificant; **NI** = Negative and insignificant.

As demonstrated in Table 5.18 above, the result of the 2SLS estimates in Tables 5.13 to 5.17 demonstrated that among the CG mechanism variables, only public ownership had a significant impact on CSR value added, which supports hypothesis H_{6B}. The remaining four hypotheses regarding the relationships between CG mechanisms and CSR were not supported (i.e., H_{5A}, $H_{6A,}$ $H_{5B,}$ and H_{5C}). With respect to the control variables, firm size had a significant impact on four of the five proxies of CSR (market share, cost per hire, CSR value added and CSR disclosure index). Type of industry had a significant relationship with two CSR proxies (cost per hire and employee turnover).

5.4.4 Results of 2SLS Estimates for the Relationship between CG Mechanisms, CSR and Information Quality, and their Impacts on Firm Value

The result of the three 2SLS estimates of the relationships between CG mechanisms, CSR and information quality, and their impacts on firm value were assessed using a log transformation of the Cobb-Douglas functional form. Results are presented in Tables 5. 19 to 5.21. Three equations were estimated, one for each of the following dependent variables: (i) Return on Assets (ROA); (ii) Return on Sales (ROS); and (iii) Tobin's Q. The results of the models show that the F-value for all 2SLS estimates is significant at the 0.01 level. The adjusted R-square ranges are between 0.047 and 0.376.

Table 5.19 below shows the result of the 2SLS translog linear estimates for the relationship between CG mechanisms, CSR and information quality, and their relationship impacts on ROA.

Table 5. 19 Two SLS Estimates of Return on Assets (ROA)

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	9.026926***	2.079835	4.340212	0.0000
Log Cost Per Hire ($LCPH_t$)	0.531276***	0.069763	7.615488	0.0000
Log Forecast Dispersion (LFD_t)	-0.621080***	0.109867	-5.652997	0.0000
Log Firm Size (LFS_t)	-6.197595***	0.955149	-6.488618	0.0000
Log Type of Industry (LTI_t)	-0.600701***	0.108312	-5.546054	0.0000

Dependent Variable: Log Return on Assets (LROA).
F-statistic = 28.86913; p-value < 0.01; Adj. R^2 = 0.283401; Jarque-Bera statistic = 30.55180 and Prob (JB) = 0.0000; White test statistic = 127.5305.
*** is significant at the 0.01 level.

Based on Table 5.19, 2SLS estimates in the logarithmic transformation for the relationship between CG mechanisms, CSR and information quality and their impact on ROA, are:

$$LROA_t = 9.027^{***} + 0.531\ LCPH_t^{***} - 0.621\ LFD_t^{***} - 6.198\ LFS_t^{***} - 0.601\ LTI_t^{***}$$

This is expressed in the original form as:

$$ROA_t = 9.027^{***}\ CPH_t^{0.531***}\ FD_t^{-0.621***}\ FS_t^{-6.198***}\ TI_t^{-0.601***}$$

The results indicated that the estimated equation is statistically significant, implying that the variables in the model are capable of collectively explaining the variations in ROA. The fitness statistic indicates that about 28% of the variation in ROA can be explained by the 2SLS estimates. The usual diagnostic tests did not indicate any problems with the estimates.

Table 5.19 shows the estimates for the independent variable and their levels of significance. As shown in the table, the CSR variable, cost per hire, had a significant impact on ROA at the 1% level, which supports the proposed hypothesis that there is a positive impact of cost per hire on ROA (H_{10A}). The finding is consistent with the previous works of Evans and Davis (2011), Güler, Asli and Ozlem (2010) and Waddock and Graves (1997).

The information quality variable, forecast dispersion, had a significant impact on ROA at the 1% level. This supports the proposed hypothesis that there is a negative relationship between forecast dispersion and ROA (H_{10B}). This finding is consistent with Gaspar and Massa (2006). Thus, significant information asymmetry exists between managers and stakeholders (e.g., investors and financial analysts) in terms of firms' operations in Indonesian listed firms. This study also included control variables. Furthermore, the results demonstrated that firm size and type of industry had a significant impact on ROA at the 1% level. The significant relationships between firm size, type of industry and firm value are found in the studies of Jo and Harjoto (2012), Brammer and Millington (2006) and Hart and Ahuja (1996). These results are further discussed in Section 5.5.4.

Table 5. 20 Two SLS Estimates of Return on Sales (ROS)

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-17.10685***	2.626029	-6.514342	0.0000
Log Market Share (LMS_t)	-0.975751***	0.202703	-4.813696	0.0000
Log Forecast Dispersion (LFD_t)	-0.345907***	0.106985	-3.233213	0.0013
Log Firm Size (LFS_t)	5.065389***	0.902470	5.612808	0.0000
Log Type of Industry (LTI_t)	-0.201643*	0.115300	-1.748850	0.0810

Dependent Variable: Log Return on Sales (LROS)
F-statistic = 8.849845; *p*-value < 0.01; Adj. R^2 = 0.149467; Jarque-Bera statistic = 14.6326 and Prob (JB) = 0.0007; White test statistic = 67.2602.
*** is significant at the 0.01 level; * is significant at the 0.10 level.

Based on Table 5.20, the 2SLS estimates in the logarithmic transformation for the relationship between CG mechanisms, CSR and information quality and their impact on the dependent variable ROS are:

$$LROS_t = -17.107^{***} - 0.976\ LMS_t^{***} - 0.346\ LFD_t^{**} + 5.065\ LFS_t^{***} - 0.202\ LTI_t^{*}$$

This is expressed in the original form as:

$$ROS_t = -17.107^{***}\ MS_t^{-0.976***}\ FD_t^{-0.346**}\ FS_t^{5.065***}\ TI_t^{-0.202*}$$

The results indicated that the estimated equation is statistically significant, implying that the variables in the model are capable of collectively explaining the variations in ROS. The fitness statistic indicates that about 15% of the variation in ROS can be explained by the 2SLS estimates. The usual diagnostic tests did not indicate any problems with the estimates.

Table 5.20 shows the estimates for the independent variable and their levels of significance. As shown in the table, the CSR variable, market share, had a significant impact on ROS at the 1% level. However, the proposed hypothesis that a positive impact of market share on ROS does not occur since the expected sign of the variable coefficient was in contrast to that posited in hypothesis H_{11A} and is thus not supported. This finding is supported by Arli and Lasmono (2010). The information quality variable, forecast dispersion, had a significant impact on ROS at the 1% level. The coefficient variable demonstrates a negative relationship between forecast dispersion and ROS, which supports the proposed hypothesis (H_{11B}). This study also included control variables. The results demonstrated that firm size had a significant impact on ROS at the 1% level, and type of industry had a significant impact on ROS at the 10% level. Significant relationships between firm size, type of industry and firm value are found in the studies of Jo and Harjoto (2012), Brammer and Millington (2006) and Hart and Ahuja (1996). The results are further discussed in Section 5.5.4.

Table 5. 21 Two SLS Estimates for Tobin's Q

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	6.783120**	2.974063	2.280759	0.0230
Log CSR Value Added ($LCVA_t$)	0.340330***	0.085297	3.989932	0.0001
Log Forecast Dispersion (LFD_t)	0.084098	0.139721	0.601901	0.5475
Log Firm Size (LFS_t)	-4.096734***	1.458683	-2.808517	0.0052
Log Type of Industry (LTI_t)	-0.817033***	0.138471	-5.900379	0.0000

Dependent Variable: Log Tobin's Q (LTQ)
F-statistic = 15.02959; *p*-value < 0.01; Adj. R^2 = 0.067713; Jarque-Bera statistic = 59.3545 and Prob (JB) = 0.0000; White Test statistic = 30.4709.
*** is significant at the 0.01 level; ** is significant at the 0.05 level.

Based on Table 5.21, the 2SLS estimates in the logarithmic transformation for the relationship between CG mechanisms, CSR and information quality, and their relationship impacts on the dependent variable, Tobin's Q, are:

$$LTQ_t = 6.783^{**} + 0.340\ LCVA_t^{***} + 0.084\ LFD_t - 4.097\ LFS_t^{***} - 0.817\ LTI_t^{***}$$

This is expressed in the original form as:

$$TQ_t = 6.783^{***}\ CVA_t^{0.340***}\ FD_t^{0.084}\ FS_t^{-4.097***}\ TI_t^{-0.817***}$$

The results indicated that the estimated equation is statistically significant, implying that the variables in the model are capable of collectively explaining the variations in Tobin's Q. The fitness statistic indicates that about 7% of the variation in Tobin's Q can be explained by the 2SLS estimates. The usual diagnostic tests did not indicate any problems with the estimates.

Table 5.21 shows the estimates for the independent variable and their levels of significance. As shown in the table, the CSR variable, CSR value added, had a significant impact on Tobin's Q at the 1% level, where the coefficient variable supports the proposed hypothesis that there is a positive impact of CSR value added on Tobin's Q (H_{12A}). The information quality variable, forecast dispersion, had an insignificant positive impact on Tobin's Q. This finding is supported by Lang, Lins and Miller (2003). This study also included control variables. The results demonstrated that firm size and type of industry had significant impacts on Tobin's Q at the 1% level. The significant relationships between firm size, type of industry and firm value are found in the studies of Jo and Harjoto (2012), Brammer and Millington (2006) and Hart and Ahuja (1996). These results are further discussed in Section 5.5.4.

Table 5.22 Summaries of Hypotheses Tests for the 2SLS Estimates of the Relationships between CG Mechanisms, CSR and Information Quality, and their Relationship Impacts on Firm Value

	ROA	ROS	TQ
MS		**NS** H_{11A} is ***not supported***	
CPH	**PS** H_{10A} is ***supported***		
CVA			**PS** H_{12A} is ***supported***
FD	**NS** H_{10B} is ***supported***	**NS** H_{11B} is ***supported***	**PI** H_{12B} is ***not supported***
Control Variables			
FS	**NS**	**PS**	**NS**
TI	**NS**	**NS**	**NS**

Note: MS = Market share; **CPH** = Cost per hire; **CVA** = CSR value added; **FD =** Forecast dispersion; **FS** = Firm size; **TI**= Type of industry; **ROA** = Return on assets; **ROS** = Return on sales; **TQ** = Tobin's Q; **PS** = Positive and significant; **NS** = Negative and significant; **PI** = Positive and insignificant; **NI** = Negative and insignificant.

As demonstrated in Table 5.22 above, the results of the 2SLS estimates in Tables 5.19 to 5.21 showed that aspects of CSR and information quality impacted firm value, with four hypotheses supported. Specifically, the CG variable, cost per hire had a significant and positive impact on ROA, which supports hypothesis H_{10A}. The variable of CSR value added had a significant and positive impact on Tobin's Q, which support hypothesis H_{12A}. The information quality variable, forecast dispersion, had a significant and negative impact on firm value via accounting-based measures (i.e., ROA and ROS) supporting hypotheses H_{10B} and H_{11B}, and a non-significant impact on firm value via the market-based measure (i.e., Tobin's Q). Furthermore, the remaining two hypotheses were not supported (e.g., H_{11A} and H_{12B}). This study included control variables. The results demonstrated that firm size and type of industry had a significant impact on all proxies of firm value.

5.5 Discussion of Results of Ordinary Least Squares (OLS) and Two-Stage Least Squares (2SLS) Estimates

This section discusses the results of the OLS and 2SLS estimates for two model equations: (i) the relationship between CG mechanisms and CSR; and (ii) the relationship between CG mechanisms, CSR, information quality, and the impact of their relationship on firm value of selected Indonesian firms.

5.5.1 Discussion of Results of OLS Estimates of the Relationship between CG Mechanisms and CSR

Impact of board size on CSR engagement

As the board is a firm's governing body, it is responsible for safeguarding the interests of all stakeholders by disseminating information to reduce information asymmetry and to prevent any opportunistic behavior by the firm's managers. Interestingly, this study produced mixed results regarding the relationship between board size and the five CSR proxies. Although a positive relationship was found between board size and CSR disclosure index, there was a negative relationship between board size and CSR value added. Furthermore, this study revealed a non-significant relationship between board size and the three KPI proxies of: (i) market share; (ii) cost per hire; and (iii) employee turnover. The differing results highlight the complex relationship between CG mechanisms and CSR engagement in Indonesia. For example, when adopting a non-accounting perspective, Indonesian listed firms with larger board sizes are more likely to meet their stakeholder needs through disclosing CSR reports, while, from an accounting perspective, smaller board sizes seem to be more effective (De Andres, Azofra and Lopez 2005).

In this study, the significant and positive relationship found between board size and CSR disclosure index indicates that a large board size can better represent a firm's ability to have good networks with various stakeholder groups in Indonesia. For instance, a larger board may comprise a greater diversity of skills and backgrounds which tends to be associated with a greater acceptance of integrating CSR elements such as disclosures. Such disclosures could encompass a range of benefits for Indonesian markets. As Frias-Aceituno, Rodriguez-Ariza and Garcia-Sanchez (2013) argue, some non-financial information disclosures could contribute to better resource allocation decisions regarding cost reduction and risk management. Other potential benefits could include better identification of growth opportunities, greater commitment to investors and other stakeholders, increased firm reputation, and easier access to capital markets. Thus, a firm with a larger board size might be more prone to play a more active role in overseeing managerial decisions, including investments to support CSR activities in Indonesia. This finding supports the earlier works of Frias-Aceituno, Rodriguez-Ariza and Garcia-Sanchez (2013) and Esa and Anum Mohd Ghazali (2012).

The significant and negative relationship found between board size and CSR value added indicates that, from one aspect of the accounting perspective, Indonesian listed firms accord a greater priority to maximising a firm's economic value than to actively engaging in CSR. Thus, support for CSR engagement is not viewed as an important aspect of board function. Rather, smaller boards can be viewed as operating more efficiently in terms of timely decision-making, allowing firms to respond to market signals, as compared to larger boards with poorer coordination and ineffective communication that could impair the decision-making process. This would suggest that a number of Indonesian firms with small boards involved in CSR activities do so to meet legal requirements and tend not to voluntarily commit to CSR. This finding is consistent with the previous study of Cheng (2008).

There is a non-significant relationship between board size and the three CSR proxies of market share, cost of hiring and employee turnover. Thus, based on these three proxies, board size does not have a strong influence on CSR engagement. This finding is consistent with those of Cheng and Courtenay (2006), who argued that board size itself is not important. Rather, boards need to be dominated by a majority of independent directors in order to provide better monitoring and provide good CSR performance.

Impact of independent directors on CSR engagement

Although independent directors are expected to provide diverse inputs into strategic decision-making to support CSR engagement (Jo and Harjoto 2011), this study identified differing results in the relationship between independent directors and the five CSR proxies. Specifically, the impact of independent directors and CSR value added was found to be negative, while the impact of independent directors and the four CSR proxies was found to be insignificant.

This study found a significant and negative relationship between independent directors and one proxy of CSR, CSR value added. Insignificant relationships were found between independent directors and the remaining four measures of CSR: market share, cost per hire, employee turnover and CSR disclosure index. The findings indicate that the independence of directors in Indonesian firms may be compromised or impaired when monitoring their manager's actions. This observation was made by Gilson and Kraakman (1991), who argued that it is vital for boards to not only be independent but also to be accountable to the shareholders for effective governance. Prado-Lorenzo and Garcia-Sanchez (2010) argued that a reason for the negative and insignificant relationship could be that the time spent on CSR engagement can distract from the firm's main priority of maximising shareholder value (Bratton 2002).[96] Thus, independent directors may not perceive that their job includes influencing managers to meet the firm's social responsibility of actively engaging in CSR Additionally, some studies have found that BoDs with broad experience can influence CSR focus (see: Elsakit and Worthington 2014; Roa and Tilt 2015, 2016; Post e al 2011). However, limited empirical studies have taken place in the context of developing countries, especially Indonesia.

When projects fail, or the firm faces financial difficulties, independent directors tend to suffer loss of a reputation along with a limited share of gains (Yermack 1996). Given that independent directors are generally minority shareholders, they tend not to support projects that may fail because the total benefit does not justify the possible reputation risks associated with certain investments (Masulis and Mobbs 2014). These conditions motivate independent directors to be biased against any projects with a high probability of failure, even when net present value (NPV) of the project is positive (Masulis and Mobbs 2014). Thus, it can be concluded that CSR engagement might not be the primary concern of independent directors who prefer to focus more on protecting shareholder interests (Esa and Ghazali 2012).

Although the IDX has regulated a minimum proportion of independent directors (30% of all board of commissioners), no standard mechanism exists on how Indonesian firms recruit independent directors (Dewi et al. 2014). Typically, the majority of independent directors recruited by Indonesian firms are based on their expertise in evaluating

[96] According to Bratton (2002), shareholder value is defined as a firm's management ability to accelerate and enhance productivity, concentrate on main competencies, as well as focus on a return of free cash flow to shareholders, better compensation schemes, and prompt restructuring of dysfunctional operation. Consequently shareholder value is, as Fernandez (2015) points out, viewed as a firm's ability to produce value for their shareholders when the shareholder return outstrips the required return on equity.

historically available financial information rather than on deliberating about uncertain strategic information, which CSR falls within (Handajani, Sutrisno and Chandrarin 2009). For example, the present study found that the majority of Indonesian firms in the sample group recruited economic and financial experts as independent directors (51%), followed by retired military and police leaders (13%), engineering experts (12%), and lawyers (4%).[97] Only a limited number of Indonesian firms (13%) recruited independent directors with skills and knowledge related to social and environmental responsibility. A common practice is to source independent directors from retired government officials from the military and the police in order to take advantage of their knowledge and their relationships with regulators and enforcers of the business sector (Agrawal and Knoeber 2001; Hillman and Hitt 1999).

This study demonstrated that, from an overall perspective, independent directors did not have a direct impact on CSR engagement. The finding does not support previous Indonesian study of Badjuri (2011), which showed a significant and positive relationship between independent directors and CSR. This different result is not unexpected given that the present study measured CSR via a combination of accounting and non-accounting measures while the aforementioned studies employed a singly proxy. Another important difference is that the previous studies used only one year of data while the present study used seven years of data (2007-2013). In addition, the method of measurement employed in this study (simultaneous equation models) was not employed in other study, one of which used questionnaires. The conflicting results, however, suggest that further research is needed to examine the effect of independent director characteristics and performance (including, skills classification and background) on CSR engagement in Indonesian firms.

<u>Impact of managerial ownership on CSR engagement</u>

Although earlier studies reported a significant and negative relationship between managerial ownership and CSR engagement, this study found limited evidence of this with only one CSR proxy (i.e., employee turnover) demonstrating this. Insignificant

[97] For a discussion about the necessary expertise of BoDs with political backgrounds (e.g., a retired military leader or high-level ministry officials-current or former), please refer to Section 2.3.5.

relationships were found between managerial ownership and the four CSR proxies of market share, cost per hire and CSR value added, and CSR disclosure index. The findings suggest that the aspect of managerial ownership is confined to employee turnover, which was used to represent employee motivation and retention. This suggests that employees in managerial owned firms have high levels of motivation which could lead to higher employment retention rates via lower employee turnover. This finding is supported by evidence presented by Lee (2006).

As mentioned previously,[98] Lee (2006) argued that the long-term presence of founding families within firms can stimulate competitive advantages. For instance, founding families may view their firms as an asset which can be passed on to successive generations, hence the ability of the firm to succeed is extremely important. Thus, as Davis (1983) states, managerial ownership via the founding family tends to encourage and facilitate good employee performance by maintaining a strong relationship with its employees. Davis (1983) adds that this promotes a sense of stability and commitment to the firm.

With respect to the insignificant findings between management ownership and four CSR proxies (i.e., market share, cost per hire, CSR value added and CSR disclosure index), previous studies have highlighted how management ownership firms act in their own interests at the expense of firm value. For instance, Barnea and Rubin's (2010) US study demonstrated that firm manager’s and blockholder ownership have expropriated personal benefits from CSR activities at the expense of shareholder value. Since managers have a great deal of discretion over corporate social and environmental practices (Hsu and Cheng 2012; Selart and Johansen 2011), especially in Indonesia (Cummings 2008), there is an increased possibility that expropriation of personal benefits from CSR activities at the expense of shareholder value can occur in Indonesian firms. These actions are both unethical and illegal and ultimately lead to a poor CSR performance.

[98] See Chapter 2, Section 2.8.1 ownership concentration.

Impact of public ownership on CSR engagement

Although the literature supports a positive relationship between public ownership[99] and CSR engagement (Khan, Muttakin and Siddiqui 2013; Roberts 1992; Ullmann 1985), the comprehensive CSR measurement yielded mixed results regarding that relationship. Specifically, the results did show a significant and negative relationship between public ownership and two of the CSR proxies, cost per hire and CSR value added. Moreover, an insignificant relationship with the other three CSR proxies (market share, employee turnover and CSR disclosure index) occurred.

The negative relationship between public ownership and CSR engagement, as measured by cost per hire, suggests that potential employees are not attracted to firms with a dispersed ownership structure based on their CSR engagement. Within an Indonesian context, a firm that has a public ownership structure is more likely to be associated with having a relatively poor interest in the firm's sustainable strategies or CSR engagement. Hence, future skilled employees who are motivated, in part, by an association with CSR outcomes would be less willing to join these firms (Strandberg 2009). Consequently, these firms are not likely to reap the internal benefits associated with the attraction of new employees with good skills and qualifications. This finding is consistent with that of Dam and Scholtens (2012).

The negative relationship between public ownership and CSR engagement, as measured by CSR value added, suggests that public investors are likely to be less interested in the firm's CSR strategy than monetary benefits such as dividend received. This could be due to the relatively large costs faced by investors with small shareholdings of acquiring information and processing it (Barber and Odean 2000; Dam and Scholtens 2012; Van Der Burg and Prinz 2006). Consequently, in the Indonesian context, CSR investment is still viewed as a niche market for public ownership listed firms. This finding is consistent with the results in the work of Dam and Scholtens (2012).

[99] As stated previously, public ownership or dispersed firm ownership includes individual investors who own shares of less than 5% of the firm.

Aguilera et al.'s (2007) multilevel theory of social change in organisation suggests that the degree of CSR engagement is associated with the motivation and interest of shareholders. Although this was not directly assessed, the results show some support for this theory with respect to how managerial ownership and public ownership are valued differently in terms of CSR investment. However, further studies are required to establish whether or not other types of ownership (e.g., institutional, state and foreign ownerships) have different motivations and interests regarding CSR investment in Indonesia.

Impact of firm size on CSR engagement

Various firm-level attributes significantly affect the CSR engagement of Indonesian firms, and as these firms attempt to derive strategic value from CSR, an understanding of these attributes is crucial. This study identified a strong association between firm size and CSR engagement as evidenced by the significant relationship between firm size and the four CSR proxies of market share, cost per hire, CSR value added and CSR disclosure index, while the remaining CSR proxy, employee turnover, was insignificant.

A significant positive relationship between firm size and CSR engagement indicates that larger firms with greater visibility engage in more and better CSR performance initiatives (Gunawan 2000; Sembiring 2005), whereas smaller firms with lower visibility are less engaged (Chen and Metcalf 1980; Rindova, Pollock and Hayward 2006). This could be due to growing firms attracting more attention from various stakeholders who pay more attention to CSR initiatives (Waddock and Graves 1997). Another possible explanation is the association with a firm's access to resources (Brammer, Millington and Rayton 2007). As large firms have greater access to resources, they can more easily access large financial resources to support CSR engagement, while small firms must prioritise the more basic economic value of profitability in order to survive, and may lack the ability to allocate scarce firm resources to CSR engagement. Hence, the majority of large Indonesian firms are involved in various CSR activities that are disclosed in their annual reports, while small Indonesian firms focus less on CSR (Sutianto 2012). This study thus confirms that sustainability reporting practices in Indonesia are significantly and positively associated with firm size. This finding is widely supported by those of Said, Zainuddin and Haron (2009), Husted and Allen (2006), Ghazali (2007), Haniffa and Cooke (2005) and Gray et al. (2001).

The study findings related to firm size and employee motivation and retention were not significant. The insignificant relationship between firm size and employee turnover might be due to the study sample data, which comprised mainly large Indonesian firms. Thus, firm size might not be the best indicator of employee turnover. An insignificant relationship between firm size and CSR is consistent with the previous work of Godfrey, Merrill and Hansen (2009).

The effect of the type of industry on CSR engagement

Jamali (2008) reported that environmental and social issues may change over time in accordance with industry type, resulting in social issues being of greater interest to the firm. This study has produced mixed results regarding the relationship between type of industry and CSR engagement. Specifically, this study found a significant relationship between the type of industry and three CSR proxies of market share, employee turnover and CSR disclosure index, while an insignificant relationship was identified for the two CSR proxies of cost per hire and CSR value added. This suggests that, on balance, type of industry did have an overall significant impact on CSR.

Furthermore, the insignificant relationship found between type of industry and cost per hire and CSR value added is consistent with previous findings in the works of Trencansky and Tsaparlidis (2014) and Perrini (2006). Although type of industry has been reported as significantly influencing CSR in previous studies (Chand and Fraser 2006; Gallo and Christensen 2011; Gray et al. 2001; Melo and Garrido-Morgado 2012; Reverte 2009; Zheng and Lamond 2010), one of the issues is the subjective nature of the classification system (Ghazali 2007). Therefore, further studies are needed to establish the relationship between each type of industry and CSR within an Indonesian context.

5.5.2 Discussion of Results of OLS Estimates for the Relationship between CG Mechanisms, CSR and Information Quality, and their Impacts on Firm Value

Impact of CG mechanisms on firm value

This study found that board size had a non-significant impact on all proxies of firm value (e.g., ROA, ROS and Tobin's Q). The variable, independent directors, had a positive and significant impact on the accounting-based measure of firm value (ROA and ROS), but an insignificant impact on the market-based measure (Tobin's Q). The variable, managerial ownership, had a non-significant impact on all proxies of firm value, whereas the variable, public ownership, showed mixed results for all proxies of firm value. Specifically, it had an insignificant impact on ROA, a significant and positive impact on ROS and a significant and negative impact on Tobin's Q.

The board structure in Indonesia is based on the two-tier CG system found in The Netherlands, as discussed in Section 2.7.4. However, the Indonesian board size is larger than The Netherlands board size (Postma and Sterken 2003). The present study found that board size had a statistically insignificant impact on all proxies of firm value.. These findings indicate that large board sizes do not contribute to firm value. This is probably due to a lack of communication and coordination amongst firm directors on the board in Indonesia which reduce their ability to monitor and evaluate executive managers. As organisational behaviour research posits, large groups tend to be less effective than small groups in the decision-making process (Hackman 1990).

The typical Indonesian board has a less effective role than the smaller boards of The Netherlands firms, which have a stakeholder-oriented CG system.[100] Therefore, even though both Indonesia and The Netherlands have two-tier CG systems, Indonesian firms have a less effective separation of ownership and control and a weaker legal system to protect minority shareholders who are vulnerable to expropriation by managers and blockholder ownership by founding families (Claessens and Fan 2002; Prabowo and Simpson 2011; Rahman and Ali 2006). The result of an insignificant relationship

[100] The Netherlands has adopted anti-investor protection in their CG system, which focuses on long-term firm performance (Postma, van Ees and Sterken 2003).

between board size and firm value is supported by the earlier work of Chiang and Lin (2011).

The 2001 IDX regulation emphasised the importance of having independent directors on boards to monitor and protect shareholder interests (Ponnu 2008; Wan-Hussin 2009). Hence, decisions are made in the best interest of shareholders thus adding economic value to the firm. The results showed that independent directors had a significant and positive impact on the accounting-based measures (ROA and ROS) in Indonesia, and an insignificant impact on Tobin's Q. A positive relationship between independent directors and the accounting-based measures is consistent with the findings of Chiang and Lin (2011) and Sahin, Basfirinci and Ozsalih (2011).

One possible reason why independent directors had a positive but insignificant impact on Tobin's Q is that this market-based measures incorporate not only outcomes of current business strategy, but also estimates of future business strategy (Demsetz and Villalonga 2001; Luo and Bhattacharya 2006). This could indicate that independent directors are less effective in monitoring managerial behavior due to the perceived pressure of share owners seeking short-term profit, forcing them to make decisions that sacrifice investment schemes that provide long-term firm value. The findings of this study support those in the earlier works of Ferris, Jagannathan and Pritchard (2003), Dalton et al. (1999) and Dalton et al. (1998).

The finding that independent directors did not directly impact CSR engagement while positively impacting firm value (as measured by ROA and ROS), indicates that independent directors in Indonesian firms focus mainly on the traditional responsibility of maximising firm value, instead of actively engaging in CSR and paying attention to other stakeholder groups. This is partially reflected by the fact that the majority of Indonesian firms have recruited economic and financial experts (51% of the sample) as independent directors. Furthermore, although the main role of an independent director is to protect shareholder interests, the role that independents play in Indonesian firms' practices is still open to debate due to the aforementioned issues of separation of ownership and weaker legal systems.

This study found that Indonesian firms actively engaging in CSR comprise, on average, a small percentage of managerial ownership, and the impact on all firm value proxies was insignificant. This implies that managerial ownership is immaterial in explaining firm value for Indonesian firms actively engaged in CSR activities. One possible explanation is that managerial ownership in Indonesian firms might be correlated with the decision to extract private benefits of control through their use of control-enhancing mechanisms, which would be at the expense of other stakeholder groups. Indonesian CG practices typically have a high degree of ownership concentration (Claessens and Fan 2002), which can be viewed as the endogenous outcome of profit-maximising interests by current and potential shareholders. This might explain the insignificant effect on firm value (Demsetz 1983; Villalonga and Amit 2006). This finding confirms the outcomes of McConnell and Servaes (1990), although those authors ignore the endogeneity issue when examining the relationship between managerial ownership and firm value.

This study found that public ownership had a positive and significant impact on ROS. This indicates that, in a developing country with a weak capital market, the discipline of the market for corporate control is reduced (Chapple and Moon 2005). In recent times, however, public ownership in Indonesia has begun to consider how Indonesian firms can act more responsibly in terms of social and environmental issues. Therefore, public ownership could facilitate the role of the state as a 'steward' for Indonesian listed firms that are dominated by weak strategic investors. The finding confirms those in the works of Backx, Carney and Gedajlovic (2002) and Wei, Varela and Hassan (2002).

With respect to public ownership, a possible reason for the significant and negative impact of this type of ownership on Tobin's Q could be the failure of Indonesian listed firms to intensively socialise and link CSR with other interests and goals of individual ownership. As Demsetz and Lehn (1985, p. 1173) argue, dominant individual ownership of an enterprise may have multiple objectives, so that profit maximisation might not be the primary motive. This may be especially true of individual owners (i.e., publicly owned by less than 5%), who generally have non-profit motives (e.g., political and strategic) that can conflict with firm value maximisation and produce free-rider problems with regard to monitoring mechanisms (Shleifer and Vishny 1997). Thus, it is important for Indonesian firms to strongly align their business strategies (i.e., CSR activities) with the other motives and interests of the owners. This finding supports the multilevel theory of social change in organisation proposed by Aguilera et al. (2007). However, similar to that study, this study did not investigate the differences in stakeholder motivation. This is an area for further study.

Impact of CSR engagement on firm value

Based on the OLS estimates in Tables 5.18 to 5.20, the following results were identified. The first KPI proxy, market share, had a negative and significant impact on ROS, but was insignificant with ROA and Tobin's Q. The second KPI proxy, cost per hire, had a positive and significant impact on all firm value indicators, while the third KPI proxy, employee turnover, had an insignificant impact on all firm value indicators. The variable, CSR value added, had a significant and positive impact on ROA and Tobin's Q, but a significant and negative impact on ROS. Furthermore, the CSR disclosure index had a significant and positive impact on ROA and ROS, but was insignificant with the Tobin's Q measure.

A possible reason for the significant negative impact that market share had on firm value, as measured by ROS, is that although a firm's CSR activity can influence customer attitudes and purchase decisions, it would seem that the majority of customers do not, in reality, consider CSR in their purchase decisions. According to Mohr, Webb and Harris (2001), two possible factors identified as reasons for the lack of customer awareness about CSR when purchasing are: (i) the customer's immediate self-interest when buying is based on the traditional criteria of price, quality and convenience; and (ii) the customer has little knowledge of, and has difficulty obtaining information on, firm CSR activities. Since CSR implementation in Indonesia is still at a relatively early stage (Anatan 2010; Arli and Lasmono 2010), the majority of consumers have a low level of CSR awareness, especially in terms of its ethical and philanthropic aspects (Arli and Lasmono 2010). With a large percentage of low-income families, Indonesia's gross national income (GNI) per capita in 2006 was US$1,650 per year, with 47% of the expenses going towards food and non-alcoholic beverages (World Bank 2007;

Euromonitor International 2006). Furthermore, Indonesia's GNI per capita in 2014 was US$3,630 per year (an increase of 220% from 2006), yet 36.1% of the expenses was still spent on food and non-alcoholic beverages (OECD 2015b; World Bank 2016). Not surprisingly, therefore, Indonesian customers are still more likely to consider the traditional criteria of price and quality when making purchases rather than the need to support CSR programs undertaken by firms. This could explain the negative impact on firm value. However, this is not to suggest that CSR is not important for Indonesian firms. Rather, as Arli and Lasmono's (2010) Indonesian study found, the factor of CSR could be considered in a customer's purchasing decision when similar products have the same price and quality. Thus, CSR could become an advantageous strategy for a firm when it is in a competitive environment.

A significant positive impact of the variable of cost per hire on all three measures of firm value demonstrated that CSR activity enhances the firm's ability to hire high quality workers (Welford and Frost 2006) and positively influence firm value. Thus, more targeted education about CSR should be a consideration for Indonesian listed firms.

An insignificant impact of employee turnover on firm value suggests that Indonesian firms have difficulty obtaining substantial financial benefits via utilising high quality human resources practices. This result appears to contradict the result for cost per hire. However, as Mischel (1977) states, individual characteristics may be minimised in the face of powerful environmental influences or when individuals believe they lack autonomy (Spreitzer 1996). For example, this may occur when a firm does not encourage employees to actively participate in strategic and operational decisions (Greening and Turban 2000). Thus, job applicants would have more autonomy in making decisions regarding being part of the firm's management structure compared to existing employees due to the latter's relationship with the firm. This explains the effect of job application attraction compared to the absence of an effect from existing employees in relation related to the firm's CSR engagement, which ultimately influences firm value.

The variable, CSR value added, had a significant positive impact on firm value when measured by ROA and Tobin's Q. From an overall perspective, this would suggest that Indonesian firms' performance and investment in CSR engagement may be a complementary means of maximising shareholder wealth. This finding provides qualified support for stakeholder theory, which predicts that firm value is related to the cost of both 'explicit' (e.g., payment to shareholder and employees) and 'implicit' (e.g., product quality cost, safety in work place and environmental costs) claims on the firm's resources. Although using the Indonesian firm's resources always produces an opportunity cost, the firm's participation in CSR engagement helps creates a body of satisfied stakeholders who bring efficiency gains and cost advantages through various firm strategies that ultimately maximise firm value. Since CSR is a strategic concept, it can produce substantial business-related benefits for the firm and its stakeholders via the inclusion of social interests as strategic issues.[101] A positive relationship between CSR and firm value (e.g., ROA, ROS and Tobin's Q) is consistent with the findings of the previous works of Harjoto and Jo (2011), Jo and Harjoto (2011, 2012), Choi, Kwak and Choe (2010), Luo and Bhattacharya (2006), Saleh, Zulkifli and Muhamad (2010), Simpson and Kohers (2002) and Waddock and Graves (1997).

However, Indonesian firms should be careful when adopting CSR in their business strategy as it pertains to customer purchasing behaviour. It would seem that Indonesian customers still have a low level of CSR awareness in their purchase decisions, which results in CSR not significantly contributing to an increase in the firm's sales and prices and the associated margins.[102] This is a potential explanation as to why CSR value added had a significant negative impact on ROS.

This study found a significant and positive impact of the CSR disclosure index on firm value as measured by ROA and ROS (accounting-based measures). This demonstrates that Indonesian firms have the potential to increase firm value when they actively engage in CSR. However, this study also found that CSR disclosure had an insignificant

[101] Social issues are described as sufficiently major public issues which eventually lead to establishing legislation (Lee 2008).

[102] One of four aspects in the indicator of CSR value added (CVA) is the CSR benefits arising from the increase in sales, revenue and price margins (Schaltegger and Sturm 1998).

impact on Tobin's Q. As stated by Guenster et al. (2011), Tobin's Q is able to capture the value that investors assign to CSR disclosure (e.g., environmental information). Given this, the finding indicates that present CSR disclosures are not providing investors and financial analysts with the information quality they require concerning important business risks critical to firms. These risks include, but are not limited to, the impact of change in the physical environment (e.g., deforestation in Southeast Asia) and the social environment (e.g., cultural aspect, and gender and minority issues). The positive impact of CSR disclosure on firm value (i.e., accounting-based measures) is supported by Guenster et al. (2011).

Impact of information quality (information asymmetry) on firm value

Using analysts' forecast dispersion and error as indicators of information asymmetry related to the firm's economic performance, this study found that there is a significant and negative impact of forecast dispersion on all firm value indicators. Other studies which found a statistical negative relationship between forecast dispersion and firm value is Harjoto and Jo (2015) and Gaspar and Massa (2006). The variable, forecast error, had a significant and negative impact on Tobin's Q and a significant and positive impact on ROA and ROS. Overall, the findings demonstrate that Indonesia has low level requirement of information disclosure policies in CSR reporting systems, which leads to poor-quality and therefore unreliable disclosure.

A possible reason why forecast error significantly and positively impacts ROA and ROS is that, as stated by Dhaliwal et al. (2012), CSR disclosure has a complementary role in financial report transparency which can minimise forecast error. Previous studies found that the availability and number of financial reports have a positive correlation with forecast accuracy (e.g., forecast error and forecast dispersion) (Abarbanell and Bushee 1997; Behn, Choi and Kang 2008; Lang and Lundholm 1996). At the same time, CSR-related information is, to a large extent, distinct from financial information (Dhaliwal et al. 2012). They argue that making available both CSR and financial information would provide good information quality about firm value, particularly for firms and countries with a high degree of financial opacity because their financial analysts tend to use non-financial information (e.g., CSR information) to estimate firms' future firm value. Moreover, they suggest that firms whose annual financial reports have greater opacity should establish stand-alone CSR disclosure to complement these reports. Thus, supporting better disclosure policies can be expected to enhance the credibility of CSR disclosure and improve the transparency of financial reports, thereby facilitating more accurate predictions (Teoh and Wong 1993; Wilson 2008). This finding is consistent with the previous findings of Casey and Grenier (2014) and Dhaliwal et al. (2012).

The advantages to be gained from improving the quality of the CSR disclosure are evident in the studies of Cui, Jo and Na (2016), Harjoto and Jo (2015), Ioannou and Serafeim (2015), Casey and Grenier (2014), Dhaliwal et al. (2012), and Vanstraelen, Zarzeski and Robb (2003). These concluded that CSR disclosure was strongly linked to lower forecast accuracy (e.g., negative forecast dispersion and forecast error), the enhancement of a firm's reputation, a higher degree of share market response, and improved firm value.[103]

<u>Impact of firm size and type of industry on firm value</u>

With respect to the two control variables employed in this study, there was a significant and negative impact of firm size on ROA and Tobin's Q, but a significant and positive impact on ROS. The latter finding demonstrates that larger firms are perceived as being more visible to stakeholders in regard to their CSR activities which positively impacts firm value. However, since firm size is an indicator that captures other aspects apart from a firm's visibility (Bowen 1999), the negative impact of firm size and firm value as measured via ROA and Tobin's Q, indicates that there are several industry factors which influence the relationship between firm size and firm value. These results indicate that when considering type of industries, firm size and visibility would operate differently when linked to the issue of CSR. One possible explanation is that the primary sector typically creates environmental problems which may have a greater negative impact on firm value creation compared to other types of industries in

[103] For example: Cui, Jo and Na (2016) found a negative and significant correlation between forecast dispersion and CSR; Harjoto and Jo (2015) found a negative and significant correlation between forecast dispersion and CSR mandatory laws; Ioannou and Serafeim (2015) identified a negative and significant correlation between long-term forecast error and CSR; Dhaliwal et al. (2012) found a negative and significant correlation between forecast error and CSR.

Indonesia. For example, the forestry industry has exploited areas for palm oil, logging, fiber and mining, which has been a major contributor to the deforestation in Southeast Asia (Abood et al. 2015). Significant relationships between firm size and type of industry on firm value are supported by the finding of Jo and Harjoto (2012) and Harjoto and Jo (2011), and Waddock and Graves (1997).

5.5.3 Discussion of Results of 2SLS Estimates of the Relationship between CG Mechanisms and CSR

The 2SLS estimates bring together the relationship between CG mechanisms and CSR, as well as the relationship between CG mechanisms, CSR, information quality and firm value into one association. For instance, while the OLS estimates models individually, the 2SLS combines two equations of the relationship between CG mechanisms and CSR, as well as the relationship between CG mechanisms, CSR, quality information and firm value. This estimation method, however, does not allow for the inclusion of the full set of explanatory variables in the model. Thus, a variation in the results is to be expected, given the fundamental differences in the two estimation techniques. As explained earlier, the 2SLS approach was included to take advantage of how this method treats cases where a dependent variable in one equation is a determinant in another equation and the two equations represent a system. Hence, the 2SLS approach takes into consideration the endogenous determination of independent variables.

Impact of board size on CSR engagement

The 2SLS estimates approach did not provide support for the impact of board size on the three CSR proxies employed in the estimation: market share, employee turnover and CSR disclosure index. This finding indicates that there is lack of influence of board size (both small and large) in Indonesian firms on the level of CSR engagement. This finding is contrary to another Indonesian study by Siregar and Bachtiar (2010) who found that larger board sizes lead to effective monitoring mechanisms, although boards that are too large tend to monitor the process less effectively.

