

THE QUALITY OF STAKEHOLDER ENGAGEMENT DISCLOSURES IN SUSTAINABILITY REPORTS: A PRELIMINARY STUDY FROM INDONESIA

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ABSTRACT

The emerging of sustainability reports reflects the company's efforts in implementing greater transparency. A sustainability report reviews the company's performances in three parameters: economic, environmental, and social, in which stakeholder engagement is one of the most important elements. However, stakeholder-engagement practices are considered still far from expectation. Information disclosed by a company is not enough to meet the information needed by the public. This study aims to determine the level of quality of stakeholder engagement disclosures in sustainability reports. The quality of disclosure was reviewed by four aspects: 'Report Content', 'Stakeholder Representation', 'Stakeholder Engagement', and 'Channel and Methods of Stakeholder Engagement'. The content analysis was applied to evaluate the quality of these disclosures and to determine the class ranks of low, moderate, high, and very high. Samples were obtained from 28 sustainability reports which had been consistently published by 7 companies in Indonesia during the period of 2008-2011. The results show that the level of quality of stakeholder engagement disclosures in Indonesian sustainability reports is generally considered moderate. The 'Employee' seems to be the major stakeholder which was disclosed widely and it has a relatively strong power to influence a company's decision.

Keywords: corporate social responsibility; sustainability report; stakeholder engagement; content analysis; disclosures; Indonesia

INTRODUCTION

Implementation of corporate social responsibility (CSR) is prominently increasing in companies' agenda worldwide. Corporate activities are no longer focused on profit, but also on other aspects; such as environment, human resources, and consumers. Corporate Social Responsibility is defined as a way to treat stakeholders ethically and responsibly (Carrol, 1979). Stakeholders, who have interest in the existence and activity of a company and who affect and are

affected by the company's operations, are considered to have important roles for the company's success.

Key stakeholders, such as consumers, employees, and investors, have greater possibilities to reward good companies. As a reverse, they also control "misbehaving" companies (Du, Shuili, Bhattacharya & Sen, 2010). Therefore, CSR is also implemented to meet demands and pressures from stakeholders. CSR that are consistently being conducted by companies will be able to improve and strengthen their relationships with their stakeholders.

On the other hand, a responsible action will only take place with the existence of a transparent report, as transparency is one of the important principles of social responsibility. Financial disclosure that is considered as a part of a company's transparent action will indeed provide an overview of the most visible aspects in the company's operations. However, it has failed to disclose information beyond the data and financial statements (Choudhuri & Chakrabirty, 2009). As a result, decisions made by investors are rarely determined using the basis of comprehensive information related to the sustainability of a company. Hence, the sustainability report is developed as the new generation of an investment parameter that allows investors to have early views on the company's performance and its level of competition thoroughly.

The sustainability report assesses the performance of a company based on three parameters, which are economic, environmental and social. The report is set to provide non-financial information to the public, as a complement of the company's financial report. Through the publication of a sustainability report which is also referred to as non-financial reporting, a company demonstrates its commitment to sustainability development that refers to "meet the needs of the present, without compromising the ability of future generations to also meet their needs" (Dilling, 2009).

There is a very rapid progress of sustainability-report publications all over the world. The KPMG Survey of Corporate Responsibility Reporting (2013) revealed that there has been a dramatic increase in corporate-responsibility reporting rates in Asia Pacific over the last two years. Almost three quarter (71 percent) of companies based in Asia Pacific now publish corporate responsibility reports – an increase of 22 percent since 2011 when less than half (49 percent) did so.

A sustainability report requires for stakeholder engagement and stakeholder dialogue practices as part of its most important elements. The guideline and major standard of sustainability reports require stakeholder engagement as a mandatory stage in order to be able to formulate a complete and useful document for the public. Stakeholder engagement is regarded as a common commitment to

settle problems between a company and its surrounding. However, there is not much evidence to suggest that engagement and dialogue within the social and environmental reporting is really happening (Maneti, 2011).