A possible reason why board size had a non-significant impact on the three CSR proxies is that, although Indonesian boards are viewed as having a large board size for a dual system with, on average, six directors, they might not have the required experience and diversity to significantly contribute to the integration of CSR activities. This study found that 40 firms (53% of the sample) have, on average, one director with expertise environmental and social issues. Furthermore, most Indonesian boards have, on average, two directors who are retired military leaders and former and/or current high-level ministry officials (47 firms or 62% of the sample).[104] Given this reliance on ministry officials, further research is needed to examine the relationship between the skill and qualification set of board members and the level of CSR engagement in Indonesia. Other studies that found a statistically insignificant relationship between board size and CSR are those of Kiliç, Kuzey and Uyar (2015), Sufian and Zahan (2013), Cheng and Courtenay (2006) and Halme and Huse (1997).

Impact of public ownership on CSR engagement

The 2SLS estimates demonstrated a significant impact of public ownership on two of the CSR proxies, cost per hire and CSR value added. Specifically, this study found that, although public ownership had a significant and positive impact on CSR value added, it also had a significant and negative impact on cost per hire.

The negative relationship between public ownership and CSR engagement, as measured by cost per hire, suggests that firms with a dispersed ownership structure tend to be less engaged with CSR activities. This is because investors with small shareholding face relatively large costs associated with the acquisition and processing of information (Barber and Odean 2000; Dam and Scholtens 2012; Van Der Burg and Prinz 2006). Since potential employees are attracted to firms with a positive CSR image, these firms are not likely to reap the internal benefits associated with the attraction of new employees with good skills and qualifications. This finding is consistent with that of Dam and Scholtens (2012).

The relationship between public ownership and CSR value added was found to be significant and positive. Given the economic focus on CSR value added, this might

[104] For example: (i) PT Cipurta Development Tbk - Dr. Cosmas Batubara as independent commissioner since 2001- he served as junior minister of public housing (1978-1983), minister of public housing (1983-1988) and minister of labor (1988-1993) and acted as a legislative member (1967-1988); and (ii) PT Mirta Adi Perkasa, Tbk - Mien Sugandhi as independent commissioner since 2005 - she served as the state minister of women affairs (1993-1998) and acted as a legislative member (1977-1993).

reflect a willingness of individual investors to consider a firm's socially responsible behaviours more favorably as a means of providing a good investment return (Dam and Scholtens 2012), such as dividend income (Graham and Kumar 2006) and tax incentives (Sialm and Starks 2012). Other investors might adopt a non-financial perspective if they are concerned with ethical issues (such as opportunistic, political and other strategic motives) with little or no economic value to them (Aguilera et al. 2007; Bollen 2007; Dam and Scholtens 2012; Turillo et al. 2002). As Dam and Scholtens (2012) point out, public (e.g., individual) ownership is typically hampered by information disadvantages. However, individual investors who possess knowledge of the benefits of CSR in improving financial and non-financial values (Aguilera et al. 2007; Barnett 2007; Mackey, Mackey and Barney 2007) tend to invest in firms that are actively engaged in CSR. Although alternative reasons regarding firm engagement with CSR exist (Bénabou and Tirole 2010; Blowfield and Murray 2008; Harjoto and Jo 2011), the Indonesian government should encourage and promote the transparency of ownership information among, listed firms and their stakeholders.

With respect to the overall findings, two results clearly show different focus discussion and condition in the term of the relationship between ownership structure and CSR due to employ different indicators of CSR (five proxies: MS,CPH,ETO,CVA and CDI). The first, the relationship between managerial ownership and employee motivation and retention (employee turnover/ ETO). The second, the relationship between public ownership and CSR investment or CSR value added (CVA). Due to both proxies representing economic perspective in evaluating CSR engagement, it can be concluded that CSR activities may provide economic benefits to Indonesian firms.

<u>Impact of firm size on CSR engagement</u>

The results show a significant and positive impact of firm size on four of the five CSR proxies, market share, cost per hire, CSR value added and CSR disclosure index. However, there was an insignificant impact on firm size and CSR as measured by employee turnover. A positive relationship between firm size and CSR engagement indicates that since larger firms face greater public scrutiny (e.g., from environmental groups and investigative media) in Indonesia (Gunawan 2000; Sembiring 2005), CSR engagement can provide benefits for larger Indonesian firms. Furthermore, since larger firms have substantial financial resources, these can be used to invest in CSR activities which would appeal to those investors who are more concerned about the environment. The significant impact of firm size on CSR practices has been demonstrated by Bayoud, Kavanagh and Slaughter (2012), Dwyer et al. (2009) and Barako, Hancock and Izan (2006).

Firm size and employee turnover is not significant, which means that employee motivation and retention is not influenced by this factor. This finding is consistent with the research undertaken by Godfrey, Merrill and Hansen (2009).

Impact of type of industry on CSR engagement

The results demonstrate the significant impact that type of industry has on four of the five CSR proxies, market share, cost per hire, employee turnover and CSR disclosure index. However, type of industry had a statistically insignificant impact on CSR value added. From an overall perspective, the significant association between the type of industry and CSR engagement indicates that the level of CSR engagement varies across industries. Depending on the industry, Indonesian firms face different degrees of government initiatives or public pressure to disclose more social and environmental information in their annual reports. Thus, each industry's orientation to CSR in Indonesia varies according to whether an Indonesian firm is in the primary, secondary or tertiary sector. This finding confirms those of Melo and Garrido-Morgado (2012), Gallo and Christensen (2011) and Reverte (2009).

The insignificant relationship between type of industry and CSR value added indicates that, from an economic perspective, the classification of industry type in this study was not able to fully capture the political or social sensitivity for each industry. This finding confirms the works of Trencansky and Tsaparlidis (2014) and Perrini (2006). Perhaps future research could consider different types of firm classification.

5.5.4 Discussion of Results of 2SLS Estimates of the Relationship between CG Mechanisms, CSR, Information Quality and Firm Value

Impact of CSR engagement on firm value

The 2SLS estimates included three explanatory variables of CSR to examine firm value. The results showed that cost per hire had a significant and positive impact on ROA; CSR value added had a significant positive impact on Tobin's Q, while market share had a significant and negative impact on ROS.

The result for cost per hire on ROA demonstrates that Indonesian firms actively engaging in CSR are more likely to be viewed favourably by job applicants. The finding also indicates that CSR information and knowledge, such as employee issues, has a positive impact on a potential job applicant's opinion of the firm. Thus, as Evans and Davis (2011) point out, an unfavourable firm image could be mitigated by good access to CSR information. This finding is consistent with the finding of Evans and Davis (2011), Güler, Asli and Ozlem (2010) and Waddock and Graves (1997).

The significant and positive impact of CSR value added on Tobin's Q demonstrates that investing in CSR engagement can contribute to increasing firm value. This finding is consistent with the result of the OLS estimates in the relationship between CSR value added and Tobin's Q. Other studies that found a statistically significant positive relationship between investment in CSR activities and economic returns are those of Renneboog, Ter Horst and Zhang (2006) and Barnett and Salomon (2006).

The significant and negative impact of market share on ROS demonstrates that Indonesian customers focus primarily on price rather than a firm's CSR engagement. Hence, Indonesian consumers consider economic responsibility as the main priority rather than other responsibilities (legal, ethical and philanthropic responsibilities). This finding is supported by Arli and Lasmono (2010) who found that customers in other developing countries held similar beliefs. Although this result is in contrast to the finding of Beckmann (2007), Sen, Bhattacharya and Korschun (2006) and Uusitalo and Oksanen (2004), these studies focused on customers from developed countries who were more likely to support CSR activities launched by firms.

Impact of information quality on firm value

The results demonstrated a significant and negative impact of the forecast dispersion variable on two firm value proxies, ROA and ROS, and an insignificant impact on Tobin's Q. This indicates that although Indonesian listed firms publicly reported their CSR activities in their annual reports, various stakeholders were still more likely to experience higher information asymmetry regarding the costs and benefits of the firm's CSR activities. This could occur since the Indonesian government has a low level requirement of information disclosure policies in CSR reporting systems, which can lead to poor quality of environmental, and other, disclosures. When firms disclose the costs and benefits from CSR activities to the public, investors and other stakeholders (e.g., financial analysts) all benefit from lower information search costs and are better positioned to evaluate the costs and benefits of the firm's CSR engagement (Harjoto and Jo 2015). As found by Casey and Grenier (2014), forecast accuracy had a significant positive impact when CSR assurance is disclosed by the firm. This finding is consistent with Gaspar and Massa (2006).

The 2SLS estimates demonstrated a positive but insignificant impact of forecast dispersion on Tobin's Q. A study by Lang, Lins and Miller (2003) found that forecast accuracy and number of financial analysts were positively correlated with Tobin's Q. Given this, one possible explanation is that higher levels of forecast dispersion reflect a higher Tobin's Q value.

Impact of firm size and type of industry on firm value

For the variable, firm size, this study found a significant and negative impact of firm size as measured by ROA and Tobin's Q, along with a significant and positive impact on ROS. The finding with ROS could be due to the fact that large firms have access to greater resources to ensure that their contributions to CSR activities are more visible to stakeholders (e.g., media, non-government organisations [NGOs] and government). With respect to the negative impact between firm size and firm value, studies by Brammer and Millington (2006) indicate that a possible reason could be the different public relation requirements across industries in Indonesia, which can cause firm size to have conflicting impacts on CSR. Although the aforementioned results are somewhat contradictory, they also highlight the important influence that measurements have when analysing firm value. A significant relationship between CSR, firm size and firm value (e.g., ROA) is supported by the previous work of Jo and Harjoto (2012).

The results for the type of industry variable showed that there was a significant and negative impact on all three measures of firm value. This finding supports the studies of Brammer and Millington (2006) and Hart and Ahuja (1996).

5.6 Comparing the Results of the Two Different Functional Forms

This study has estimated two different regression functional forms: (i) the Cobb-Douglas function; and (ii) the typical linear function. From a theoretical perspective, the linear function assumes constant marginal returns while the Cobb-Douglas function assumes diminishing marginal returns. As stated earlier, the Cobb-Douglas function produced results that provided greater statistically significant evidence by way of a range of diagnostic statistics. The results of the linear function are not discussed in the main text of the thesis and can be found in Appendices 2 and 3.

5.7 Comparing OLS and 2SLS Estimates of the Cobb-Douglas Function

This study estimated two different model estimates via the Cobb-Douglas function: (i) OLS estimates; and (ii) 2SLS estimates. This study identified different results between OLS and 2SLS estimates when examining the relationship of CG mechanisms and CSR. For example, the impact of board size on CSR via OLS estimates demonstrated two conflicting analyses based on different points of views (i.e., board size had a significant and negative impact on CSR value added and a significant and positive impact on CSR disclosure index). Conversely, the analysis of the 2SLS estimates clearly demonstrated that board size was not a factor on CSR engagement in Indonesia listed firms. Thus, the emphasis from a 2SLS perspective is more clearly on other aspects such as the quality of director recruitments on the board. This emphasis could not be as easily detected by OLS estimates due to the contrasting results mentioned above.

This study found similar results between OLS and 2SLS estimates when examining the relationship of CG mechanisms, CSR, information quality and firm value. For example, this study found that CSR activities can significantly improve firm value of Indonesian listed firms. However, although information quality had a significant impact on the relationship between CSR and firm value, Indonesia still has a relatively low level of information disclosure policies in terms of CSR reporting systems.

5.8 Comparing Two Approaches in Measuring CSR Activities

In accordance with research question three, this study employed the use of a single non-accounting proxy of the CSR disclosure index as well as accounting and non-accounting proxies comprising KPIs and CSR value added. In the context of Indonesia, the results showed that the use of accounting and non-accounting proxies provides a more appropriate analysis of CSR engagement since it provides, in part, an economic perspective when evaluating CSR. This can assist managers to better evaluate the benefits of CSR engagement.

For instance, the results of the OLS estimates in examining the impact of CG mechanisms on CSR as measured by CSR disclosure index showed that only the variable board size had a significant positive impact. The remaining CG mechanisms did not have statistically significant impacts so one could conclude that only board size impacted on CSR. However, when CSR was also measured using KPIs and CSR value added, the OLS estimates showed that there were a range of CG mechanisms that significantly impacted on CSR. Specifically, the variable managerial ownership had a significant negative impact on employee turnover, while the variable public ownership had a significant negative impact on cost per hire. In addition, the variables, board size, independent directors, and public ownership all had significant negative impacts on CSR value added. The use of both accounting and non-accounting proxies of CSR showed a broader relationship between CG mechanisms and CSR.

This is important for firms as it implies that firms need to focus on more than just board size in order to improve the relationship between CG mechanisms and CSR. For example, the results presented in this study indicate that Indonesian firms should focus more strongly on other aspects such as managerial ownership where managers could expropriate personal benefits from CSR activities at the expense of shareholder value.

Furthermore, the composition of independent directors is also another aspect that Indonesian firms need to examine. Specifically, given the negative impact of independent directors on CSR value added (i.e., economic measure of CSR), firms should look to recruit more independent directors that have expertise in CSR matters.

The results of the OLS estimates when examining the impact of CG mechanisms, CSR disclosure index, and information quality on three proxies of firm value showed that CSR disclosure index had significant positive impacts on ROA and ROS. Importantly for firms, it suggests that there is no significant impact on Tobin's Q which is the market-based measure of firm value and which represents future growth opportunities for firms. However, when CSR was also measured using KPIs and CSR value added, the OLS estimates showed that aspects of CSR engagement such as cost per hire and CSR value added had a significant and positive impact on firm value as measured by Tobin's Q. Thus, the results suggest that CSR engagement can, via CG mechanisms and information quality, positively affect firms' future growth opportunities. This empirical evidence may encourage Indonesian firm managers to embrace CSR engagement as a longer-term strategy to increase firm value. In terms of internal benefit, the results of broadening the measure of CSR also showed that those Indonesian firms actively engaged in CSR tend to be viewed favourably by job applicants which results in reduction of hiring costs.

5.9 Summary

This chapter presented the descriptive statistics of CG mechanisms, CSR, information quality and firm value in Indonesian listed firms. The study sample comprised 76 firms for a total of 450 observations for the study period 2007-2013. The variables of CG mechanisms, information quality and control variables (i.e., firm size and type of industry) were used as exogenous variables to examine the endogenous variables of CSR. Firm value was also used as the endogenous variable in the simultaneous equation models to examine the significant determinants of the relationship between CG mechanisms, CSR and information quality. The descriptive statistics of exogenous and endogenous variables consisted of mean, median, standard deviation, coefficient of variation, skewness, and maximum and minimum.

This chapter also presented details of the relationship between CG mechanisms, CSR, information quality and firm value through simultaneous equation models using OLS and 2SLS estimates. The standard model validation criteria, including F-statistic, Adjusted R^2 and corresponding p-value, were calculated to determine the validation and significance of the OLS and 2SLS estimates. The coefficients of exogenous variables were used to identify positive or negative relationships with the endogenous variables. Relevant tests pertaining to normality (the Jarque-Bera test), multicollinearity and heteroscedasticity (F-statistic and White's test) were used to identify the appropriateness of the multiple regression models. The robustness check examined the issue of endogeneity, that is, to test whether a change in the variable of CSR and information quality impacted on firm value in 2SLS estimates. This study also adopted the Cobb-Douglas type function to provide a more robust, valid, appropriate and statistically significant result for the OLS and 2SLS estimates compared to the typical linear function.

Hypothesis testing, based on the OLS and 2SLS estimates analysis for the CG mechanisms and CSR engagement, demonstrated that a lack of CG in monitoring and supervisory mechanisms, as well as high concentration of managerial ownership, significantly contributes to lower levels of CSR engagement. Based on the results of the OLS estimates, independent directors with limited social and environmental expertise was identified as a possible key factor explaining the weak implementation of CSR in Indonesia.

The results showed that information quality had a significant impact on the relationship between CSR and firm value. However, this study produced several mixed results regarding the relationship between CG mechanisms, CSR and information quality and its impact on the firm value of the selected sample. However, from an overall perspective, the results suggest that firm value would increase. With respect to the control variables, firm size and type of industry had mixed significant relationships with firm value. Furthermore, combining accounting and non-accounting proxies (KPIs, CSR value added and CSR disclosure index) was shown to be potentially beneficial for

Indonesian firms as it provided empirical support for firms to undertake CSR engagement based on the possible accrual of internal and external economic benefits.

The next chapter will conclude this study by providing a summary of the present research as well as implications and critical reflections for future research.

Business only contributes fully to a society if it is efficient, profitable and socially responsible.
(Lord Sieff cited in Cannon 1992, p. 33)

Chapter 6: Summary, Conclusion and Implications

6.1 Introduction

The purpose of this chapter is to provide a summary of the research, together with conclusions drawn from the results and policy recommendations. The implications arising from these results are then set out, followed by the limitations of the study and suggestions for further research to improve the understanding of the relationships between corporate governance (CG), corporate social responsibility (CSR) and firm value.

6.2 Research Summary

As set out in Chapter 1, the research problem for this study is:

- To utilise a comprehensive CSR measurement to assess whether CSR engagement, as impacted upon by CG, leads to better information quality and positively impacts the value of Indonesian listed firms.

The specific research questions arising from the research problem are:

RQ1: Do CG mechanisms impact the level of CSR engagement?

RQ2: Does information quality affect the relationship between CSR and firm value?

RQ3: Does a comprehensive measure of CSR (i.e., accounting and non-accounting proxies) provide a more appropriate analysis of CSR and firm value?

The research objectives pursued in order to answer the research questions are:

1. Measure the impact of CG and CSR on the value of listed firms in Indonesia, as well as the impact of information quality on the relationship between CSR and firm value.
2. Employ a more comprehensive measure of CSR to analyse CSR engagement within a developing country context.

The study population consisted of 396 Indonesian firms listed on the Indonesian Stock Exchange (IDX). A purposive sampling method was employed which arrived at a study sample size of 76 firms. Seven years of historical data (2007-2013) were used as the observation study period. This period was chosen to enable the study to adequately review the implementation effects of the latest CG code and CSR law. Data from secondary sources, including the IDX Fact Book, annual financial reports, share prices, the Indonesian capital market directory (ICMD) and other data sources (such as Orbis-Bureau van Dijk and DataStream databases) were examined.

The research objectives were achieved using econometric analyses: specifically, simultaneous equation models with ordinary least squares (OLS) and two-stage least squares (2SLS) analyses. In broad terms, OLS and 2SLS analyses demonstrated four main points: (i) ineffective CG mechanisms lead to lower levels of CSR engagement; (ii) high quality information (i.e., reduced information asymmetry) had a significant impact on the relationship between CSR and firm value; (iii) despite some mixed results, the interconnected nature of CG mechanisms, CSR activities and information quality had indicated an overall improvement in firm value; and (iv) the utilisation of a comprehensive CSR measurement (i.e., both accounting and non-accounting proxies) facilitated the detection of more meaningful contributions of CSR to firm value within the context of a developing country. In addition, the Cobb-Douglas function produced better fit estimates compared to the linear formulations. This is an indication that there is a stronger non-linear relationship, which in turn implies diminishing marginal returns. The following section summarises the major conclusions.

6.3 Conclusions

This section presents the major conclusions in relation to the two research objectives. The first research objective was answered via analysis of research questions one and two while the second research objective was answered via research question three. This is briefly discussed below.

6.3.1 Research Question 1: CG Mechanisms and the Level of CSR Engagement

The first research question was to investigate the extent to which CG mechanisms significantly impact the level of CSR engagement. The results demonstrated that a lack of CG in monitoring and supervisory mechanisms significantly contributed to lower levels of CSR engagement. For instance, the result of the OLS estimates indicated that independent directors had limited expertise in the social and environmental aspects of business activities. Thus, careful consideration needs to be given to hiring more independent directors with the appropriate expertise to positively contribute to CSR. The finding supports the work of Prado-Lorenzo and Garcia-Sanchez (2010), who utilised agency theory to conclude that BoDs are identified as a firm's crucial governing body who are responsible for safeguarding the interests of stakeholders. In addition, the result of the OLS estimates indicated that larger board sizes led to greater CSR disclosures however smaller board sizes were preferred to achieve economic benefits arising from CSR as measured by CSR value added.

With respect to ownership structure, the 2SLS and OLS results showed that publicly owned firms were not likely to reap the internal benefits associated with the attraction of new employees with good skills and qualifications. In addition, the OLS estimates demonstrated that management ownership positively influenced employee motivation and retention. This suggests that managerial ownership firms, which consists partly of founding family firms, tend to maintain a strong relationship with its employees as the firm is an asset which can be passed on to successive generations. The finding is linked to Dam and Scholtens (2012) who employ stakeholder theory to explain why firms account for shareholders (as principals) when investing in CSR (see: Jones 1995). Here, CSR is used as a means to ‘ neutralise’ agency problems which then leads to improved firm value.

6.3.2 Research Question 2: Information Quality's Impact on the Relationship between CSR and Firm Value

The second research question measured the role of information quality (i.e., information asymmetry) as a factor affecting the relationship between CSR and firm value. The results showed that information quality had a significant impact on the relationship between CSR and firm value. For instance, the results of the OLS and 2SLS estimates indicated that the variable forecast dispersion had a significant and negative impact on firm value as measured by return on asset (ROA), return on sales (ROS). In addition, a significant and negative relationship was found with firm value measured by Tobin's Q via the OLS estimates. This high degree of information asymmetry between firm managers and stakeholders suggests that despite the CSR disclosure policies established by the Indonesian government, various stakeholders were still likely to experience higher degree of information asymmetry about the costs and benefits of the firm's CSR activities, which ultimately impact firm value.[105]

With respect to the variable forecast error, although the results of OLS estimates were mixed, the negative impact on Tobin's Q suggests that a high degree of information asymmetry can negatively affect the future growth opportunities for firms. For instance, firms experiencing quick growth typically seek funds via leverage or equity which requires the provision of high quality information to key stakeholders in order to raise the funds. Since Indonesian listed firms information quality is not very high, this causes greater uncertainty among key stakeholders (e.g., investors and financial analysts) which can negatively impact future growth opportunities that can be captured by the Tobin Q measure.

The interconnected nature of CG mechanisms, CSR and information quality and its impact on the firm value of the study population showed some mixed results. For instance, the result of the OLS estimates indicated that the CSR variables, cost per hire and CSR value added, had a significant and positive impact on ROA and Tobin's Q, while a significant and negative impact was identified on ROS. The result of the 2SLS estimates indicated that cost per hire had significant and positive impact on ROA, and CSR value added had a significant and positive impact on Tobin's Q. Thus, the combination of OLS and 2SLS results suggest that, from an overall perspective, firm value would increase.

[105] In describing the relationship between CSR disclosure and asymmetric information, this study refers to the relationship between firms and its stakeholders (i.e., shareholders, financial analysts and potential investors). Please refer to Section 3.9 for a more complete discussion of what comprises stakeholders.

6.3.3 Research Question 3: Incorporating Non-Accounting and Accounting Proxies Provides a More Appropriate Analysis of CSR and Firm Value

The third research question identified whether the use of accounting and non-accounting proxies to measure CSR was more appropriate for firms to analyse the impact of CSR on firm value. The use of a comprehensive CSR measurement led to a number of CG mechanisms that were identified as impacting on CSR. This was in addition to the identification of board size by the single non-accounting CSR proxy measure. These additional findings are beneficial for Indonesian firm managers as it provides them with the knowledge that, from a CG perspective, it is not only board size which can impact CSR engagement. This should lead to better firm policy initiatives. For example, as the previous chapter indicated, hiring more independent directors that have expertise in CSR matters is more important than identifying an ideal board size in supporting CSR in Indonesia.

Furthermore, the CSR approach adopted in this study employed five accounting and non-accounting proxies: MS, CPH, ETO, CVA and CDI. Four of these five proxies were able to identify a significant and positive impact between CSR engagement and the market-based measure of firm value – Tobin's Q. However, this could not be identified using the single non-accounting proxy of CSR (i.e., CDI). The overall results are beneficial to a firm manager since it provides empirical evidence of the economic costs and benefits of CSR and its potential partial impact on the future growth opportunities for firms.[106] Such evidence can increase the possibility of firms embracing CSR engagement as a longer-term strategy to increase firm value. Internal benefits such as lower costs per hire (CPH) to firms arising from CSR engagement were also identified. Such a finding could not have been identified via the use of a single non-accounting proxy of CSR.

With respect to the control variables, the results identified some mixed results in the impact of firm size and type of industry on CSR implementation on the firm value of Indonesian listed firms. However, for the most part, the present research demonstrated that firm size and type of industry had a significant impact on firm value. These results

[106] These growth opportunities refer to the benefits of the market-based measure of firm value (see Section 3.10).

suggest that larger firms tend to be engaged more with CSR, while the orientation of CSR activities in Indonesian listed firms varies based on type of industry.

6.4 Implications

The results of the study provide some important implications for listed firms in Indonesia in the area of CSR, and with respect to the methodology and methods of the study in general.

6.4.1 Implications for Indonesian Listed Firms in CSR engagement

The findings suggest that managers of Indonesian listed firms need to carefully match CSR initiatives to firm objectives. Due to the low level of awareness of CSR in purchasing decisions, Indonesian listed firms need to carefully consider CSR product strategies in order to attain a favourable customer response. For example, programs which donate to charity as product purchase incentives have shown a positive firm value impact in companies such as PT. Indosat, Tbk, PT. Bank Central Asia (BCA) Tbk, PT. Pringsewu Cemerlang, and PT. Manulife-Indonesia.

The ability to recruit high quality employees is an important aspect for firm success, in part due to the high costs involved with hiring and training new employees. As this study has shown, Indonesian listed firms can use their CSR engagement as a strategy to attract workers, especially for entry-level positions, thereby reducing cost per hire. Such selective hiring can bring with it an ability to recruit high quality employees, due to the large number of CSR engaged applicants, who are typically young and are more skilled.

The findings indicated that employee turnover was a factor for Indonesian listed firms with high degrees of managerial ownership. Hence, greater focus on improving employee motivation and retention is required. This will reduce the instances of productive employees leaving for other firms. As one of the CSR disclosure index dimensions (i.e., other employees' performance), Indonesian listed firms not only encourage their employees to actively participate in strategic and operational decisions, but also invest heavily in the education, training and development of their employees. As Samuel and Chipunza (2009) argue, training and development remains one of the best ways of retaining key employees because it encourages employee loyalty and also relates to their career progression in the firm.

Adopting such initiatives will enable Indonesian listed firms to create various economic advantages (e.g., increasing customer attraction and retention, employer attractiveness, and employee motivation and retention) which, taken together, suggest an important role for CSR engagement in improving firm value.

In more general terms, the findings of the control variables suggest that CSR disclosure varies across industries in Indonesian listed firms. Some scholars have shown that the variety of firm size and industry characteristics significantly impact on the relative costs and benefits of undertaking CSR disclosures (Cormier, Magnan and Van Velthoven 2005; Patten 2002; Reverte 2009). Indonesian listed firms need to consider the demand and preferences of stakeholders such as investors, suppliers and regulators in preparing CSR disclosure. Managers also need to improve the quality of CSR disclosure in order to more accurately reflect the firm's relationship with various stakeholders.

6.4.2 Implications for Policy in Indonesia

6.4.2.1 Strengthening the Board of Commissioners (BoCs) function

Since the majority of listed firms in the sample had a low distribution of concentrated managerial ownership, the positive findings for CSR engagement suggest that CG reforms need to address the excessive control by family business or controlled groups which have negatively impacted both CSR performance and firm value. One possible way to address this is for the government to initiate a policy ensuring that listed firms hire a minimum of one independent director on the board of commissioners (BoCs) who is a social and environmental expert in order to give more support to CSR engagement.

With respect to independent directors, the Indonesian Stock Exchange (IDX) has endorsed a regulation requiring that listed firms appoint independent directors in BoCs. This is in order to enhance director independence with regard to their monitoring and supervisory role of firm managers.[107] The imminent introduction of this regulation is

[107] The regulation requires a minimum 30% of BoCs to be independent.

due to the difficultly involved in identifying whether Indonesian boards have met the initial quota of independent directors in the first instance. This is typically due to the characteristics of Indonesian listed firms, where family-business or controlled groups significantly influence the recruitment and function of independent directors (Wibowo, Evans and Quaddus 2009; Zainal and Muhamad 2014). This issue surrounding independent directors may, in part, explain why the present study found that the representation of independent directors was not significantly related with CSR engagement.

Furthermore, the existing policy on the voting and nomination procedure in recruiting independent directors has enabled concentrated ownership groups to 'force' the nomination and facilitate the appointment of an independent director who is aligned with their interests (Prabowo 2010). Consequently, Indonesian listed firms require a voting system that can capture and prohibit this type of relationship, which compromises director independence. This could be mitigated via the establishment of a nomination committee to select independent directors which can be overseen by the IDX.

6.4.2.2 Rewarding CSR Implementation in Indonesia

The results implied that many Indonesian customers identify price and quality as a major factor in their purchasing decisions. Thus, public policy needs to be implemented to ensure that pressing social and environmental issues are resolved in this manner, rather than having them addressed through individual mechanisms and voluntary commitments. As Vogel (2005) asserts, public sector regulations and enforcement are critical to underpinning CSR. Once this is established, market-based signals can be employed to reward those who undertake CSR.

Thus, a policy directive is required that facilitates purchasing decisions of similar products based on a similar price and quality in Indonesia. This should improve Indonesian customers' concern for social and environmental issues in their purchasing decision-making. Specifically, policy initiatives focusing on tax deductions and/or other incentive schemes for firm activities related to CSR (such as waste processing machine purchases) will not only encourage firms to become more active in CSR (Papasolomou-Doukakis, Krambia-Kapardis and Katsioloudes 2005), but will help reduce the firm's operating costs, enabling the firm to provide a competitive product price.

Given that enforcement is also a key to implementing CSR, legal penalties would provide a powerful impulse for organisational conformity. Therefore, other government action aimed at increasing the regulatory pressures for CSR performance could be to increase penalties for firms that are CSR non-compliant.

6.4.2.3 Standardisation of CSR Reports

In order to encourage CSR implementation across a greater range of Indonesian listed firms, the government needs to adopt a standardised CSR reporting scheme. This could occur via collaboration with the Global Reporting Initiative (GRI) and/or International Organisation for Standardisation (ISO) 26000 to formulate standardised CSR guidelines for CSR reports. Both GRI and ISO 26000 guidelines have been adopted by many firms worldwide to the satisfaction of different stakeholder groups across industries (Bouten et al. 2011; Dumay, Guthrie and Farneti 2010; Farneti and Guthrie 2009; Toppinen et al. 2015).

The high degree of information asymmetry between Indonesian firm managers and stakeholders (e.g., investors, finance analysts and others) indicates that a low level of informative disclosure policies in CSR reporting systems exists. The lack of a standardised CSR reporting scheme could have facilitated this outcome, since it creates inconsistencies and inefficiencies for users by requiring additional time and money spent on reporting, analysis and verification (Ward 2004). The Indonesian Chamber of Commerce and Industry (Kamar Dagang and Industri [KADIN]) is willing to act as one of the drivers in diffusing and promoting the acceptance CSR disclosure standards in Indonesia. In fact, the committee chairman of international cooperation and environment of KADIN, Tiur Romandang, argued for including CSR as an integral part of its business strategy (Martha 2014).

There has been a growing number of KADIN actions in promoting investors, creditors and other stakeholders as users of external firm disclosure to endorse the government mission of a CSR reporting standard in Indonesia (Kamar Dagang Indonesia KADIN 2015).[108] Consequently, the Indonesian government should engage with a variety of domestic trade organisations such as KADIN, as well as the media and the GRI to facilitate, partner and endorse the diffusion of CSR disclosure standards.

6.4.3 Method Used

The single non-accounting proxy (CSR disclosure index) typically used in an Indonesian context to measure CSR was combined with the accounting proxies of market share; cost per hire; employee turnover; and CSR value added. This comprehensive measurement was employed because firm managers typically face difficulties in evaluating their CSR involvement from an economic perspective. Hence, a lack of information in this regard can lead to an inability to understand the important economic role of CSR in Indonesian listed firms.

The findings suggest that, from an economic perspective, which forms part of key decision-making for managers, the most appropriate measurement approach is the comprehensive CSR measurement that incorporates both accounting and non-accounting proxies. Although the proposed CSR comprehensive measure is not definitive, the approach undertaken in this study can act as a foundation for future research.

6.5 Limitations and Future Directions for Research

To fulfil the intent of this research as a basis for future research, it is important to reflect critically and suggest directions for future studies.

6.5.1 Limitations of the CG Mechanisms Construct

The use of secondary data for this study restricted the amount of data available to assess the practice of the two-tier board system of Indonesia listed firms (e.g., shareholder

[108] The Chamber of Commerce and Industry (KADIN) established CSR standard reporting in 2015, based on ISO 26000. However, the CSR standard does not have legal force for the Indonesian listed firms who follow it.

perception, perception of executive managers and members of BoCs). In addition, ownership structure was operationally defined as comprising two ownership types: (i) managerial ownership; and (ii) public ownership. Thus, other ownership types (e.g., institutional ownership, state ownership and foreign ownership) were not considered due to limited information availability of different ownership types impacting on CSR engagement in Indonesia.

6.5.2 Limitations of the Comprehensive CSR Measurement

Although the incorporation of a comprehensive CSR measurement is more representative than the use of a single non-accounting proxy (i.e., CSR disclosure index), there are still limitations associated with any newly constructed measurement. For instance, although the comprehensive measure was able to identify a broader range of CSR engagement aspects that impact on firm value, it also produced some mixed results. This would suggest that greater consensus building is still required to allow for possible modifications and refinements. In addition, benefits of CSR, such as reduced corruption, bribery and collusion, could not be included due to the difficulty in appropriately measuring these benefits based on existing data sources.

6.5.3 Limitations of the Information Quality Construct

The present research assessed the influence of information quality on the impact between CSR and firm value. However, there are other factors that influence information quality, such as total number of financial analysts, and social and political factors. Thus, this study is confined to a limited portion of the factors affecting information quality.

6.5.4 Data Limitations

There are limitations regarding the use of data in the model. For example, although this study justified the inclusion of three KPIs (market share, cost per hire and employee turnover), two other KPIs (brand value and firm reputation) were omitted from the analysis due to a lack of data availability.[109]

[109] The omission of these two variables was discussed in Chapter 3, Section 3.8.1.

6.5.5 Limitations of Scope

A further limitation of the study is that the number of listed firms chosen was restricted to a sample size of 76 firms, which is approximately 20% of the population. Many firms were eliminated from the final study sample due the application of various criteria which were in keeping with the CSR definition utilise din this study which also incorporatesthe establishment of CSR mandatory requirements in 2007.

6.5.6 Future Directions

This study provides a solid base for further academic research. It also provides an approach that could be adopted for analysis by policy makers.

For further academic research, from an Indonesian perspective, studies are required on the relationship between CG mechanisms and CSR that concentrate on the influencing factors of board characteristics based on skill qualifications and director background. This would allow for a more comprehensive analysis of the CG mechanisms impacting CSR engagement. In addition, addressing other ownership types such as institutional, states and foreign ownerships could also advance the literature on the relationship between CG mechanisms and CSR.

Further research could consist of a comparative analysis between the firms engaging in CSR and firms that do not engage in CSR and their associated impact on firm value. This could also be extended to include differences in the performance of CG mechanisms. Another comparative study could be to examine differences in firm value of those Indonesian listed firms actively engaged in CSR before and after the establishment of the 2007 CSR mandatory laws.

To incorporate a greater representation of CSR KPIs, future studies might consider adopting a mixed methods approach (primary and secondary data sources) in order to incorporate all five KPIs in examining the value of CSR engagement in an Indonesian context.

A further possible research area is information quality that includes the social and political factors that can affect the nature of information quality.

References

Aaker, D. A., and Jacobson, R. 1994. The financial information content of perceived quality. *Journal of Marketing Research* 31(2): 191-201.

Abarbanell, J. S., and Bushee, B. J. 1997. Fundamental analysis, future earnings, and stock prices. *Journal of Accounting Research* 35(1): 1-24.

Abbasi, S. M., and Hollman, K. W. 2000. Turnover: The real bottom line. *Public Personnel Management* 29(3): 333-42.

Abbott, W. F., and Monsen, R. J. 1979. On the measurement of corporate social responsibility: Self-reported disclosures as a method of measuring corporate social involvement. *Academy of Management Journal* 22(3): 501-15.

Abdullah, S. N. 2006. Board structure and ownership in Malaysia: The case of distressed listed companies. *Corporate Governance: The International Journal of Business in Society* 6(5): 582-94.

Abood, S. A., Lee, J. S. H., Burivalova, Z., Garcia-Ulloa, J., and Koh, L. P. 2015. Relative contributions of the logging, fiber, oil palm, and mining industries to forest loss in Indonesia. *Conservation Letters: A Journal of the Society for Conservation Biology* 8(1): 58-67.

Abor, J. 2007. Corporate governance and financing decisions of Ghanaian listed firms. *Corporate Governance: The International Journal of Business in Society* 7(1): 83-92.

Asian Corporate Governance Association ACGA. 2012. *CG watch 2012: Market rankings*. Asian Corporate Governance Association at <http://www.acga-asia.org>. retrieved 17 September 2014.

Achda, B. T. 2006. The sociological context of corporate social responsibility development and implementation in Indonesia. *Corporate Social Responsibility and Environmental Management* 13(5): 300-5.

Achmad, T. 2007. Corporate governance of family firms and voluntary disclosure: The case of Indonesia manufacturing firms. PhD thesis. The University of Western Australia. Perth. retrieved 12 August 2013.

Achmad, T., Rusmin, R., Neilson, J., and Tower, G,. 2008. The iniquitous influence of family ownership structures on corporate performance. *The Journal of Global Business Issues* 3(1): 41-9.

Adams, R. B., Almeida, H., and Ferreira, D. 2005. Powerful CEOs and their impact on corporate performance. *The Review of Financial Studies* 18(4): 1403-32.

Afiff, S., and Anantadjaya, S. P. 2013. CSR and Performance: Any evidence from Indonesian LQ45? *Review of Integrative Business and Economics Research* 2(1): 85-101.

Agle, B. R., Mitchell, R. K., and Sonnenfeld, J. A. 1999. Who matters to CEOs? An investigation of stakeholder attributes and salience, corpate performance, and CEO values. *Academy of Management Journal* 42(5): 507-25.

Agrawal, A., and Knoeber, C. R. 1996. Firm performance and mechanisms to control agency problems between managers and shareholders. *Journal of Financial and Quantitative Analysis* 31(3): 377-97.

——. 2001. Do some outside directors play a political role?. *Journal of Law and Economics* 14(1): 179-98.

Aguilera, R. V., and Cuervo-Cazurra, A. 2009. Codes of good governance. *Corporate Governance: An International Review* 17(3): 376-87.

Aguilera, R. V., Filatotchev, I., Gospel, H., and Jackson, G. 2008. An organizational approach to comparative corporate governance: Costs, contingencies, and complementarities. *Organisation Science* 19(3): 475-92.

Aguilera, R. V., and Jackson, G. 2003. The cross-national diversity of corporate governance: Dimensions and determinants. *Academy of Management Review* 28(3): 447-65.

Aguilera, R. V., Rupp, D. E., Williams, C. A., and Ganapathi, J. 2007. Putting the S back in corporate social responsibility: A multilevel theory of social change in organizations. *The Academy of Management Review* 32(3): 836-63.

Ahmad, S. J. 2006. From principles to practice. *Journal of Corporate Citizenship* 2006(24): 115-29.

Ahmed, K., and Nicholls, D. 1994. The impact of non-financial company characteristics on mandatory disclosure compliance in developing countries: The case of Bangladesh. *The International Journal of Accounting* 3(1): 62-77.

Albinger, H. S., and Freeman, S. J. 2000. Corporate social performance and attractiveness as an employer to different job seeking populations. *Journal of Business Ethics* 28(3): 243-53.

Al-Khatib, J,. Rawwas, M. Y., Swaidan, Z., and Rexeisen, R. J. 2005. The ethical challenges of global business-to-business negotiations: An empirical investigation of developing countries' marketing managers. *Journal of Marketing Theory and Practice* 13(4): 46-60.

Al-Tuwaijri, S. A., Christensen, T. E., and Hughes, K. 2004. The relations among environmental disclosure, environmental performance, and economic performance: A simultaneous equations approach. *Accounting, Organizations and Society* 29(5): 447-71.

Al-Najjar, B., and Anfimiadou, A. 2012. Environmental policies and firm value. *Business Strategy and the Environment* 21(1): 49-59.

Al Farooque, O., Van Zijl, T., Dunstan, K., and Karim, A. 2007. Corporate governance in Bangladesh: Link between ownership and financial performance. *Corporate Governance: An International Review* 15(6): 1453-68.

Albanese, R., Dacin, M. T., Harris, I. C., Davis, J. H., Schoorman, F. D., and Donaldson, L. 1997. Dialogue: Agents as stewards. *Academy of Management Review* 22(3): 609-13.

Alexander, M. 2003. Boardroom networks among Australian company directors, 1976 and 1996: The impact of investor capitalism. *Journal of Sociology* 39(3): 231-51.

Alijoyo, A., Bouma, E., Sutawinangun, M., and Kusadrianto, M. D. 2004. *Review of corporate governance in Asia: Corporate Governance in Indonesia*. Asian Development Bank Institute.

Allen, F., and Gale, D. 2000. Corporate governance and competition. In X. E. Vives (ed.). *Corporate governance: Theoretical and empirical perspectives*. Cambridge University Press. London: 23-94.

—— 2001, *Comparing financial systems* (Vol. 1). MIT Press. Cambirdge, MA.

Allen, J. W. 2000. Code convergence in Asia: Smoke or fire? *Corporate Governance International* 3(1): 23-37.

Allen, J. W., and Phillips, G. M. 2000. Corporate equity ownership, strategic alliances, and product market relationships. *The Journal of Finance* 5(6): 2791-815.

Alrazi, B., Villiers, C., and Staden, C. 2010. A framework for the integration of environmental legitimacy, accountability and proactivity (ELAP). *In the 6th Asia Pasific Interdisciplinary Research in Accounting (APIRA) Conference*. Sydney, New South Wales, Australia.

Altman, E. I. 1968. Financial ratios, discriminant analysis and the prediction of corporate bankruptcy. *The Journal of Finance* 23(4): 589-609.

Amaeshi, K. M., Adi, B. C., Ogbechie, C., and Amao, O. O. 2006. Corporate social responsibility in Nigeria. *Journal of Corporate Citizenship* 2006(24): 83-99.

Aman, H., and Miyazaki, H. 2009. Valuation effects of new equity issues by banks: Evidence from Japan. *Applied Financial Economics* 19(8): 635-45.

American National Standards Institute ANSI 2012. *Cost-per hire: American national standard*. American National Standard Institute, Inc. US.

Amihud, Y., and Lev, B. 1981. Risk reduction as a managerial motive for conglomerate mergers. *The Bell Journal of Economics* 12(2): 605-17.

Anatan, L. 2010. Coorporate Social Responsibility (CSR): Theoretical and practices overview in Indonesia. *Jurnal Manajemen* 8(2): 66-77.

Anderson, E. W., Fornell, C., and Lehmann, D. R. 1994. Customer satisfaction, market share, and profitability: Findings from Sweden. *The Journal of Marketing* 58(3): 53-66.

Anderson, J. 2011. Measuring the financial value of brand euqity: The perpetuity perspective. *Journal of Business Administration Online* 10(1): 1-11.

Anderson, R. C., Bates, T.W., Bizjak, J. J. M., and Lemmon, M. L. 2000. Corporate governance and firm diversification. *Financial Management* 29(1): 5-22.

Anderson, R. C., and Reeb, D. M. 2003. Founding-family ownership and firm performance: Evidence from the S&P 500. *The Journal of Finance* 58(3): 1301-27.

Angrist, J. D., and Imbens, G. W. 1995. Two-stage least squares estimation of average causal effects in models with variable treatment intensity. *Journal of the American Statistical Association* 90(430): 431-42.

Aoki, M. 2001. *Toward a comparative institutional analysis*. MIT press. Cambridge, MA.

Arli, D., and Tjiptono, F. 2014. Does corporate social resposnibility matter to consumers in Indonesia?. Social Responsibility Journal 10(3):537-549.

Argenti, P. A. 2004. Collaborating with activitists: How starbucks work with NGOs. *California Management Review* 47(1): 91-116.

Arifin, B. 2006. Transaction cost analysis of upstream-downstream relations in watershed services: Lessons from community-based forestry management in Sumatra, Indonesia. *Quarterly Journal of International Agriculture* 45(4): 361-75.

Arifin, Z. 2003. The agency problem controls mechanisms with concentrated ownership structure by family founded: Evidence listed companies in Indonesia. Doctoral thesis. University of Indonesia, Jakarta. retrieved 12 August 2013.

Arifudin, N. 2008. Corporate social responsibility under perspective of Law No. 40 in 2007 about listed companies. *Risalah Hukum Fakultas UNMUL* 4(2): 128-34.

Arli, D. I., and Lasmono, H. K. 2010. Consumers' perception of corporate social responsibility in a developing country. *International Journal of Consumer Studies* 34(1): 46-51.

Akerlof, G. A., Rose, A. K., Yellen, J. L., Ball, L., and Hall, R. E. 1988. Job switching and job satisfaction in the US labor market. *Brookings Papers on Economic Activity* 1988(2): 495-594.

Akerlof, G. 1995 The Market for "Lemon": Quality Uncertainty and the Market Mechanisms Essential Reading in Economics. In Estrin.s ., and Marin A (eds). *Essential Readings in Economics.* Macmillan Education Publisher. UK.

Armour, J., Deakin, S., and Konzelmann, S. J. 2003. Shareholder primacy and the trajectory of UK corporate governance. *British Journal of Industrial Relations* 41(3): 531-55.

Arora, B., and Puranik, R. 2004. A review of corporate social responsibility in India. *Development* 47(3): 93-100.

Arora, P., and Dharwadkar, R. 2011. Corporate governance and corporate social responsibility (CSR): The moderating roles of attainment discrepancy and organization slack. *Corporate Governance: An International Review* 19(2): 136-52.

Asian Sustainability Rating ASR, 2010. *Sustainability in Asia: ESG reporting uncovered*. Responsible Research Pte Ltd. Singapore.

Asteriou, D., and Hall, S. G. 2011. *Applied econometrics: A modern approach using Eviews and Microfit*. Palgrave Macmillan. New York, US.

Attig, N., Cleary, S. W., El Ghoul, S., and Guedhami, O. 2014. Corporate legitimacy and investment–cash flow sensitivity. *Journal of Business Ethics* 121(2): 297-314.

Azizul Islam, M., and Deegan, C. 2008. Motivations for an organisation within a developing country to report social responsibility information: Evidence from Bangladesh. *Accounting, Auditing & Accountability Journal* 21(6): 850-74.

Azofra, V., Castrillo, L., and del Mar Delgado, M. 2003. Ownership concentration, debt financing and the investment opportunity set as determinants of accounting discretion: Empirical evidence from Spain. *Spanish Journal of Finance and Accounting* 32(115): 215-55.

Backhaus, K., and Tikoo, S. 2004. Conceptualizing and researching employer branding. *Career Development International* 9(5): 501-17.

Backx, M., Carney, M., and Gedajlovic, E. 2002. Public, private and mixed ownership and the performance of international airlines. *Journal of Air Transport Management* 8(4): 213-20.

Badan Pemeriksaan Keuangan Republik Indonesia BPK-RI. 2007. *Ikhtisar hasil pemeriksaan semester II tahun 2006*. Badan Pemeriksaan Keuangan Republik Indonesia. Jakarta, Indonesia.

Badjuri, A. 2011. Fundamental factors, mechanisms of corporate governance, disclosure of corporate social responsibility (CSR) in manufacturing companies and natural resources in Indonesia. *Dinamika Keuangan dan Perbankan* 3(1): 38-54.

Bai, C., Liu, Q., Lu, J., Song, F., and Zhang, J. 2004. Corporate governance and market valuation in China. *Journal of Comparative Economics* 32(4): 599-616.

Baiman, S. 1990. Agency research in managerial accounting: A second look. *Accounting, Organizations and Society* 15(4): 341-71.

Baker, G.P., Jensen, M.C., and Murphy, K. J. 1988. Compensation and incentives: Practice vs. theory. *The Journal of Finance* 43(3): 593-616.

Baker, H.K., and Anderson, R. C. 2010. *Corporate governance: A synthesis of theory, research, and practice* (Vol. 8). John Wiley & Sons, Inc.

Baker, M., and Gompers, P. A. 2003. The determinants of board structure at the initial public offering. *Journal of Law and Economics* 46(2): 569-98.

Balakrishnan, K., Billings, M. B., Kelly, B., and Ljungqvist, A. 2014. Shaping liquidity: On the causal effects of voluntary disclosure. *The Journal of Finance* 69(5): 2237-78.

Bank Indonesia BI 2016. Foreign exchange rates at <http://www.bi.go.id/en/moneter/informasi-kurs/referensi-jisdor/Default.aspx.> retrieved 1 March 2016.

Banker, R.D., Lee, S., Potter, G., and Srinivasan, D. 1996. Contextual analysis of performance impacts of outcome-based incentive compensation. *Academy of Management Journal* 39(4): 920-48.

—— 2000. An empirical analysis of continuing improvements following the implementation of a performance-based compensation plan. *Journal of Accounting and Economics* 30(3): 315-50.

Bansal, P. 2002. The corporate challenges of sustainable development. *The Academy of Management Executive* 16(2): 122-31.

Bansal, P., and Clelland, I. 2004. Talking trash: Legitimacy, impression management, and unsystematic risk in the context of the natural environment. *Academy of Management Journal* 47(1): 93-103.

Bansal, P., and Roth, K. 2000. Why companies go green: A model of ecological responsiveness. *Academy of Management Journal* 43(4): 717-36.

Barako, D.G., Hancock, P., and Izan, H. 2006. Factors influencing voluntary corporate disclosure by Kenyan companies. *Corporate Governance: An International Review* 14(2): 107-25.

Barber, B.M., and Odean, T. 2000. Trading is hazardous to your wealth: The common stock investment performance of individual investors. *The Journal of Finance* 55(2): 773-806.

Barkema, H. G., and Gomez-Mejia, L. R. 1998. Managerial gompensation and firm performance: A general research framework. *Academy of Management Journal* 41(2): 135-45.

Barnard, C. I. 1968. *The functions of the executive* (Vol. 11). Harvard University Press.

Barnea, A., and Rubin, A. 2010. Corporate social responsibility as a conflict between shareholders. *Journal of Business Ethics* 97(1): 71-86.

Barnett, M. L. 2007. Stakeholder influence capacity and the variability of financial returns to corporate social responsibility. *Academy of Management Review* 32(3): 794-816.

Barnett, M. L., and Salomon, R. M. 2006. Beyond dichotomy: The curvilinear relationship between social responsibility and financial performance. *Strategic Management Journal* 27(11): 1101-22.

Barney, J. B. 1990. The debate between traditional management theory and organizational economics: Substantive differences or intergroup conflict? *Academy of Management Review* 15(3): 382-93.

—— 1991. Firm resources and sustained competitive advantage. *Journal of Management* 17(1): 99-120.

Barney, J. B., and Ouchi, W. G. 1986. *Organizational economics*. Jossey-Bass. San Francisco, CA.

Baron, R. M., and Kenny, D. A. 1986. The moderator–mediator variable distinction in social psychological research: Conceptual, strategic, and statistical considerations. *Journal of Personality and Social Psychology* 51(6): 1173-82.

Barone, D, Jiang, L., Amyot, D., and Mylopoulos, J. 2011. Reasoning with key performance indicators. In Johannes, P. Krogstie, J., and Opdahl (eds.). *Proceedings from The Practice of Enterprise Modeling.*4th IFIP *WG. 8.1 Working Conferenc. POEM: The Practice of Enterprise Modeling*. Oslo, Norway. November 2011.

Barratt, R., and Korac-Kakabadse, N. 2002. Developing reflexive corporate leadership: The role of the non executive director. *Corporate Governance: The International Journal of Business in Society* 2(3): 32-6.

Bartholomeusz, S., and Tanewski, G. A. 2006. The relationship between family firms and corporate governance, *Journal of Small Business Management* 44(2): 245-67.

Basu, K., and Palazzo, G. 2008. Corporate social responsibility: A process model of sense making. *Academy of Management Review* 33(1): 122-36.

Bathala, C. T., Moon, K. P., and Rao, R. P. 1994. Managerial ownership, debt policy, and the impact of institutional holdings: An agency perspective. *Financial Management* 23(3): 38-50.

Bauer, T. N., and Aiman-Smith, L. 1996. Green career choices: The influence of ecological stance on recruiting. *Journal of Business and Psychology* 10(4): 445-58.

Bayoud, N. S., Kavanagh, M., and Slaughter, G. 2012. Factors influencing levels of corporate social responsibility disclosure by Libyan firms: A mixed study. *International Journal of Economics and Finance* 4(4): 13-29.

Baysinger, B. 1984. Domain maintenance as an objective of business political activity: An expanded typology. *Academy of Management Review* 9:248-258.

Baysinger, D. B., and Butler, H. N. 1985. Corporate governance and the board of directors: Performance effects of changes in board composition. *Journal of Law, Economics & Organization* 1(1): 101-24.

—— 1985b. The role of corporate law in the theory of the firm. *Journal of Law and Economics* 28(1): 179-91.

Baysinger, D. B., and Hoskisson, R. E. 1990. The composition of boards of directors and strategic control: Effects on corporate strategy. *Academy of Management Review* 15(1): 72-87.

Bear, S., Rahman, N., and Post, C. 2010. The impact of board diversity and gender composition on corporate social responsibility and firm reputation. *Journal of Business Ethics* 97(2): 207-21.

Beaver, W.H. 1966. Financial ratios as predictors of failure. *Journal of Accounting Research* 4: 71-111.

Beccerra, M., and Gupta, A. K. 1999. Trust within the organization: Integrating the trust literature with agency theory and transaction costs economics. *Public Administration Quarterly* 23(2): 177-203.

Becker-Olsen, K. L., Cudmore, B. A., and Hill, R. P. 2006. The impact of perceived corporate social responsibility on consumer behavior. *Journal of Business Research* 59(1): 46-53.

Beckmann, S. C. 2007. Consumers and corporate social responsibility: Matching the unmatchable? *Australasian Marketing Journal (AMJ)* 15(1): 27-36.

Beekun, R. I., and Badawi, J. A. 2005. Balancing ethical responsibility among multiple organizational stakeholders: The Islamic perspective. *Journal of Business Ethics* 60(2): 131-45.

Behn, B. K., Choi, J., and Kang, T. 2008. Audit quality and properties of analyst earnings forecasts. *The Accounting Review* 83(2): 327-49.

Beiner, S., Drobetz, W., Schmid, M. M., and Zimmermann, H. 2006. An integrated framework of corporate governance and firm valuation. *European Financial Management* 12(2): 249-83.

Belal, A. R. 2001. A study of corporate social disclosures in Bangladesh. *Managerial Auditing Journal* 16(5): 274-89.

Belkhir, M. 2009. Board of directors' size and performance in the banking industry. *International Journal of Managerial Finance* 5(2): 201-21.

Bénabou, R., and Tirole, J. 2010. Individual and corporate social responsibility. *Economica* 77(305): 1-19.

Bentley, K. A., Omer, T. C., and Sharp, N. Y. 2013. Business strategy, financial reporting irregularities, and audit effort. *Contemporary Accounting Research* 30(2): 780-817.

Berens, G, Cees, B. M., and Gerrit H. B. 2005. Corporate associations and consumer product responses: The moderating role of corporate brand dominance. *The Journal of Marketing* 69(3): 35-48.

Berger, Marco, A., Frame, W., and Miller, N. 2005. Debt maturity, risk, and asymmetric information. *The Journal of Finance* 60(6): 2895-923.

Berger, P.G., and Ofek, E. 1995. Diversification's effect on firm value. *Journal of Financial Economics* 37(1): 39-65.

Berle, A. A., and Means, G. C. 1932. *The modern corporation and private property*. Macmillan, New York.

Berns, M., Townend, A., Khayat, Z., Balagopal, B., Reeves, M., Hopkins, M. S., and Kruschwitz. N. 2009. The business of sustainability: What it means to managers now. *MIT Sloan Management Review* 51(1): 20-6.

Berthon, P., Ewing, M., and Hah, L. L. 2005. Captivating company: Dimensions of attractiveness in employer branding. *International Journal of Advertising* 24(2): 151-72.

Bertrand, M., and Mullainathan, S. 2003. Enjoying the quiet life? Corporate governance and managerial preferences. *Journal of Political Economy* 111(5): 1043-75.

Bethel, J. E., Liebeskind, J. P., and Opler, T. 1998. Block share purchases and corporate performance. *The Journal of Finance* 53(2): 605-34.

Bettis, R. A., and Thomas, H. 1990. *Risk, strategy, and management.* JAI Press. Greenwich, CT.

Bhagat, S., and Black, B. 2000. *Board independence and long-term firm performance*. Stanford Law School. Stanford, CA.

Bhagat, S., and Black, B. 2002. Non-correlation between board independence and long-term firm performance. *Journal of Corporation Law* 27(2): 231-274.

Bhagat, S., and Bolton, B. 2008. Corporate governance and firm performance. *Journal of Corporate Finance* 14(3): 257-73.

Bhasa, M. P. 2004. Understanding the corporate governance quadrilateral. *Corporate Governance: The International Journal of Business in Society* 4(4): 7-15.

Bhattacharya, C. B., and Korschun, D. 2008. Stakeholder marketing: Beyond the four P's and the customer. *Journal of Public Policy and Marketing* 27(1): 113-6.

Bhimani, A., and Soonawalla, K. 2005. From conformance to performance: The corporate responsibilities continuum. *Journal of Accounting and Public Policy* 24(3): 165-74.

Bice, S. J. 2011. Beyond the Business Case: A New Institutional Analysis of Corporate Social Responsibility in Australia Mining. PhD thesis. University of Melbourne. Melbourne. retrieved 10 January 2014.

Bidar, F. 2011. The impact of electronically-enabled supply chains on channel relationships and firm performance. PhD thesis. Swinburne University of Technology. Melbourne. retrieved 10 January 2014.

Birch, D. 2002. Social, economic and environmental capital. *Alternative Law Journal* 27(1): 3-6.

Birchard, B. 1995. How many masters can you serve? *CFO* 11: 48-53.

Bititci, U., Carrie, A., and McDevitt, L. 1997. Integrated performance measurement systems: A development guide. *International Journal of Operations & Production Management.* 17(5):522-534.

Black, B. S. 1998. Shareholder activism and corporate governance in the United States. *The New Palgrave Dictionary of Economics and the Law* 3: 459-65.

—— 2001. The corporate governance behavior and market value of Russian firms. *Emerging Markets Review* 2(2): 89-108.

Black, B. S., Jang, H., and Kim, W. 2006. Does corporate governance predict firms' market values? Evidence from Korea. *Journal of Law, Economics, and Organization*, 22(2): 366-413.

Blodgett, L. L. 1991. Toward a resources-based theory of bargaining power in international joint ventures. *Journal of Global Marketing* 35-54.

Blaikie, N. 2007. *Approaches to social enquiry: Advancing knowledge*. Polity Press, Cambridge, UK.

Blair, M. M. 1995. *Ownership and control: Rethinking corporate governance for the twenty-first century*. Brookings Institution Press. Washington, DC.

Bloom, M.. and Milkovich, G. T. 1998. Relationships among risk, incentive pay, and organizational performance. *Academy of Management Journal* 41(3): 283-97.

Blowfield, M., and Frynas, J. G. 2005. Editorial Setting new agendas: Critical perspectives on Corporate social responsibility in the developing world. *International Affairs* 81(3): 499-513.

Blowfield, M., and Murray, A. 2008. *Corporate responsibility: A critical introduction*. Oxford University Press. Oxford, UK.

Blumentritt, T. P., and Nigh, D. 2002. The integration of subsidiary political activities in multinational corporations. *Journal of International Business Studies* 33(1): 57-77.

Blunt, P., and Jones, M. L. 1997. Exploring the limits of western leadership theory in East Asia and Africa. *Personnel Review* 26(1/2): 6-23.

Bodie, Z., Kane. K., and Marcus, A. J. 1993. *Investments*. Irwin. New York, US.

Bohl, K. W. 2012. Corporate Social Responsibility: Engaging Communicative Praxis in An Era of Neoclassical Economics. PhD thesis. Duquesne University. Pennsylvania. retrieved 10 March 2014.

Bollen, K. A. 1987. *Structural equations with latent variables*. John Wiley & Sons. New York, US.

Bollen, N. P. 2007. Mutual fund attributes and investor behavior. *Journal of Financial and Quantitative Analysis* 42(3): 683-708.

Bollinger, A. S., and Smith, R. D. 2001. Managing organizational knowledge as a strategic asset. *Journal of Knowledge Management* 5(1): 8-18.

Bolton, P., and Thadden, V. 1998. Blocks, liquidity, and corporate control. *The Journal of Finance* 53(1): 1-25.

Bolton, N. R. 2004. Linking markeiting to financial performance and firm value. *Journal of Marketing* 68: 73-75.

Bonsón, E., and Escobar, T. 2004. La difusión voluntaria de información financiera en Internet. *Spanish Journal of Finance and Accounting* 33(123): 1063-101.

Boomsma, A., and Hoogland, J. J. 2001. The Robustness of LISREL Modeling revisited. In R. Cudeck, S. du Toit, & D. Sorbom (Eds.). *Structural equation models: Present and future.* A Festschrift in honor of Karl Jöreskog, 139-68. Scientific Software International. Chicago, US.

Boone, A. L., Casares. F. L., Karpoff, J. M., and Raheja, C. G. 2007. The determinants of corporate board size and composition: An empirical analysis. *Journal of Financial Economics* 85(1): 66-101.

Börsch-Supan, A., and Köke, J. 2002. An applied econometricians' view of empirical corporate governance studies. *German Economic Review* 3(3): 295-326.

Botosan, C. A. 1997. Disclosure level and the cost of equity capital. *The Accounting Review* 72(3): 323-49.

Botosan, C. A., and Plumlee, M. A. 2002. A re-examination of disclosure level and the expected cost of equity capital. *Journal of Accounting Research* 40(1): 21-40.

Boubakri, N., and Cosset, J. C. 1998. The financial and operating performance of newly privatized firms: Evidence from developing countries. *The Journal of Finance* 53(3): 1081-110.

Bouten, L., Everaert, P., Van Liedekerke, L., De Moor, L., and Christiaens, J. 2011. Corporate social responsibility reporting: A comprehensive picture? *Accounting Forum* 35(3): 187-204.

Bowen, D. E., and Jones, G. R. 1986. Transaction cost analysis of service organization-customer exchange. *Academy of Management Review* 11(2): 428-41.

Bowen, F. 1999. Does organizational slack stimulate the implementation of environmental initiatives. In Wood, D and Windsor, D (eds.). *Proceedings from the Tenth Annual Meeting of the International Association of Business and Society*: 234-44.

Bowen, H. R. 1953. *Social responsibilities of the businessman*. Harper & Brothers. New York, US.

Boyd, B. 1990. Corporate linkage and organizational environment: A test of the resources dependence model. *Strategic Management Journal* 11(6): 419-30.

Bozec, Y., and Bozec, R. 2007. Ownership concentration and corporate governance practices: Substitution or expropriation effects? *Canadian Journal of Administrative Sciences* 24(3): 182-95.

Brainard, W. C., and Tobin, J. 1968. Pitfalls in financial model building. *The American Economic Review* 58(2): 99-122.

Brammer, S., Jackson, G., and Matten, D. 2012. Corporate social responsibility and institutional theory: New perspectives on private governance. *Socio-Economic Review* 10(1): 3-28.

Brammer, S., and Millington, A. 2006. Firm size, organizational visibility and corporate philanthropy: An empirical analysis. *Business Ethics: A European Review* 15(1): 6-18.

—— 2008. Does it pay to be different? An analysis of the relationship between corporate social and financial performance. *Strategic Management Journal* 29(12): 1325-43.

Brammer, S., Millington, A., and Rayton, B. 2007. The contribution of corporate social responsibility to organizational commitment. *The International Journal of Human Resource Management* 8(10): 1701-19.

Brammer, S., and Pavelin, S. 2008. Factors influencing the quality of corporate environmental disclosure. *Business Strategy and the Environment* 17(2): 120-36.

Branco, M. C., and Rodrigues, L. L. 2006. Corporate social responsibility and resource-based perspectives. *Journal of Business Ethics* 69(2): 111-32.

Bratton, W.W. 2002. Enron and the dark side of shareholder value. *Tulane Law Review* 76: 1275-1361.

Braun, M., and Sharma, A. 2007. Should the CEO also be chair of the board? An empirical examination of family-controlled public firms. *Family Business Review* 20(2): 111-26.

Brennan, M. J. 1995. Corporate finance over the past 25 years. *Financial Management* 24(2): 9-22.

Brennan, N. M., and Solomon, J. 2008. Corporate governance, accountability and mechanisms of accountability: An overview. *Accounting, Auditing & Accountability Journal* 21(7): 885-906.

Brickley, J. A., Coles, J. L., and Jarrell, G. 1997. Leadership structure: Separating the CEO and chairman of the board. *Journal of Corporate Finance* 3(3): 189-220.

Brickley, J. A., Coles, J. L., and Terry, R. L. 1994. Outside directors and the adoption of poison pills. *Journal of Financial Economics* 35(3): 371-90.

Brickley, J. A., Lease, R. C., and Smith, C. W. 1988. Ownership structure and voting on antitakeover amendments. *Journal of Financial Economics* 20(1/2): 267-91.

Brigham, E. F., and Gapenski, L.C. 1996. *Intermediate financial management* (5th edition). Dryden Press. Orlando.

Brine, M., Brown, R., and Hackett, G. 2007. Corporate cocial responsibility and financial performance in the Australian context. *Economic Round-up*. Autumn 2007: 47-58.

Brockhaus, M. 1996. *Society-oriented coorperation in the environmental context: Prospects for dynamic environmental management*. Verlag Publishing. Germany.

Brooks, C. 2002. *Introductory econometrics for finance*. Cambridge University press. UK.

Brown, R. L. 1994. Efficacy of the indirect approach for estimating structural equation models with missing data: A comparison of five methods. *Structural Equation Modeling: A Multidisciplinary Journal* 1(4): 287-316.

Brown, T. J., and Dacin, P. A. 1997. The company and the product: Corporate associations and consumer product responses. *The Journal of Marketing* 61(1): 68-84.

Brown, S., Hillegeist, S.A., and Lo, K. 2004. Conference calls and information asymmetry. *Journal of Accounting and Economics* 37(3): 343-366.

Buchanan, J. 1968. *The demand and supply of public goods.* Rand McNally. Chicago, USA.

Buchanan, J. 1987. The constitution of economic policy. Strategic Management Journal 7:437-458.

Buckley, W. F. 1968. *Modern systems research for the behavioral scientist: A sourcebook*. Aldine Press. Chicago, UK.

Burkart, M., Gromb, D., and Panunzi, F. 1997. Large shareholders, monitoring, and the value of the firm. *The Quarterly Journal of Economics* 112(3): 693-728.

Burke, E. M. 2005. *Managing a company in an activist world: The Leadership challenge of corporate citizenship*. Praeger Publishers. Westport, CT.

Burritt, R. L., and Saka, C. 2006. Environmental management accounting applications and eco-efficiency: Case studies from Japan. *Journal of Cleaner Production* 14(14): 1262-75.

Bushee, B. J. 1998. The influence of institutional investors on myopic R&D investment behavior. *Accounting Review* 73(3): 305-33.

Bushee, B. J., Core, J.E., Guay, W., and Hamm, S. J. W. 2010. The role of the business ress as an information intermediary. *Journal of Accounting Research* 48(1): 1-19.

Bushman, R. M., and Smith, A. J. 2001. Financial accounting information and corporate governance. *Journal of Accounting and Economics* 32(1): 237-333.

Bussmann, M. 2001. Examining Causality Among Militarized Interstate Disputes, Regime type, Trade Openess, and Economic Growth. PhD thesis. The University of Alabama. Tuscaloosa. retrieved 15 June 2014.

Buzzell, R. D., and Wiersema, F.D. 1981. Modelling changes in market share: A cross-sectional analysis. *Strategic Management Journal* 2(1): 27-42.

Byard, D., Li, Y., and Yu, Y. 2011. The effect of mandatory IFRS adoption on financial analysts' information environment. *Journal of Accounting Research* 49(1): 69-96.

Cadbury, S. A. 1992. *Report of the committee on the financial aspects of corporate governance*. Gee Ltd (Professional Publishing Ltd). London, UK.

—— 2000. The Corporate governance agenda. *Corporate Governance* 8(1): 7-15.

Cahan, S. F., and Wilkinson, B. R. 1999. Board composition and regulatory change: Evidence from the enactment of new companies legislation in New Zealand. *Financial Management* 28(1): 32-42.

Cai, Y., Jo, H., and Pan, C. 2011. Vice or virtue? The impact of corporate social responsibility on executive compensation. *Journal of Business Ethics* 104(2): 159-73.

Calton, J.M., and Payne, S. L. 2003. Coping with paradox multistakeholder learning dialogue as a pluralist sensemaking process for addressing messy problems. *Business & Society* 42(1): 7-42.

Campbell, D. 2004. A longitudinal and ceoss-sectional analysis of environmental disclsoure in UK companies-areserach note. *Br Account Rev*.36:107-117.

Campbell, J. L. 2007. Why would corporations behave in socially responsible ways? An institutional theory of corporate social responsibility. *Academy of Management Review* 32(3): 946-67.

Cannon, T .1992. *Corporate responsibility*. Pitman Publishing. London, UK.

Capulong, M., Edwards, D., Webb, D., and Zhuang, J. 2000. *Corporate governance and finance in East Asia: a study of Indonesia, Republic of Korea, Malaysia, Philippines and Thailand* 1 (A Consolidated Report). A publication prepared under the Asian Development Bank's regional technical assistance 5802 at <http://www.adb.org>. retrieved 21 September 2014.

Carroll, A. B. 1979. A three-dimensional conceptual model of corporate performance. *The Academy of Management Review* 4(4): 497-505.

—— 1991. The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders. *Business Horizons* 34(4): 39-48.

—— 1999. Corporate social responsibility evolution of a definitional construct. *Business & Society* 38(3): 268-95.

—— 2004. Managing ethically with global stakeholders: A present and future challenge. *The Academy of Management Executive* 18(2): 114-20.

Carter, D. A., Simkins, B. J., and Simpson, W. G. 2003. Corporate governance, board diversity, and firm value. *Financial Review* 38(1): 33-53.

Casey, R. J., and Grenier, J. H. 2014. Understanding and contributing to the enigma of corporate social responsibility (CSR) assurance in the United States. *Auditing: A Journal of Practice & Theory* 34(1): 97-130.

Castello, I., and Lozano, J. 2009. From risk management to citizenship corporate social responsibility: Analysis of strategic drivers of change. *Corporate Governance: The International Journal of Business in Society* 9(4): 373-85.

CEC 2002, *Communication from the commission concerning orporate social resposibility: A business contribution to suistanable development.* Commission of The European Communities, Brussels at <https://ec.europa.eu/europeaid/communication-commission-concerning-corporate-social-responsibility-business-contribution_en>. retrieved 17 February 2014.

Certo, S. T., Covin, J. G., Daily, C. M., and Dalton, D. R. 2001. Wealth and the effects of founder management among IPO-stage new ventures. *Strategic Management Journal* 22(6-7): 641-58.

Chand, M., and Fraser, S. 2006. The relationship between corporate social performance and corporate financial performance: Industry type as a boundary condition. *The Business Review* 5(1): 240-5.

Chandler, A. D. 1977. *The visible hand: The managerial revolution in American business*. Belknap Press, Cambridge.

Chandra, T. 2015. Impacts of Indonesia's 2014 Presidential election towards stock priceso Indonesian Stock Exchange. *International Journal of Business and Management* 10(7): 172-183.

Chang, J., Khanna, T., and Palepu, K. 2000. *Analyst activity around the world*. Harvard Business Publishing. Cambridge.

Chapple, W., and Moon, J. 2005. Corporate social responsibility (CSR) in Asia a seven-country study of CSR web site reporting. *Business & Society* 44(4): 415-41.

Charbel, S., Elie, B., and Georges, S. 2013. Impact of family involvement in ownership management and direction on financial performance of the Lebanese firms. *International Strategic Management Review* 1(1): 30-41.

Charkham, J. P. 1994. *Keeping good company: A study of corporate governance in five countries*. Clarendon Press. Oxford, UK.

Chatman, J. A. 1989. Improving interactional organizational research: A model of person-organization fit. *Academy of Management Review* 14(3): 333-49.

Chau, G. K., and Gray, S. J. 2002. Ownership structure and corporate voluntary disclosure in Hong Kong and Singapore. *The International Journal of Accounting* 37(2): 247-65.

Cheit, E. F. 1964. *The Business establishment*. Wiley Press. New York, US.

Chen, C. J., and Jaggi, B. 2001. Association between independent non-executive directors, family control and financial disclosures in Hong Kong. *Journal of Accounting and Public Policy* 19(4): 285-310.

Chen, E. T., and Nowland, J. 2010. Optimal board monitoring in family-owned companies: Evidence from Asia. *Corporate Governance: An International Review* 18 (1): 3-17.

Chen, K. H., and Metcalf, R. W. 1980. The relationship between pollution control record and financial indicators revisited. *The Accounting Review* 55(1): 168-77.

Chen, P., Mehrotra, V., Sivakumar, R., and Yu, W. W. 2001. Layoffs, shareholders' wealth, and corporate performance. *Journal of Empirical Finance* 8(2): 171-99.

Chen, Z., Cheung, Y., Stouraitis, A ., and Wong, A. W. 2005. Ownership concentration, firm performance, and dividend policy in Hong Kong. *Pacific-Basin Finance Journal* 13(4): 431-49.

Cheng, E. C., and Courtenay, S. M. 2006. Board composition, regulatory regime and voluntary disclosure. *The International Journal of Accounting* 41(3): 262-89.

Cheng, E. W. 2001. SEM being more effective than multiple regression in parsimonious model testing for management development research. *Journal of Management Development* 20(7): 650-67.

Cheng, I. H., and Wall, H. J. 2005. Controlling for heterogeneity in gravity models of trade and integration. *Federal Reserve Bank of St. Louis Review* 87(1): 49-63.

Cheng, M, Dhaliwal, D. S., and Neamtiu, M. 2011. Asset securitization, securitization recourse, and information uncertainty. *The Accounting Review* 86(2): 541-68.

Cheng, S. 2008. Board size and the variability of corporate performance. *Journal of Financial Economics* 87(1): 157-76.

Chiang, H., and Lin, M. 2011. Examining board composition and firm performance. *The International Journal of Business and Finance Research* 5(3): 15-27.

Chiles, T. H., and McMackin, J. F. 1996. Integrating variable risk preferences, trust, and transaction cost economics. *Academy of Management Review* 21(1): 73-99.

Child, J. and Tsai, T. 2005.The dynamic between firms' environmental strategies and institutional contrainsts in emerging economies: evidence from China and Taiwan. *Journal of Management Studies* 42: 95-125.

Chin, C., Kleinman, G., Lee, P., and Lin, M. 2006. Corporate ownership structure and accuracy and bias of mandatory earnings forecast: Evidence from Taiwan. *Journal of International Accounting Research* 5(2): 41-62.

Cho. S., and Rui, O. M. 2009. Exploring the effects of China's two-tier board system and ownership structure on firm performance and earnings informativeness. *Asia-Pacific Journal of Accounting & Economics* 16(1): 95-117.

Cho, H., and Pucik, V. 2005. Relationship between innovativeness, quality, growth, profitability, and market value. *Strategic Management Journal* 26(6): 555-75.

Cho, M. H. 1998. Ownership structure, investment, and the corporate value: An empirical analysis. *Journal of Financial Economics* 47(1): 103-21.

Cho, S. Y., Lee, C., and Pfeiffer Jr, R. J. 2013. Corporate social responsibility performance and information asymmetry. *Journal of Accounting and Public Policy* 32 (1): 71-83.

Choi, J., Kwak, Y., and Choe, C. 2010. Corporate social responsibility and corporate financial performance: Evidence from Korea. *Australian Journal of Management* 35(3): 291-311.

Choi, J., and Wang,. H. 2009. Stakeholder relations and the persistence of corporate financial performance. *Strategic Management Journal* 30(8): 895-907.

Chong, V. K., and Eggleton, I. R. 2007. The impact of reliance on incentive-based compensation schemes, information asymmetry and organisational commitment on managerial performance. *Management Accounting Research* 18(3): 312-42.

Choo, F., and Tan, K. 2007. An American dream theory of corporate executive fraud. *Accounting Forum* 31(2): 203-15.

Chou, J., Ng, L., Sibilkov, V., and Wang, Q. 2011. Product market competition and corporate governance. *Review of Development Finance* 1(2): 114-30.

Chow, C.W., and Wong-Boren, A. 1987. Voluntary financial disclosure by Mexican corporations. *Accounting Review* 62(3): 533-41.

Chow, P. C. 1987. Causality between export growth and industrial development: Empirial evidence from the NICs. *Journal of Development Economics* 26(1): 55-63.

Christopher, J. 2010. Corporate governance: A multi-theoretical approach to recognizing the wider influencing forces impacting on organizations. *Critical Perspectives on Accounting*, 21(8): 683-95.

Chung, K.H., and Pruitt, S.W. 1994. A simple approximation of Tobin's q. *Financial Management* 23(3): 70-4.

—— 1996. Executive ownership, corporate value, and executive compensation: A unifying framework. *Journal of Banking & Finance* 20(7): 1135-59.

Canadian Institute of Chartered Accountant CICA 2010. *Enviromental, social and governance (ESG) issue in institutional investor decision making*. Canadian Institute of Chartered Accountant, Toronto.

Claessens, S. 2006. Corporate governance and development. *The World Bank Research Observer* 21(1): 91-122.

Claessens, S., Djankov, S., Fan, J. P., and Lang, L. H. 2002. Disentangling the incentive and entrenchment effects of large shareholdings. *The Journal of Finance* 57(6): 2741-71.

Claessens, S., Djankov, S., and Lang, L. 2000. The separation of ownership and control in East Asian corporations. *Journal of Financial Economics* 58(1): 81-112.

Claessens, S., and Fan, J. P. 2002. Corporate governance in Asia: A survey. *International Review of Finance* 3(2): 71-103.

Claessens, S., and Yurtoglu, B. B. 2013. Corporate governance in emerging markets: A survey. *Emerging Markets Review* 15: 1-33.

Clarke, T. 1998. Research on corporate governance. *Corporate Governance: An International Review* 6(1): 57-66.

—— 2004. *Theories of corporate governance: The philosophical foundations of corporate governance*. Routledge Taylor & Francis Press. Oxon.

—— 2007. *International corporate governance: A comparative approach*. Routledge Taylor & Francis Press. New York, US.

Clarkson, M. B. E. 1995. A Stakeholder framework for analyzing and evaluating corporate social performance. *The Academy of Management Review* 20(1): 92-117.

Coase, R. H. 1937. The nature of the firm. *Economica* 4(16): 386-405.

Cobb, G., Collison, D., Power, D., and Stevenson, L. 2005. *FTSE4Good: Perceptions and performance*. ACCA Research Report 88. London, UK.

Cochran, P. L., and Wood, R. A. 1984. Corporate social responsibility and financial performance. *The Academy of Management Journal* 27(1): 42-56.

Cohen, J., Holder-Webb, L., Nath, L., and Wood, D. 2011. Retail investors' perceptions of the decision-usefulness of economic performance, governance, and corporate social responsibility disclosures. *Behavioral Research in Accounting* 23(1): 109-29.

Coles, J.L., Daniel, N.D., and Naveen, L. 2008. Boards: does one size fit all?. *Journal of Financial Economics* 87(2): 329-56.

Coles, J. W., McWilliams, V. B., and Sen, N. 2001. An examination of the relationship of governance mechanisms to performance. *Journal of Management* 27(1): 23-50.

Conyon, M. J., and Murphy, K. J. 2000. The prince and the pauper? CEO pay in the United States and United Kingdom. *The Economic Journal* 110(467): 640-71.

Cooke, T. E. 1989. Disclosure in the corporate annual reports of Swedish companies. *Accounting and Business Research* 19(74): 113-24.

Cool, K., and Dierickx, I. 1993. Rivalry, strategic groups and firm profitability. *Strategic Management Journal* 14(1): 47-59.

Corbetta, G., and Salvato, C. 2004. Self-serving or self-actualizing? Models of man and agency costs in different types of family firms: A commentary on comparing the agency costs of family and non-family firms: conceptual issues and exploratory evidence. *Entrepreneurship Theory and Practice* 28(4): 355-62.

Cormier, D., Aerts, W., Ledoux, M. J., and Magnan, M. 2009. Attributes of social and human capital disclosure and information asymmetry between managers and investors. *Canadian Journal of Administrative Sciences* 26(1): 71-88.

Cormier, D., and Gordon, I. M. 2001. An examination of social and environmental reporting strategies. *Accounting, Auditing & Accountability Journal* 14(5): 587-617.

Cormier, D., Magnan, M., and Van Velthoven, B. 2005. Environmental disclosure quality in large German companies: economic incentives, public pressures or institutional conditions? *European Accounting Review* 14(1): 3-39.

Coyle, B. 2007. *Corporate governance* (5th edition). Institute of Chartered Secretaries and Administration. London.

Craig, V. 2004. The future of banking in America-the changing corporate governance environment: Implications for the banking industry. FDIC Banking Series 16(4): 121-135.

Crane, A., and Matten, D. 2007. *Business ethics: Managing corporate citizenship and sustainability in the age of globalization*. Oxford University Press.

Crane, A., Matten, D., and Moon, J. 2004. Stakeholders as citizens? Rethinking rights, participation, and democracy. *Journal of Business Ethics* 53(1/2): 107-22.

Crane, A., McWilliams, A., Matten, D., Moon, J., and Siegel, D. S. 2008. *The oxford handbook of corporate social responsibility*. Oxford University Press, UK.

Cronin, J. J., Brady, M. K., and Hult, G.T.M. 2000. Assessing the effects of quality, value, and customer satisfaction on consumer behavioral intentions in service environments. *Journal of Retailing* 76(2): 193-218.

Cronqvist, H., and Nilsson, M. 2003. Agency costs of controlling minority shareholders. *Journal of Financial and Quantitative Analysis* 38(4): 695-719.

Crowther, D., and Aras, G. 2009. *Global perspectives on corporate governance and CSR*. Gower Publishing Limited. UK.

Cudeck, R. 1989. Analysis of correlation matrices using covariance structure models. *Psychological Bulletin* 105(2): 317-27.

Cui, J., Jo, H., and Na, H. 2016. Does Corporate Social Responsibility Affect Information Asymmetry? *Journal of Business Ethics*: 1-24. doi:10.1007/s10551-015-3003-8.

Cullen, L., and Christopher, T. 2002. Governance disclosures and firm characteristics of listed Australian mining companies. *International Journal of Business Studies* 10(1): 37-58.

Cummings, L. S. 2008. Managerial attitudes toward environmental management within Australia, the People's Republic of China and Indonesia. *Business Strategy and the Environment* 17(1): 16-29.

Cunnningham, E., Coote, L., and Holmes-Smith, P. 2006. *Structural Equation Modeling: From the Fundamentals to Advanced Topics*. Swinburne University of Technology. Melbourne.

Cyert, R.M., Kang, S., and Kumar, P. 2002. Corporate governance, takeovers, and top-management compensation: Theory and evidence. *Management Science* 48(4): 453-69.