In addition, the overall quality of sustainability report is considered low as the report does not address many issues that are relevant for all stakeholders (Petereit, 2008). Research conducted by Gunawan (2010) also showed that there was a gap between information disclosed by the company in Indonesia and information required by stakeholders. Therefore, non-financial reporting sometimes is seen merely as a public-relation instrument and is not considered as a useful publication for stakeholders (KPMG, 2013). On the other hand, stakeholder involvement in the majority of companies is still considered far from satisfactory. There are only 21 percent of the 250 largest companies around the world which claimed to have applied a systematic stakeholder engagement and only 32 percent of companies are asking for feedback from readers on their reports (KPMG, 2008).

As discussed in the stakeholder theory literature, there is still little attention focused on the qualitative nature disclosed in sustainability report; which is including the policies and practices of stakeholder engagement (Manetti, 2011). Yet, in analyzing stakeholder engagement, an overview of content and characteristic is also needed to figure out what and how a company discloses its information.

Studies that focused on the involvement of stakeholders is very limited in Indonesia, while on the other hand, the topic of stakeholders is emergingly discussed. As a consequence, the implementation on how Indonesian companies engage with their stakeholders is difficult to recognize. This study was conducted to obtain a preliminary view of the companies' efforts in Indonesia to involve and to engage with their stakeholders. The stakeholder engagement will be seen from a company's disclosures in its sustainability report by observing the content and disclosure characteristics.

LITERATURE REVIEW

Legitimacy Theory

Legitimacy is something that has been granted by the community and desired by the company. Legitimacy theory was built based on the existence of 'social contract' made between the business environment and community (Branco, 2006). Community is perceived to allow a company to exist and has certain rights; and reciprocally, the community demands the company to meet its expectations, especially on how the company conducts its activities.

A company's legitimacy will be threatened if there is a difference between a company's value and the community's value; which is called the 'legitimacy gap'. A legitimacy gap could have an effect upon a company's business activity. Therefore, a company needs to evaluate its social values and adapt them to the community's existence (O'Donovan, 2002). Moreover, the reduction of a legitimacy gap could also be undertaken by improving the social responsibility and expanding disclosures; including social disclosures, as a form of accountability and transparency of the impact of a company's activities.

According to Gray, Kouhy, and Lavers (1995), legitimacy theory can explain the presence of sustainability report. A sustainability report assumes that there is an implicit contract made between a company and community; and by reporting economic, social, and environmental issues, a company demonstrates its activity that is in accordance with the community's value and system. Thus, the company maintains its status and reputation within the community.

Stakeholder Theory

Stakeholder is defined as any group, both internally and externally, which has interactive relation with the achievement of a company's objectives (Freeman, 1984). Based on the theory, a company is not only responsible to its shareholder, but also to its stakeholder in a broader social sphere. The responsibility of a company is originally measured from economic indicators that are disclosed in a financial report. Nowadays, the responsibility is also considering social dimension of stakeholders, both internal and external.

Clarkson (1995) classified stakeholders in two groups: primary and secondary stakeholders. The primary stakeholder is considered as the group whose presence is essential for a company's existence; and without its presence, the company can't survive. According to Clarkson (1995), shareholders or investors, employees, consumers, suppliers together with public stakeholders such as community and government, are categorized as primary stakeholders. This stakeholder is the most widely known, therefore they are considered as the main stakeholder of a company (Gunawan, 2010).

As stated by Clarkson (1995), a company has a strong dependence on its primary stakeholders. If one of the key stakeholders, for example consumers or suppliers, is not satisfied and directly or indirectly remove their support, the company's activities will gradually decline. Moreover, it may be hard to survive.

In this perspective, the company can be defined as a system consisting of diverse groups of primary stakeholders who have different rights, objectives, expectations, and responsibilities. The survival and success of a company will depend on its ability to manage and create wealth, value, and satisfaction among

the primary stakeholders. The company's failure to maintain the participation of a particular stakeholder group will result in the failure of the company's system.

Secondary stakeholders are those who affect and are affected by a company's existence, but it is not directly involved with a company's activities and their presence is not essential to the survival of a company. According to Clarkson (1995), media and special interest groups are included in this group as they have the capacity to mobilize public opinion either to support or resist the company's activities. While the company's survival does not depend on secondary stakeholders, they may cause considerable damage if they're not managed attentively.