Da Silveira, A. M., and Dias, A. L. 2010. What is the impact of bad governance practices in a concentrated ownership environment and quest. *International Journal of Disclosure and Governance* 7(1): 70-91.

Da Silveira, A. M., Leal, R. P. C., Carvalhal-Da-Silva, A. L., and Barros. L. 2008. Evolution and determinants of firm-level corporate governance quality of Brazilian listed companies. *Proceedings from Oxford Business and Economics Conference 2008 Working Paper*.

Dahlsrud, A. 2008. How corporate social responsibility is defined: An analysis of 37 definitions. *Corporate Social Responsibility and Environmental Management* 15(1): 1-13.

Dahya, J., Lonie, A., and Power, D. 1996. The case for separating the roles of chairman and CEO: An analysis of stock market and accounting data. *Corporate Governance: An International Review* 4(2): 71-7.

Daily, C. M. 1991. Governance structure and financial performance in small company. PhD thesis. Indiana University. Bloomington. retrieved 10 July 2014.

Daily, C. M., and Dalton, D. R. 1994. Bankruptcy and corporate governance: The impact of board composition and structure. *Academy of Management Journal* 37(6): 1603-17.

—— 1997, Separate, but not independent: Board leadership structure in large corporations. *Corporate Governance: An International Review* 5(3): 126-36.

Daily, C. M., Dalton, D. R., and Cannella, A. A. 2003. Corporate governance: Decades of dialogue and data. *Academy of Management Review* 28(3): 371-82.

Dalton, D. R., Daily, C. M., Ellstrand, A. E., and Johnson, J. L. 1998. Meta-analytic reviews of board composition, leadership structure, and financial performance. *Strategic Management Journal* 19(3): 269-90.

Dalton, D. R., Daily, C. M., Johnson, J. L., and Ellstrand, A. E. 1999. Number of directors and financial performance: A meta-analysis. *Academy of Management Journal* 42(6): 674-86.

Dam, L., and Scholtens, B. 2012. Does ownership type matter for corporate social responsibility? *Corporate Governance: An International Review* 20(3): 233-52.

Daniri, M. A. 2008. *The standardisation of Corporate Social Responsibility*. Draft IV at <http://pkbl.bumn.go.id>. retrieved 17 June 2016.

Darmadi, S., and Gunawan, R. 2013. Underpricing, board structure, and ownership: An empirical examination of Indonesian IPO firms. *Managerial Finance* 39(2): 181-200.

Darwin, A 2004, The implemetation of sustainability reporting in Indonesia. *Proceedings from Accounting National Convention.* Yogyakarta, Indonesia. 13-15 December 2004.

Davenport, K. 2000. Corporate citizenship: A stakeholder approach for redefining corporate social performancee and identifing measures for assessing it. *Business and Society* 39(2): 210-19.

David, P., Bloom, M., and Hillman, A. J. 2007. Investor activism, managerial responsiveness, and corporate social performance. *Strategic Management Journal* 28(1): 91-100.

Davidson, W.N., Chandy, P., and Cross, M. 1987. Large losses, risk management and stock returns in the airline industry. *Journal of Risk and Insurance* 54(1): 162-72.

Davies, G., Chun, R., da Silva, R.V., and Roper, S. 2001. The personification metaphor as a measurement approach for corporate reputation. *Corporate Reputation Review* 4(2): 113-27.

Davis, J.H., Schoorman, F.D., and Donaldson, L. 1997. Toward a stewardship theory of management. *Academy of Management Review* 22(1): 20-47.

Davis, J. J. 1994. Good ethics is good for business: Ethical attributions and response to environmental advertising. *Journal of Business Ethics* 13(11): 873-85.

Davis, K. 1973. The case for and against business assumption of social responsibilities. *Academy of Management Journal* 16(2): 312-22.

Davis, K., and Blomstrom, R. L. 1966. *Business and its environment*. McGraw-Hill. New York, US.

Davis, P. 1983. Realising the potential of the family business. *Organisational Dynamics* (Summer): 47-56.

Dawkins, J., and Lewis, S. 2003. CSR in stakeholder expectations: and their implication for company strategy. *Journal of Business Ethics* 44(2-3): 185-93.

De Andres, P., Azofra, V., and Lopez, F. 2005. Corporate boards in OECD countries: Size, composition, functioning and effectiveness. *Corporate Governance: An International Review* 13(2): 197-210.

DeAngelo, H., and DeAngelo, L. 1985. Managerial ownership of voting rights: A study of public corporations with dual classes of common stock. *Journal of Financial Economics* 14:33-69.

De Bakker, F.G., Groenewegen, P., and Den Hond, F. 2005. A bibliometric analysis of 30 years of research and theory on corporate social responsibility and corporate social performance. *Business & Society* 44(3): 283-317.

Deakin, S., and Hobbs, R. 2007. False dawn for CSR? Shifts in regulatory policy and the response of the corporate and financial sectors in Britain. *Corporate Governance: An International Review* 15(1): 68-76.

Dechow, P.M., and Sloan, R.G. 1991. Executive incentives and the horizon problem: An empirical investigation. *Journal of Accounting and Economics* 14(1): 51-89.

Deegan, C. 2006. Legitimacy theory. In Hoque, S. *Methodological issues in accounting research: Theories and methods*. Spriramus Press. London, UK. 161-82.

Deegan, C., and Blomquist, C. 2006. Stakeholder influence on corporate reporting: An exploration of the interaction between WWF-Australia and the Australian minerals industry. *Accounting, Organizations and Society* 31(4): 343-72.

DeFond, M., Hung, M., and Trezevant, R. 2007. Investor protection and the information content of annual earnings announcements: International evidence. *Journal of Accounting and Economics* 43(1): 37-67.

Dell, D.J, and Ainspan, N. 2001. Engaging employees through your brand. P*roccedings from Conference Board Report No.R-1288-01-RR*. Conference Board. Washington, DC, US.

Demsetz, H. 1983. The structure of ownership and the theory of the firm. *The Journal of Law & Economics* 26(2): 375-390.

Demsetz, H., and Lehn, K. 1985. The structure of corporate ownership: Causes and consequences. *The Journal of Political Economy* 93(6): 1155-77.

Demsetz, H., and Villalonga, B. 2001. Ownership structure and corporate performance. *Journal of Corporate Finance* 7(3): 209-33.

Denis, D.J., and Kruse, T. A. 2000. Managerial discipline and corporate restructuring following performance declines. *Journal of Financial Economics* 55(3): 391-424.

Denis, D.J., and Sarin, A. 1999. Ownership and board structures in publicly traded corporations. *Journal of Financial Economics* 52(2): 187-223.

Denis, D. K. 2001. Twenty-five years of corporate governance research and counting. *Review of Financial Economics* 10(3): 191-212.

Denis, D. K., and McConnell, J. J. 2003. International corporate governance. *Journal of Financial and Quantitative Analysis* 38(1): 1-36.

Dercon, B. 2007. Corporate governance after the Asian crisis. *Managerial Law* 49(4): 129-40.

Deutsch, Y. 2005. The impact of board composition on firms' critical decisions: A meta-analytic review. *Journal of Management* 31(3): 424-44.

Dewi, K., Mukhtaruddin, M., Apriany, C., and Apriany, C. 2014. Good corporate governance mechanism, firm characteristics and coorporate social responsibility:

Empirical study in manufacturing companies listed in Indonesia stock exchange. *International Journal of Finance and Accounting* 3(2): 88-95.

Dey, A. 2008. Corporate governance and agency conflicts. *Journal of Accounting Research* 46(5): 1143-81.

Dhaliwal, D. S., Li, O. Z., Tsang, A., and Yang, Y. G. 2011. Voluntary nonfinancial disclosure and the cost of equity capital: The initiation of corporate social responsibility reporting. *The Accounting Review* 86(1): 59-100.

Dhaliwal, D. S., Radhakrishnan, S., Tsang, A., and Yang, Y. G. 2012. Nonfinancial disclosure and analyst forecast accuracy: International evidence on corporate social responsibility disclosure. *The Accounting Review* 87(3): 723-59.

Dhaliwal, D. S., Salamon, G. L., and Dan Smith, E. 1982. The effect of owner versus management control on the choice of accounting methods. *Journal of Accounting and Economics* 4(1): 41-53.

Dharwadkar, B., George, G., and Brandes, P. 2000. Privatization in emerging economies: An agency theory perspective. *Academy of Management Review* 25(3): 650-69.

Diamond, D.W., and Verrecchia, R.E. 1991. Disclosure, liquidity, and the cost of capital. *The Journal of Finance* 46(4): 1325-59.

Dierkens, N. 1991. Information asymmetry and equity issues. *Journal of Financial and Quantitative Analysis* 26(2): 181-99.

Dobers, P., and Halme, M. 2009. Corporate social responsibility and developing countries. *Corporate Social Responsibility and Environmental Management* 16(5): 237-49.

Dodd, P., and Warner, J.B. 1983. On corporate governance: A study of proxy contests. *Journal of Financial Economics* 11(1): 401-38.

Doh, J.P., and Guay, T. R. 2006. Corporate social responsibility, public policy, and NGO activism in Europe and the United States: An institutional-stakeholder perspective. *Journal of Management Studies* 43(1): 47-73.

Donaldson, L. 1990. The ethereal hand: Organizational economics and management theory. *Academy of Management Review* 15(3): 369-81.

—— 2001. *The contingency theory of organizations*. Sage Press. Thousand Oaks. CA.

Donaldson, L., and Davis, J. H. 1991. Stewardship theory or agency theory: CEO governance and shareholder returns. *Australian Journal of Management* 16(1): 49-64.

—— 1994. Boards and company performance: Research challenges the conventional wisdom. *Corporate Governance: An International Review* 2(3): 151-160.

Donaldson, T. 1982. *Corporations and morality*. Cambridge University Press. UK.

—— 1989. *The ethics of international business*. Oxford University Press. UK.

Donaldson, T., Crane, A., McWilliams, A., Matten, D., Moon, J., and Siegel, D. 2008. The transatlantic paradox: How outdated concepts confuse the American/European debate about corporate governance. *The Oxford Handbook of Corporate Social Responsibility. Oxford University Press.* UK. 543-51.

Donaldson, T., and Dunfee, T.W. 1994. Toward a unified conception of business ethics: Integrative social contracts theory. *Academy of Management Review* 19(2): 252-84.

—— 1995. Integrative social contracts theory. *Economics and Philosophy* 11(1): 85-112.

—— 1999. *Ties that bind: A social contracts approach to business ethics*. Harvard Business Press. Boston, US.

Donaldson, T., and Preston, L. E. 1995. The stakeholder theory of the corporation: Concepts, evidence, and implications. *The Academy of Management Review* 20(1): 65-91.

Donker, H., and Zahir, S. 2008. Towards an impartial and effective corporate governance rating system. *Corporate Governance: The International Journal of Business in Society* 8(1): 83-93.

Douma, S.W., and Schreuder, H. 2008. *Economic approaches to organizations*. Pearson Education Limited. Essex.

Dreher, A., and Vaubel, R. 2004. Do IMF and IBRD cause moral hazard and political business cycles? Evidence from panel data. *Open Economies Review* 15(1): 5-22.

Du Plessis, J. J., Du Plessis, J., Bagaric, M., and Hargovan, A. 2010, *Principles of contemporary corporate governance* (2nd edition). Cambridge University Press. Australia.

Du, S., Bhattacharya, C.B., and Sen, S 2007. Convergence of interest - cultivating consumer trust through corporate social initiatives. *Advances in Consumer Research* 34: 6.

Duchin, R., Matsusaka, J. G., and Ozbas, O. 2010. When are outside directors effective? *Journal of Financial Economics* 96(2): 195-214.

Dufrene, U.B. 1996. Firm performance measures: Temporal roadblocks to innovation? *Managerial Finance* 22(8): 18-32.

Dulewicz, V., and Herbert, P. 2004. Does the composition and practice of boards of directors bear any relationship to the performance of their companies? *Corporate Governance: An International Review* 12(3): 263-80.

Dumay, J., Guthrie, J., and Farneti, F. 2010. GRI sustainability reporting guidelines for public and third sector organizations: A critical review. *Public Management Review* 12(4): 531-48.

Dunk, A. S. 1993. The effect of budget emphasis and information asymmetry on the relation between budgetary participation and slack. *Accounting Review* 68(2): 400-10.

Dunlop, A. 1998. *Corporate governance and control*. Cima Publishing. London.

Durnev, A., and Kim, E. 2005. To steal or not to steal: Firm attributes, legal environment, and valuation. *The Journal of Finance* 60(3): 1461-93.

Dwivedi, N., and Jain, A.K. 2005. Corporate governance and performance of Indian firms: The effect of board size and ownership. *Employee Responsibilities and Rights Journal* 17(3): 161-72.

Dwyer, R., Lamond, D., Prado-Lorenzo, J., Rodríguez-Domínguez, L., Gallego-Álvarez, I., and García-Sánchez, I. 2009. Factors influencing the disclosure of greenhouse gas emissions in companies world-wide. *Management Decision* 47(7): 1133-57.

Dyck, A., and Zingales, L. 2004. Private benefits of control: An international comparison. *The Journal of Finance* 59(2): 537-600.

Easterbrook, F.H., 1984. Two agency-cost explanations of dividends. *The American Economic Review* 74(4): 650-9.

Easterby-Smith, M., Thorpe, R., and Jackson, P. 2012. *Management Research*. Sage Publications. New York.

Edinger, E.N., Azmy, K., Diegor, W., and Siregar, P.R. 2008. Heavy metal contamination from gold mining recorded in Porites Lobata skeletons, Buyat-Ratototok District, North Sulawesi, Indonesia. *Marine Pollution Bulletin* 56(9):1553-69.

Edwin, M. 2008. Corporate social responsibility (CSR) information disclosure by annual reports of public companies listed at Indonesia Stock Exchange (IDX). *International Journal of Islamic and Middle Eastern Finance and Management* 1(4): 275- 284.

Egger, P. 2000. A note on the proper econometric specification of the gravity equation. *Economics Letters* 66(1): 25-31.

Ehrlich, I., and Brower, G. D. 1987. On the issue of causality in the economic model of crime and law enforcement: Some theoretical considerations and experimental evidence. *The American Economic Review* 77(2): 99-106.

Eisenberg, T., Sundgren, S., and Wells, M. T. 1998. Larger board size and decreasing firm value in small firms. *Journal of Financial Economics* 48(1): 35-54.

Eisenhardt, K. M., 1988. Agency-and institutional-theory explanations: The case of retail sales compensation. *Academy of Management Journal* 31(3): 488-511.

—— 1989a. Agency theory: An assessment and review. *Academy of Management Review* 14(1): 57-74.

—— 1989b. Building theories from case study research. *Academy of Management Review* 14(4): 532-50.

El Ghoul, S., Guedhami, O., Kwok, C.C., and Mishra, D. R. 2011. Does corporate social responsibility affect the cost of capital? *Journal of Banking & Finance* 35(9): 2388-406.

Elbadry, A., Gounopoulos, D., and Skinner, F. 2015. Governance quality and information asymmetry. *Financial Markets, Institutions & Instruments* 24(2/3): 127-57.

Ellen Gordon, M., and De Lima-Turner, K 1997. Consumer attitudes towards Internet advertising: A social contract perspective. *International Marketing Review* 14(5): 362-75.

Ellen, P.S., Mohr, L.A., and Webb, D.J. 2000. Charitable programs and the retailer: Do they mix? *Journal of Retailing* 76(3): 393-406.

Ellis, J., Fee, C.E., and Thomas, S.E. 2012. Proprietary costs and the disclosure of information about customers. *Journal of Accounting Research* 50(3): 685-727.

Elsayed, K. 2007. Does CEO duality really affect corporate performance? *Corporate Governance: An International Review* 15(6): 1203-14.

Elsakit, O. M., and Worthington, A. 2014. The impact of corporate characteristics and corporate governance on corporate social and environmental dislcosure: A Literature review. *International Journal of Business and Management* 9(9): 1-15.

Eng, L. L., and Mak, Y. T. 2003. Corporate governance and voluntary disclosure. *Journal of Accounting and Public Policy* 22(4): 325-45.

Environmental Performance Index, 2016. *Global metrics for the environment: The environmental performance index ranks countries' performance on high-priority environmental issue*. Yale University. US.

Epstein, M. J., and Roy, M. 2001. Sustainability in action: Identifying and measuring the key performance drivers. *Long Range Planning* 34(5): 585-604.

Erickson, J., Park, Y. W., Reising, J., and Shin, H. 2005. Board composition and firm value under concentrated ownership: The Canadian evidence. *Pacific-Basin Finance Journal* 13(4): 387-410.

Eriotis, N., Vasiliou, D., and Ventoura-Neokosmidi, Z. 2007. How firm characteristics affect capital structure: An empirical study. *Managerial Finance* 33(5): 321-31.

Esa, E., and N. M. Ghazali, 2012. Corporate social responsibility and corporate governance in Malaysian government-linked companies. *Corporate Governance: The International Journal of Business in Society* 12(3): 292-305.

Euromonitor International 2006. *Indonesian household spending makes way for growth of non-food sector* at <http://blog.euromonitor.com/2007/12/indonesian-household-spending-makes-way-for-growth-of-nonfood-sector.html>. retrieved 17 March 2015.

European Commission, 2002. *Europe 2005: An information society for all: An action plan to be presented in view of the Sevilla European council.* Office for Official Publications of the European Communities. Luxembourge.

Evans, W.R., and Davis, W. D. 2011. An examination of perceived corporate citizenship, job applicant attraction, and CSR work role definition. *Business & Society* 50(3): 456-80.

Eweje, G., and Bentley, T. 2006. *CSR and staff retention in New Zealand: A literature review*. Research Working Paper No. 6. Departement and International Business. Auckland, New Zealand.

Faccio, M., Lang, L.H., and Young, L. 2001. Dividends and expropriation. *American Economic Review* 91(1): 54-78.

Fadul, J. 2004. Business Ethics, Corporate Social Responsibility, and Firm Value in the Oil and Gas Industry. PhD thesis. Walden University. Minneapolis. retrieved 10 July 2014.

Faggian, A., and McCann, P. 2006. Human capital flows and regional knowledge assets: A simultaneous equation approach. *Oxford Economic Papers* 58(3): 475-500.

Faith, R. L., Higgins, R.S., and Tollison, R.D. 1984. Managerial rents and outside recruitment in the Coasian firm. In CK Rowley (ed.). *The Political Economy of Rent-Seekin*. Springer Science and Business. New York. 315-35.

Falck, O., and Heblich, S. 2007. Corporate social responsibility: Doing well by doing good. *Business Horizons* 50(3): 247-54.

Fama, E. F. 1970. Efficient capital markets: A review of theory and empirical work. *The Journal of Finance* 25(2): 383-417.

—— 1980. Agency problems and the theory of the firm. *The Journal of Political Economy* 88(2): 288-307.

Fama, E.F., and Jensen, M. C. 1983a. Agency problems and residual claims. *Journal of Law and Economics* 26(2): 327-49.

—— 1983b. Separation of ownership and control. *Journal of Law and Economics* 26(2): 301-25.

Fan, J.P., and Wong, T. J. 2002. Corporate ownership structure and the informativeness of accounting earnings in East Asia. *Journal of Accounting and Economics* 33(3): 401-25.

Farneti, F., and Guthrie, J. 2009. Sustainability reporting by Australian public sector organisations: Why they report. *Accounting Forum* 33(2): 89-98.

Farooq, S. U., Ullah, S., and Mikani, D. 2015. The relationship between corporate governance and corporate social resposnibility (CSR) dislcosure: evidence from the USA. *Abasyn Journal of Social Sciences* 8(2): 197-212.

Farrar, J. H. 2008. *Corporate governance: Theories, principles and practice*. 3 th edn. Oxford University Press. Melbourne.

Fauzi, H., and Idris, K. M. 2009. The relationship of CSR and financial performance: new evidance from Indonesian companies. *Issues in Social and Enviromental Accounting* 3(1): 66-87.

Feddersen, T. J., and Gilligan, T. W. 2001. Saints and markets: Activists and the supply of credence goods. *Journal of Economics & Management Strategy* 10(1): 149-71.

Feldstein, M. S. 1964. The social time preference discount rate in cost benefit analysis. *The Economic Journal* 74(294): 360-79.

Fernando, A. 2009.*Corporate governance: Principles, policies and practices* (3rd edition). Pearson Education. India.

Ferris, S. P., Jagannathan, M., and Pritchard, A. C. 2003. Too busy to mind the business? Monitoring by directors with multiple board appointments. *The Journal of Finance* 58(3): 1087-111.

Fernandez, P. 2015. Shareholder value creation: A definition. University of Navarra. IESE Business School.

Fich, E. M., and Shivdasani, A. 2005. The impact of stock-option compensation for outside directors on firm value. *The Journal of Business* 78(6): 2229-54.

Fieseler, C. 2011. On the corporate social responsibility perceptions of equity analysts. *Business Ethics: A European Review* 20(2): 131-47.

Fifka, M. S. 2009. Towards a more business-oriented definition of corporate social responsibility: Discussing the core controversies of a well-established concept. *Journal of Service Science & Management* 2(4): 312-321.

—— 2013. Corporate responsibility reporting and its determinants in comparative Perspective–a review of the empirical literature and a meta-analysis. *Business Strategy and the Environment* 22(1): 1-35.

Figge, F., and Hahn, T. 2004. Sustainable value added—measuring corporate contributions to sustainability beyond eco-efficiency. *Ecological Economics* 48(2): 173-87.

Figge, F., and Schaltegger, S. 2000. *What is 'stakeholder value'? Developing a catchphrase into a benchmarking tool*. Universitat Lunerburg-Pictet-UNEP. Lunerburg, Germany.

Filatotchev, I., and Toms, S. 2003. Corporate governance, strategy and survival in a declining industry: A study of UK cotton textile companies. *Journal of Management Studies* 40(4): 895-920.

Filatotchev, I., Wright, M., Uhlenbruck, K., Tihanyi, L., and Hoskisson, R.E. 2003. Governance, organizational capabilities, and restructuring in transition economies. *Journal of World Business* 38(4): 331-47.

First, I., and Khetriwal, D. S. 2010. Exploring the relationship between environmental orientation and brand value: Is there fire or only smoke? *Business Strategy and the Environment* 19(2): 90-103.

Firth, M., Fung, P. M., and Rui, O. M. 2007. Ownership, two-tier board structure, and the informativeness of earnings–evidence from China. *Journal of Accounting and Public Policy* 26(4): 463-96.

Fishman, M. J., and Hagerty, K. M. 1989. Disclosure decisions by firms and the competition for price efficiency. *The Journal of Finance* 44(3): 633-46.

Fisman, R., Heal, G., and Nair, V. B. 2005. Corporate social responsibility: Doing well by doing good? *Business Horizons* 50(3): 247-254.

Fitz-Enz, J. 2000. *ROI of human capital: Measuring the economic value of employee performance*. AMACOM Press. New York, US.

Flamholtz, E. G., Das, T., and Tsui, A. S. 1985. Toward an integrative framework of organizational control. *Accounting, Organizations and Society* 10(1): 35-50.

Fombrun, C., and Shanley, M. 1990. What's in a name? Reputation building and corporate strategy. *Academy of Management Journal* 33(2): 233-58.

Forbes. 2012. Top 3 countries to invest in next three years, according to the UN. www.forbes.com/sites/kenrapoza/2012/07/05/top-3-countries-to-invest-in-next-3-years-according-to-the-u-n/. retrieved 10 January 2017.

Foster, D., and Jonker, J. 2005. Stakeholder relationships: The dialogue of engagement. *Corporate Governance* 5(5): 51-7.

Foster, N. 2003. *The FASB and the capital markets*. The FASB Report. US.

Fox, T. 2004. Corporate social responsibility and development: In quest of an agenda. *Development* 47(3): 29-36.

Fram, E., and Team, L.Y. 2012. Are professional board directors the answer? *MIT Sloan Manage Review* 46(2): 75-7.

Franks, J., and Mayer, C. 2001. Ownership and control of German corporations. *Review of Financial Studies* 14(4): 943-77.

Franklin, D. 2008. Just good business: A special report on corpotare social responsibility. *The Economist:* 3-6.

Frauendorf, J. 2006. Customer processes in business-to-business service transactions. PhD thesis. Deutscher Universitasts-Verlag. retrieved 8 August 2014.

Frazier, P. A., Tix, A. P., and Barron, K. E. 2004. Testing moderator and mediator effects in counseling psychology research. *Journal of Counseling Psychology* 51(1): 115-134.

Fred, R. 2008. Why corporate social responsibility should be popularised but not imposed. *Corporate Governance: The International Journal of Business in Society* 8(3): 330-41.

Frederick, W. C. 1986. Towards CSRs: Why ethical analysis is indispensable and unavoidable in corporate affairs. *California Management Review* 28(2): 126-41.

—— 1994. From CSR1 to CSR2. The Maturing of Business-and-Society Thought. *Business and Society* 33(2): 150-64.

—— 2008. Corporate social responsibility: Deep roots, flourishing growth, promising future. *The Oxford Handbook of Corporate Social Responsibility*: 522-31.

Freeman, R. B. 1977. *Job satisfaction as an economic variable*. National Bureau of Economic Research Cambridge. Massachusetts, USA.

Freeman, R. E. 1984. *Strategic management: A stakeholder approach*. Pitman Press. Boston.

Freeman, R.E., and Evan, W. M. 1990. Corporate governance: A stakeholder interpretation. *Journal of Behavioral Economics* 19(4): 337-59.

Freeman, R.E., Harrison, J. S., and Wicks, A. C. 2007. *Managing for stakeholders: Survival, reputation, and success*. Yale University Press. New Haven and London.

Freeman, R. E., and McVea, J. 2001. *A stakeholder approach to strategic management*. Pitman Press. Boston, US.

Frias-Aceituno, J.V., Rodriguez-Ariza, L., and Garcia-Sanchez, I. 2013. The role of the board in the dissemination of integrated corporate social reporting. *Corporate Social Responsibility and Environmental Management* 20(4): 219-33.

Friedman, A. L., and Miles, S. 2004. Debate papers: Stakeholder theory and communication practice. *Journal of Communication Management* 9(1): 95.

—— 2006, *Stakeholders: Theory and practice.* Oxford University Press. UK.

Friedman, M. 1953. *Essays in positive economics*. University of Chicago Press. US.
—— 1962, *Capitalism and freedom*. University of Chicago Press. US

—— 1970. The social responsibility of business is to increase its profit. In C. Zimmerli, K. Richter, and M. Holzinger (eds). *Corporate Ethics and Corporate Governance*. Springer. New York, US. 173-8.

Frisko, D. 2012. Exploring potential power of corporate social responsibility toward sustainability development: Analysis of state-owned company social responsibility in Indonesia. *International Journal of Sustainable Strategic Management* 3(3): 205-20.

Frooman, J. 1997. Socially irresponsible and illegal behavior and shareholder wealth: A meta-analysis of event studies. *Business & Society* 36(3): 221-49.

—— 1999. Stakeholder influence strategies. *Academy of Management Review* 24(2): 191-205.

Frost, C. A., Gordon, E. A., and Hayes, A. F. 2006. Stock exchange disclosure and market development: An analysis of 50 international exchanges. *Journal of Accounting research* 44(3): 437-83.

Frynas, J. G. 2006. Introduction: Corporate social responsibility in emerging economies. *Journal of Corporate Citizenship* 6(24): 16-9.

Fu, R., Kraft, A., and Zhang, H. 2012. Financial reporting frequency, information asymmetry, and the cost of equity. *Journal of Accounting and Economics* 54(2-3): 132-49.

Furtado, E. P. H., and Karan, V. 1990. Causes, consequences and shareholder wealth effect of management turnover: A review of the empirical evidence. *Financial Management* 19(2): 60-75.

Galaskiewicz, J., and Wasserman, S. 1989. Mimetic processes within an interorganizational firld: An empirical test. *Administrative Science Quarterly* 34:454-479.

Galbraith, J. R. 1973. *Designing complex organizations*. Addison-Wesley Longman Publishing Co., Inc. Boston, US.

Gallo, P.J., and Christensen, L. J. 2011. Firm size matters: An empirical investigation of organizational size and ownership on sustainability-related behaviors. *Business & Society* 20(10): 1-35.

Gamerschlag, R., Möller, K., and Verbeeten, F. 2011. Determinants of voluntary CSR disclosure: Empirical evidence from Germany. *Review of Managerial Science* 5(2-3): 233-62.

Gandossy, R., and Sonnenfeld, J. 2004. *Leadership and governance from the inside out*. John Wiley & Sons, Inc. Canada.

Garcia-Castro, R., Ariño, M.A., and Canela, M. A. 2010. Does social performance really lead to financial performance? Accounting for endogeneity. *Journal of Business Ethics* 92(1): 107-26.

Gardberg, N. A., and Fombrun, C. J. 2006. Corporate citizenship: Creating intangible assets across institutional environments. *Academy of Management Review* 31(2): 329-46.

Garratt, B. 2003. *Thin on top: Why corporate governance matters and how to measure, manage and improve board performance*. Nicholas Brealey Publishing. London, UK.

Gaspar, J. M., and Massa, M. 2006. Idiosyncratic volatility and product market competition. *The Journal of Business* 79(6): 3125-52.

Gedajlovic, E. R., and Shapiro, D. M. 1998. Management and ownership effects: Evidence from five countries. *Strategic Management Journal* 19(6): 533-53.

Gefen, D., Straub, D., and Boudreau, M. 2000. Structural equation modeling and regression: Guidelines for research practice. *Communications of the Association for Information Systems* 4(7): 1-77.

Gelb, D. S., and Zarowin, P. 2002. Corporate disclosure policy and the informativeness of stock prices. *Review of Accounting Studies* 7(1): 33-52.

Gelb, D. S., and Strawser, J. A. 2001. Corporate social resposnibility and financial disclosures: An alternative explanation for incresed disclosure. *Journal of Business Ethics* 33:1-13.

Gertner, R., and Kaplan, S. 1996. *The value-maximizing board*. NBER Working Paper No. 8161.

Ghazali, N.A.M. 2007. Ownership structure and corporate social responsibility disclosure: Some Malaysian evidence. *Corporate Governance* 7(3): 251-66.

Ghofar, A, and Islam, S. M. 2014. *Corporate governance and contingency theory: A structural equation modeling approach and accounting risk implications*. Springer Press. Switzerland.

Gibbs, M., Merchant, K.A., Stede, W., and Vargus, M. E. 2004. Determinants and effects of subjectivity in incentives. *The Accounting Review* 79(2): 409-36.

Gibson, M. S. 2000. Big Bang deregulation and Japanese corporate governance: A survey of the issues. In T Hoshi & H Patrick (eds). *Crisis and change in the Japanese financial system*. Kluwer Academic Publisher. Boston. 291-314.

—— 2003. Is corporate governance ineffective in emerging markets? *Journal of Financial and Quantitative Analysis* 38(1): 231-50.

Gill, A. 2008. Corporate governance as social responsibility: A research agenda. *Berkeley Journal of International Law* 26(2): 452-478.

Gillan, S. L. 2006. Recent developments in corporate governance: An overview. *Journal of Corporate Finance* 12(3): 381-402.

Gillette, A. B., Noe, T. H., and Rebello, M. J. 2008. Board structures around the world: An experimental investigation. *Review of Finance* 12(1): 93-140.

Gilson, R. J., and Kraakman, R. 1991. Reinventing the outside director: An agenda for institutional investors. *Stanford Law Review* 43(4): 863-906.

Gilson, S. C. 1989. Management turnover and financial distress. *Journal of Financial Economics* 25(2): 241-62.

Gioia, D. A. 1999. Practicability, paradigms, and problems in stakeholder theorizing. *Academy of Management Review* 24(2): 228-32.

Giovannucci, D., and Ponte, S. 2005. Standards as a new form of social contract? Sustainability initiatives in the coffee industry. *Food Policy* 30(3): 284-301.

Giráldez, P., and Hurtado, J. M. 2014. Do independent directors protect shareholder value?. *Business Ethics: A European Review* 23(1): 91-107.

Girerd-Potin, I., Jimenez-Garcès, S., and Louvet, P. 2012. Which dimensions of social responsibility concern financial investors? *Journal of Business Ethics* 121(4): 559-576.

Gjølberg, M. 2009. Measuring the immeasurable? Constructing an index of CSR practices and CSR performance in 20 countries. *Scandinavian Journal of Management* 25(1): 10-22.

Glanz, B. 2002. *Handle with CARE: Motivating and retaining employees: Creative, lost-cost ways to raise morale, increase commitment, and reduce turnover*. McGraw-Hill. New York, US.

Godfrey, P. C. 2005. The relationship between corporate philanthropy and shareholder wealth: A risk management perspective. *Academy of Management Review* 30(4): 777-98.

Godfrey, P.C., Merrill, C. B., and Hansen, J. M. 2009. The relationship between corporate social responsibility and shareholder value: An empirical test of the risk management hypothesis. *Strategic Management Journal* 30(4): 425-45.

Godos-Diez, J. L., Fernandez-Gago, R., and Martinez-Campillo, A. 2011. How important are CEOs to CSR practices? An analysis of the mediating effect of the perceived role of ethics and social resposnibility. *Journal of Business Ethics* 98:531-548.

Golden, B. R., and Zajac, E. J. 2001. When will boards influence strategy? Inclination× Power= Strategic change. *Strategic Management Journal* 22(12): 1087-111.

Gomes, A. 2000. Going public without governance: Managerial reputation effects. *The Journal of Finance* 55(2): 615-46.

Gompers, P., Ishii, J., and Metrick, A. 2003. Corporate governance and equity prices. *The Quartery Journal of Economics* 118(1): 107-56.

Gordon, J.N., and Roe, M. J. 2004. *Convergence and persistence in corporate governance*. Cambridge University Press. Cambridge, UK.

Goyal, A. 2006. Corporate social responsibility as a signalling device for foreign direct investement. *International Journal of the Economics of Business* 13(1): 145-163.

Graham, C., Litan, R.E., and Sukhtankar, S. 2002. *The bigger they are, the harder they fall: An estimate of the costs of the crisis in corporate governance*. Brookings Institution. Washington, DC, US.

Graham, J. R., Harvey, C. R., and Rajgopal, S. 2005. The economic implications of corporate financial reporting. *Journal of Accounting and Economics* 40(1): 3-73.

Graham, J.R., and Kumar, A. 2006. Do dividend clienteles exist? Evidence on dividend preferences of retail investors. *The Journal of Finance* 61(3): 1305-36.

Graves, S.B., and Waddock, S. A. 1994. Institutional owners and corporate social performance. *Academy of Management Journal* 37(4): 1034-46.

Gray, R., Javad, M., Power, D. M., and Sinclair, C. D. 2001. Social and environmental disclosure and corporate characteristics: A research note and extension. *Journal of Business Finance & Accounting* 28(3-4): 327-56.

Gray, R, Kouhy, R., and Lavers, S. 1995. Corporate social and environmental reporting: A review of the literature and a longitudinal study of UK disclosure. *Accounting, Auditing and Accountability Journal* 8(2): 47-77.

Gray, S. J., Meek, G. K., and Roberts, C. B. 1995. International capital market pressures and voluntary annual report disclosures by US and UK multinationals. *Journal of International Financial Management & Accounting* 6(1): 43-68.

Greene, W. H. 2003. *Econometric analysis*. Pearson Education. India.

Greenless, D. 2005. Young Indonesian executives fight a business culture of corruption. *International Herald Tribune.*

Greening, D. W., and Turban, D. B. 2000. Corporate social performance as a competitive advantage in attracting a quality workforce. *Business & Society* 39(3): 254-80.

Greenwood, W.T. 1964. *Issues in business and society: Readings and cases*. Houghton Mifflin. Boston, US.

Griffin, J. J., and Mahon, J. F. 1997. The corporate social performance and corporate financial performance debate twenty-five years of incomparable research. *Business & Society* 36(1): 5-31.

Gross, R. 2011. *Corporate social responsibility and employee engagement: Making the connection*. Mandrake. Montreal.

Guenster, N., Bauer, R., Derwall, J., and Koedijk, K. 2011. The economic value of corporate eco-efficiency. *European Financial Management* 17(4): 679-704.

Guest, P. M. 2009. The impact of board size on firm performance: Evidence from the UK. the Eurepean Journal of Finance 15(4):385-404.

Gugler, K. 2001. *Corporate governance and economic performance*. Oxford University Press. New York, US.

Gujarati, D. N. 2006. *Essentials of econometrics*. McGraw-Hill International. New York, USA.

Gujarati, D.N., and Porter, D. C. 2009. *Basic econometrics* (5th edition). The McGraw-Hill Company. US.

Gul, F. A., and Leung, S. 2004. Board leadership, outside directors' expertise and voluntary corporate disclosures. *Journal of Accounting and Public Policy* 23(5): 351-79.

Güler, A., Asli, A., and Ozlem, K. 2010. Managing corporate performance: Investigating the relationship between corporate social responsibility and financial performance in emerging markets. *International Journal of Productivity and Performance Management* 59(3): 229-54.

Gumanti, T.A., and Prasetiawati, W. 2012. Board of commisioner duality role, governance and earnings management of initial public offerings in Indonesia. *Jurnal Akuntansi dan Keuangan* 13(2): 80-6.

Gunawan, J. 2007. Corporate social disclosures by Indonesian listed companies: A pilot study. *Social Responsibility Journal* 3(3): 26-34.

Gunawan, J. 2008. Perseption of important information in corporate social dislcosures: Evidence from Indonesia. Social Responsibility Journal. 6(1).

Gunawan, J. 2016. Corporate social resposnibility initiatives in regulated and emerging country:an Indonesia perpsective. In S.O. Idowu and R. Schmidpeter (ed). *Key Initiatives in corporate social responsibility: Global dimensioon of CSR in corporate entitites.* Springer publisher. New York. 325- 40.

Khanna. T., and Palepu, K. 2005. The evolution of concentrated ownership in India: Broad patterns and a history of the Indian software industry. In R.K. Morck (ed). *A History of corporate governance around the world: Family business groups to professional managers*. University of Chicago Press. 283-324.

Gunawan, Y. 2000. The analyses of disclosure Annual report on companies listed in the Jakarta Stock Exchange (JSE). *Proceedings from Accounting National Symposium III, Indonesia*. 79-98.

Gupta, V., Surie, G., Javidan, M., and Chhokar, J. 2002. Southern Asia cluster: Where the old meets the new? *Journal of World Business* 37(1): 16-27.

Guthrie, J and Turnbull, S 1995. Audit committees: is there a role for corporate senates and/or stakeholders councils? *Corporate Governance: An International Review* 3(2): 78-89.

Haat, M. H. C., Rahman, R. A., and Mahenthiran, S. 2008. Corporate governance, transparency and performance of Malaysian companies. *Managerial Auditing Journal* 23(8): 744-78.

Hackman, J. R. 1990. *Groups that work*. Jossey-Bass. San Francisco, CA.

Hackston, D., and Milne, M. J. 1996. Some determinants of social and environmental disclosures in New Zealand companies. *Accounting, Auditing and Accountability Journal* 9(1): 77-108.

Hahn, T., and Reyes, M. G. 2004. On the estimation of stock-market reaction to corporate layoff announcements. *Review of Financial Economics* 13(4): 357-70.

Hair, J. F., Black, W. C. , Babin, B. J., Anderson, R. E., and Tatham, R. L. 2010. *Multivariate data analysis* (7th edition). Prentice Hall. Upper Saddle River, NJ.

Hair, J. F., Tatham, R. L., Anderson, R. E., and Black, W. 2006. *Multivariate data analysis* (6th edition). Pearson Prentice Hall. Upper Saddle River, NJ.

Hardoon, D., and Heinrich, F. 2013. *Global corruption barometer report 2013*. Transparency International: The Global Coalition Againts Corruption at <http://www.transparency.org/>. retrieved 17 February 2014.

Hall, P. A., and Soskice, D. 2001. *Varieties of capitalism: The institutional foundations of comparative advantage*. Oxford University Press. UK.

Halme, M., and Huse, M. 1997. The influence of corporate governance, industry and country factors on environmental reporting. *Scandinavian Journal of Management* 13(2): 137-57.

Hambrick, D. C. 1987. The top management team: Key to strategic success. *California Mamangement Review* 30(1): 88-108.

Hambrick, D. C., and D'Aveni, R. A. 1992. Top team deterioration as part of the downward spiral of large corporate bankruptcies. *Management Science* 38(10): 1445-66.

Hampton, C. 2015. Estimating and reporting structural equation models with behavioral accounting data. *Behavioral Research in Accounting* 27(2): 1-34.

Hanc, G. 2004. The Future of banking in America-summary and conclusions. *FDIC Banking Review Series* 16(1): 1-28.

Hancock, J. 2004. *Investing in corporate social responsibility: A guide to best practice, business planning & the UK's leading companies*. Kogan Page Publishers. UK.

Handajani, L., Sutrisno, and Chandrarin, G. 2009. The effect of earnings management and corporate governance mechanism to corporate social responsibility disclosure: study at public companies in Indonesia stock exchange. *Proceedings from Accounting National Symposium X11*. Indonesia.

Haniffa, R. M., and Cooke, T. 2005. The impact of culture and governance on corporate social reporting. *Journal of Accounting and Public Policy* 24(5): 391-430.

Haniffa, R. M., and Hudaib, M. 2006. Corporate governance structure and performance of Malaysian listed companies. *Journal of Business Finance & Accounting* 33(7-8): 1034-62.

Harjoto, M. A., and Jo, H. 2011. Corporate governance and CSR nexus. *Journal of Business Ethics* 100(1): 45-67.

—— 2015. Legal vs. normative CSR: Differential impact on analyst dispersion, stock return volatility, cost of capital, and firm value. *Journal of Business Ethics* 128(1): 1-20.

Harris, D. N. 2007. Diminishing marginal returns and the production of education: An international analysis. *Education Economics* 15(1): 31-53.

Harris, M., and Raviv, A. 1991. The theory of capital structure. *The Journal of Finance* 46(1): 297-355.

—— 2008. A theory of board control and size. *Review of Financial Studies* 21(4): 1797-832.

Harrison, J. S., and Freeman, R. E. 1999. Stakeholders, social responsibility, and performance: Empirical evidence and theoretical perspectives. *Academy of Management Journal* 42(5): 479-85.

Hart, O. D. 1983. The market mechanism as an incentive scheme. *The Bell Journal of Economics* 14(2): 366-82.

—— 1995. *Firms, contracts, and financial structure*. Oxford University Press. New York, US.

Hart, P. E., and Oulton, N. 1996. Growth and size of firms. *The Economic Journal* 106(438): 1242-52.

Hart, S. L. 1995. A natural-resource-based view of the firm. *Academy of Management Review* 20(4): 986-1014.

Hart, S. L., and Ahuja, G. 1996. Does it pay to be green? An empirical examination of the relationship between emission reduction and firm performance. *Business Strategy and the Environment* 5(1): 30-7.

Hart, S. L., and Sharma, S. 2004. Engaging fringe stakeholders for competitive imagination. *The Academy of Management Executive* 18(1): 7-18.

Hartman, L. P., Shaw, B., and Stevenson, R. 2003. Exploring the ethics and economics of global labor standards: A challenge to integrated social contract theory. *Business Ethics Quarterly* 13(2): 193-220.

Harvard Business School Press 2003. *Harvard business review on corporate social responsibility*. Harvard Business School Press. Boston, US.

Hassan, A., and Ibrahim, E. 2012. Corporate environmental information disclosure: Factors influencing companies' success in attaining environmental awards. *Corporate Social Responsibility and Environmental Management* 19(1): 32-46.

Haugen, R. A., and Senbet, L. W. 1986. Corporate finance and taxes: A review. *Financial Management* 15(3): 5-21.

Hawkins, D. E. 2006. *Corporate social responsibility: Balancing tomorrow's sustainability and today's profitability*. Palgrave Macmillan. New York, US.

Hayduk, L., Cummings, G., Boadu, K., Pazderka-Robinson, H., and Boulianne, S. 2007. 'Testing! testing! One, two, three-Testing the theory in structural equation models! *Personality and Individual Differences* 42(5): 841-50.

Hayes, R. M., and Lundholm, R. 1996. Segment reporting to the capital market in the presence of a competitor. *Journal of Accounting Research* 34(2): 261-79.

He, J., and Wang, H. C. 2009. Innovative knowledge assets and economic performance: The asymmetric roles of incentives and monitoring. *Academy of Management Journal* 52(5): 919-38.

Healy, P. M. 1985. The effect of bonus schemes on accounting decisions. *Journal of Accounting and Economics* 7(1): 85-107.

Healy, P. M., Hutton, A. P., and Palepu. K. G. 1999. Stock performance and intermediation changes surrounding sustained increases in disclosure. *Contemporary Accounting Research* 16(3): 485-520.

Hedberg, C. J., and von Malmborg, F. 2003. The global reporting initiative and corporate sustainability reporting in Swedish companies. *Corporate Social Responsibility and Environmental Management* 10(3): 153-64.

Heinrich, R. P. 2002. *Complementarities in corporate governance* (Vol. 316). Springer. Germany.

Hemphill, T. 2005. The Sarbanes-Oxley Act of 2002: Reviewing the corporate governance scorecard. *The Journal of Corporate Citizenship* (20): 23-6.

Henderson, D. 2004. *The role of business in the modern world: Progress, pressures and prospects for the market economy*. Institute of Economic Affairs. London, UK.

Henderson, J. V., and Kuncoro, A. 2004. *Corruption in Indonesia*. NBER Working Paper 10674.

Hermalin, B. E., and Weisbach, M. S. 1991. The effects of board composition and direct incentives on firm performance. *Financial Management* 20(4): 101-12.

—— 1998. Endogenously chosen boards of directors and their monitoring of the CEO. *American Economic Review* 88(1): 96-118.

—— 2001. *Boards of directors as an endogenously determined institution: A survey of the economic literature*. National Bureau of Economic Research. Cambridge.

—— 2003. Boards of directors as an endogenously determined institution: A survey of the economic literature. *Federal Reserve Bank of New York Economic Policy Review* (9): 7-26.

Herman, E. S. 1981. *Corporate control, corporate power*. (Vol. 98). Cambridge University Press. New York.

Hernandez, M. 2008. Promoting stewardship behavior in organizations: A leadership model. *Journal of Business Ethics* 80(1): 121-8.

Hillman, A. J. 2005. Politicians on the board of directors: Do connections affect the bottom line? *Journal of Management* 31(3): 464-81.

Hillman, A. J., Cannella, A. A., and Paetzold, R. L. 2000. The resource dependence role of corporate directors: Strategic adaptation of board composition in response to environmental change. *Journal of Management Studies* 37(2): 235-56.

Hillman, A. J., and Dalziel, T. 2003. Boards of directors and firm performance: Integrating agency and resource dependence perspectives. *Academy of Management Review* 28(3): 383-96.

Hillman, A. J., and Hitt, M. A. 1999. Corporate political strategy formulation: A model of approach, participation, and strategy decisions. *Academy of Management Review* 24(4): 825-42.

Hillman, A. J., Withers, M. C., and Collins, B. J. 2009. Resource dependence theory: A review. *Journal of Management* 20(10): 1-24.

Hillman, A. J., Zardkoohi, A., and Bierman, L. 1999. Corporate political strategies and firm performance: Indications of firm-specific benefits from personal service in the US government. *Strategic Management Journal* 20(1): 67-81.

Hills, J., and Welford, R. 2006. Case study: Auditing for human rights: Freeport-McMoran copper and gold in Papua. *Corporate Social Responsibility and Environmental Management* 13(2): 108-14.

Himmelberg, C. P., Hubbard, R. G., and Palia, D. 1999. Understanding the determinants of managerial ownership and the link between ownership and performance. *Journal of Financial Economics* 53(3): 353-84.

Ho, C. K. 2005. Corporate governance and corporate competitiveness: An international analysis. *Corporate Governance: An International Review* 13(2): 211-53.

Holderness, C. G. 2009. The myth of diffuse ownership in the United States. *Review of Financial Studies* 22(4): 1377-408.

Holthausen, R. W., Larcker, D. F., and Sloan, R. G. 1995. Annual bonus schemes and the manipulation of earnings. *Journal of Accounting and Economics* 19(1): 29-74.

Hom, P. W., and Griffeth, R. W. 1994. *Employee turnover*. South-Western College Publishing. Ohio.

Hong, H., and Kacperczyk, M. 2009. The price of sin: The effects of social norms on markets. *Journal of Financial Economics* 93(1): 15-36.

Hopt, and Leyens, P. C., 2004. Board models in Europe–recent developments of internal corporate governance structures in Germany, the United Kingdom, France, and Italy. *European Company and Financial Law Review* 1(2): 135-68.

Hossain, M., Perera, M. H. B., and Rahman, A. R. 1995. Voluntary disclosure in the annual reports of New Zealand companies. *Journal of International Financial Management & Accounting* 6(1): 69-87.

Hossain, M., Tan, L., and Adan, M. 1994. *Voluntary disclosure in an emerging capital market: Some empirical evidence from companies listen on the Kuala Lumpur stock exchange*. Massey University. New Zealand.

Hossari, G., and Rahman, S. 2005. A comprehensive formal ranking of the popularity of financial ratios in multivariate modeling of corporate collapse. *Journal of the American Academy of Business* 6(1): 321-7.

Hosseini, J. C., and Brenner, S. N. 1992. The stakeholder theory of the firm. *Business Ethics Quarterly* 2(2): 99-119.

Hoyle, R. H. 1995. *Structural equation modeling: Concepts, issues, and application.* Sage Publications. California.

Hribar, P. 2004. Discussion of competitive costs of disclosure by biotech IPOs. *Journal of Accounting Research* 42(2): 357-64.

Hsieh, T., Dye, C., and Ouyang, L. 2008. Determining optimal lot size for a two-warehouse system with deterioration and shortages using net present value. *European Journal of Operational Research* 191(1): 182-92.

Hsu, J. L., and Cheng, M. C. 2012. What prompts small and medium enterprises to engage in corporate social responsibility? A study from Taiwan. *Corporate Social Responsibility and Environmental Management* 19(5): 288-305.

Huang, C. 2010. Corporate governance, corporate social responsibility and corporate performance. *Journal of Management and Organization* 16(5): 641-55.

Huang, C. L. 1993. Simultaneous-equation model for estimating consumer risk perceptions, attitudes, and willingness-to-pay for residue-free produce. *Journal of Consumer Affairs* 27(2): 377-96.

Huitt, W. 2004. *Maslow's hierarchy of needs*. Educational Psychology Interactive. Valdosta State University at <http://chiron.valdosta.edu/whuitt/col/regsys/maslow.html>. retrieved 17 July 2015.

Hung, H. 1998. A typology of the theories of the roles of governing boards. *Corporate Governance* 6(2): 101-11.

Hung, M., Shi, J., and Wang, Y. 2013. The effect of mandatory CSR disclosure on information asymmetry: Evidence from a quasi-natural experiment in China. *Proceedings from Asian Finance Association (AsFA) 2013 Conference*. Bangkok, Thailand.

Husted, B.W., and Allen, D. B. 2006. Corporate social responsibility in the multinational enterprise: Strategic and institutional approaches. *Journal of International Business Studies* 37(6): 838-49.

—— 2007. Strategic corporate social responsibility and value creation among large firms: Lessons from the Spanish experience. *Long Range Planning* 40(6): 594-610.

Iacobucci, D., and Churchill, G. 2009. *Marketing research: Methodological foundations*. Cengage Learning. Ohio.

Idemudia, U., and Ite, U. E. 2006. Corporate–community relations in Nigeria's oil industry: Challenges and imperatives. *Corporate Social Responsibility and Environmental Management* 13(4): 194-206.

Ingley, C., and Van der Walt, N. 2005. Do board processes influence director and board performance? statutory and performance implications. *Corporate Governance: An International Review* 13(5): 632-53.

Ioannou, I., and Serafeim, G. 2015. The impact of corporate social responsibility on investment recommendations: Analysts' perceptions and shifting institutional logics. *Strategic Management Journal* 36(7): 1053-81.

Irawanto, D. W. 2011. An analysis of national culture and leadership practices in Indonesia. *Journal of Diversity Management* 4(2): 41-8.

Iskander, M. R., and Chamlou, N. 2000. *Corporate governance: A framework for Implementation*. The World Bank Group. Washington. D.C, US.

ISO 26000, 2010. *Global guidance standard on social responsibility* at <http://www.iso.org/>. retrieved 20 January 2016.

Jackson, G. 2010. *Understanding corporate governance in the United States: An historical and theoretical reassessment*. Hans-Böckler-Stiftung. Dusseldorf, Germany.

Jackling, B., and Johl, S. 2009. Board Structure and Firm Performance: Evidence from India's Top Companies. *Corporate Governance: An International Review* 17(4): 492-509.

Jamali, D. 2008. A stakeholder approach to corporate social responsibility: A fresh perspective into theory and practice. *Journal of Business Ethics* 82(1): 213-31.

Jamali, D., and Mirshak, R. 2007. Corporate social responsibility (CSR): Theory and practice in a developing country context. *Journal of Business Ethics* 72(3): 243-62.

Jamali, D., Safieddine, A. M., and Rabbath, M. 2008. Corporate governance and corporate social responsibility synergies and interrelationships. *Corporate Governance: An International Review* 16(5): 443-59.

Jamali, D., Sidani, Y., and El-Asmar, K. 2009. A three country comparative analysis of managerial CSR perspectives: Insights from Lebanon, Syria and Jordan. *Journal of Business Ethics* 85(2): 173-92.

Jang, S.S., Tang, C., and Chen, M. 2008. Financing behaviors of hotel companies. *International Journal of Hospitality Management* 27(3): 478-87.

Jaswadi, J. 2013. Corporate Governance and Accounting Irregularities: Evidence from the Two-Tier Board Structure in Indonesia. DBA thesis. Victoria University. Melbourne. retrieved 10 June 2013.

Jawahar, I., and McLaughlin, G. L. 2001. Toward a descriptive stakeholder theory: An organizational life cycle approach. *Academy of Management Review* 26(3): 397-414.

Jensen, M. C. 1986a. Agency costs of free cash flow, corporate finance, and takeovers. *The American Economic Review* 76(2): 323-9.

—— 1986b. The takeover controversy: Analysis and evidence. *Midland Corporate Finance Journal* 4(2): 6-32.

—— 1993, The modern industrial revolution, exit, and the failure of internal control systems. *The Journal of Finance* 48(3): 831-80.

—— 2002. Value maximization, stakeholder theory, and the orporate objective function. *Business Ethics Quarterly* 12(2): 235-56.

Jensen, M. C., and Meckling, W. H. 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics* 3(4): 305-60.

Jensen, M. C., and Murphy, K. J. 1990. Performance pay and top-management incentives. *Journal of Political Economy* 98(2): 225-64.

Jensen, M. C., and Ruback, R. S. 1983. The market for corporate control: The scientific evidence. *Journal of Financial Economics* 11(1): 5-50.

Jewell, J. J., and Mankin, J. A. 2010. What is your ROA? An investigation of the many formulas for calculating return on assets. *Academy of Educational Leadership* 15(special issue): 79-91.

Jiang, H. , Habib, A., and Hu, B. 2011. Ownership concentration, voluntary disclosures and information asymmetry in New Zealand. *The British Accounting Review*. 43(1): 39-53.

Jiang, Y., and Peng, M. W. 2011. Are family ownership and control in large firms good, bad, or irrelevant? *Asia Pacific Journal of Management* 28(1): 15-39.

Jo, H. 2003. Financial analysts, firm quality, and social responsibility. *The Journal of Behavioral Finance* 4(3): 172-83.

Jo, H., and Harjoto, M. A. 2011. Corporate governance and firm value: The impact of corporate social responsibility. *Journal of Business Ethics* 103(3): 351-83.

—— 2012. The causal effect of corporate governance on corporate social responsibility. *Journal of Business Ethics* 106(1): 53-72.

Jo, H., and Kim, Y. 2008. Ethics and disclosure: A study of the financial performance of firms in the seasoned equity offerings market. *Journal of Business Ethics* 80(4): 855-78.

Jo, H., Kim, Y., and Park, M. S. 2007. Underwriter choice and earnings management: Evidence from seasoned equity offerings. *Review of Accounting Studies* 12(1): 23-59.

Jo, H., and Na, H. 2012. Does CSR reduce firm risk? Evidence from controversial industry sectors. *Journal of Business Ethics* 110(4): 441-56.

Johnson, J. L. , Daily, C. M., and Ellstrand, A. E. 1996. Boards of directors: A review and research agenda. *Journal of Management* 22(3): 409-38.

Johnson, R. A., and Greening, D. W. 1999. The effects of corporate governance and institutional ownership types on corporate social performance. *Academy of Management Journal* 42(5): 564-76.

Jones, C. 2003. As if business ethics were possible, 'within such limits' … *Organization* 10(2): 223-48.

Jones, T. M. 1995. Instrument stakeholder theory: A snapper of ethics and economics. *Academiy of Management Review* 2, 404-37.

Jones, T. M., and Wicks, A. C. 1999. Convergent stakeholder theory. *Academy of Management Review* 24(2): 206-21.

Joshua-Amadi, M. 2013. *Shatter your delf-doubt: Simple strategies for developing confidence to live the dream your deserve*. AuthorHouse. USA.

Judge, W.Q., and Zeithaml, C.P. 1992. Instutional and strategic choice perspectives on board involvement in the strategic decision process. *Academy of Management Journal* 35: 766-794.

Jungmann, C. 2006. The effectiveness of corporate governance in one-tier and two-tier board systems–evidence from the UK and Germany. *European Company and Financial Law Review* 3(4): 426-74.

Justice, D. 2003. Corporate social responsibility:Challenges and opprtunities for trade unionist. *Proceedings from the ILO TRaining Seminar: Trande Union Training for Global Union Federations in Asia/Facific on Globalisation, Worker's Rights and CSR.*

Kamar Dagang Indonesia KADIN 2015. *Pedoman KADIN tentang tanggung-jawab social perusahaan (CSR) untuk menduking pembangunan berkelanjutan*. KADIN. Indonesia.

Kaihatu, T. S. 2006. Good corporate governance and its application di Indonesia. *Journal Management and Kewirausahaan* 8(1): 1-9.

Kamakura, W. A., Mittal, V., De Rosa, F., and Mazzon, J. A. 2002. Assessing the service-profit chain. *Marketing Science* 21(3): 294-317.

Kamal, M. 2008. *Corporate governance in Indonesian state-owned enterprises: Is it on the right track?* Macquarie University Law Working Paper No. 2008-30.

—— 2009. The new Indonesian company law: Does it support good corporate governance. *Macquaries Journal of Business Law* (6): 347-66.

—— 2010. Corporate governance and state-owned enterprises: A study of Indonesia's code of corporate governance. *Journal of International Commercial Law and Technology* 5(10): 206-224.

Kanagaretnam, K., Lobo, G. J., and Whalen, D. J. 2007. Does good corporate governance reduce information asymmetry around quarterly earnings announcements? *Journal of Accounting and Public Policy* 26(4): 497-522.

Kang, E., and Zardkoohi, A. 2005. Board leadership structure and firm performance. *Corporate Governance: An International Review* 13(6): 785-99.

Kaplan, S. N. 1997. Corporate governance and corporate performance: A comparison of Germany, Japan, and the US. *Journal of Applied Corporate Finance* 9(4): 86-93.

Kaplan, S. N., and Minton, B. A. 1994. Appointments of outsiders to Japanese boards: Determinants and implications for managers. *Journal of Financial Economics* 36(2): 225-58.

Kaplan, S. N., and Reishus, D. 1990. Outside directorships and corporate performance. *Journal of Financial Economics* 27(2): 389-410.

Kartadjumena, E., Hadi, D. H., and Budiana, N. 2011. The relationship of profit and corporate social respobsibility disclosure: Survey on manufacture industry in Indonesia. *Proceedings from 2nd International Conference on Business and Economic Research (2nd ICBER 2011).*

Karoff, J. 2013. Determinant factors of corporate social dislcsoures in Indonesia. *Issues in Social and Environmental Accounting*. 7(2).

Katz, D., and Kahn, R. L. 1978. The social psychology of organizations. Wiley and Sons. New York, US.

Keasey, K., and Hudson, R. 2002. Non-executive directors and the higgs consultation: paper review of the role and effectiveness of non-executive directors. *Journal of Financial Regulation and Compliance* 10(4): 361-71.

Keasey, K., Thompson, S., and Wright, M. 1997. *Corporate governance: Economic and financial issues.* Oxford University Press. New York, US.

Keasey, K., Thompson, S., and Wright, M. 2005. *Corporate governance: Accountability, enterprise and international comparisons*. John Wiley & Sons. UK.

Keca, L., Keca, N., Pantic, D. 2012. Net present value and internal rate of return as indicators for assessment of cost-efficiency of poplar plantations: A Serbian case study. *International Forestry Review* 14(2): 145-56.

Kemp, M. 2001. *Corporate social responsibility in Indonesia: quixotic dream or confident expectation?.* Technology. Business and Society Programme Paper No. 6. United Nations Research Institute for Social Development. Geneva.

Kenessey, Z. 1987. The primary, secondary, tertiary and quaternary sectors of the economy. *Review of Income and Wealth* 33(4): 359-85.

Kennedy, V., and Limmack, R. 1996. Takeover activity, CEO turnover, and the market for corporate control. *Journal of Business Finance & Accounting* 23(2): 267-85.

Kennett, D. A. 1980. Altruism and Economic Behavior: II Private Charity and Public Policy. *American Journal of Economics and Sociology* 39(4): 337-52.

Kesner, I. F., and Johnson, R. B. 1990. An investigation of the relationship between board composition and stockholder suits. *Strategic Management Journal* 11(4): 327-36.

Khan, A., Muttakin, M. B., and Siddiqui, J. 2013. Corporate governance and corporate social responsibility disclosures: Evidence from an emerging economy. *Journal of Business Ethics* 114(2): 207-23.

Khan, H. U. Z. 2010. The effect of corporate governance elements on corporate social responsibility (CSR) reporting. *International Journal of Law and Management* 52(2): 82-109.

Khan, N. Z. 2008. Instinctive behaviour, procedure surplus, and corporate social responsibility. *The Pakistan Development Review* 47(4): 631-642.

Khanna. T., and Palepu, K. 2005. The evolution of concentrated ownership in India: Broad patterns and a history of the Indian software industry. In R.K. Morck (ed.) *A History of corporate governance around the world: Family business groups to professional managers*. University of Chicago Press. 283-324.

Kiel, G. C., and Nicholson, G. J. 2003. Board composition and corporate performance: How the Australian experience informs contrasting theories of corporate governance. *Corporate Governance: An International Review* 11(3): 189-205.

Kiliç, M., Kuzey, C., and Uyar, A. 2015. The impact of ownership and board structure on corporate social responsibility (CSR) reporting in the Turkish banking industry. *Corporate Governance* 15(3): 357-74.

Kim, O., and Verrecchia, R. E. 1997. Pre-announcement and event-period private information. *Journal of Accounting and Economics* 24(3): 395-419.

Kim, S., Price, J .L., Mueller, C. W., and Watson, T. W. 1996. The determinants of career intent among physicians at a US Air Force hospital. *Human Relations* 49(7): 947-76.

Kim, Y., Park, M. S., and Wier, B. 2012. Is earnings quality associated with corporate social responsibility? *The Accounting Review* 87(3): 761-96.

Kimmel, A. J, Smith, N. C., and Klein, J. G. 2011. Ethical decision making and research deception in the behavioral sciences: An application of social contract theory. *Ethics & Behavior* 21(3): 222-51.

King Committee on Corporate Governance 1992. *King report on corporate governance for South Africa-1994 (King I report).* Institute of directors in Southern Africa. Johannesburg.

—— 2002. *King report on corporate governance for South Africa- 2002 (King II report).* Institute of Directors in Southern Africa. Johannesburg.

Kirkpatrick, G 2009. The corporate governance lessons from the financial crisis. *Financial Market Trends* 96(1): 52-81.

Kirmani, A., and Rao, A. R. 2000. No pain, no gain: A critical review of the literature on signaling unobservable product quality. *Journal of Marketing* 64(2): 66-79.

Kitthananan, A. 2010. Creating business and social value: The Asian way to integrate CSR into business strategies. *Studies in Trade and Investement No. 68*.

Klapper, L. F., and Love, I. 2004. Corporate governance, investor protection, and performance in emerging markets. *Journal of Corporate Finance* 10(5): 703-28.

Klassen, K. J. 1997. The impact of inside ownership concentration on the trade-off between financial and tax reporting. *Accounting Review* 72(3): 455-74.

Klein, A. 2002. Economic determinants of audit committee independence. *The Accounting Review* 77(2): 435-52.

Klein, J. G., and Dawar, N. 2004. Corporate social responsibility and consumers' attributions and brand evaluations in a product–harm crisis. *International Journal of Research in Marketing* 21(3): 203-17.

Klein, L. S., O'Brien, T. J., and Peters, S. R. 2002. Debt vs. equity and asymmetric information: A review. *Financial Review* 37(3): 317-49.

Kleit, A. N. 2001. Are regional oil markets growing closer together? An arbitrage cost approach. *The Energy Journal* 22(2): 1-15.

Kline, R. 2005. *Principles and practice of structural equation modelling* (4 th edition). Guilford Press. New York.

Klomp, L., and Van Leeuwen, G. 2001. Linking innovation and firm performance: A new approach. *International Journal of the Economics of Business* 8(3): 343-64.

Knight, P. 1998. *Profits and Principles: Does There Have to be A Choice?* Shell International Limited. London.

Knox, S., Freeman, C. 2006. Measuring and managing employer brand image in the service industry. *Journal of Marketing Management* 22(7-8): 695-716.

Kochhar, R. 1996. Explaining firm capital structure: The role of agency theory vs. transaction cost economics. *Strategic Management Journal* 17(9): 713-28.

Kole, S. R. 1995. Measuring managerial equity ownership: A comparison of sources of ownership data. *Journal of Corporate Finance* 1(3): 413-35.

Kolk, A., and Pinkse, J. 2010. The integration of corporate governance in corporate social responsibility disclosures. *Corporate Social Responsibility and Environmental Management* 17(1): 15-26.

Kolko, G. 2008. *Triumph of conservatism: A reinterpretation of America history, 1900-1916*. The Free Press. New York, US.

Koller, T., Goedhart, M., and Wessels, D. 2010. *Valuation: measuring and managing the value of companies* (Vol. 499). Wiley and Sons, US.

Korac-Kakabadse, N., Kakabadse, A. K., and Kouzmin, A. 2001. Board governance and company performance: Any correlations? *Corporate Governance* 1(1): 24-30.

Korathotage, K. T. 2012. Corporate social responsibility and company performance: Evidence from Sri Lanka, PhD thesis. Victoria University. Melbourne. retrieved 10 January 2013.

Kothari, S. P., Shu, S., and Wysocki, P. D. 2009. Do managers withhold bad news? *Journal of Accounting Research* 47(1): 241-76.

Koys, D. J. 2001. The effects of employee satisfaction, organizational citizenship behavior, and turnover on organizational effectiveness: A unit-level, longitudinal study. *Personnel Psychology* 54(1): 101-14.

Krishnamurti, C., Sěvić, A., and Šević, Ž. 2005. Legal environment, firm-level corporate governance and expropriation of minority shareholders in Asia. *Economic Change and Restructuring* 38(1): 85-111.

Kultgen, J. 1986. Donaldson's social contract for business. *Business and Professional Ethics Journal* 5(1): 28-39.

Kung, F. Cheng, C., and James, K. 2010. The effects of corporate ownership structure on earnings conservatism: Evidence from China. *Asian Journal of Finance & Accounting* 2(1): 47-67.

Kurniawan, D. M., and Indriantoro, N. 2000. The Role of disclosure in strengthening corporate governance and accountability. *Proceedings from Second Asian Roundtable on Corporate Governance OECD.* Hong Kong, China.

Kurucz, E., Colbert, B., and Wheeler, D. 2008. The business case for corporate social responsibility. In A Crane, A., McWilliams, D., Matten, J., Moon and D. Siegel (eds). *The oxford handbook of corporate social responsibility*. Oxford University Press. Oxford. 83-112.

Kuznetsov, A., Kuznetsova. O., and Warren,. R 2009. CSR and the legitimacy of business in transition economies: The case of Russia. *Scandinavian Journal of Management* 25(1): 37-45.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., and Vishny, R. 2000. Investor protection and corporate governance. *Journal of Financial Economics* 58(1): 3-27.

—— 2002. Investor protection and corporate valuation. *Journal of Finance* 57(3): 1147-70.

Lado, A. A., and Wilson, M. C. 1994. Human resource systems and sustained competitive advantage: A competency-based perspective. *Academy of Management Review* 19(4): 699-727.

LaFond, R., and Watts, R. L. 2008. The information role of conservatism. *The Accounting Review* 83(2): 447-78.

Lai, C., Chiu, C., Yang, C., and Pai, D. 2010. The effects of corporate social responsibility on brand performance: The mediating effect of industrial brand equity and corporate reputation. *Journal of Business Ethics* 95(3): 457-69.

Lambert, R., Leuz, C., and Verrecchia, R. E. 2007. Accounting information, disclosure, and the cost of capital. *Journal of Accounting Research* 45(2): 385-420.

Lang, L. H., Stulz, R., and Walkling, R. A. 1989. Managerial performance, Tobin's Q and the gains from successful tender offers. *Journal of Financial Economics* 24(1): 137-54.

Lang, M. H., Lins, K. V., and Miller, D. P. 2003. ADRs, analysts, and accuracy: Does cross listing in the United States improve a firm's information environment and increase market value? *Journal of Accounting Research* 41(2): 317-45.

Lang, M. H., and Lundholm, R. J. 1996. Corporate disclosure policy and analyst behavior. *The Accounting Review* 71(4): 467-92.

Laplume, A. O., Sonpar, K., and Litz, R. A. 2008. Stakeholder theory: Reviewing a theory that moves us. *Journal of Management* 34(6): 1152-89.

Larcker, D. F., Richardson, S. A., and Tuna, A. I. 2004. Does corporate governance really matter. *The Wharton School University of Pennsylvania Working Paper*. US.

Lau, L. J., Christensen, L. R., and Jongenson. D. W. 1971. Conjugate duality and the transcendental logarithmic production function. *Econometrica* 39(4): 255-66.

Lawler, E., and Finegold, D. L. 2005. The changing face of corporate boards. *MIT Sloan Management Review* 46(2): 67-70.

Leblanc, R. 2003. Board of directors: an inside view. PhD thesis. York University. Toronto. retrieved 20 June 2014.

Leblanc, R. 2006. The coming revolution in corporate governance. *Ivey Business Journal* 68(1): 1-11.

Lee, G., and Masulis, R. W. 2009. Seasoned equity offerings: quality of accounting information and expected flotation costs. *Journal of Financial Economics* 92(3): 443-69.

Lee, J. 2006. Family firm performance: Further evidence. *Family Business Review* 19(2): 103-113.

Lee, M. 2008. A review of the theories of corporate social responsibility: Its evolutionary path and the road ahead. *International Journal of Management Reviews* 10(1): 53-73.

Lee, S., and Park, S. 2009. Do socially responsible activities help hotels and casinos achieve their financial goals? *International Journal of Hospitality Management* 28(1): 105-12.

Lee, T. W., Ashford, S. J., Walsh, J. P., and Mowday, R. T. 1992. Commitment propensity, organizational commitment, and voluntary turnover: A longitudinal study of organizational entry processes. *Journal of Management* 18(1): 15-32.

Lefort, F., and Urzúa, F. 2008. Board independence, firm performance and ownership concentration? evidence from Chile. *Journal of Business Research* 61(6): 615-22.

Lemmon, M. L., and Lins, K. V. 2003. Ownership structure, corporate governance, and firm value: Evidence from the East Asian financial crisis. *The Journal of Finance* 58(4): 1445-68.

Lenham, D. 2004. Linking marketing to financial performance and firm value. *Journal of Marketing* 68(4): 73-5.

Leonard, H. J. 2006. *Pollution and the struggle for the world product: Multinational corporations, environment, and international comparative advantage*. Cambridge University Press. New York, US.

Leuz, C., Nanda, D., and Wysocki, P. D. 2003. Earnings management and investor protection: An international comparison. *Journal of Financial Economics* 69(3): 505-27.

Leuz, C., and Verrecchia, R. E. 2000. The economic consequences of increased disclosure (digest summary). *Journal of Accounting Research* 38(1): 91-124.

Lev, B., Petrovits, C., and Radhakrishnan. S. 2006. *Is doing good for you: Yes, charitable contributions enhance revenue growth.* Working Peper New York University Stern School of Business. New York, US.

Leverin, A., and Liljander, V. 2006. Does relationship marketing improve customer relationship satisfaction and loyalty? *International Journal of Bank Marketing* 24(4): 232-51.

Lévy-Garboua, L., Montmarquette, C., and Simonnet, V. 2007. Job satisfaction and quits. *Labour Economics* 14(2): 251-68.

Levy, R. 1999. *Give and take*. Harvard Business School Press. Cambridge.

Lewellen, W. G., and Badrinath, S. 1997. On the measurement of Tobin's q. *Journal of Financial Economics* 44(1): 77-122.

Li. M., and Simerly, R. L. 1998. The moderating effect of environmental dynamism on the ownership and performance relationship. *Strategic Management Journal* 19(2): 169-79.

Li, D., Moshirian, F., Pham, P. K., and Zein, J. 2006. When financial institutions are large shareholders: The role of macro corporate governance environments. *The Journal of Finance* 61(6): 2975-3007.

Li, H., and Atuahene-Gima, K. 2001. Product innovation strategy and the performance of new technology ventures in China. *Academy of Management Journal* 44(6): 1123-34.

Lievens, F., and Highhouse, S. 2003. The relation of instrumental and symbolic attributes to a company's attractiveness as an employer. *Personnel Psychology* 56(1): 75-102.

Lim, S., Park, D., Lee, D. S., and Park, J. M. 2006. Economic evaluation of a water network system through the net present value method based on cost and benefit estimations. *Industrial & Engineering Chemistry Research* 45(22): 7710-8.

Lin, L. 1995. Effectiveness of outside directors as a corporate governance mechanism: theories and evidence. *Law Journal Library* 90(3): 898-976.

Linck, J. S., Netter, J. M., and Yang, T. 2008. The determinants of board structure. *Journal of Financial Economics* 87(2): 308-28.

Lindblom, C. K. 1994. The implications of organizational legitimacy for corporate social performance and disclosure. *Proceedings from Critical Perspectives on Accounting Conference.* New York, US.

Lindenberg, E. B., and Ross, S. A. 1981. Tobin's q ratio and industrial organization. *Journal of Business* 54(1):1-32.

Lindsey, T. 2008. *Indonesia, law and society*. Federation Press. Australia.

Lins, K. V. 2003. Equity ownership and firm value in emerging markets. *Journal of Financial and Quantitative Analysis* 38(1): 159-84.

Lipton, M., and Lorsch, J. W. 1992. A modest proposal for improved corporate governance. *The Business Lawyer* 48(1): 59-77.

Liu, X., and Anbumozhi, X. 2009. Determinant factors of corporate environmental information disclosure: An empirical study of Chenese listed companies. *Journal of Cleaner Production* 17:593-600.

Liu, Y., Ahlstrom, D., and Yeh, K. S. 2006. The separation of ownership and management in Taiwan's public companies: An empirical study. *International Business Review* 15(4): 415-35.

Livesey, SM 2001. Eco-identity as discursive struggle: royal Dutch/Shell, Brent Spar, and Nigeria. *Journal of Business Communication* 38(1): 58-91.

Loderer, C., and Martin, K. J. 1997. Executive stock ownership and performance tracking faint traces. *Journal of Financial Economics* 45(2): 223-55.

Loderer, C., and Peyer, U. 2002. Board overlap, seat accumulation and share prices. *European Financial Management* 8(2): 165-92.

Loehlin, J. C. 1998. *Latent variable models: An introduction to factor, path, and structural analysis*. Lawrence Erlbaum Associates Publishers. New Jersey.

Logsdon, J. M., and Wood, D. J. 2002. Business citizenship: From domestic to global level of analysis. *Business Ethics Quarterly* 12(2): 155-87.

López de Silanes, F., La Porta, R., Shleifer, A., and Vishny, R. 1998. Law and finance. *Journal of Political Economy* 106(6): 1113-55.

Lorsch, J.W., and Young, J. 1990. Pawns or potentates: The reality of America's corporate boards. *Academy of Management Executive* 4(4): 85-7.

Low, C. K. 2002. *Corporate governance: an Asia-Pacific critique*. Sweet & Maxwell Asia. Hong Kong, China.

Lubin, D.A., and Esty, D. C. 2010. The sustainability imperative. *Harvard Business Review* 88(5): 42-50.

Luken, R. A. 2006. Where is developing country industry in sustainable development planning? *Sustainable Development* 14(1): 46-61.

Lukviarman, N. 2004. Ownership structure and firm performance: The case of Indonesia. PhD thesis. Curtin University. Perth. retrieved 10 January 2014.

Lundholm, R. J. 1991. Public signals and the equilibrium allocation of private information. *Journal of Accounting Research* 29(2): 322-49.

Luo, X., and Bhattacharya, C. B. 2006. Corporate social responsibility, customer satisfaction, and market value. *Journal of Marketing* 70(4): 1-18.

Lutter, M. 2000. Comparative corporate governance: A German perspective. *International and Comparative Corporate Law Journal* 2(4): 423-33.

Maassen, G. F. 1999. *An international comparison of corporate governance models: A study on the formal independence and convergence of one-tier and two-tier corporate boards of directors in the United States of America, the United Kingdom and the Netherlands*. Gregory Francesco Maassen. Amsterdam.

Mace, M. L. 1971. *Directors: myth and reality*. Harvard Business School Press. Boston.

MacIntyre, A. 2003. Institutions and the political economy of corruption in developing countries. *Proceedings from the Workshop on Corruption.* Stanford University. US.

Mackey, A., Mackey, T. B., and Barney, J. B. 2007. Corporate social responsibility and firm performance: Investor preferences and corporate strategies. *Academy of Management Review* 32(3): 817-35.

Magness, V. 2006. Strategic posture, financial performance and environmental disclosure: an empirical test of legitimacy theory. *Accounting, Auditing & Accountability Journal* 19(4): 540-63.

Maher, M., and Andersson, T. 1999. Corporate governance: effects on firm performance and economic growth. *Proceedings from Convergence and Diversity in Corporate Governance Regimes and Capital Markets*. Einhoven, the Netherlands.

—— 2000. *Convergence and diversity of corporate governance regimes and capital markets*. Oxford University Press. Oxford.

Mahoney, L., and Thorne, L. 2005. Corporate social responsibility and long-term compensation: Evidence from Canada. *Journal of Business Ethics* 57(3): 241-53.

Maignan, I., and Ferrell, O. C. 2001. Corporate citizenship as a marketing instrument-Concepts, evidence and research directions. *European Journal of Marketing* 35(3/4): 457-84.

Maignan, I., Ferrell, O. C., and Hult, G. T. M. 1999. Corporate citizenship: Cultural antecedents and business benefits. *Journal of the Academy of Marketing Science* 27(4): 455-69.

Maignan, I., and Ralston, D. A. 2002. Corporate social responsibility in Europe and the US: Insights from businesses self-presentations. *Journal of International Business Studies* 33(3): 497-514.

Mak, Y. T., and Kusnadi, Y. 2005. Size really matters: Further evidence on the negative relationship between board size and firm value. *Pacific-Basin Finance Journal* 13(3): 301-18.

Makni, R., Francoeur, C., and Bellavance, F. 2009. Causality between corporate social performance and financial performance: Evidence from Canadian firms. *Journal of Business Ethics* 89(3): 409-22.

Malmendier, U., and Tate, G. 2005. CEO overconfidence and corporate investment. *The Journal of Finance* 60(6): 2661-700.

Mankin, J. A., and Jewell, J. J. 2012. A sorry state of affairs: The problems with financial ratio education. *Academy of Educational Leadership Journal* 18(4): 195-219.

Maurer, V. G., 2009. Corporate social responsibility and the"Divided Corporate Self": The case of Chiquita in Colombia. *Journal of Business Ethics* 88:595-603

Marcoux, A. M. 2000. Balancing act. In J.R DeJArdins and J. J. McCall (eds.). *Contemporary Issues in Business Ethics.* Wadsworth/Thompson Learning. Belmont, CA. 92-100.

Marcus, A. 1989. The deterrent to dubious corporate behavior: Profitability, probability and safety recalls. *Strategic Management Journal* 10(3): 233-50.

Margolis, J. D., and Walsh, J. P. 2001. *People and profits?: The search for a link between a company's social and financial performance*. Psychology Press. New York.

—— 2003. Misery loves companies: Rethinking social initiatives by business. *Administrative Science Quarterly* 48(2): 268-305.

Markides, C. C., and Williamson, P. J. 1996. Corporate diversification and organizational structure: A resource-based view. *Academy of Management Journal* 39(2): 340-67.

Maron, I. Y. 2006. Toward a unified theory of the CSP-CFP link. *Journal of Business Ethics* 67(2): 191-200.

Marquis, C., Thomason, B., and Tydlaska, J. 2010. *Corporate social responsibility and employee engagement*. Harvard Business School Course Overview Note. 410-138. Harvard Business School. Boston, MA.

Marsh, S. J. 1998. Creating barriers for foreign competitors: A study of the impact of anti-dumping actions on the performance of US firms. *Strategic Management Journal* 19(1): 25-37.

Martha H. S. 2014. *KADIN: Using CSR as long-term investement form*. Antara News.com at <http://www.antaranews.com/berita/465202/kadin-jadikan-csr-investasi-jangka-panjang>. retrieved 7 May 2016.

Martin, K. J., and McConnell, J. J. 1991. Corporate performance, corporate takeovers, and management turnover. *The Journal of Finance* 46(2): 671-87.

Martin, R. L. 2002. The virtue matrix: Calculating the return on corporate responsibility. *Harvard Business Review* 80(3): 68-75.

Martínez-López, F. J., Gázquez-Abad, J. C., and Sousa, C. M. 2013. Structural equation modelling in marketing and business research: Critical issues and practical recommendations. *European Journal of Marketing* 47(1/2): 115-52.

Martins, O. S., and Paulo, E. 2014. Information asymmetry in stock trading, economic and financial characteristics and corporate governance in the Brazilian stock market. *Revista Contabilidade & Finanças* 25(64): 33-45.

Martynov, A. 2009. Agents or stewards? Linking managerial behavior and moral development. *Journal of Business Ethics* 90(2): 239-49.

Mason, E. S. 1960. *The corporation in modern society*. Harvard University Press. US.

Mason, J. 2002. *Qualitative researching* (2nd edition). Sage. London, UK.

Masulis, R.W., and Mobbs, S. 2014. Independent director incentives: Where do talented directors spend their limited time and energy? *Journal of Financial Economics* 111(2): 406-29.

Masulis, R.W., and Wang, C. 2007. Corporate governance and acquirer returns. *The Journal of Finance* 62(4): 1851-89.

Mathews, M. R. 1993. *Socially responsible accounting*. Chapman & Hall. New York, US.

Matolcsy, Z., Stokes, D., and Wright, A. 2004. Do independent directors add value? *Australian Accounting Review* 14(32): 33-40.

Matten, D., and Moon, J. 2008. 'Implicit' and 'explicit' CSR: A conceptual framework for a comparative understanding of corporate social responsibility. *Academy of Management Review* 33(2): 404-24.