Stakeholder theory assumes the sustainability report as a way to settle with the demand of stakeholders (Solomon & Lewis, 2002), by maintaining stakeholder's legitimacy and placing them in a framework of policy and decision-making process. Hereafter, the stakeholder could provide support to the achievement of corporate objectives, stability of business, and the assurance of its continuance.

Stakeholder Engagement

The Institute for Social and Ethical Accountability (ISEA, 1999), also known as AccountAbility, defines stakeholder engagement as a process to find out the stakeholders' views on the organization. The AA1000 Stakeholder Engagement Standard which is widely known in stakeholder engagement practices by presenting a quality framework and principles of stakeholder engagement, states that the purpose of the stakeholder engagement is to improve the social ethical performance and accountability of an organization. An equivalent dialogue conducted in the organization and its stakeholders will provide opportunities for stakeholders to define their level of involvement. Therefore, stakeholder engagement practices must also include transparency and feedback mechanisms to acquire valuable disclosures.

According to AA1000 Stakeholder Engagement Standard, a qualified stakeholder engagement has taken place within a clearly-defined area and supported by mutually agreed policy making process where opportunity of dialogue is widely open. It is also focused on materiality issues and as part of good corporate governance practices which are transparent, flexible, and responsive.

Stakeholder engagement is deemed as a very important practice in a business strategy. By involving stakeholders in its decision making process, a company is supported in its effort to meet the demands of its stakeholders and simultaneously also increases its accountability. Stakeholders are regarded as participants of business management through their submission of questions and their interest in specific issues of which a company can scan what topics they think are

important. Thereby the stakeholders will affect a company's managerial decision-making process (Manetti, 2011). Engaging stakeholders on business process and responding to their concerns would create better performance of a company, increasing the company's knowledge, while also contributing in strengthening the company's license to operate (ISEA, 1999).

With the assumption of gradual growth of stakeholder involvement, some experts have classified a model of the relationship between the company and its stakeholders which includes the following stages (Svendsen, 1998; Waddock, 2002; Manetti, 2011):

- In the first stage, companies identify their stakeholders (stakeholder mapping); if applicable, they distinguish primary stakeholders (which affect the survival of the company) and secondary stakeholders (which affect or are affected by the company, but do not determine the sustainability of the company)
- In the second stage, companies manage expectations of stakeholders which is referred to as stakeholder management practice; determine relevant social and economic issues and at once make an effort to balance those two positions
- In the last stage, which is, also described as a stakeholder-engagement practice, companies involve stakeholders in the policy-making process allowing stakeholders to participate in business management; implementing information sharing; conducting dialogue; and simultaneously performing a mutual responsibility relationship.

Sustainability Report and Stakeholder Engagement

According to GRI (2006), sustainability report is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development. 'Sustainability reporting' is a broad term that is considered synonymous with others used to describe reporting on economic, environmental, and social impacts (for examples, triple bottom line, corporate responsibility reporting). A sustainability report should provide a balanced and reasonable representation of the sustainability performance of a reporting organization – including both positive and negative contributions.

The Global Reporting Initiative Guideline (GRI, 2006) stated that sustainability report published by a company should be prepared based on stakeholders' expectation and interest concerning the scope, limit, and application of indicator and assurance. An internationally accepted guideline requires stakeholder engagement as a compulsory stage to provide a comprehensive and useful document (GRI, 2006; Manetti, 2011).

A company should identify its stakeholders and explain how the company has responded to the rational expectation and interest of the stakeholder in the sustainability report (GRI, 2006). The practice of stakeholder dialogue refers to a process of measuring the interest and attention of stakeholders. It can be used as a tool for the company to anticipate the stakeholders' expectation. A company usually implements ranges of stakeholder-engagement efforts in its regular activities in order to generate useful inputs for its policy-making process.