Matthyssens, P., and Vandenbempt, K. 2003. Cognition-in-context: Reorienting research in business market strategy. *Journal of Business & Industrial Marketing* 18(6/7): 595-606.

Maxwell, J. A. 2008. Designing a qualitative study. In Bickman L., and Rog. D. J. *The SAGE Handbook of Applied Social Research Methods* (2nd edition). Sage Publications, US. 214-53.

Mayoux, L. 2005. *Marrying jekyll with hyde? Transnational enterprises, pro-poor development and sustainable ethical learning*. Enterprise Development Impact Assesssment Information Service (EDIAIS). London, UK.

Mazni, A., and Ramli, I. 2010. Applied of corporate financial risk model as CSR on Indonesia Stock Exchange (BEI). *Proceedings from Oxford Business & Economics Conference Program.* UK.

McCarthy, M. J. 1999. An ex-divinity student works on searching the corporate soul. *Wall Street Journal* (June 18): B1.

McColgan, P. 2001. Agency theory and corporate governance: A review of the literature from a UK perspective. *Department of Accounting and Finance Working Paper*. University of Strathclyde. Glasgow.

McConnell, J. J., and Servaes, H. 1990. Additional evidence on equity ownership and corporate value. *Journal of Financial Economics* 27(2): 595-612.

—— 1995. Equity ownership and the two faces of debt. *Journal of Financial Economics* 39(1): 131-57.

McGuire, J. B., Dow, S., and Argheyd, K. 2003. CEO incentives and corporate social performance. *Journal of Business Ethics* 45(4): 341-59.

McGuire, J. B., Sundgren, A., and Schneeweis, T. 1988. Corporate social responsibility and firm financial performance. *The Academy of Management Journal* 31(4): 854-72.

McKeown, J. L. 2002. *Retaining top employees*. McGraw-Hill. New York, US.

McKinnon, S. 2000. Domestic exceptions: Evans-pritchard and the creation of nuer patrilineality and equality. *Cultural Anthropology* 15(1): 35-83.

McLaughlin, R., Safieddine, A., and Vasudevan, G. K. 2000. Investment banker reputation and the performance of seasoned equity issuers. *Financial Management* 29(1): 96-110.

McPhee, W. N. 1963. *Formal theories of mass behavior*. Free Press. New York, US.

McQuitty, S. 2004. Statistical power and structural equation models in business research. *Journal of Business Research* 57(2): 175-83.

McWilliams, A., and Siegel, D. 2000. Corporate social responsibility and financial performance: Correlation or misspecification? *Strategic Management Journal* 21(5): 603-9.

—— 2001. Corporate social responsibility: A theory of the firm perspective. *Academy of Management Review* 26(1): 117-27.

McWilliams, A., Siegel, D.S., and Wright, P. M. 2006. Corporate social responsibility: Strategic implications. *Journal of Management Studies* 43(1): 1-18.

Mehran, H. 1995. Executive compensation structure, ownership, and firm performance. *Journal of Financial Economics* 38(2): 163-84.

Mei, J. and Guo, L. 2004. Political uncertainty, financial crisis and market volatility. *European Financial Management* 10(4): 639-57.

Melo, T., and Galan, J. I. 2011. Effects of corporate social responsibility on brand value. *Journal of Direct, Data and Digital Marketing Practice* 18(6): 423-437.

Melo, T., and Garrido-Morgado, A. 2012. Corporate reputation: A combination of social responsibility and industry. *Corporate Social Responsibility and Environmental Management* 19(1): 11-31.

Mercer, M. 2004. How do investors assess the credibility of management disclosures? *Accounting Horizons* 18(3): 185-96.

Meyer, J. W., and Rowan, B. 1977. Institutionalized organizations: Formal structure as myth and ceremony. *American journal of Sociology* 83(2): 340-363.

Mikkelson, W. H., and Partch, M. M. 1997. The decline of takeovers and disciplinary managerial turnover. *Journal of Financial Economics* 44(2): 205-28.

Millstein, I. M., and Katsh, S. M. 2003. *The limits of corporate power: Existing constraints on the exercise of corporate discretion*. Beard Books. Washington, D.C.

Mintzberg, H. 1983. The case for corporate social responsibility. *Journal of Business Strategy* 4(2): 3-15.

Mischel, W. 1977. The interaction of person and situation. In Magnusson. D., and Endler. N. S (Eds.). *Personality at the crossroads: Current issues in interactional psychology.* Hillsdale, Erlbaum. 333-352.

Mitchell, R. K., Agle, B. R., and Wood, D. J. 1997. Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of Management Review* 22(4): 853-86.

Mitton, T. 2002. A cross-firm analysis of the impact of corporate governance on the East Asian financial crisis. *Journal of Financial Economics* 64(2): 215-41.

Mizruchi, M. S. 1983. Who controls whom? An examination of the relation between management and boards of directors in large American corporations. *Academy of Management Review* 8(3): 426-35.

Mizruchi, M. S., and Stearns, L. B. 1994. A longitudinal study of borrowing by larhe American corporations. *Administrative Science Quarterly* 39(1): 118-140.

Moerland, P. W. 1995. Corporate ownership and control structures: An international comparison. *Review of Industrial Organization* 10(4): 443-64.

Mohan, A. 2003. Strategies for the management of complex practices in complex organization: A study of the transational management of corporate responsibility. PhD thesis. University of Warwich. England. retrieved 12 August 2014.

Mohr, L. A., and Webb, D. J. 2005. The effects of corporate social responsibility and price on consumer responses. *Journal of Consumer Affairs* 39(1): 121-47.

Mohr, L. A., Webb, D. J., and Harris, K. E. 2001. Do consumers expect companies to be socially responsible? The impact of corporate social responsibility on buying behavior. *Journal of Consumer Affairs* 35(1): 45-72.

Molz, R. 1988. Managerial domination of boards of directors and financial performance. *Journal of Business Research* 16(3): 235-49.

Monks, R. A. G., and Minow, N. 2001. *Watching the watchers: Corporate governance for the 21st century*. Blackwell Publichers. Malden, MA.

Montgomery, C. A., and Kaufman, R. 2003. The board's missing link. *Harvard Business Review* 81(3): 86-93.

Morck, R., Shleifer, A., and Vishny, R. W. 1988a, *Alternative mechanisms for corporate control*. National Bureau of Economic Research (NBER). Cambridge, MA.

—— 1988b. Management ownership and market valuation: An empirical analysis. *Journal of Financial Economics* 20(1/2): 293-315.

Morck, R., Wolfenzon, D., and Yeung, B. 2004. *Corporate governance, economic entrenchment and growth*. National Bureau of Economic Research (NBER).

Morck, R., Yeung, B., and Yu, W. 2000. The information content of stock markets: Why do emerging markets have synchronous stock price movements? *Journal of Financial Economics* 58(1): 215-60.

Morris, R.D., and Gray, S. J. 2010. *Factors influencing corporate disclosures in the Asian region: The significance of country and firm-level differences.* Working Paper Australian School of Business University of New South Wales and Capital Markets CRC Ltd.

Morsing, M., and Schultz, M. 2006. Corporate social responsibility communication: Stakeholder information, response and involvement strategies. *Business Ethics: A European Review* 15(4): 323-38.

Moyer, R. C., McGuigan, J. R., Rao, R. P. 2015. *Contemporary Financial Management.* Cengage Learning. *USA.*

Mueller, C. W., and Lawler, E. J. 1999.Commitment to nested organizational units: Some basic principles and preliminary findings. *Social Psychology Quarterly* 62(4): 325-46.

Mülbert, P. O. 2009. Corporate governance of banks. *European Business Organization Law Review*, 10(3): 411-36.

Mulick, J. J. 1993. Governance structure, product-market strategy and performance: A longitudinal study of the banking industry during deregulation. PhD thesis. University of Pittsburgh. Pennsylvania. retrieved 14 June 2014.

Muller, A., and Kolk, A. 2009. CSR performance in emerging markets evidence from Mexico. *Journal of Business Ethics* 85(2): 325-37.

Murhadi, W. R. 2009. Studi pengaruh good corporate governance terhadap praktik earnings management pada perusahaan terdaftar di PT Bursa Efek Indonesia. *Jurnal Manajemen dan Kewirausahaan* 11(1): 1-10.

Murphy, K. J. 1999. Executive compensation. In O Ashenfelter and D Card (eds). *Handbook of labor economics* (Vol. 3) Amsterdam. 2485-563.

Mustaruddin, S., Norhayah, Z., and Rusnah, M. 2011. Looking for evidence of the relationship between corporate social responsibility and corporate financial performance in an emerging market. *Asia-Pacific Journal of Business Administration* 3(2): 165-90.

Myers, S.C., and Majluf, N.S. 1984. Corporate financing and investment decisions when firms have information that investors do not have. *Journal of Financial Economics* 13(2): 187-221.

Nadler, D. A. 2004. Building better boards. *Harvard Business Review* 82(5): 102-5.

Nam, S., and Nam, I. 2004. *Corporate governance in Asia: Recent evidance from Indonesia, Republic of Korea, Malaysia and Thailand*. Asian Development Bank Institute. Tokyo.

Naser, K., Al-Hussaini, A., Al-Kwari, D., and Nuseibeh, R. 2006. Determinants of corporate social disclosure in developing countries: The case of Qatar. *Advances in International Accounting* 19: 1-23.

Nasution, M., and Setiawan, D. 2007. Influence of corporate governance on Earning management in banking industry in Indonesia. *Proceedings from National Symposium Accounting X*. Indonesia.

Navickas, V., and Kontautiene, R. 2012. The use of corporate social responsibility for the enhancing motivation of employees. *Sociálno-Ekonomická Revue* 4: 62-9.

Nazari, J. 2010. An investigation of the relationship between the Intelectual Capital component and Firm's Financial Performance. PhD thesis. University of Calgary. Alberta, Canada. retrieved 10 November 2014.

Nelson, J. 2003. *Economic multipliers: revisiting the core responsibiliy and contribution of business to development*. International Business Leaders Forum. London, UK.

Nelson, J. A. 2004. A Buddhist and feminist analysis of ethics and business. *Development* 47(3): 53-60.

Nenova, T. 2003. The value of corporate voting rights and control: A cross-country analysis. *Journal of Financial Economics* 68(3): 325-51.

Neuman, W. L. 2005. *Social research methods: Quantitative and qualitative approaches*. Allyn and Bacon. London, UK.

Neville, B. A. 2008. Explorations in the relationship between business and society: A stakeholder based approach. PhD thesis. The University of Melbourne. Melbourne. retrieved 22 June 2014.

New York Stock Exchange NYSE 2003, *Section 303A (1/2) in Corporate Governance Rule Proposals*.

Newell, P., and Frynas, J. G. 2007. Beyond CSR? business, poverty and social justice: An introduction. *Third World Quarterly* 28(4): 669-81.

Newey, W. K. 1985. Generalized method of moments specification testing. *Journal of Econometrics* 29(3): 229-56.

Nicholson, G. J., and Kiel, G. C. 2007. Can Directors Impact Performance? A case-based test of three theories of corporate governance. *Corporate Governance: An International Review* 15(4): 585-608.

Nicolaou, A. I., and McKnight, D. H. 2006. Perceived information quality in data exchanges: Effects on risk, trust, and intention to use. *Information Systems Research* 17(4): 332-51.

Nicolau, J. L. 2008. Corporate social responsibility worth-creating activities. *Annals of Tourism Research* 35(4): 990-1006.

Nik Nazli, N. A., and Sulaiman, M. 2004. Environment disclosure in Malaysia annual reports: A legitimacy theory perspective. *International Journal of Commerce and Management* 14(1): 44-58.

Nooteboom, B. 1992. Towards a dynamic theory of transactions. *Journal of Evolutionary Economics* 2(4): 281-99.

Nowland, J. 2008. Are East Asian companies benefiting from Western board practices? *Journal of Business Ethics* 79(1/2): 133-50.

Ntim, C. G., and Soobaroyen, T. 2013. Corporate governance and performance in socially responsible corporations: New empirical insights from a neo-institutional framework. *Corporate Governance: An International Review* 21(5): 468-94.

O'Donovan, G. 2002. Environmental disclosures in the annual report: Extending the applicability and predictive power of legitimacy theory. *Accounting, Auditing & Accountability Journal* 15(3): 344-71.

O'Brien-Pallas, L., Griffin, P., Shamian, J., Buchan, J., Duffield, C., Hughes, F., Laschinger, H.K.S., North, N., and Stone, P. W. 2006. The impact of nurse turnover on patient, nurse, and system outcomes: A pilot study and focus for a multicenter international study. *Policy, Politics, & Nursing Practice* 7(3): 169-79.

O’Higgins, E. 2002. Non–executive directors on boards in Ireland: Co–option, characteristics and contributions. *Corporate Governance: An International Review* 10(1): 19-28.

Oh, W. Y., and Chang, Y. K. 2011. The effect of ownership structure on corporate social resposnibility: empirical evidence from Korea. *Journal of Business Ethics* 104(2): 283-297.

O’Reilly, C. A., and Main, B. G. 2010. Economic and psychological perspectives on CEO compensation: A review and synthesis. *Industrial and Corporate Change* 25(3): 1-38.

Oder, N., and DiMattia, S. 1997. Knowledge management: Hope, hype, or harbinger? *Library Journal* 122(15): 33-5.

Organisation for Economic Co-operation and Development OECD 2004, *OECD Principles of Corporate Governance*. OEDC Publishing. Paris.

2011. *Reform priorities in Asia: Taking corporate governance to a higher level*. OEDC Publishing. Paris.

—— 2014. *Risk management and corporate governance*. OECD publishing. Paris.

—— 2015a, *G20/OECD Principles of Corporate Governance*. OEDC Publishing. Paris.

—— 2015b. *OECD Economic surveys Indonesia*. OEDC Publishing. Paris.

Oeyono, J., Samy, M., and Bampton, R. 2011. An examination of corporate social responsibility and financial performance: A study of the top 50 Indonesian listed corporation. *Journal of Global Responsibility* 2(11): 100-12.

Ofek, E., and Yermack, D. 2000. Taking stock: Equity-based compensation and the evolution of managerial ownership. *The Journal of Finance* 55(3): 1367-84.

Ogden, S., and Watson, R. 1999. Corporate performance and stakeholder management: Balancing shareholder and customer interests in the UK privatized water industry. *Academy of Management Journal* 42(5): 526-38.

Oikonomou, I., Pavelin, S., and Brooks, C. 2014. The effcts of corporate social performance on the cost of corporate debt and credit ratings. *The Financial Review* 49 (1): 49-75.

Oktavia, S., and Meaton, J. 2014. Corporate social resposibility (CSR) public policy in Indonesia: profile, state of the art and the key motives. P*roceedings from the fourth International Conference on Management* 16/17 June 2014. Indonesia.

Orlikoff, J. E. 2004. Building better boards in the new era of accountability. *Frontiers of Health Services Management* 21(3): 3-12.

Orlitzky, M., and Benjamin, J. D. 2001. Corporate social performance and firm risk: A meta-analytic review. *Business and Society* 40(4): 369-96.

Orlitzky, M., Schmidt, F.L., and Rynes, S. L. 2003. Corporate social and financial performance: A meta-analysis. *Organization Studies* 24(3): 403-41.

Owen, G., and Espenlaub, S. 1994. *The future of Britain's boards of directors: Two tiers or one?* Institute of Chartered Accountants in England and Wales, London.

Padgett, C., and Shaukat, A. 2005. *The UK code of corporate governance: Link between companies and firm performance*. Henley Business School. UK at <http://www.icmacentre.ac.uk/research/discussion-papers/2005-series>. retrieved 2 October 2014.

Palmon, O., Sun, H., and Tang, A. P. 1997. Layoff announcements: Stock market impact and financial performance. *Financial Management* 26(3): 54-68.

Panaretou, A., Shackleton, M. B., and Taylor, P. A. 2012. Corporate risk management and hedge accounting. *Contemporary Accounting Research* 30(1): 116-39.

Pande, S., and Ansari. V. 2014. A theoretical framework for corporate governance. *Indian Journal of Corporate Governance* 7(1): 56-72.

Papasolomou-Doukakis, I., Krambia-Kapardis, M., and Katsioloudes, M. 2005. Corporate social responsibility: The way forward? Maybe not! A preliminary study in Cyprus. *European Business Review* 17(3): 263-79.

Parker, L. 1986. Polemical themes in social accounting: A scenario for standard setting. *Advances in Public Interest Accounting*. 1: 67-93.

Parker, L. D. 2007. Financial and external reporting research: The broadening corporate governance challenge. *Accounting and Business Research* 37(1): 39-54.

Parkinson, J. E. 1995. *Corporate power and responsibility: Issues in the theory of company law*. Oxford University Press. Oxford.

Patelli, L., and Prencipe, A. 2007. The relationship between voluntary disclosure and independent directors in the presence of a dominant shareholder. *European Accounting Review* 16(1): 5-33.

Patten, D. M. 1992. Intra-industry environmental disclosures in response to the Alaskan oil spill: A note on legitimacy theory. *Accounting, Organizations and Society* 17(5): 471-5.

—— 2002. Media exposure, public policy pressure, and environmental disclosure: An examination of the impact of tri data availability. *Accounting Forum* 26(2): 152-71.

Paulet, E., and Talamo, G. 2011. Corporate governance and capital flows. *Corporate Governance: The International Journal of Business in Society* 11(3): 228-43.

Pauwels, K., Silva-Risso, J., Srinivasan, S., and Hanssens, D. M. 2004. New products, sales promotions, and firm value: The case of the automobile industry. *Journal of Marketing* 68(4): 142-56.

Pearce, J. A., and Zahra, S. A. 1992. Board composition from a strategic contingency perspective. *Journal of Management Studies* 29(4): 411-38.

Peasnell, K. V., Pope, P. F., and Young, S. 2005. Board monitoring and earnings management: Do outside directors influence abnormal accruals? *Journal of Business Finance & Accounting* 32(7-8): 1311-46.

Pedersen, E. R. 2006. Making corporate social reponsibility (CSR) operable: How companies translate stakeholder dialogue into practice. *Business and Society Review* 111(2):137-163.

Pelled, L. H., Eisenhardt, K. M., and Xing, K. R. 1999. Exploring the black box: an analysis of work group diversity, conflict, and performance. *Administrative Science Quarterly* 44 (1), 1-28.

Peng, M. W. 2003. Institutional transitions and strategic choices. *Academy of Management Review* 28(2): 275-96.

—— 2004. Outside directors and firm performance during institutional transitions. *Strategic Management Journal* 25(5): 453-71.

Peng, M. W., Zhang, S., and Li, X. 2007. CEO duality and firm performance during china's institutional transitions. *Management and Organization Review* 3(2): 205-25.

Penrose, E. 1959. *The theory of the growth of the firm*. Oxford University Press. UK.

Perrin, T. 2008. *2007-2008 towers perrin global workforce study* at <http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2008/200802/GWS_handout_web.pdf>. retrieved 2 October 2014.

Perrini, F. 2006. SMEs and CSR theory: Evidence and implications from an Italian perspective. *Journal of Business Ethics* 67(3): 305-16.

Perrini, F., Pogutz, S., and Tencati, A. 2006. *Developing corporate social responsibility: A European perspective*. Edward Elgar. Cheltenham.

Peteraf, M. A. 1993. The cornerstones of competitive advantage: A resource-based view. *Strategic Management Journal* 14(3): 179-91.

Peters, R. D. 2007. Corporate social responsibility and strategic performance: Realizing a competitive advantages through corporate social reputation and a stakeholder network approach. PhD thesis. Florida Atlantic University. retrieved 10 February 2014.

Pfeffer, J. 1972. Size and composition of corporate boards of directors: The organization and its environment. *Administrative Science Quarterly* 17(2): 218-28.

—— 1994. *Competitive advantage through people.* Mass Press. Boston.

Pfeffer, J., and Salancik, G. R. 1978. *The external control of organizations: A resource dependence perspective*. Harper & Row Publishers. New York, US.

—— 2003. *The external control of organizations: A resource dependence perspective*. Stanford University Press. Stanford.

Pfeiffer, T. 2004. Net present value-consistent investment criteria based on accruals: A generalisation of the residual income-identity. *Journal of Business Finance & Accounting* 31(7-8): 905-26.

Phillips, J. J., and Connell, A. O. 2003. *Managing employee retention: a strategic accountability approach*. Butterworth-Heinemann. Oxford, UK.

Phillips, R. 2003. *Stakeholder theory and organizational ethics*. Berrett-Koehler Publishers, Inc. San Francisco, USA.

Phillips, R., Freeman, R.E., and Wicks, A. C. 2003. What stakeholder theory is not. *Business Ethics Quarterly* 13(4): 479-502.

Piercy, N., and Lane, N. 2009. *Strategic customer management: Strategizing the sales organization*. Oxford University Press. New York, US.

Pinho, J. C. 2007. The impact of ownership: location-specific advantages and managerial characteristics on SME foreign entry mode choices. *International Marketing Review* 24(6): 715-34.

Population Reference Bureau PRB. 2016. World population data sheet 2016: With a special focus on human needs and sustainable resources. USAID organisation. Washington, USA.

Ponnu, C. H. 2008. Corporate governance structures and the performance of Malaysian public listed companies. *International Review of Business Research Papers* 4(2): 217-30.

Popovich, P., and Wanous, J. P. 1982. The Realistic job preview as a persuasive communication. *Academy of Management Review* 7(4): 570-8.

Porta, R. L., Lopez-deSilanes, F., Shleifer, A., and Vishny, R. W. 1999. *Investor protection: Origins, consequences, and reform*. National Bureau of Economic Research, Massachusetts.

Porta R. L., Lopez-de-Silanes, F., and Shleifer, A. 1999. Corporate ownership around the world. *The Journal of Finance* 54(2): 471-517.

Porter, M. E. 1980. *Competitive strategy: Techniques for analyzing industries and competitors*. Free Press. New York, US.

—— 1985, *Competitive advantage: Creating and sustaining superior performance.* Free Press. New York, US.

Porter, M.E., and Kramer, M. R. 2002. The competitive advantage of corporate philanthropy. *Harvard Business Review* 80(12): 56-68.

—— 2006, The link between competitive advantage and corporate social responsibility. *Harvard Business Review* 84(12): 78-92.

Post, J. E., Frederick, W. C., Lawrence, A. T., and Weber, J. 1996. *Business and society: Corporate strategy, public policy, ethics.* Orwing/McGraw-Hill. Boston, MA.

Post, J. E., Preston, L. E., and Sachs, S. 2002a. Managing the extended enterprise: The new stakeholder view. *California Management Review* 45(1): 6-28.

Post, C., Rahman, N., and Rubon, E. 2011. Green governance: board of directors composition and environmental corporate social responsibility. *Business & Society* 50(1):189-223.

—— 2002b. *Redefining the corporation: Stakeholder management and organizational wealth*. Stanford University Press. Stanford.

Postma, T. J., van Ees, H., and Sterken, E. 2003. Board composition and firm performance in the Netherlands. *Eastern Economic Journal* (29): 41-58.

Pound, J. 1988. Proxy contests and the efficiency of shareholder oversight. *Journal of Financial Economics* 20(1/2): 237-65.

Prabowo, M. A. 2010. The effect of board composition on firm performance in Indonesia. PhD thesis. Curtin University. Perth. retrieved 10 July 2014.

Prabowo, M. A., and Simpson, J. 2011. Independent directors and firm performance in family controlled firms: Evidence from Indonesia. *Asian-Pacific Economic Literature* 25(1): 121-32.

Prado-Lorenzo, J., and Garcia-Sanchez, I. 2010. The role of the board of directors in disseminating relevant information on greenhouse gases. *Journal of Business Ethics* 97(3): 391-424.

Prahalad, C. K., and Doz, Y. L. 1999. *The multinational mission: Balancing local demands and global vision*. Free Press. New York, US.

Praptiningsih, M 2009. Corporate governance and performance of banking firms: evidence from Indonesia, Thailand, Philippines, and Malaysia. *Jurnal Manajemen dan Kewirausahaan* 11(1): 94-108.

Preston, L. E., and O'Bannon, D. P. 1997. The corporate social-financial performance relationship. *Business and Society* 36(4): 419-29.

Priem, R. L., and Butler, J. E. 2001. Is the resource-based 'view' a useful perspective for strategic management research? *Academy of Management Review* 26(1): 22-40.

Prieto-Carrón, M., Lund-Thomsen, P., Chan, A., Muro, A., and Bhushan, C. 2006. Critical perspectives on CSR and development: What we know, what we don't know, and what we need to know. *International Affairs* 82(5): 977-87.

Pugliese, A. Minichilli, A., and Zattoni, A, 2014. Integrating agency and resource dependence theory: Firm profitability, industry regulation, and board task performance. *Journal of Business Research* 67(6): 1189-200.

Keim, G. 1978. Managerial behavior and the social resposnibilities debate: Goals versus constraints. *Academy of Management Journal* 21(1):57-68.

Quazi, A. M. 2003. Identifying the determinants of corporate managers' perceived social obligations. *Management Decision* 41(9): 822-31.

Quiggin, J. 1997. Discount rates and sustainability. *International Journal of Social Economics* 24(1/2/3): 65-90.

Quigley, T. J., and Hambrick, D. C. 2012. When the former CEO stays on as board chair: effects on successor discretion, strategic change, and performance. *Strategic Management Journal* 33(7): 834-59.

Rahman, N., and Post, C. 2012. Measurement issues in environmental corporate social responsibility (ECSR): Toward a transparent, reliable, and construct valid instrument. *Journal of Business Ethics* 105(3): 307-19.

Rahman, R. A., and Ali, F. H. M. 2006. Board, audit committee, culture and earnings management: Malaysian evidence. *Managerial Auditing Journal* 21(7): 783-804.

Ramaswamy, K., Li, M., and Veliyath, R. 2002. Variations in ownership behavior and propensity to diversify: A study of the Indian corporate context. *Strategic Management Journal* 23(4): 345-58.

Ramdani, D., and Witteloostuijn, A. 2010. The impact of board independence and CEO duality on firm performance: A quantile regression analysis for Indonesia, Malaysia, South Korea and Thailand. *British Journal of Management* 21(3): 607-27.

Rashid, A., De Zoysa, A., Lodh, S., and Rudkin, K. 2010. Board composition and firm performance: evidence from Bangladesh. *Australasian Accounting, Business and Finance Journal* 4(1): 76-95.

Rawls, J 2009. *A theory of justice*. Harvard University Press. Massachusetts.

Ray, G., Barney, J. B., and Muhanna, W. A. 2004. Capabilities, business processes, and competitive advantage: Choosing the dependent variable in empirical tests of the resource-based view. *Strategic Management Journal* 25(1): 23-37.

Rao, G., and Tilt, C. 2015. Board composition and corporate social responsibility: The role of diversity, gender, strategy and decision making. *Journal of Business Ethics* 1-21.

Rechner, P. L., and Dalton, D. R. 1991. CEO duality and organizational performance: A longitudinal analysis. *Strategic Management Journal* 12(2): 155-60.

Reed, D. 2002. Corporate governance reforms in developing countries. *Journal of Business Ethics* 37(3): 223-47.

Reger, R. K. 1997. Strategic leadership: Top executives and their effects on organizations. *Academy of Management Review* 22(3): 802-5.

Renneboog, L., Ter Horst, J., and Zhang, C. 2006. *Is ethical money financially smart?* ECGI-Finance Working Paper no. 117.

Reuber, G.L., Crookell, H., Emerson, M., and Gallais-Hamonno, G. 1973. *Private foreign investment in development.* Clarendon Press. Oxford, UK.

Reverte, C. 2009. Determinants of corporate social responsibility disclosure ratings by Spanish listed firms. *Journal of Business Ethics* 88(2): 351-66.

Rezaee, Z. 2009. *Corporate governance and ethics*. John Wiley & Sons, Inc. Hoboken, NJ.

Riahi-Belkaoui, A. 1996. *Performance results in value added reporting*. Greenwood Publishing Group. US.

Ricart, J., Rodriguesz, M., and Sanchez, P. 2005. Sustainability in the boardroom: An empirical investigation of Dow Jones sustainability world index leaders. *Corporate Governance* 5(3): 24-41.

Rice, G. 1999. Islamic ethics and the implications for business. *Journal of Business Ethics* 18(4): 345-58.

Richardson, A.J., Welker, M., and Hutchinson, I. R. 1999. Managing capital market reactions to corporate social resposibility. *International Journal of Management Reviews* 1(1): 17-43.

Richardson, V. J. 2000. Information asymmetry and earnings management: Some evidence. *Review of Quantitative Finance and Accounting* 15(4): 325-47.

Rickford, J. 2005. Fundamentals, developments and trends in British company law– some wider reflections second part: Current British priorities and wider reflections. *European Company and Financial Law Review* 2(1): 63-106.

Rindova, V. P., Pollock, T. G., and Hayward, M. L. 2006. Celebrity firms: The social construction of market popularity. *Academy of Management Review* 31(1): 50-71.

RobecoSAM 2014, *Measuring country intangible: Country sustainability ranking*, RobecoSAM. Zurich, Switzerland at <http://www.robecosam.com/en/sustainability-insights/about-sustainability/country-sustainability-ranking/>. retrieved 12 March 2015.

—— 2015, *Measuring country intangibles: RobecoSAM's country sustainability ranking*, RobecoSAM. Zurich, Switzerland at <http://www.robecosam.com/en/sustainability-insights/about-sustainability/country-sustainability-ranking/>. retrieved 12 March 2015.

Roberts, R. W., and Mahoney, L. 2004. Stakeholder conceptions of the corporation: Their meaning and influence in accounting research. *Business Ethics Quarterly* 14(3): 399-431.

Roberts, R. W., and Dowling, G.R. 2002. Corporate reputation and sustained superior financial performance. *Strategic Management Journal* 23(12): 1077-93.

Roberts, R. W. 1992. Determinants of corporate social responsibility disclosure: An application of stakeholder theory. *Accounting, Organizations and Society* 17(6): 595-612.

Robertson-Snape, F. 1999. Corruption, collusion and nepotism in Indonesia. *Third World Quarterly* 20(3): 589-602.

Robertson, D. C., and Anderson, E. 1993. Control system and task environment effects on ethical judgment: An exploratory study of industrial salespeople. *Organisation Science* 4(4): 617-44.

Robertson, D. C., and Ross Jr, W. T. 1995. Decision-making processes on ethical issues: The impact of a social contract perspective. *Business Ethics Quarterly* 5(2): 213-40.

Roche, P. 2008. Board role and composition within the organization life cysyle. PhD thesis. McGill University. Montreal. retrieved 10 June 2014.

Rodney, C. 2005. Predicting downtown and small business success: A resources based view. PhD thesis. Michigan State University. Michigan. retrieved 10 June 2014.

Rodriguez-Dominguez, L., Gallego-Alvarez, I., and Garcia-Sanchez, I. M. 2009. Corporate governance and codes of ethics. *Journal of Business Ethics* 90(2): 187-202.

Rodriguez, M.A., Ricart, J. E., and Sanchez, P. 2002.Sustainable development and the sustainability of competitive advantage: A dynamic and sustainable view of the firm. *Creativity and Innovation Management* 11(3): 135-46.

Rodriguez, P., Siegel, D. S., Hillman, A., and Eden, L. 2006. Three lenses on the multinational enterprise: politics, corruption, and corporate social responsibility. *Journal of International Business Studies* 37(6): 733-46.

Roe, M. J. 1993. Some differences in corporate structure in Germany, Japan, and the United States. *The Yale Law Journal* 102(8): 1927-2003.

Rogers, H. P., Ogbuehi, A. O., and Kochunny, C. 1995. Ethics and Trasnational Corportations in Developing Countries: A Social Contract Perspective. *Journal of Euromarketing* 4(2): 11-38.

Romer, P. M., and Gugerty, M. K. 1997. *Does economic growth reduce poverty? Technical paper*. Harvard Institute for International Development.US.

Rondinelli, D. A., and London, T. 2002. Stakeholder and corporate responsibilities in cross sectoral environmental collaborations: Building value, legitimacy and trust. In J. Andriof, Waddock, S., Husted, B., and Rahman, S.S. (ed.). *Unfolding stakeholder thinking: Theory, responsibility and engagement.* Sheffield: Greenleaf. 201-15.

Rousseau, J. 1920. *The social contract & discourses*. JM Dent & Sons. New York.

Rosser, A., and Edwin, D. 2010. The politics of corporate social responsibility in Indonesia. *The Pacific Review* 23(1): 1-22.

Rossouw, G. J. 2009. The ethics of corporate governance. *International Journal of Law and Management* 51(1): 43-51.

Rowley, T., Behrens, D., and Krackhardt, D. 2000. Redundant governance structures: An analysis of structural and relational embeddedness in the steel and semiconductor industries. *Strategic Management Journal* 21(3): 369-86.

Rowley, T., and Berman, S. 2000. A brand new brand of corporate social performance. *Business & Society* 39(4): 397-418.

Rowley, T., and Moldoveanu, M. 2003. When will stakeholder groups act? An interest- and identity-based model of stakeholder group mobilization. *Academy of Management Review* 28(2): 204-19.

Roy, M. 2011. Board information: meeting the evolving needs of corporate directors. *Management Research Review* 34(7): 773-89.

Roychowdhury, S. 2006. Earnings management through real activities manipulation. *Journal of Accounting and Economics* 42(3): 335-70.

Ruan, W., Tian, G., and Ma, S. 2011. Managerial ownership, capital structure and firm value: evidence from China's civilian-run firms. *Australia Accounting Business & Finance Journal* 5(3): 73-92.

Ruf, B. M., Muralidhar, K., and Paul, K. 1998. The development of a systematic, aggregate measure of corporate social performance. *Journal of Management* 24(1): 119-33.

Rugman, A. M., and Verbeke, A. 2002. Edith Penrose's Contribution to the resources-based view of strategic management. *Strategic Management Journal* 23(8): 769-80.

Rumelt, R. P. 1984. Towards a strategic theory of the firm. *Competitive Strategic Management* (26): 556-70.

Rundle-Thiele, S. R., and Wymer, W. 2010. Stand-alone ethics, social responsibility, and sustainability course requirements a snapshot from Australia and New Zealand. *Journal of Marketing Education* 32(1): 5-12.

Russo, M. V., and Fouts, P. A. 1997. A resource-based perspective on corporate environmental performance and profitability. *Academy of Management Journal* 40(3): 534-59.

Rust, R.T., Lemon, K. N., and Zeithaml, V. A. 2004. Return on marketing: Using customer equity to focus marketing strategy. *The Journal of Marketing* 68(1): 109-27.

Rust, R. T., and Zahorik, A. J. 1993. Customer satisfaction, customer retention, and market share. *Journal of Retailing* 69(2): 193-215.

Ryan, A., Schmit, M. J., and Johnson, R .1996. Attitudes and effectiveness: Examining relations at an organizational level. *Personnel Psychology* 49(4): 853-82.

Sackett, P. R., and Larson Jr, J. R. 1990. Research strategies and tactics in industrial and organizational psychology. In M.D. Dunnette, L.M. Hough (eds.) *Handbook of Industrial and Organisation Psychology.* Consulting Psychologists Press, Inc. Palo Alto,CA.

Saeed, G. 2011. Value creation model through corporate social responsibility (CSR). *International Journal of Business and Management* 6(9): 148.

Safieddine, A., and Titman, S. 1999. Leverage and corporate performance: Evidence from unsuccessful takeovers. *The Journal of Finance* 54(2): 547-80.

Sahin, K., Basfirinci, C. S., and Ozsalih, A. 2011. The impact of board composition on corporate financial and social responsibility performance: Evidence from public-listed companies in Turkey. *African Journal of Business Management* 5(7): 2959-78.

Said, R., Zainuddin, Y. H., and Haron, H. 2009. The relationship between corporate social responsibility disclosure and corporate governance characteristics in Malaysian public listed companies. *Social Responsibility Journal* 5(2): 212-26.

Saleh, M., Zulkifli, N., and Muhamad, R. 2010. Corporate social responsibility disclosure and its relation on institutional ownership: Evidence from public listed companies in Malaysia. *Managerial Auditing Journal* 25(6): 591-613.

Salzmann, O., Ionescu-Somers, A., and Steger, U. 2005. The business case for corporate sustainability: Literature review and research options. *European Management Journal* 23(1): 27-36.

Samuel, M.O., and Chipunza, C. 2009. Employee retention and turnover: Using motivational variables as a panacea. *African Journal of Business Management* 3(9): 410-415.

Sanders, W., and Boivie, S. 2004. Sorting things out: Valuation of new firms in uncertain markets. *Strategic Management Journal* 25(2): 167-86.

Santhakumar, V., and Chakraborty, A. 2003. Environmental costs and their impact on the net present value of a hydro-electric project in Kerala, India. *Environment and Development Economics* 8(2): 311-30.

Sari, S. A. 2013. The impact of governance structure to the effectiveness of the board in implementing good corporate governance at Indonesian state-owned enterprises. *International Business Management* 7(4): 295-305.

Sarkar, J., and Sarkar, S. 2000. Large shareholder activism in corporate governance in developing countries: Evidence from India. *International Review of Finance* 1(3): 161-94.

—— 2009. Multiple board appointments and firm performance in emerging economies: Evidence from India. *Pacific-Basin Finance Journal* 17(2): 271-93.

Sayekti, Y. W., and Ludovicus, S. 2007. Effect of CSR Disclosure on earning response coefficient. *Proceedings from Accounting National Symposium X*. Makassar, Indonesia. 200-15.

Sayre-McCord, G. 2000. Contractarianism. In H. La Follette (ed). *The blackwell guide to ethical theo*ry. Malden. Blackwell. 247-67.

Scandura, T.A., and Williams, E. A. 2000. Research methodology in management: Current practices, trends, and implications for future research. *Academy of Management Journal* 43(6): 1248-64.

Schaltegger, S., and Burritt, R. 2005. Corporate sustainability. In H. Folmen and T. Tietenberg (eds). *The international yearbook of environmental and resources economics 2005/2006.* Cheltenham, Elgar. 185-222.

Schaltegger, S., and Sturm, A. 1998. *Eco-efficiency by eco-controlling*. VDF: Zurich.

Schendel, D., and Patton, G. R. 1978. A simultaneous equation model of corporate strategy. *Management Science* 24(15): 1611-21.

Scherer, A. G., Palazzo, G., and Baumann, D. 2006. Global rules and private actors: Toward a new role of the transnational corporation in global governance. *Business Ethics Quarterly* 16(4): 505-32.

Schiller, J., Lucas, A., and Sulistiyanto, P. 2008. Learning from the East Java mudflow: Disaster politics in Indonesia. *Indonesia* 85(April): 51-77.

Schmidt, 1996. The costs and benefits of privatization: An incomplete contracts approach. *Journal of Law, Economics, and Organization* 12(1): 1-24.

—— 2004, *Corporate governance in Germany: An economic perspective*. Johann Wolfgang Goethe-Universtaet. Finance Department. Frankfurt, Germany.

Schneiberg, M. 1999. Political and institutional conditions for governance by association: Private order and price controls in American fire insurance. *Politics & Society* 27(1): 67-103.

Schneiberg, M., and Bartley, T. 2001. Regulating American Industries: Markets, politics, and the institutional determinants of fire insurance regulation. *American Journal of Sociology* 107(1): 101-46.

Schneider, B., and Bowen, D. E. 1985. Employee and customer perceptions of service in banks: Replication and extension. *Journal of Applied Psychology* 70(3): 423-433.

Schoemaker, P. J. 1990. Strategy, complexity, and economic rent. *Management Science* 36(10): 1178-92.

Schoonhoven, C. B. 1981. Problems with contingency theory: Testing assumptions hidden within the language of contingency 'theory'. *Administrative Science Quarterly* 26(3) 349-77.

Schwaiger, M., Raithel, S., and Schloderer, M. 2009. Recognition or rejection–How a company's reputation influences stakeholder behaviour. In Klewes. J, and Wreschniok, R. (eds). *Reputation Capital: Building and Maintaining Trust in the 21 st Century*. Springer, Berlin. 39-55.

Schwartz, M.S., and Carroll, A. B. 2003. Corporate social responsibility: A three-domain approach. *Business Ethics Quarterly* 13(4): 503-30.

Scott, K. E. 1983. Corporation law and the American law institute corporate governance project. *Stanford Law Review* 35(5): 927-48.

Scott, W. R. 2003. *Organisations: Rational, natural, and open systems*. Upper Saddle River. Prentice-Hall, New Jersey.

Selart, M., and Johansen, S.T. 2011. Ethical decision making in organisations: The role of leadership stress. *Journal of Business Ethics* 99(2): 129-43.

Selling, T. I., and Stickney, C. P. 1989. The effects of business environment and strategy on a firm's rate of return on assets. *Financial Analysts Journal 45(1):* 43-68.

Sembiring, E. R. 2005. The characteristics of enterprise and CSR disclosure: Empirical studies for listed companies in Jakarta stock exchange. *Proceedings from Accounting National Symposium VIII.* Indonesia.

Sen, S., and Bhattacharya, C. B. 2001. Does doing good always lead to doing better? Consumer reactions to corporate social responsibility. *Journal of Marketing Research* 38(2): 225-43.

Sen, S., Bhattacharya, C.B., and Korschun, D. 2006. The role of corporate social responsibility in strengthening multiple stakeholder relationships: A field experiment. *Journal of the Academy of Marketing Science* 34(2): 158-66.

Senge, P. M. 1997. The fifth discipline. *Measuring Business Excellence* 1(3): 46-51.

Setia-Atmaja, L., Tanewski, G. A., and Skully, M. 2009. The role of dividends, debt and board structure in the governance of family controlled firms. *Journal of Business Finance & Accounting* 36(7/8): 863-98.

Setiyono, B., and McLeod, R. H. 2010. Civil society organisations' contribution to the anti-corruption movement in Indonesia. *Bulletin of Indonesian Economic Studies* 46(3): 347-70.

Shaffer, B. 1995. Firm-level responses to government regulation: Theoretical and research approaches. *Journal of Management* 21(3): 495-514.

Shah, R., and Goldstein, S. M. 2006. Use of structural equation modeling in operations management research: Looking back and forward. *Journal of Operations Management* 24(2): 148-69.

Sharfman, M. P., and Fernando, C. S. 2008. Environmental risk management and the cost of capital. *Strategic Management Journal* 29(6): 569-92.

Sharpe, W.F., and Sherrerd, K. F. 1990. *Quantifying the market risk premium phenomenon for investment decision making*. Institute of Chartered Financial Analysts. Charlottesville, VA.

Shauki, E. 2011. Perceptions on corporate social responsibility: A study in capturing public confidence. *Corporate Social Responsibility and Environmental Management* 18(3): 200-8.

Shellenbarger, S. 1999. Companies declare lofty employee values, then forget to act. *Wall Street Journal* (June 16): B1.

Sheridan, T., and Kendall, N. 1992. *Corporate governance: An action plan for profitability and business success*. Financial Times and Pitman Publishing. London, UK.

Sherwin, L. 2003. Building an effective board. *Bank Accounting and Finance* 16(5): 22-8.

Shleifer, A., and Summers, L. H. 1988. Breach of trust in hostile takeovers. In A. J. Auerbach (ed.) *Corporate takeovers: Causes and consequences*. University of Chicago Press. Chicago. 65-88.

Shleifer, A., and Vishny, R.W. 1986. Large shareholders and corporate control. *The Journal of Political Economy* 94(3): 461-88.

—— 1989. Management entrenchment: The case of manager-specific investments. *Journal of Financial Economics* 25(1): 123-39.

—— 1997. A survey of corporate governance. *The Journal of Finance* 52(2): 737-83.

Shome, D. K., and Singh, S. 1995. Firm value and external blockholdings. *Financial Management* 24(4): 3-14.

Short, H., and Keasey, K. 1999. Managerial ownership and the performance of firms: Evidence from the UK. *Journal of Corporate Finance* 5(1): 79-101.

Siagian, F.T., and Tresnaningsih, E. 2011. The impact of independent directors and independent audit committees on earnings quality reported by Indonesian firms. *Asian Review of Accounting* 19(3): 192-207.

Sialm, C., and Starks, L. 2012. Mutual fund tax clienteles. *The Journal of Finance* 67(4): 1397-422.

Siegel, D. S., and Vitaliano, D. F. 2007. An empirical analysis of the strategic use of corporate social responsibility. *Journal of Economics & Management Strategy* 16(3): 773-92.

Simmons, P., Winters, P., and Patrick, I. 2005. An analysis of contract farming in East Java, Bali, and Lombok, Indonesia. *Agricultural Economics* 33(3): 513-25.

Simms, J. 2002. Business: Corporate social responsibility–you know it makes sense. *Accountancy* 130(1311): 48-50.

Simon, C. J., and Sullivan, M. W. 1993. The measurement and determinants of brand equity: A financial approach. *Marketing Science* 12(1): 28-52.

Simpson, W. G., and Kohers, T. 2002 The link between corporate social and financial performance: Evidence from the banking industry. *Journal of Business Ethics* 35(2): 97-109.

Singh, D. A., and Gaur, A. S. 2009. Business group affiliation, firm governance, and firm performance: Evidence from China and India. *Corporate Governance: An International Review* 17(4): 411-25.

Singh, M., and Davidson, W. N. 2003. Agency costs, ownership structure and corporate governance mechanisms. *Journal of Banking & Finance* 27(5): 793-816.

Singh, J. P., and Kumar, N. 2013. Effect of board size and promoter ownership on firm value: Some empirical findings from India. *Corporate Governance* 13(1): 88-98.

Singhapakdi, A., Karande, K., Rao, C., and Vitell, S. J. 2001. How important are ethics and social responsibility? A multinational study of marketing professionals. *European Journal of Marketing* 35(1/2): 133-53.

Siregar, V. S., and Bachtiar, Y. 2010. Corporate social reporting: Empirical evidence from Indonesia stock exchange. *International Journal of Islamic and Middle Eastern Finance and Management* 3(3): 241-52.

Siregar, S. V., and Utama, S. 2008. Type of earnings management and the effect of ownership structure, firm size, and corporate-governance practices: Evidence from Indonesia. *The International Journal of Accounting* 43(1): 1-27.

Small, M. W. 1992. Attitudes towards business ethics held by Western Australian students: A comparative study. *Journal of Business Ethics* 11(10): 745-52.

Smith, C. W., and Stulz, R. M. 1985. The determinants of firms' hedging policies. *Journal of Financial and Quantitative Analysis* 20(4): 391-405.

Smith Jr, C. W.,and Watts, R. L. 1992. The investment opportunity set and corporate financing, dividend, and compensation policies. *Journal of Financial Economics* 32(3): 263-92.

Smith, K. T., Smith, M., and Wang, K. 2010. Does brand management of corporate reputation translate into higher market value? *Journal of Strategic Marketing* 18(3): 201-21.

Smith, N. C., Drumwright, M. E., and Gentile, M. C. 2010. The new marketing myopia. *Journal of Public Policy & Marketing* 29(1): 4-11.

Social Investement Forum 2010. *Report on social responsible investing trends in the United States 2010*. Social Investement Forum Foundation. Washington DC, US.

Solomon, J. 2010. *Corporate governance and accountability* (2nd edition). John Wiley & Son, Ltd. UK.

Sonnenfeld, J. A. 2002. What makes great boards great. *Harvard Business Review* 80(9): 106-13.

Spitzeck, H. 2009. The development of governance structures for corporate responsibility. *Corporate Governance: The International Journal of Business in Society* 9(4): 495-505.

Spreitzer, G. M. 1996. Social structural characteristics of psychological empowerment. *Academy of Management Journal* 39(2): 483-504.

Sšderman, S., and Dolles, H. 2013. *Handbook of research on sport and business*. Edward Elgar Publishing. UK.

Stanwick, P.A., and Stanwick, S. D. 1998. The relationship between corporate social performance, and organizational size, financial performance, and environmental performance: An empirical examination. *Journal of Business Ethics* 17(2):195-204.

Steenkamp, J., and Baumgartner, H. 2000. On the use of structural equation models for marketing modeling. *International Journal of Research in Marketing* 17(2): 195-202.

Steensma, H. K., Marino, L., Weaver, K. M., and Dickson, P. H. 2000. The influence of national culture on the formation of technology alliances by entrepreneurial firms. *Academy of Management Journal* 43(5): 951-73.

Stephenson, M.T., Holbert, R.L., and Zimmerman, R. S. 2006. On the use of structural equation modeling in health communication research. *Health Communication* 20(2): 159-67.

Strandberg, C. 2009. *The role of human resource management in corporate social responsibilty: Issue brief and roadmap*. Strandberg Consulting Publishing. Canada.

Sternberg, E. 2009. Corporate social resposnibility and corporate governance. *Economic Affairs* 29(4): 5-10.

Studenmund, A. 2005. *Using econometrics: A practical guide* (5th edition). Addison Wesley. New York, US.

—— 2011. *Using econometrics: A practical guide* (6th edition). Harlow: Pearson Education. New York, US.

Stulz, R. 1988. Managerial control of voting rights: Financing policies and the market for corporate control. *Journal of Financial Economics* 20(1/2): 25-54.

—— 1990. Managerial discretion and optimal financing policies. *Journal of Financial Economics* 26(1): 3-27.

Subroto, P. H. 2002. A Correlational study of corporate social responsibility and financial performance: An empirical survey toward ethical business practical in Indonesia. PhD thesis. Capella Universty. Minneasota. retrieved 10 July 2014.

Suchman, M. C. 1995. Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review* 20(3): 571-610.

Sufi, A. 2007. Information asymmetry and financing arrangements: Evidence from syndicated loans. *The Journal of Finance* 62(2): 629-68.

Sufian, M. A., and Zahan, M. 2013. Ownership structure and corporate social responsibility disclosure in Bangladesh. *International Journal of Economics and Financial Issues* 3(4): 901-09.

Sundaram, A. K., and Inkpen, A. C. 2004a. The corporate objective revisited. *Organisation Science* 15(3): 350-63.

—— 2004b. Stakeholder theory and the corporate objective revisited: A reply. *Organisation Science* 15(3): 370-1.

Sundaramurthy, C., and Lewis, M. 2003. Control and collaboration: Paradoxes of governance. *Academy of Management Review* 28(3): 397-415.

Suto, M., and Takehara, H. 2012. Stock ownership and corporate social performance: evidence from Japan. Waseda university. Institute of Finance. http:// www.waseda.jp/wnfs/labo/index.html.

Susilowati, K. D. S. 2014. Manager's perspective on corporate social responsibility: A case in Indonesia. *World Journal of Social Sciences* 4(1): 207-23.

Susiloadi, P. 2008. Implementation corporate social responsibility to support sustainability development. *Spirit Publik* 4(2): 123-130.

Sutianto, F. B. 2012. Among thousands mining companies in Indonesia, only ten companies have implemeted CSR. Jakarta, Indonesia at <http://finance.detik.com/read/2012/07/14/154959/1965426/4/ribuan-perusahaan-tambang-di-ri-hanya-10-yang-jalankan-csr>. retrieved 28 Martch 2016.

Suziani 1999. *Nike case in Indonesia: Employee conditions in the athletic shoe company*. Indonesian Sportshoes Monitoring Nework (ISMN). Yakoma-PGI publisher. Jakarta, Indonesia.

Syakhroza, A. 2005. *Corporate governance: Hisotry, development, theory, model and corporate governance system and its application in state-owned enterprises.* BUMN. University of Indonesia, Jakarta.

Tang, Z., Hull, C.E., Rothenberg. S. 2012. How corporate social resposnibility engagement strategy moderates the CSR-financial performance relationship. *Journal of Management Studies* 24(7): 1274- 1303.

Tabalujan, B. S. 1996. The new Indonesian company law. *Stanford Journal of Law, Business & Finance* 17(3): 883-908.

Taneja, S. S., Taneja, P. K., and Gupta, R. K. 2011. Researches in corporate social responsibility: A review of shifting focus, paradigms, and methodologies. *Journal of Business Ethics* 101(3): 343-64.

Teece, D. J., Pisano, G., and Shuen, A. 1997. Dynamic capabilities and strategic management. *Strategic Management Journal* 18(7): 509-533.

Teegen, H., Doh, J.P., and Vachani, S. 2004. The importance of nongovernmental organizations (NGOs) in global governance and value creation: An international business research agenda. *Journal of International Business Studies* 35(6): 463-83.

Teoh, S. H., and Wong, T. 1993. Perceived auditor quality and the earnings response coefficient. *Accounting Review* 68(2): 346-66.

The Ethical Investment Association 2008. *Sovereign fund and ethical investment at* <http://www.ethicalinvestement.org.uk/modules.php?name=News&file=article&sid=106>. retrieved 2 October 2014.

Thomas, S. 2002. Firm diversification and asymmetric information: Evidence from analysts' forecasts and earnings announcements. *Journal of Financial Economics* 64(3): 373-96.

Thomas, T., Schermerhorn, J. R., and Dienhart, J. W. 2004. Strategic leadership of ethical behavior in business. *The Academy of Management Executive* 18(2): 56-66.

Thompson, J. D. 1967. *Organizations in action: Social science bases of administrative theory*. Transaction Publishers. US.

Thomsen, S., and Pedersen, T. 2000. Ownership structure and economic performance in the largest European companies. *Strategic Management Journal* 21(6): 689-705.

Thomsen, S., Pedersen, T., and Kvist, H. K. 2006. Blockholder ownership: Effects on firm value in market and control based governance systems. *Journal of Corporate Finance* 12(2): 246-69.

Tian, G. L. 2001. State shareholding and the value of Chinese firms. *European Finance Association 2001 Barcelona Meeting.*

Tjia, O., and Setiawati, L .2012. Effect of CSR disclosure to value of the firm: Study for banking industry in Indonesia. *World Journal of Social Science* 2(6): 169-178.

Tobin, J. 1969. A general equilibrium approach to monetary theory. *Journal of Money, Credit and Banking* 1(1): 15-29.

Tong, C. K. 2014. Centripetal authority, differentiated networks: The social organization of Chinese firms in Singapore. In CK Tong (ed.). *Chinese business: Rethinking guanxi and trust in Chinese business networks*. Springer. Singapore. 21-40.

Toppinen, A., Virtanen, A., Mayer, A., and Tuppura, A. 2015. Standardizing social responsibility via ISO 26000: Empirical insights from the forest industry. *Sustainable Development* 23(3): 153-66.

Tosi, H. L., Werner, S., Katz, J. P., and Gomez-Mejia, L. R. 2000. How much does performance matter? A meta-analysis of CEO pay studies. *Journal of Management* 26 (2): 301-39.

Transparency International 2015, *Corruption perceptions index 2015,* Transparency international: The global coalition againts corruption at <http://www.transparency.org/>. retrieved on 17 March 2016.

Trencansky, D., and Tsaparlidis, D. 2014. The effects of company's age, size and type of industry on the level of CSR: The development of a new scale for measurement of the level of CSR.

Tricker, B. 2012. *Corporate governance: Principles, policies and practices*. Oxford University Press. New York, US.

Trong Tuan, L. 2012. Corporate social responsibility, leadership, and brand equity in healthcare service. *Social Responsibility Journal* 8(3): 347-62.

Tsao, H. 2013. Budget allocation for customer acquisition and retention while balancing market share growth and customer equity. *Marketing Letters* 24(1): 1-11.

Tsoi, J. 2010. Stakeholders' perceptions and future scenarios to improve corporate social responsibility in Hong Kong and Mainland China. *Journal of Business Ethics* 91(3): 391-404.

Turban, D. B., and Cable, D. M. 2003. Firm reputation and applicant pool characteristics. *Journal of Organizational Behavior* 24(6): 733-51.

Turban, D. B., and Greening, D. W 1997. Corporate social performance and organizational attractiveness to prospective employees. *Academy of Management Journal* 40(3): 658-72.

Turillo, C. J., Folger, R., Lavelle, J. J., Umphress, E. E., and Gee, J. O. 2002. Is virtue its own reward? Self-sacrificial decisions for the sake of fairness. *Organizational Behavior and Human Decision Processes* 89(1): 839-65.

Turker, D. 2009. Measuring corporate social responsibility: A scale development study. *Journal of Business Ethics* 85(4): 411-27.

Turnbull, S. 2000. Why unitary boards are not best practice: A case for compound boards. *Proceedings from the First European Conference on Corporate Governance*. Brussels, Belgium at <hppt://paper.ssrn.com>. retrieved on 17 March 2016.

Udayasankar, K. 2008.Corporate social responsibility and firm size. *Journal of Business Ethics* 83(2): 167-75.

Ujiyantho, M. A., and Pramuka, B. A. 2007. Mekanisme corporate governance, manajemen laba dan kinerja keuangan. *Proceedings from the Accounting National Symposium X*. Makkasar, Indonesia.

Ullmann, A. A. 1985. Data in search of a theory: a critical examination of the relationships among social performance, social disclosure, and economic performance of US firms. *Academy of Management Review* 10(3): 540-57.

Uriarte, D. A. 2008. Corporate social responsibility in the ASEAN region. *Proceedings from LCF CSR Conference.* Manila, Philiphine. 16-18 July 2008.

Urip, S. 2010. *CSR strategies: Corporate social responsibility for a competitive edge in emerging markets*. John Wiley & Sons. US.

Uusitalo, O., and Oksanen, R. 2004. Ethical consumerism: A view from Finland. *International Journal of Consumer Studies* 28(3): 214-21.

Van Beurden, P., and Gössling, T. 2008. The worth of values: A literature review on the relation between corporate social and financial performance. *Journal of Business Ethics* 82(2): 407-24.

Van den Berghe, L., and Louche, C. 2005. The link between corporate governance and corporate social responsibility in insurance. *Geneva Papers on Risk and Insurance: Issues and Practice* 30(3): 425-42.

Van Der Burg, T., and Prinz, A. 2006. Empowering small shareholders: a comparison of three instruments. *Corporate Governance: An International Review* 14(5): 406-17.

Van Riel, C., Stroeker, N., and Maathuis, J. 1998. Measuring corporate images. *Corporate Reputation Review* 1(4): 313-26.

Vanstraelen, A., Zarzeski, M. T., and Robb, S.W. 2003. Corporate nonfinancial disclosure practices and financial analyst forecast ability across three European countries. *Journal of International Financial Management & Accounting* 14(3): 249-78.

Verrecchia, R. E. 2001. Essays on disclosure. *Journal of Accounting and Economics* 32(1): 97-180.

Verschoor, C. C. 1998. A study of the link between a corporation's financial performance and its commitment to ethics. *Journal of Business Ethics* 17(13): 1509-16.

Villalonga, B., and Amit, R. 2006. How do family ownership, control and management affect firm value? *Journal of Financial Economics* 80(2): 385-417.

Visser, W. 2006. Revisiting Carroll's CSR pyramid: An african perspective. in Pedersen. E. R., and Huniche. M. (eds). *Corporate citizenship in developing countries: New partnership perspectives*. Copenhagen Business School Press. 29-56.

—— 2008. Corporate social responsibility in developing countries. In A. Crane., D. Matten., A. McWilliams, J. Moon., and D. S. Siegel (eds). *The Oxford handbook of corporate social responsibility*. UK. 473-99.

Vives, A. 2006. Social and environmental responsibility in small and medium enterprises in Latin America. *Journal of Corporate Citizenship* 2006 (21): 39-50.

Vogel, D. 1992. The globalization of business ethics: Why America remains distinctive. *California Mamangement Review* 35(1): 30- 49.

—— 2003. *Fluctuating fortunes: The political power of business in America*. Beard Books. Washington DC, US.

Vogel, D. 2005. Is there a market for virtue? The business case for corporate social responsibility. *California Management Review* 47(4): 19-45.

Waagstein, P. R. 2011. The mandatory corporate social responsibility in Indonesia: Problems and implications. *Journal of Business Ethics* 98(3): 455-66.

Waddock, S. A., and Graves, S. B. 1997. The corporate social performance-financial performance link. *Strategic Management Journal* 18(4): 303-19.

Waddock, S. A., and Smith, N. 2000. Corporate social responsibility audits: Doing well by doing good. *Management Review* 41(2): 75-83.

Wagner, M., Van Phu, N., Azomahou, T., and Wehrmeyer, W. 2002. The relationship between the environmental and economic performance of firms: An empirical analysis of the European paper industry. *Corporate Social Responsibility and Environmental Management* 9(3): 133-46.

Waldman, J. D., Kelly, F., Aurora, S., and Smith, H. L. 2004. The shocking cost of turnover in health care. *Health Care Management Review* 29(1): 2-7.

Walsh, J. P., and Seward, J. K. 1990. On the efficiency of internal and external corporate control mechanisms. *Academy of Management Review* 15(3): 421-58.

Wan-Hussin, W. N. 2009. The impact of family-firm structure and board composition on corporate transparency: Evidence based on segment disclosures in Malaysia. *The International Journal of Accounting* 44(4): 313-33.

Wan-Jan, W. S. 2006. Defining corporate social responsibility. *Journal of Public Affairs* 6(3/4): 176-84.

Wan, D., and Ong, C. H. 2005. Board structure, process and performance: Evidence from public-listed companies in Singapore. *Corporate Governance: An International Review* 13(2): 277-90.

Wanderley, L. S. O., Lucian, R., Farache, F., and de Sousa Filho, J. M. 2008. CSR information disclosure on the web: A context-based approach analysing the influence of country of origin and industry sector. *Journal of Business Ethics* 82(2): 369-78.

Wang, J., and Dewhirst, H. D. 1992 Boards of directors and stakeholder orientation. *Journal of Business Ethics* 11(2): 115-23.

Wang, R. Y., and Strong, D. M. 1996. Beyond Accuracy: What Data Quality Means to Data Consumers. *Journal of Management Information Systems* 12(4): 5-33.

Ward, H. 2004. *Public sector roles in strengthening corporate social responsibility: Taking stock*. World Bank Publications. Washington, DC, US.

Ward, H., Fox, T., Wilson, E., and Zarsky, L. 2007. CSR and developing countries– what scope for government action. *International Institute for Environment and Development.* 1-13.

Wardhani, R. 2008. The level of Accounting conservatism and its relationship with the characteristics of the board as CG mechanism. *Proceedings from Accounting National Symposium XI.* Pontianak, Indonesia.

Warfield, T. D., Wild, J. J, and Wild, K. L. 1995. Managerial ownership, accounting choices, and informativeness of earnings. *Journal of Accounting and Economics* 20(1): 61-91.

Wartick, S. L. 2002. Measuring corporate reputation definition and data. *Business & Society* 41(4): 371-92.

Wartick, S. L., and Cochran, P. L. 1985. The evolution of the corporate social performance model. *Academy of Management Review* 10(4): 758-69.

Wasserman, N. 2006. Stewards, agents, and the founder discount: Executive compensation in new ventures. *Academy of Management Journal* 49(5): 960-76.

Watts, R. L., and Zimmerman, J. L. 1986. *Positive accounting theory*. Englewood Cliffs, N.J. Prentice-Hall.

Weaver, G. R., Trevino, L. K., and Cochran, P. L. 1999. Integrated and decoupled corporate social performance: Management commitments, external pressures, and corporate ethics practices. *Academy of Management Journal* 42(5): 539-52.

Webb, E. 2004. An examination of socially responsible firms' board structure. *Journal of Management and Governance* 8(3): 255-77.

Weber, M. 2008. The business case for corporate social responsibility: A company-level measurement approach for CSR. *European Management Journal* 26(4): 247-61.

Webley, S., and More, E. 2003. *Does business ethics pay?* Institute of Business Ethics. London, UK.

Wei, Z., Varela, O., and Hassan, M. K. 2002. Ownership and performance in Chinese manufacturing industry. *Journal of Multinational Financial Management* 12(1): 61-78.

Weinstein, J. 1981. *The corporate ideal in the liberal state, 1900-1918*. Greenwood Press.

Weir, C., Laing, D., and McKnight, P. J. 2002 Internal and external governance mechanisms: Their impact on the performance of large UK public companies. *Journal of Business Finance & Accounting* 29(5-6): 579-611.

Weisbach, M. S. 1988. Outside directors and CEO turnover. *Journal of Financial Economics* 20 (1/2): 431-60.

Weiss, J. 2008. *Business ethics: A stakeholder and issues management approach*. Cengage Learning, Ohio.

Welford, R., and Frost, S. 2006. Corporate social responsibility in Asian supply chains. *Corporate Social Responsibility and Environmental Management* 13(3): 166-76.

Wempe, B. 2005. In defense of a self-disciplined, domain-specific social contract theory of business ethics. *Business Ethics Quarterly* 15(10): 113-35.

Wernerfelt, B. 1984. A resource-based view of the firm. *Strategic Management Journal* 5(2): 171-80.

Wessels, C., and Hines, C. 2000. *One in five consumers would pay more for product that are socially and environentally resposible*. Press communiqué. Bruxelles.

Westphal, J. D., and Khanna, P. 2003. Keeping directors in line: Social distancing as a control mechanism in the corporate elite. *Administrative Science Quarterly* 48(3): 361-98.

Weyzig, F. 2006. Local and global dimensions of corporate social responsibility in Mexico. *Journal of Corporate Citizenship* 2006(24): 69-81.

Wheeler, D., and Sillanpää, M. 1997. *The stakeholder corporation.* Pitman, London, UK.

Wibisono, Y. 2007. *The analyses of CSR concept and applications.* Fancho Publishing. Gresik, Indonesia.

Wibowo. 2008. The impact of organizational culture and internal corporate governance on organizational performance in Indonesian companies. PhD thesis. Curtin University. Perth. retrieved 10 November 2013.

—— 2012. Interaction between corporate social responsibility disclosure and profitability of Indonesia firms. *Proceedings from UMT 11th International Annual Symposium on Symposium on Sustainability Science and Managemen.* Terengganu, Malaysia, 09-11 July 2012.

Wibowo, Evans, R., and Quaddus, M. 2009. Internal corporate governance and organisational performance: Evidence from Indonesia. *Journal of Contemporary Issues in Business and Government* 15(2): 95-111.

Widigdo, I. 2013. Effek of corporate social performance, intellectual capital, ownership structure, and corporate governance on corporate performance and firm value (studies on listed companies in the SRI-KEHATI index). *International Journal of Business, Economics and Law* 2(1): 87-106.

Wieland, J. 2005. Corporate governance, values management, and standards: A European perspective. *Business & Society* 44(1): 74-93.

William, S. C. 2010. Social network and corporate financial performance: Conceptual framework of board composition and corporate social responsibility. *International Journal of Business and Management* 5(6): 92-97.

Williams, C A., and Aguilera, R. V. 2008. Corporate social responsibility in a comparative perspective. *Oxford Handbook of Corporate Social Responsibility*. Oxford University Press. Oxford. 452-72.

Williamson, O. E. 1978. *Markets and hierarchies: Analysis and antitrust implications*. Free Press. New York, US.

—— 1979. Transaction-cost economics: The governance of contractual relations. *Journal of Law and Economics* 22(2): 233-61.

—— 1981. The economics of organization: the transaction cost approach. *American Journal of Sociology* 87(3): 548-77.

—— 1983. Organization form, residual claimants, and corporate control. *Journal of Law and Economics* 26(2): 351-66.

—— 1984. Corporate governance. *The Yale Law Journal* 93: 1197-229.

—— 1985. *The economic institutions of capitalism firms markets relational contracting*. Free Press. New York, US.

—— 1989. Transaction cost economics. In R Schamlensee & R Willig (eds). *Handbook of industrial organization*. Elsevier Science. Amsterdam. 135-82.

—— 1990. A comparison of alternative approaches to economic organisation. *Journal of Institutional and Theoretical Economics (JITE)*146(1): 61-71.

—— 1993. The evolving science of organisation. *Journal of Institutional and Theoretical Economics* 149(1): 36-63.
—— 1996. Revisiting legal realism: The law, economics, and organisation perspective. *Journal of Industrial and Corporate Change* 5(2): 383-420

Wilson, C., and Wilson, P. 2006. *Make poverty business: Increase profits and reduce risks by engaging with the poor.* Greenleaf Publishing. UK.

Wilson, W. M. 2008. An empirical analysis of the decline in the information content of earnings following restatements. *The Accounting Review* 83(2): 519-48.

Wiwattanakantang, Y. 2001. Controlling shareholders and corporate value: Evidence from Thailand. *Pacific-Basin Finance Journal* 9(4): 323-62.

Wong, C. Y., Boon-Itt, S., and Wong, C. W. 2011. The contingency effects of environmental uncertainty on the relationship between supply chain integration and operational performance. *Journal of Operations Management* 29(6): 604-15.

Wood, D. J. 1991. Corporate social performance revisited. *The Academy of Management Review* 16(4): 691-718.

Wood, D. J., and Jones, R. E. 1995. Stakeholder mismatching: A theoretical problem in empirical research on corporate social performance. *International Journal of Organizational Analysis* 3(3): 229-67.

Wooldridge, J. M. 2010. *Econometric analysis of cross section and panel data*. MIT press. Boston.

World Bank. 2007. *World Development Indicator Database* at <http://data.worldbank.org/country/indonesia>. retrieved 20 March 2016.

World Bank. 2016. *World Development Indicator Database* at <http://data.worldbank.org/country/indonesia>. retrieved 15 March 2016.

World Business Courcil for Sustainable Development WBCSD 1999. *Corporate social responsibility: Meeting changing expectations*. World Business Courcil for Sustainable Development

World Hunger Education Service 2013. *World hunger and poverty facts and statistics*. World Hunger Education Service at <http://www.worldhunger.org/articles/Learn/world%20hunger%20facts%202002.htm>. retrieved in 2 June 2014.

Wowoho, J. 2009. *Synchronisation CSR policy with the tax regulations to achieve Indonesia welfare* at <https://library.uns.ac.id/sinkronisasi-kebijakan-corporate-social-responsibility-csr-dengan-hukum-pajak-sebagai-upaya-mewujudkan-kesejahteraan-di-indonesia/>. retrieved 2 June 2014.

Wright, M., Filatotchev, I., Hoskisson, R. E., and Peng, M. W. 2005. Strategy research in emerging economies: Challenging the conventional wisdom. *Journal of Management Studies* 42(1): 1-33.

Wu, M. L. 2006. Corporate social performance, corporate financial performance, and firm size: A meta-analysis. *Journal of American Academy of Business* 8(1): 163-71.

Wu, Y. L. 2000. *Honey, I shrunk the board*. University of Chicago. US.
Wurgler, J. 2000. Financial markets and the allocation of capital. *Journal of Financial Economics* 58(1): 187-214.

Wynne, C. W. 1998. Issues and opinion on structural equation modelling. *Management Information Systems Quarterly* 22(1): 1-8.

Yammeesri, J., and Herath, S.K. 2010. Board characteristics and corporate value: Evidence from Thailand. Corporate Governance 10(3): 279-292.

Yen, T., and André, P. 2007. Ownership structure and operating performance of acquiring firms: the case of English-origin countries. *Journal of Economics and Business* 59(5): 380-405.

Yeo, G, H., Tan, P., Ho, K. W., and Chen, S. S. 2002. Corporate ownership structure and the informativeness of earnings. *Journal of Business Finance & Accounting* 29(7/8): 1023-46.

Yermack, D. 1996. Higher market valuation of companies with a small board of directors. *Journal of Financial Economics* 40(2): 185-211.

Yiu, D., Bruton, G. D., and Lu, Y. 2005. Understanding business group performance in an emerging economy: Acquiring resources and capabilities in order to prosper. *Journal of Management Studies* 42(1): 183-206.

Yoon, P. S., and Starks, L. T. 1995. Signaling, investment opportunities, and dividend announcements. *Review of Financial Studies* 8(4): 995-1018.

Young, M. N., Ahlstrom, D., Bruton, G. D., and Chan, E. S. 2001. The resource dependence, service and control functions of boards of directors in Hong Kong and Taiwanese firms. *Asia Pacific Journal of Management* 18(2): 223-44.

Young, M. N., Peng, M. W., Ahlstrom, D., Bruton, G. D., and Jiang, Y. 2008. Corporate governance in emerging economies: A review of the principal–principal perspective. *Journal of Management Studies* 45(1): 196-220.

Yüksel, A., and Rimmington, M. 1998. Customer-satisfaction measurement. *The Cornell Hotel and Restaurant Administration Quarterly* 39(6): 60-70.

Yunos, R. M. 2011. The effect of ownership concentration, board of directors, audit committee and ethinicity on conservative accounting: Malaysian evidance. PhD thesis. Edith Cowan University. Perth. retrieved 10 January 2014.

Zahra, S. A., and Covin, J. G. 1993. Business strategy, technology policy and firm performance. *Strategic Management Journal* 14(6): 451-78.

Zahra, S. A., and Pearce, J. A. 1989. Boards of directors and corporate financial performance: A review and integrative model. *Journal of Management* 15(2): 291-334.

Zainal, A., and Muhamad, D. R. 2014. The interaction of power, tenure, and financial fraud in Indonesia. *Procedding from International Conference on Emerging Trends in Scientific Research*. Malaysia.

Zappalà, G. 2004. Corporate citizenship and human resource management: A new tool or a missed opportunity? *Asia Pacific Journal of Human Resources* 42(2): 185-201.

Zattoni, A., and Cuomo, F. 2008. Why adopt codes of good governance? A comparison of institutional and efficiency perspectives. *Corporate Governance: An International Review* 16(1): 1-15.

Zeckhauser, R. J., and Pound, J. 1990. Are large shareholders effective monitors? An investigation of share ownership and corporate performance. In RG Hubbard (ed.). *Asymmetric Information, Corporate Finance, and Investment*. University of Chicago Press. US. 149-80.

Zhao, L. 2004. Corporate risk management and asymmetric information. *The Quarterly Review of Economics and Finance* 44(5): 727-50.

Zheng, C., Lamond, D. 2010. Organisational determinants of employee turnover for multinational companies in Asia. *Asia Pacific Journal of Management* 27(3): 423-43.

Zhuang, J. 1999. *Some conceptual issues of corporate governance*. EDRC Briefing Note No.13. Asian Development Bank at <https://adb-test.atmire.com/handle/11540/2616>. retrieved 10 July 2015.

Zink, K. J. 2005. Stakeholder orientation and corporate social responsibility as a precondition for sustainability. *Total Quality Management and Business Excellence* 16(8-9): 1041-52.

Zu, L., and Song, L. 2009. Determinants of managerial values on corporate social responsibility: Evidence from China. *Journal of Business Ethics* 88(1): 105-17.

Zucker, L. G. 1977. The role of institutionalization in cultural persistence. *American Sociological Review* 45(5): 726-43.

Zyglidopoulos, S. C. 2001. The impact of accidents on firms’ reputation for social performance. *Business & Society* 40(4): 416-41.

Appendices

Appendix 1: Checklist of CSR Disclosure Index

In the following classification of types of CSR disclosure that form the content analysis of annual reports, Hackston and Milne (1996) present an exhaustive list of information with social and environmental importance. As their study has been widely used in measuring the indices of CSR disclosure, this study found it to be suitable for use.

1. **Environment Performance Indicators**

   A. Environmental Pollution

   - Pollution control in the conduct of the business operations: investment, operating, and research and development expenditures for pollution reduction;
   - Statements indicating that the firm's operations are non-polluting or that they are in compliance with pollution laws and regulations;
   - Pollution from the firm's operation has been or will be reduced;
   - Firm provide habitats for protected or restored programs resulting from processing or natural resources (i.e., land reclamation or reforestation);
   - Conservation of natural resources (e.g., recycling glass, metals, oils, water and paper);
   - Firm uses recycled input materials;
   - Firm uses material resources efficiently in the manufacturing process;
   - Firm supports anti-litter programs;
   - Firm has received an award relating to the firm's environmental programmes or policies;
   - Preventing waste.

   B. Aesthetics

   - Firm designs or builds facilities harmonious with the environment;
   - Firm has contributed in terms of cost or art/sculptures to beautify the environment;
   - Firm has contributed in restoring historical buildings or structures.

   C. Other

   - Firm undertakes environmental impact studies to monitor the firm's impact on the environment;
   - Firm participates in wildlife conservation programs;
   - Firm participates in protection of the environment (e.g., pest control).

2. Energy

- Firm provides conservation of energy in the conduct of business operations;
- Firm uses energy more efficiently during the manufacturing process;
- Firm utilizes waste materials for energy production;
- Firm discloses energy savings resulting from product recycling;
- Firm discloses or discusses the firm's efforts to reduce energy consumption;
- Firm discloses increased energy efficiency of products;
- Firm provides research objective in improving energy efficiency of products;
- Firm received an award for an energy conservation programs;
- Firm stated concern about the energy shortage;
- Firm discloses the firm's energy policies.

3. Employee Health and Safety

- Firm provides for reducing or eliminating pollutants, irritants, or hazards in the work environment;
- Firm promotes employee safety and physical or mental health;
- Firm discloses accident statistics;
- Firm complies with health and safety standards and regulations;
- Firm has received safety awards;
- Firm establishes a safety department or committee or policy;
- Firm conducts research to improve work safety;
- Firm provides health care insurance for employees.

4. Other Employee

A. Employment of minorities or women

- Firm recruited or employed disabled people or/and women;
- Firm discloses percentage or number of disabled people or/and women employees in the workplace and/or at various managerial levels;
- Firm establishes objectives for disabled people or/and women in the workplace;
- Firm provides programs for the advancement of disabled people or/and women in the workplace;
- Firm provides employment of other special interest groups (e.g., the handicapped, ex-convicts or former drug addicts);
- Firm provides disclosure about internal advancement statistics.

B. Employee training

- Firm provides training for employees through in-house programmes;
- Firm provides policies or financial assistance to employees in educational institutions or continuing education courses;
- Firm establishes trainee centres.

C. *Employee assistance or benefits*

- Firm provides assistance or guidance to employees who are in the process of retiring or who have been made redundant;
- Firm provides staff accommodation or staff home ownership schemes;
- Firm provides recreation activities or facilities;

D. *Employee remuneration*

- Firm provides information about amount/or percentage figures for salaries or wages and tax;
- Firm provides policies /objectives /reasons for remuneration package/schemes.

E. *Employee profiles*

- Firm provides the number of employees in the firm or each branch/subsidiary;
- Firm provides information about the occupation or managerial level involved;
- Firm provides information about the disposition of staff: where the staff are stationed and the number involved;
- Firm provides statistic data according to the number of staff, the length of service and age groups;
- Firm provides employee statistics (i.e., assets per employee and sales per employee);
- Firm provides information on the qualifications of employees recruited.

F. *Employee share purchase schemes*

- Firm provides information on the existence of, or amount and value of, shares offered to employees under a share purchase scheme or pension programme.
- Firm provides any other profit-sharing schemes.

G. *Employee morale*

- Firm provides information on the firm/management's relationship with the employees in an effort to improve job satisfaction and employee motivation;
- Firm provides information on the stability of the workers' jobs and the firm's future;
- Firm provides information on the availability of a separate employee report;
- Firm received awards for job satisfaction or effective communication with employees;
- Firm provides information about communication with employees on management styles and management programmes which may directly affect the employees.

H. Industrial relations

- Firm provides information or reporting on the relationship with trade unions and/or workers;
- Firms provides reporting on any strikes or industrial action/activities and the resultant losses in terms of time and productivity;
- Firm provides information on how industrial action was reduced/ negotiated.

I. Other

- Firm improves the general working condition for workers both in the factories and those who are office staff;
- Firm provides information on the re-organization of the firm/discussion/branches which affect the staff in any way;
- Firm provides information about the closing down of any part of the organization, the resultant redundancies created, and any relocation/retraining efforts made by the firm to retain staff;
- Firm provides information and statistics on employee turnover;
- Firm provides information about support for day-care, maternity and paternity leave.

5. Products

A. Product development

- Firm provides information on developments related to the firm's products, including its packaging (e.g., making containers reusable);
- Firm shows the amount or percentage figures of research and development (R&D) expenditure and/or its benefit;
- Firm provides information about any research projects to improve its products.

B. Product safety

- Firm discloses that products meet applicable safety standards;
- Firm produced products safer for customers
- Firm conducts safety research on the firm's products;
- Firm provides information on improvement or more sanitary procedures in the processing and preparation of products;
- Firm provides information on safety of the firm's product.

C. Product quality

- Firm has received awards for customer satisfaction or brand images;
- Firm provides verifiable information that the quality of the firm's product has increased (i.e., ISO 9000).

6. **Community Involvement**
    - Firm has made monetary, products charity or employee service contribution to established community activities, events, organizations, education and the arts;
    - Firm provides part-time and/or temporary employment of students;
    - Firm has sponsored public health projects;
    - Firm conducts research and development projects to improve the well-being of society in the future (e.g., public health projects and medical research);
    - Firm contributes to campaigns and projects that promote the well-being of society (e.g., sponsoring educational conference, seminars or art exhibits).
    - Firm funds scholarship programmes or activities;
    - Firm supports other community related activities (e.g., opening the firm's facilities to the public);
    - Firm supports national pride/government sponsored campaigns (e.g., HIV/AIDS);
    - Firm supports the development of local industries or community programmes and activities;
    - Firm objective or policies: general disclosure of firm objectives/policies relating to the social responsibility of the firm to the various segments of society;
    - Other: disclosing or reporting to groups in society other than shareholders and employees (e.g., for consumers, any other information that relates to the social responsibility of the firm).