In order to be assurable, the stakeholder-engagement process within an arrangement of the sustainability report must be documented. The organization has to capture its approach to determine which stakeholder will be involved, how and when they are being involved. In addition, an organization must describe how engagement efforts have influenced the content of the report and the activity of the company. This process must also be able to identify direct input from stakeholders as well as growing legitimacy of a community. Failure in identifying and involving stakeholders will result in an inappropriate report that is not credible to all the stakeholders. In the meantime, a systematic stakeholder engagement can improve the stakeholder's acceptance as well as the report usability. An appropriate report will be a learning source, not only for the company but also for other parties. At the same time, it increases accountability to stakeholders that will strengthen trust between a company and its stakeholders. The trust is a key to credibility of a report.

METHODOLOGY

This study used a descriptive qualitative content analysis method. Content analysis is widely used in a disclosure study as it allows repetition and valid inference upon available data that is in accordance with the context (Krippendorff, 1980; Guthrie, 2004).

Content analysis is a method of codifying the characteristic-alike texts to be written in a variety of groups and categorized depending on a specific criterion (Guthrie, 2004). The content analysis process is conducted through changing over a qualitative disclosure of sustainability report into scores (Gunawan, 2010). In a qualitative research, content analysis is a systematic process of seeking and compiling data in order to easily be understood. Data analysis is undertaken by organizing data detailing the data into units, synthesizing, organizing into patterns, categorizing which one is considered important and determining conclusions.

Disclosure Quality

Content analysis was conducted to determine the level of quality of stakeholder engagement disclosures in a sustainability report. To measure the quality of disclosure, this study referred to a research performed by Raar (2002). Raar (2002) divided disclosure items into three types: monetary, non-monetary, and qualitative. These three types of disclosure are arranged into a ranking system that consists of seven levels.

Table 1: Measurement of Disclosure Quality

Weight	Disclosures	Definition
1	Monetary	Disclosure only currency information
2	Non-monetary	Disclosure only non-currency information
3	Qualitative	Disclosure only descriptive information
4	Qualitative and monetary	Disclosure descriptive and currency information
5	Qualitative and non-monetary	Disclosure descriptive and non-currency information
6	Monetary and non-monetary	Disclosure currency and non-currency information
7	Qualitative, monetary, non-monetary	Disclosure descriptive, currency, and non-currency information

Source: Raar (2002)

According to Raar (2002), monetary disclosure is not sufficient to provide comprehensive information to stakeholders (Amran & Devi, 2007); therefore both non-monetary and qualitative disclosures are needed. For that reason, disclosure items that are only disclosed in a monetary-information type without further evidence will get the lowest score. The higher score will be awarded to disclosure items involving non-monetary and qualitative considerations as social and environmental issues are difficult to be measured in the form of currency.

The highest score will be obtained by a company that combines three types of disclosures (Raar, 2007). The disclosure that combines those three types of information demonstrates linkages among social, environment, and financial issues (Raar, 2002). In the data interpretation step, this study focused on Clarkson's (1995) categorization of primary stakeholders that are: (1) shareholders, (2) employee, (3) consumers, (4) contractors/suppliers/partners and (5) community.

Sample Collection

In this study, the samples are companies that consistently published sustainability reports from 2008 to 2011. This period of year has been chosen as this is the time where sustainability reports started gaining the attention from the public, which is indicated by the event of Indonesia Sustainability Reporting Award. The

samples of study are seven companies and 28 sustainability reports which were downloaded from the National Center for Sustainability Report (NCSR) website or the company’s website. The data were downloaded in the third and fourth week of April, 2013. These numbers are reflection of the entire population of sustainability reports availability. Out of the seven companies, four of them (57.14%) are mining companies; three companies are engaged in the coal-mining industry and one in the gold mining industry. On the contrary, the three other non-mining companies are involved in the automotive business, cement industry, and telecommunication industry respectively.