Appendix: 2 OLS Estimates in the Linear Function

OLS Estimates for Market Share

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-1.198380***	0.111883	-10.71101	0.0000
Board Size (BS_t)	0.004443	0.024586	0.180715	0.8567
Independent Director (IB_t)	0.108280	0.072043	1.502998	0.1336
Management Ownership (MO_t)	0.107726	0.230353	0.467655	0.6403
Public Ownership (PO_t)	-0.082464**	0.041466	-1.988703	0.0473
Firm Size (FS_t)	0.094411***	0.007856	12.01767	0.0000
Type of Industry (TI_t)	-0.045408***	0.011416	-3.977714	0.0001

Dependent Variable: Market Share (MS)
F-statistic = 39.70491; *p*-value < 0.01; Adj. R^2 = 0.340898; Jarque-Bera statistic= 634.6808 and Prob (JB) =0.0000; White test statistic = 153.4041.
**** is significant at the 0.01 level; ** is significant at the 0.05 level.*

OLS Estimates for Cost Per Hire

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-1531053.***	141090.7	-10.85155	0.0000
Board Size (BS_t)	54320.39*	31004.03	1.752042	0.0805
Independent Director (IB_t)	-44139.48	90850.07	-0.485850	0.6273
Management Ownership (MO_t)	128908.8	290487.9	0.443767	0.6574
Public Ownership (PO_t)	-76100.35	52291.38	-1.455313	0.1463
Firm Size (FS_t)	99347.98***	9906.879	10.02818	0.0000
Type of Industry (TI_t)	11064.39	14395.65	0.768593	0.4425

Dependent Variable: Cost Per Hire (CPH)
F-statistic = 26.54273; *p*-value < 0.01; Adj. R^2 = 0.254470; Jarque-Bera statistic= 51643.30 and Prob (JB) =0.0000; White test statistic = 114.5115.
**** is significant at the 0.01 level; * is significant at the 0.10 level.*

OLS Estimates for Employee Turnover

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-0.090901***	0.023881	-3.806442	0.0002
Board Size (BS_t)	-0.001403	0.005248	-0.267288	0.7894
Independent Director (IB_t)	-0.012206	0.015377	-0.793805	0.4277
Management Ownership (MO_t)	0.203590***	0.049168	4.140726	0.0000
Public Ownership (PO_t)	-0.016029*	0.008851	-1.811040	0.0708
Firm Size (FS_t)	0.006108***	0.001677	3.642417	0.0003
Type of Industry (TI_t)	0.015783***	0.002437	6.477552	0.0000

Dependent Variable: Employee Turnover (ETO)
F-statistic = 11.95519; *p*-value < 0.01; Adj. R^2 = 0.127700; Jarque-Bera statistic= 1376.380 and Prob (JB) =0.0000; White test statistic = 57.4650.
**** is significant at the 0.01 level; * is significant at the 0.10 level.*

OLS Estimates for CVA Value Added

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-2.19E+08***	18133309	-12.06225	0.0000
Board Size (BS_t)	-9684591.***	3984710.	-2.430438	0.0155
Independent Director (IB_t)	-38057325***	11676261	-3.259376	0.0012
Management Ownership (MO_t)	16159023	37334176	0.432821	0.6654
Public Ownership (PO_t)	-24117349***	6720609.	-3.588566	0.0004
Firm Size (FS_t)	16223242***	1273255.	12.74155	0.0000
Type of Industry (TI_t)	6109022.***	1850162.	3.301885	0.0010

Dependent Variable: CVA Value Added (CVA)
F-statistic = 30.39069; *p*-value < 0.01; Adj. R^2 = 0.281995; Jarque-Bera statistic= 15249.82 and Prob (JB) =0.0000; White test statistic = 126.8977.
**** is significant at the 0.01 level.*

OLS Estimates for CSR Disclosure Index

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	0.012778	0.100085	0.127675	0.8985
Board Size (BS_t)	0.041928**	0.021993	1.906418	0.0572
Independent Director (IB_t)	-0.039520	0.064446	-0.613231	0.5400
Management Ownership (MO_t)	0.087470	0.206063	0.424482	0.6714
Public Ownership (PO_t)	-0.046323	0.037094	-1.248790	0.2124
Firm Size (FS_t)	0.037956***	0.007028	5.401034	0.0000
Type of Industry (TI_t)	-0.058429***	0.010212	-5.721736	0.0000

Dependent Variable: CSR Disclosure Index (CDI)
F-statistic = 17.59791; *p*-value < 0.01; Adj. R^2 = 0.181534; Jarque-Bera statistic= 4.5657 and Prob (JB) =0.1019; White test statistic = 81.6903.
**** is significant at the 0.01 level; ** is significant at the 0.05 level.*

OLS Estimates for Return on Assets

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	0.415455***	0.066604	6.237655	0.0000
Board Size (BS_t)	-0.033115***	0.011838	-2.797383	0.0054
Independent Director (IB_t)	0.096026***	0.034784	2.760600	0.0060
Management Ownership (MO_t)	-0.054129	0.110868	-0.488226	0.6256
Public Ownership (PO_t)	-0.077684***	0.020261	-3.834124	0.0001
CSR Disclosure Index (CDI_t)	0.082227***	0.025222	3.260155	0.0012
Market Share (MS_t)	0.129229***	0.024996	5.170070	0.0000
Cost Per Hire (CPH_t)	4.95E-08***	1.98E-08	2.497781	0.0129
Employee Turnover (ETO_t)	0.027942	0.107333	0.260334	0.7947
CSR Value Added (CVA_t)	1.08E-10	1.58E-10	0.682670	0.4952
Forecast Dispersion (FD_t)	-0.000698**	0.000322	-2.167323	0.0308
Forecast Error (FE_t)	0.058445***	0.024756	2.360784	0.0187
Firm Size (FS_t)	-0.018124***	0.004814	-3.764691	0.0002
Type of Industry (TI_t)	-0.027820***	0.006067	-4.585591	0.0000

Dependent Variable: Return on Asset (ROA)
F-statistic = 12.91646; *p*-value < 0.01; Adj. R^2 = 0.256517; Jarque-Bera statistic= 424.5967 and Prob (JB) =0.0000; White test statistic = 115.4326.
**** is significant at the 0.01 level; ** is significant at the 0.05 level.*

OLS Estimates for Return on Sales

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-0.041550	0.088173	-0.471230	0.6377
Board Size (BS_t)	-0.009148	0.015671	-0.583720	0.5597
Independent Director (IB_t)	0.187030***	0.046049	4.061574	0.0001
Management Ownership (MO_t)	-0.191593	0.146771	-1.305382	0.1925
Public Ownership (PO_t)	0.073578***	0.026822	2.743158	0.0063
CSR Disclosure Index (CDI_t)	0.129785***	0.033390	3.886982	0.0001
Market Share (MS_t)	-0.139891***	0.033090	-4.227561	0.0000
Cost Per Hire (CPH_t)	-3.63E-09***	2.62E-08	-0.138588	0.8898
Employee Turnover (ETO_t)	0.223390	0.142091	1.572166	0.1166
CSR Value Added (CVA_t)	4.31E-10**	2.10E-10	2.053767	0.0406
Forecast Dispersion (FD_t)	-0.000775*	0.000426	-1.818169	0.0697
Forecast Error (FE_t)	0.082429***	0.032773	2.515112	0.0123
Firm Size (FS_t)	0.003006	0.006373	0.471732	0.6374
Type of Industry (TI_t)	-0.002659	0.008031	-0.331122	0.7407

Dependent Variable: Return on Sales (ROS)
F-statistic = 5.314281; *p*-value < 0.01; Adj. R^2 = 0.111042; Jarque-Bera statistic= 327.4780 and Prob (JB) =0.0000; White test statistic = 49.9689.
**** is significant at the 0.01 level; ** is significant at the 0.05 level; * is significant at the 0.10 level.*

OLS Estimates for Tobin's Q

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	7.438285***	1.532942	4.852295	0.0000
Board Size (BS_t)	-0.757540***	0.272454	-2.780436	0.0057
Independent Director (IB_t)	2.247269***	0.800582	2.807045	0.0052
Management Ownership (MO_t)	-1.300822	2.551702	-0.509786	0.6105
Public Ownership (PO_t)	-2.122245***	0.466322	-4.551033	0.0000
CSR Disclosure Index (CDI_t)	1.102602**	0.580497	1.899412	0.0582
Market Share (MS_t)	5.262022***	0.575290	9.146725	0.0000
Cost Per Hire (CPH_t)	5.66E-07***	4.56E-07	1.241413	0.2151
Employee Turnover (ETO_t)	3.592657	2.470327	1.454325	0.1466
CSR Value Added (CVA_t)	-8.13E-09**	3.65E-09	-2.229666	0.0263
Forecast Dispersion (FD_t)	-0.016992**	0.007407	-2.293886	0.0223
Forecast Error (FE_t)	-0.041012	0.569785	-0.071979	0.9427
Firm Size (FS_t)	-0.366579***	0.110803	-3.308370	0.0010
Type of Industry (TI_t)	-0.275523**	0.139632	-1.973213	0.0491

Dependent Variable: Tobin's Q (TQ)

F-statistic = 13.91454; *p*-value < 0.01; Adj. R^2 = 0.272154; Jarque-Bera statistic= 392.5406 and Prob (JB) =0.0000; White test statistic = 122.4693.

**** is significant at the 0.01 level; ** is significant at the 0.05 level.*

Appendix 3: 2SLS Estimation in the Linear Function

2SLS Estimates for Market Share

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-1.136979***	0.110416	-10.29726	0.0000
Board Size (BS_t)	0.081444	0.098716	0.825031	0.4098
Firm Size (FS_t)	0.082548*	0.013606	6.066972	0.0000
Type of Industry (TI_t)	-0.038816***	0.012569	-3.088313	0.0021

Dependent Variable: Market Share (MS)
F-statistic = 76.91151; *p*-value < 0.01; Adj. R^2 = 0.322072; Jarque-Bera statistic= 635.7431 and Prob (JB) =0.0000; White test statistic = 144.9324.
**** is significant at the 0.001 level; * is significant at the 0.10 level.*

2SLS Estimates for Cost Per Hire

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-1601024.***	161173.4	-9.933550	0.0000
Public Ownership (PO_t)	-216166.9	168539.4	-1.282590	0.2003
Firm Size (FS_t)	111431.6***	11621.65	9.588282	0.0000
Type of Industry (TI_t)	11339.61	14868.56	0.762657	0.4461

Dependent Variable: Cost Per Hire (CPH)
F-statistic = 51.06447; *p*-value < 0.01; Adj. R^2 = 0.242206; Jarque-Bera statistic= 51365.71 and Prob (JB) =0.0000; White test statistic = 108.9927.
**** is significant at the 0.001 level.*

2SLS Estimates for Employee Turnover

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-0.070258***	0.024018	-2.925178	0.0036
Board Size (BS_t)	0.019390	0.021473	0.902956	0.3670
Firm Size (FS_t)	0.001826	0.002960	0.617075	0.5375
Type of Industry (TI_t)	0.017314***	0.002734	6.332692	0.0000

Dependent Variable: Employee Turn Over (ETO)
F-statistic = 17.38896; *p*-value < 0.01; Adj. R^2 = 0.068131; Jarque-Bera statistic= 2751.375 and Prob (JB) =0.0000; White test statistic = 30.65895.
**** is significant at the 0.001 level.*

2SLS Estimates for CSR Value Added (CVA)

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-1.95E+08***	21926510	-8.885390	0.0000
Public Ownership (LPO_t)	25712656	22928601	1.121423	0.2627
Firm Size (LFS_t)	11935543	1581044.	7.549154	0.0000
Type of Industry (TI_t)	3872892.**	2022764.	1.914654	0.0562

Dependent Variable: CSR Value Added (CVA)
F-statistic = 50.90048; *p*-value < 0.01; Adj. R^2 = 0.182275; Jarque-Bera statistic= 16251.69 and Prob (JB) =0.0000; White test statistic = 82.02375.
**** is significant at the 0.001 level; ** is significant at the 0.05 level.*

2 SLS Estimates for CSR disclosure Index

Variable	Coefficient	Std. Error	t-Statistic	p-value
Constant	0.048648	1.100007	0.486443	0.6269
Board Size (BS_t)	0.156211*	0.089411	1.747122	0.0813
Firm Size (FS_t)	0.020928*	0.012324	1.698238	0.0902
Type of Industry (TI_t)	-0.053956***	0.011384	-4.739716	0.0000

Dependent Variable: CSR Disclosure Index (CDI)
F-statistic = 33.82300; p-value < 0.01; Adj. R^2 = 0.136982; Jarque-Bera statistic= 3.491069 and Prob (JB) =0.174552; White test statistic = 61.6419.
**** is significant at the 0.001 level; * is significant at the 0.10 level.*

2SLS Estimates for Return on Assets

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	0.590578***	0.091138	6.480055	0.0000
Cost Per Hire (CPH_t)	2.44E-07***	4.56E-08	5.357598	0.0000
Forecast Dispersion (FD_t)	-0.001179	0.001282	-0.919519	0.3582
Firm Size (FS_t)	-0.027337***	0.005857	-4.667712	0.0000
Type of Industry (TI_t)	-0.035912***	0.006084	-5.902723	0.0000

Dependent Variable: Return on Assets (ROA).
F-statistic = 18.67526; p-value < 0.01; Adj. R^2 = -0.013269; Jarque-Bera statistic = 883.9361 and Prob (JB) = 0.0000; White test statistic = -5.97105.
**** is significant at the 0.01 level.*

2SLS Estimates for Return on Sales

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	0.051464	0.120463	0.427224	0.6694
Market Share (MS_t)	0.054386	0.083432	0.651866	0.5148
Forecast Dispersion (FD_t)	0.001887	0.002444	0.772113	0.4405
Firm Size (FS_t)	0.002883	0.008862	0.325346	0.7451
Type of Industry (TI_t)	0.009289	0.008480	1.095452	0.2739

Dependent Variable: Return on Sales (ROS)
F-statistic = 1.232431; p-value > 0.1; Adj. R^2 = -0.133675; Jarque-Bera statistic = 296.2438 and Prob (JB) = 0.0000; White test statistic = - 60.15375.

2 SLS Estimates for Tobin's Q

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	11.19551***	2.198430	5.092502	0.0000
CSR Value Added (CVA_t)	3.92E-08***	7.59E-09	5.160199	0.0000
Forecast Dispersion (FD_t)	0.027376	0.032312	0.847226	0.3973
Firm Size (FS_t)	-0.531162***	0.135726	-3.913483	0.0001
Type of Industry (TI_t)	-0.712902***	0.157830	-4.516910	0.0000

Dependent Variable: Tobin's Q (TQ)
F-statistic = 13.40220; p-value < 0.01; Adj. R^2 = -0.206398; Jarque-Bera statistic = 2072.361 and Prob (JB) = 0.0000; White Test statistic = -92.8791.
**** is significant at the 0.01 level.*

Appendix 4: OLS Estimates using Single Non-Accounting Proxy of CSR

OLS Estimation for CSR Disclosure Index

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-4.425873***	0.753327	-5.875105	0.0000
Log Board Size (LBS_t)	0.197887***	0.083895	2.358748	0.0188
Log Independent Director (LIB_t)	-0.007908	0.072204	-0.109526	0.9128
Log Management Ownership (LMO_t)	-0.014927	0.013379	-1.115748	0.2651
Log Public Ownership (LPO_t)	-0.021944	0.021163	-1.036920	0.3003
Log Firm Size (LFS_t)	1.325143***	0.268570	4.934064	0.0000
Log Type of Industry (LTI_t)	-0.198110***	0.049494	-4.002714	0.0001

Dependent Variable: Log CSR Disclosure Index (LCDI)
F-statistic = 13.40779; *p*-value < 0.01; Adj. R^2 = 0.142224; Jarque-Bera statistic= 1279.989 and Prob (JB) =0.00000; White test statistic = 6033.5055.
**** is significant at the 0.01 level.*

OLS Estimates for Return On Assets

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	0.798240	1.761040	0.453278	0.6506
Log Board Size (LBS_t)	-0.233501	0.189800	-1.230251	0.2193
Log Independent Director (LIB_t)	0.384597***	0.162183	2.371375	0.0182
Log Management Ownership (LMO_t)	-0.043142	0.030979	-1.392603	0.1644
Log Public Ownership (LPO_t)	-0.135730***	0.048531	-2.796749	0.0054
Log CSR Disclosure Index ($LCDI_t$)	0.358928***	0.107197	3.348299	0.0009
Log Forecast Dispersion (LFD_t)	-0.341472***	0.035812	-9.535151	0.0000
Log Forecast Error (LFE_t)	0.120993***	0.034781	3.478726	0.0006
Log Firm Size (LFS_t)	-0.806180	0.618781	-1.302852	0.1933
Log Type of Industry (LTI_t)	-0.553716***	0.113383	-4.883579	0.0000

Dependent Variable: Log Return on Asset (LROA)
F-statistic = 21.45110; *p*-value < 0.01; Adj. R^2 = 0.290746; Jarque-Bera statistic= 1279.989 and Prob (JB) =0.0000; White test statistic = 130.8357.
**** is significant at the 0.01 level.*

OLS Estimates for Return On Sales

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-1.919014	1.825558	-1.051193	0.2937
Log Board Size (LBS_t)	-0.068024	0.196753	-0.345735	0.7297
Log Independent Director (LIB_t)	0.650606***	0.168125	3.869773	0.0001
Log Management Ownership (LMO_t)	-0.029641	0.032114	-0.923001	0.3565
Log Public Ownership (LPO_t)	0.158111***	0.050309	3.142784	0.0018
Log CSR Disclosure Index ($LCDI_t$)	0.386938***	0.111125	3.482019	0.0005
Log Forecast Dispersion (LFD_t)	-0.282794***	0.037124	-7.617572	0.0000
Log Forecast Error (LFE_t)	0.022249	0.036055	0.617080	0.5375
Log Firm Size (LFS_t)	0.252271	0.641451	0.393281	0.6943
Log Type of Industry (LTI_t)	-0.140642	0.117537	-1.196571	0.2321

Dependent Variable: Log Return on Sales (LROS)
F-statistic = 11.39502; *p*-value < 0.01; Adj. R^2 = 0.172434; Jarque-Bera statistic= 24.07443 and Prob (JB) =0.0000; White test statistic = 77.5953.
***** is significant at the 0.01 level.*

OLS Estimates for Tobin's Q

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-5.434318***	2.129148	-2.552344	0.0110
Log Board Size (LBS_t)	-0.165339	0.229473	-0.720516	0.4716
Log Independent Director (LIB_t)	0.051002	0.196084	0.260103	0.7949
Log Management Ownership (LMO_t)	0.036231	0.037455	0.967319	0.3339
Log Public Ownership (LPO_t)	-0.215117***	0.058676	-3.666203	0.0003
Log CSR Disclosure Index ($LCDI_t$)	0.035540	0.129605	0.274220	0.7840
Log Forecast Dispersion (LFD_t)	-0.167375***	0.043298	-3.865688	0.0001
Log Forecast Error (LFE_t)	-0.249885***	0.042051	-5.942436	0.0000
Log Firm Size (LFS_t)	1.735272**	0.748124	2.319498	0.0208
Log Type of Industry (LTI_t)	-0.738332	0.137084	-5.385997	0.0000

Dependent Variable: Log Tobin's Q (LTQ)
F-statistic = 12.76634; *p*-value < 0.01; Adj. R^2 = 0.190841; Jarque-Bera statistic= 48.76920 and Prob (JB) =0.0000; White test statistic = 85.87845.
**** is significant at the 0.01 level; ** is significant at the 0.05 level.*

Appendix 5: 2SLS Estimates using Single Non-Accounting Proxy of CSR

2 SLS Estimation for CSR disclosure Index

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-3.390766***	1.163878	-2.913334	0.0038
Log Board Size (LBS_t)	0.513804	0.365821	1.404522	0.1609
Log Firm Size (LFS_t)	0.926033**	0.481951	1.921425	0.0553
Log Type of Industry (LTI_t)	-0.181569***	0.053406	-3.399752	0.0007

Dependent Variable: Log CSR Disclosure Index (LCDI)
F-statistic = 24.17914; p-value < 0.01Adj. R^2 = 0.117531; Jarque-Bera statistic= 1050.119 and Prob (JB) =0.0000; White test statistic = 52.8890.
**** is significant at the 0.001 level; ** is significant at the 0.05 level.*

2 SLS Estimation for Return on Assets

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-6.164342	4.674239	-1.318791	0.1879
Log CSR Disclosure Index ($LCDI_t$)	-0.792730	0.877827	-0.903059	0.3670
Log Forecast Dispersion (LFD_t)	-0.846889***	0.160713	-5.269579	0.0000
Log Firm Size (LFS_t)	1.168581	1.528148	0.764704	0.4449
Type of Industry (TI_t)	-0.647080***	0.231048	-2.800634	0.0053

In This Result Instrument Specifications Include: Log Return on Assets (LROA).
F-statistic = 14.84443; p-value < 0.01; Adj. R^2 = -0.177531; Jarque-Bera statistic = 65.97897 and Prob (JB) = 0.0000; White test statistic = -79.88895.
**** is significant at the 0.01 level.*

2 SLS Estimates for Return on Sales

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	-10.00956**	4.551773	-2.199045	0.0284
Log CSR Disclosure Index ($LCDI_t$)	-0.854897	0.854828	-1.000080	0.3178
Log Forecast Dispersion (LFD_t)	-0.013785	0.156502	-0.088080	0.9299
Log Firm Size (LFS_t)	2.622896*	1.488110	1.762568	0.0787
Type of Industry (TI_t)	-0.281684	0.224994	-1.251960	0.2112

Dependent Variable: Log Return on Sales (LROS).
F-statistic = 1.843044; p-value < 0.01; Adj. R^2 = -0.212437; Jarque-Bera statistic = 30.58867 and Prob (JB) = 0.0000; White test statistic = -95.59665.
*** is significant at the 0.05 level; * is significant at the 0.10 level.*

2 SLS Estimates for Tobin's Q

Variable	Coefficient	Std. Error	t-Statistic	*p*-value
Constant	13.19021**	6.771038	1.948034	0.0520
Log CSR Disclosure Index ($LCDI_t$)	3.140699***	1.271609	2.469863	0.0139
Log Forecast Dispersion (LFD_t)	0.052951	0.232806	0.227448	0.8202
Log Firm Size (LFS_t)	-3.920217*	2.213654	-1.770925	0.0773
Type of Industry (TI_t)	-0.163566	0.334692	-0.488706	0.6253

Dependent Variable: Log Tobin's Q (LTQ).
F-statistic = 13.84166; *p*-value < 0.01; Adj. R^2 = -0.928501; Jarque-Bera statistic = 67.84869 and Prob (JB) = 0.0000; White test statistic = -322.2288.
****** is significant at the 0.01 level; ** is significant at the 0.05 level; * is significant at the 0.10 level.*

Appendix 6: Correlation Matrix of Variable Interests

Correlation Matrix of Variable Interests in the Translog Linear Function

	LBS	LID	LMO	LPO	LMS	LCPH	LETO	LCVA	LCDI	LFD	LFE	LROA	LROS	LTQ	LFS	LTI
LBS	1	-0.061591	-0.021539	-0.093252	0.250485	0.301546	0.029966	0.255918	0.245085	-0.00475	0.037177	0.000244	0.018342	0.054709	0.38615	-0.145409
LID	-0.061591	1	-0.029301	0.015984	0.082894	0.141988	0.118025	0.03306	-0.018431	0.063517	-0.021217	0.010455	0.145028	-0.038736	0.155589	0.250489
LMO	-0.021539	-0.029301	1	0.002108	-0.021207	-0.071143	-0.087716	-0.052354	-0.077778	0.082482	0.220035	-0.06774	-0.083071	-0.044843	-0.097013	0.010397
LPO	-0.093252	0.015984	0.002108	1	0.068492	-0.021624	0.020114	0.03141	-0.005872	0.210082	0.023869	-0.209737	0.080218	-0.183313	0.218786	0.013467
LMS	0.250485	0.082894	-0.021207	0.068492	1	0.599782	0.015378	0.694204	0.201367	0.086018	0.029502	0.124326	-0.161277	0.180652	0.569756	-0.172916
LCPH	0.301546	0.141988	-0.071143	-0.021624	0.599782	1	0.028817	0.759643	0.225793	-0.058292	-0.014679	0.311298	0.055533	0.213204	0.653014	-0.022053
LETO	0.029966	0.118025	-0.087716	0.020114	0.015378	0.028817	1	-0.039678	-0.101092	0.097534	0.002208	-0.129488	0.010178	-0.057423	0.067867	0.302936
LCVA	0.255918	0.03306	-0.052354	0.03141	0.694204	0.759643	-0.039678	1	0.21443	0.029374	0.050294	0.167145	-0.092448	0.197776	0.760977	-0.106895
LCDI	0.245085	-0.018431	-0.077778	-0.005872	0.201367	0.225793	-0.101092	0.21443	1	-0.071743	-0.089582	0.180097	0.199798	0.131803	0.311572	-0.23303
LFD	-0.00475	0.063517	0.082482	0.210082	0.086018	-0.058292	0.097534	0.029374	-0.071743	1	-0.137462	-0.459354	-0.319913	-0.163772	0.069385	0.019542
LFE	0.037177	-0.021217	0.220035	0.023869	0.029502	-0.014679	0.002208	0.050294	-0.089582	-0.137462	1	0.150009	0.044819	-0.264232	-0.026876	0.090718
LROA	0.000244	0.010455	-0.06774	-0.209737	0.124326	0.311298	-0.129488	0.167145	0.180097	-0.459354	0.150009	1	0.648875	0.475164	-0.049588	-0.198636
LROS	0.018342	0.145028	-0.083071	0.080218	-0.161277	0.055533	0.010178	-0.092448	0.199798	-0.319913	0.044819	0.648875	1	0.392761	0.109834	-0.051685
LTQ	0.054709	-0.038736	-0.044843	-0.183313	0.180652	0.213204	-0.057423	0.197776	0.131803	-0.163772	-0.264232	0.475164	0.392761	1	0.094283	-0.283826
LFS	0.38615	0.155589	-0.097013	0.218786	0.569756	0.653014	0.067867	0.760977	0.311572	0.069385	-0.026876	-0.049588	0.109834	0.094283	1	-0.119129
LTI	-0.145409	0.250489	0.010397	0.013467	-0.172916	-0.022053	0.302936	-0.106895	-0.23303	0.019542	0.090718	-0.198636	-0.051685	-0.283826	-0.119129	1

Note: LBS= Log board size; **LID**= Log independent board of directors; **LMO** = Log managerial ownership; **LPO** = Log public ownership; **LMS** = Log market share; **LCPH** = Log cost per hire; **LETO** = Log employee turnover; **LCVA** = Log CSR value added; **LCDI**= Log CSR disclosure index; **LFD**= Log forecast dispersion; **LFE**= Log forecast error; **LROA**= Log return on assets; **LROS**= Log return on sales; **LTQ**= Log Tobin's Q; **LFS**= Log firm size; **LTI**= Log type of industry.

Correlation Matrix of Variable Interests in the Typical Linear Function

	BS	ID	MO	PO	MS	CPH	ETO	CVA	CDI	FD	FE	ROA	ROS	TQ	FS	TI
BS	1	-0.076548	-0.125138	-0.074783	0.263462	0.28534	0.005008	0.142537	0.253371	-0.075889	0.028403	-0.023765	-0.025408	-0.028903	0.413122	-0.158913
ID	-0.076548	1	-0.017529	0.042816	0.109843	0.053986	0.049871	-0.010294	-0.04716	-0.012715	-0.054708	0.068552	0.164975	0.13233	0.15584	0.208386
MO	-0.125138	-0.017529	1	0.185557	-0.101519	-0.070482	0.189235	-0.065738	-0.078338	0.091642	0.013888	-0.092461	-0.031082	-0.080347	-0.145031	0.135603
PO	-0.074783	0.042816	0.185557	1	0.061712	0.069141	0.023746	0.027723	-0.006767	0.172169	0.00342	-0.237501	0.118759	-0.245237	0.272217	0.077928
MS	0.263462	0.109843	-0.101519	0.061712	1	0.504556	-0.031954	0.498454	0.267348	0.117077	0.002541	0.285745	-0.112249	0.361437	0.562683	-0.209917
CPH	0.28534	0.053986	-0.070482	0.069141	0.504556	1	0.023964	0.539767	0.206932	-0.037194	-0.038997	0.175201	0.001654	0.133721	0.502693	-0.038159
ETO	0.005008	0.049871	0.189235	0.023746	-0.031954	0.023964	1	-0.05938	-0.119587	0.021688	-0.027028	-0.111082	0.049265	-0.007594	0.10127	0.292509
CVA	0.142537	-0.010294	-0.065738	0.027723	0.498454	0.539767	-0.05938	1	0.172099	-0.027855	-0.027575	0.12487	0.035395	0.048043	0.491652	0.053802
CDI	0.253371	-0.04716	-0.078338	-0.006767	0.267348	0.206932	-0.119587	0.172099	1	-0.073651	-0.052118	0.214551	0.138491	0.139647	0.3218	-0.307262
FD	-0.075889	-0.012715	0.091642	0.172169	0.117077	-0.037194	0.021688	-0.027855	-0.073651	1	-0.007668	-0.103673	-0.11526	-0.069627	-0.022366	0.043583
FE	0.028403	-0.054708	0.013888	0.00342	0.002541	-0.038997	-0.027028	-0.027575	-0.052118	-0.007668	1	0.087165	0.084527	-0.007284	-0.038729	-0.023665
ROA	-0.023765	0.068552	-0.092461	-0.237501	0.285745	0.175201	-0.111082	0.12487	0.214551	-0.103673	0.087165	1	0.481094	0.661938	-0.004008	-0.278988
ROS	-0.025408	0.164975	-0.031082	0.118759	-0.112249	0.001654	0.049265	0.035395	0.138491	-0.11526	0.084527	0.481094	1	0.215549	0.077978	0.045294
TQ	-0.028903	0.13233	-0.080347	-0.245237	0.361437	0.133721	-0.007594	0.048043	0.139647	-0.069627	-0.007284	0.661938	0.215549	1	0.006752	-0.173152
FS	0.413122	0.15584	-0.145031	0.272217	0.562683	0.502693	0.10127	0.491652	0.3218	-0.022366	-0.038729	-0.004008	0.077978	0.006752	1	-0.103163
TI	-0.158913	0.208386	0.135603	0.077928	-0.209917	-0.038159	0.292509	0.053802	-0.307262	0.043583	-0.023665	-0.278988	0.045294	-0.173152	-0.103163	1

Note: BS= Board size; **ID**= Independent board of directors; **MO** = Managerial ownership; **PO** = Public ownership; **MS** = Market share; **CPH** = Cost per hire; **ETO** = Employee turnover; **CVA** = CSR value added; **CDI**= CSR disclosure index; **FD**= Forecast dispersion; **FE**= Forecast error; **ROA**= Return on assets; **ROS**= Return on sales; **TQ**= Tobin's Q; **FS**= Firm size; **TI**= Type of industry

Appendix 7: Variable Profiles for Exogenous and Endogenous Variables

Variable I: Board size **Proxy**: Logarithm (log) of the number of BoCs (BS)

Units: Decimal

Source: Indonesian capital market directory (ICMD) and firm annual reports.

Logic: As the largest decision-making group of a firm, BoDs have an impact on the decision-making process of the firm's business. Thus, the size of BoDs is identified as one of the essential aspects on corporate governance effectiveness regarding monitoring and controlling management actions.

Methodology: Indonesian listed firms adopt a two-tier system of the board: the board of commissioners (BoCs) similar to BoDs in one-tier systems; the board of managing directors (BoMDs). The study uses the number of BoC members to represent board size in CG mechanisms for the study period (2007-2013). The board size is measured by the natural logarithm (log) of the total number of BoC member, which was formulated by the Microsoft excel program. Board size varies every year (2007-2013) due to different number of independent directors and BoCs.

Variable II: Independent Director **Proxy**: Proportion of independent director of members (ID)

Units: Percentage

Source: Indonesian capital market directory (ICMD) and firm annual reports.

Logic: Independent directors represent the level of monitoring regarding management decisions to ensure that the firm's managers are pursuing actions to fulfil shareholder interests.

Methodology: The study measures independent directors as the proportion of independent commissioners divided by the total number of commissioners on the board, which is formulated by the Microsoft excel program. The proportion of independent directors varies every year (2007-2013) due to different number of independent directors and BoCs.

Variable III: Public ownership **Proxy**: Proportion of public ownership (PO)

Units: Percentage

Source: Indonesian capital market directory (ICMD) and firm annual reports.

Logic: As the distribution of share ownership is less concentrated, the demands placed on firms by shareholders becomes broader, especially in CSR activities.

Methodology: Public ownership is formulated by the percentage of shares held by outsider shareholders (i.e., individuals who are non-controlling shareholders).

Variable IV: Managerial ownership **Proxy**: Proportion of managerial ownership (MO)

Units: Percentage

Source: Indonesian capital market directory (ICMD) and firm annual reports.

Logic: Managerial ownership (generally associated with founding family) is a typical business attribute in Indonesian. Firms may use their share ownership to adopt policies that gain family members benefits at the expense of other shareholders (i.e., minority shareholders).

Methodology: The percentage of shares held by the firm's management (BoCs and/or managerial members). The proportion of management ownership from 2007 to 2013 is quite stable because the majority of shares are owned by the founding family.

Variable V: Customer attractiveness and retention **Proxy**: Market share (MS)

Units: Percentage

Source: IDX fact book

Logic: A good understanding of customer behaviour can help firms develop customer satisfaction and loyalty, which can ultimately lead to a higher firm value through market share.

Methodology: Market share is formulated by the proportion of the total sales of products or services achieved by the firm divided by total sales in that specific industry. Market share is calculated by the Microsoft excel program.

Variable VI: Employer attractiveness **Proxy**: Cost per hire (CPH)

Units: Indonesian Rupiah (IDR) billions

Source: Firm annual reports.

Logic: CSR activities might influence the applicant's perception of the recruiting firm's reputation, which in turn affects their attraction to that particular firm. A high CPH reflects higher internal costs due to the employer attractiveness of a CSR engaged firm as demonstrated via a larger numbers of job applicants.

Methodology: Cost-per-hire is measured via four aspects. First, internal costs, which include recruiting salaries, staff travel, lodging and entertainment and administration fees. Second, external costs, which include third party agency such as fees and consultants. Third, company visit expenses, which include interviewing costs, candidate travel, lodging and meals. Fourth, direct fees, which include advertising costs, job fairs, agency search fees, cost awarded for employee referrals and college recruiting. All four aspects are sourced from the statement of income - general and administrative expenses. The CPH variable is calculated using Microsoft excel formula to arrive at the total costs (sum of the four aspects) in the process of recruiting new employees.

Variable VII: Employee motivation and retention **Proxy**: Employee turnover (ETO)

Units: Decimal

Source: ICMD and Orbis-Bureau van Dijk database

Logic: The firm can bolster employees' motivation, commitment and loyalty by engaging in CSR activities, which can lead to a reduction in absenteeism and ETO.

Methodology: Employee turnover is formulated by the standard deviation of the total number of employees. Employee turnover is calculated using the Microsoft excel program.

Variable VIII: CSR value added **Proxy**: CSR value added (CVA)

Units: IDR billions

Source: Firm annual reports.

Logic: CSR activities can positively impact cash flows and improve economic value and long run operational costs. This proxy is employed to measure the economic benefits arising from engaging in CSR activities.

Methodology: CSR value added (CVA) can be measured via four aspects. First, CSR benefits (B^{CSR}) arising from the increase in sales and revenue which was sourced from the statement of income from the previous year. Second, CSR costs (C^{CSR}) is measured either by a one-time CSR cost and/or ongoing CSR costs which are sourced from the statement of income - general and administrative expenses. Third, the discount rate, which is sourced from Indonesian central bank interest rates (BI rates). Fourth, the time period involved in the study a seven-year period (2007-2013). CSR value added is calculated using the Microsoft excel program.

Variable IX: CSR disclosure index **Proxy**: CSR disclosure index (CDI)

Units: Decimal (Ratio)

Source: Firm annual reports.

Logic: The firm's CSR activities involve multiple dimensions of stakeholders, where each dimension is represented by different group voluntary activities. The CDI incorporates this aspect.

Methodology: The CDI adopts a dichotomous procedure in which each item of the CSR dimension scores one (1), if it is disclosed by the firm annual report; and scores zero (0), if it is not disclosed by the firm annual report. The ratio of CDI is then measured by the actual scores awarded to a firm divided by the total scores which that firm is expected to earn (the list of CSR activities: 90). The CDI is calculated using the Microsoft excel program.

Variable X: Information Asymmetry **Proxy**: Forecast Error (FE)

Units: Decimal

Source: Orbis-Bureau van Dijk database and firm annual reports.

Logic: Financial analysts have an incentive to follow the CSR activities of a firm because CSR can meet the growing demands and psychology of the investment community, who want combine the common investment purpose (e.g., dividend) with CSR.

Methodology: Forecast error is measured by difference between actual earnings per share (EPS) and mean forecasted EPS scaled by the share price at the beginning of the financial year. Forecast error is calculated using the Microsoft excel program.

Variable XI: Information Asymmetry **Proxy**: Forecast Dispersion (FD)

Units: Decimal

Source: Orbis-Bureau van Dijk database and firm annual reports.

Logic: Financial analysts have an incentive to follow the CSR activities of a firm because CSR can meet the growing demands and psychology of the investment community, who want combine the common investment purpose (e.g., dividend) with CSR.

Methodology: Forecast dispersion is measured as the standard deviation of the analyst's forecast of EPS. Forecast dispersion is calculated using the Microsoft excel program.

Variable XII: Firm value (market-based) **Proxy**: Tobin's Q

Units: Decimal (Ratio)

Source: ICMD and firm annual reports.

Logic: A market-based firm value measure used for reflecting the market evaluation for future profitability (i.e., long-run profitability).

Methodology: Tobin's Q is measured via three aspects. First, the market value of the firm's share (MVS) arising from the share price and the number of common stock shares outstanding of the firm, which is sourced from ICMD. Second, the firm's debt (D)= $(AVCL - AVCA) + AVLTD$, included the value of the short-term liabilities net (AVCL) of its short-term assets (AVCA), plus long-term debt (AVLTD). The data source of the firm's debt is obtained from a firm's annual report. Third, total asset of the firm (sum of current and fixed assets) is also sourced from a firm's annual report. Tobin's Q is calculated using the Microsoft excel program.

Variable XIII: Firm value (accounting-based) **Proxy**: Return on assets (ROA)

Units: Decimal (Ratio)

Source: Orbis-Bureau van Dijk and Datastream databases.

Logic: Accounting-based measure of ROA is used to reflect a firm's short-run profitability. This is used to complement the long-run profitability measure (i.e., Tobin's Q).

Methodology: ROA is measured as the ratio of net income to total assets (i.e., tangible and intangible assets). ROA is calculated using Microsoft excel program.

Variable XIV: Firm value (accounting-based) **Proxy**: Return on sales (ROS)

Units: Decimal (Ratio)

Source: ICMD and firm annual reports.

Logic: Accounting-based measure of ROS is used to reflect a firm's short-run profitability. This is used to complement the long-run profitability measure (i.e., Tobin's Q).

Methodology: ROS is measured as the ratio of net income to total sales. ROS is calculated using Microsoft excel program.

Variable XV: Firm size **Proxy**: Natural logarithm of firm size

Units: Decimal

Source: ICMD and firm annual reports.

Logic: Firm size is not only associated with the level of CSR performance, but firm size is also associated with CG characteristics and firm value. This is included as a control variable.

Methodology: Firm size is measured as a natural logarithm of total assets. It is calculated using the Microsoft excel program.

Variable XVI: Type of industry

Source: IDX fact book

Logic: Different types of industries face different configurations of stakeholders. This is included as a control variable.

Methodology: Firms were classified into one of the three major sectors of the economy based on the nature of their main business activity. The three major sectors of the economy are identified as follows: primary sector (i.e., agriculture, forestry, mining and fishing); secondary sector (i.e., manufacturing, and real estate and building construction); and tertiary sector (i.e., transportation, telecommunication, electric, gas and sanitary services, and wholesale and retail trades).

Appendix 8: Detail of Exogenous and Endogenous Variables

Data Subset	Abbvn	Unit	Data Characteristic
(i) CG Mechanisms			
Board size (the number of members)	**BS**	Decimal	The majority of Indonesian firms have met the government regulation requiring publicly-listed companies to select at least two directors.
Independent director	**ID**	Percentage	Although some Indonesian firms were found to be dominated by insider directors, they represented only 3% of sample size (2 firms). Hence, the majority of Indonesian firms have independent directors of at least 30 % of board size (97% of sample size or 74 firms).
Managerial ownership	**MO**	Percentage	Indonesian firms are characterised by concentrated managerial shareholdings representing 7 % of the sample data (5 firms).[110]
Public ownership	**PO**	Percentage	The majority of public ownerships is from 41% to 60% (36% sample size or 27 firms), with the next largest from 20% to 40% (30% sample size or 23 firms).
(ii) Information Quality			
Forecast error	**FE**	Decimal	The majority of Indonesian firms had a forecast error greater than 0.01 (51% of sample size or 39 firms), while 49 % of sample size (37 firms) had a forecast error of 0.01 or less.
Forecast dispersion	**FD**	Decimal	All Indonesian firms had a forecast dispersion value of greater than 0.01.
(iii) Firm Characteristics			
Firm size	**FS**	IDR billions	The majority of Indonesian firms have total assets between 5 and 25 IDR billion (53% of sample size or 40 firms), with the next largest grouping being total assets of less than 5 IDR billions (36% of sample size or 27 firms).
(iv) CSR			
Customer attraction and retention	**MS**	Percentage	Market share for Indonesian firms actively engaging in CSR is led by the primary sector (on average 23.69%), while secondary and tertiary sectors show slightly different market shares (on average 20.41% and 20.14%, respectively).
Employer attractiveness	**CPH**	IDR billions	The majority of Indonesian firms have a CPH of less than IDR 100 billion (76% of sample size or 58 firms), with the next largest CPH grouping is between IDR 100 to 500 billion (21% of sample size or 16 firms).

[110] Blockholders are investors who hold shares equal to at least 5% ownership.

Data Subset	Abbvn	Unit	Data Characteristic
Employee motivation and retention	**ETO**	Decimal	The majority of Indonesia firms have an ETO ratio of less than 0.02 (62 % of sample size or 47 firms), with firms with an ETO ranging from 0.02 to 0.04; and over 0.06, represented 27% of sample size (21 firms) and 11% of sample size (8 firms), respectively.
CSR value added	**CVA**	IDR billions	The majority of Indonesian firms have a CVA of less than IDR 10,000 billion (82% of the sample size or 62 firms), while firms with a CVA of more than IDR 100,000 billion comprised only 3% of the sample size (2 firms).
CSR disclosure index	**CDI**	Decimal	The primary sector had the highest performance in 5 of the 6 CSR dimensions: employee health and safety; energy; environment; product; and society performances (0.66, 0.41, 0.76, 0.52 and 0.81, respectively).
(v) Firm Value			
Tobin's Q	**TQ**	Decimal	The majority of Indonesian firms were found to have a Tobin's Q value of ≥ 1.00 (51% of the sample size, or 39 firms), while firms with a Tobin's Q value of less than 1.00 is 49% of the sample size (37 firms).
Return on assets	**ROA**	Decimal	The majority of Indonesian firms have a ROA of less than 0.1 (67% of sample size or 51 firms), followed by a ROA range of 0.1 to 0.3 (29% of sample size or 22 firms).
Return on sales	**ROS**	Decimal	The majority of Indonesian firms have a ROS ranging from 0.1 to 0.3 (51% of sample size or 39 firms) with the remainder having a ROS of less than 0.1 (42% of sample size or 32 firms).

Note: Abbvn = abbreviation of data variable name, **N** = number of observations, **SD** = standard deviation, **CV** = coefficient of variation; **BS** = the number of board members, **ID** = independent director, **MO** = managerial ownership, **PO** = public ownership, **FE** = forecast error, **FD** = forecast dispersion, **FS** = firm size (in IDR billions), **MS** = market share, **CPH** = cost per hire (in IDR billions), **ETO** = employee turnover, **CVA** = CSR value added (in IDR billions), **CDI** = CSR disclosure index, **TQ** = Tobin's Q, **ROA** = return on assets, **ROS** = return on sales.