Table 2: Object of Study Based on Industry

Types of industry	Number of companies
Mining	4
Telecommunication	1
Automotive	1
Cement	1
Total	7

From all research objects, three companies are owned by the government (42,85%) while four other companies are publicly listed. The sample in this study was selected based on several considerations, which are:

1. All the companies that have been explored in this study operate in Indonesia, thus have a similar law and business environment.
2. The companies successfully published sustainability reports from 2008 to 2011 making it easier to compare the quality and continuity of their disclosures.
3. The companies published their reports on websites making them accessible for the public.

Disclosure Items

This study was modified from Manetti (2011) who had explored the quality of stakeholder engagement of 174 sustainability reports in Europe, America, and Asia. The modification was carried out in three steps. Firstly, researchers adjusted the research questions to be more concise. Secondly, instead of observing all the stakeholders, researchers only elaborated on the stakeholder engagement disclosure towards the five primary stakeholders, namely employee, community, contractor, consumer and shareholder. Thirdly, this study was designed to cover stakeholder engagement across all sustainability activities.

The quality of stakeholder engagement disclosures will be reviewed based on four aspects, which are:

- Report Content that described disclosure of the company’s act in dealing with its stakeholders and stakeholder engagement in sustainability movements,

- Stakeholder Representation in sustainability movements,
- Stakeholder Engagement in sustainability movements,
- Channel and Methods implemented in stakeholder engagement activities.

Content Report was measured based on six items of disclosures: whether a company devoted a specific section conveying the stakeholder-engagement information in the sustainability report, whether a company disclosed its goals and objectives in involving stakeholders, whether a company mentioned its commitment to establish good relationship with stakeholders, whether a company revealed difficulties it had encountered at the time it engaged with the stakeholder, whether a company informed the sustainability report guideline that it followed, and the presence or absence of stakeholder mapping information undertaken by the company.

Stakeholder Representation was measured based on two items of disclosures: whether a company disclosed the process of stakeholder identification and whether a company specified the presence of representation of each stakeholder.

Stakeholder Engagement was measured based on two items of disclosures: whether a company described the stakeholder's direct involvement in sustainability movements and whether a company cited the stakeholder's perception upon sustainability movements in the report.

Methods and Channel of stakeholder engagement were only measured from one item of disclosure which is whether a company informed the methods and channels applied in its stakeholder engagement activities.

The quality of disclosures is categorized by 4 levels, namely: very high, high, moderate, and low. The measurement is determined by: $C = R/k$

C = average score

R = maximum score

k = number of expected quality

Thus, the total maximum for 'Report Content' score that can be achieved is 42 (maximum score of 7 multiplied by 6 items) and the category of level is divided by:

Score 0 – 10 : Low level of disclosure

Score 11 – 21 : Moderate level of disclosure

Score 22 – 32 : High level of disclosure

Score 33 – 42 : Very high level of disclosure

Total maximum score for ‘Stakeholder Representation’ and ‘Stakeholder Engagement’ is 14 (maximum score of 7 multiplied by 2 items) and the category of level is:

- Score 0 – 3 : Low level of disclosure
- Score 4 – 7 : Moderate level of disclosure
- Score 8 – 11 : High level of disclosure
- Score 12 – 14 : Very high level of disclosure

In the aspect of ‘Channel and Methods implemented in stakeholder engagement activities’, the disclosure item is only 1 and therefore, the total maximum score is 7. The level of disclosure, then, is divided into:

- Score 0 – 1 : Low level of disclosure
- Score 2 – 3 : Moderate level of disclosure
- Score 4 – 5 : High level of disclosure
- Score 6 – 7 : Very high level of disclosure

Table 3 presents the disclosure items used in this study.

Table 3: Disclosure Items

I. General Disclosures	II. Stakeholder Disclosures
<p><i>Report Content</i></p> <p>Has the company devoted specific section conveying the stakeholder engagement information in the sustainability report?</p> <p>Has the company disclosed its goals and objectives in involving stakeholders? Has the company mentioned its commitment to establish good relationship with stakeholders?</p> <p>Has the company revealed difficulties it had encountered at the time it engaged with the stakeholders?</p> <p>Has the company informed the sustainability report guideline that it adopted?</p> <p>Is there any presence of stakeholders mapping information undertaken by the company?</p>	<p><i>Iia Stakeholder Representation</i></p> <p>Has the company disclosed the process of stakeholder identification?</p> <p>Has the company specified the presence of representation of each stakeholder?</p> <p><i>Iib Stakeholder Engagement</i></p> <p>Has the company described the stakeholder’s direct involvement in sustainability movements?</p> <p>Has the company cited the stakeholders’ perception upon sustainability movements in the report?</p> <p><i>Iic Channel and Method</i></p> <p>Has the company informed the channels and methods applied in its stakeholder engagement activities?</p>

RESULTS AND DISCUSSIONS

Petereit (2008) argued that the industries that have “much more potential to pollute the environment” are identified as the most active ones in publishing sustainability reports. Earlier, KPMG (2013) also stated that companies which have been engaging in sectors of utilities, oil and gas, synthetic chemicals, mining, forestry, pulp, and paper are the companies that mostly published the non-financial reports. Meanwhile, companies that have smaller impact on the environment, for example on sectors of finance, communications, or media industry, tend to lag in writing non-financial reports.

The Aspect of Report Content

Based on ‘report content aspect’, the quality of sustainability report disclosure of observed-companies was considered moderate (total average score of 19.9). All disclosure items included in this aspect had been reported by the companies. All the companies had dedicated specific sections for stakeholder-related information. Companies had also expressed their reasons and purposes in engaging with stakeholders, such as *‘because involvement of the whole stakeholders is an integral part to our success both in national and international business landscape’* or *‘so that all parties have similar understanding on the aspect of sustainability which involves economic, social, and environment issues’* or *‘that company grows continuously, the welfare of community improves, and the environment preserves better’*. According to those statements, it was visible that the companies were aware of the capacity of stakeholders to affect the success of the companies. Stakeholders are considered as a company’s partner in improving the economic and environment condition.

Among disclosure items in this aspect, the report guideline disclosure was the one that acquired the highest score (100%) as this disclosure was constantly included in the report for four years consecutively. The companies described the time covered in the sustainability reports as well as the number of sustainability reports they had published before so that they fulfilled qualitative and non-monetary factors. All the reviewed companies on this study have complied with GRI.

- ***Report Guideline***

For the CSR-related reporting, there are many standards, codes, and guidelines issued by various organizations. There are also many bases for report development such as AA1000 Stakeholder Engagement Standard, ISO 26000, UN Global Compact, and CERES. Nonetheless, the GRI reporting guidelines are viewed as the main framework (KPMG, 2008). It is the most widely used and it has the highest popularity among companies and stakeholders. The adoption of

reporting guidelines and the third-party verification are rated as the matters that describe a quality disclosure (Hammond & Miles, 2004).

Similar to the publication of sustainability report, the adoption of reporting guideline is also conducted voluntarily. A company can determine freely on which guidelines it is willing to adopt. Nevertheless, the adoption of guideline which the stakeholders are familiar with will increase the public trust. According to GRI, the trust ultimately grows into the key of report credibility. The report that is only being managed based on internal guidance and not familiarized by stakeholders will not be accepted and trusted by the public. Meanwhile, sustainability report is used as a strategy to build a company's image. Without trust, the good reputation will not be achieved. Indonesian companies' adoption of GRI reporting guideline indicates their efforts to provide a quality report and at the same time to establish the credibility of the report.

- ***Stakeholder Mapping***

All the companies have been identified and have mapped their stakeholders. Those things were consistent with Vos' (2003) statement. Vos (2003) stated that social responsibility management also reflects the practice of its stakeholder management. Therefore, to be able to carry out a sustainability activity, a company has to identify its stakeholders. A company should consider its stakeholders prior to setting social responsibility strategy.

Stakeholder mapping undertaken by companies showed that they have realized the importance of stakeholder identification in order to specify which stakeholder is considered to have the most impact on the sustainability of the company. Furthermore, stakeholder mapping performed by companies indicates that the first phase of a gradual path of growth of the stakeholders' involvement as revealed by Svendsen (1998), and Waddock (2002), has been obtained. Stakeholder mapping is the first step to be complied before stakeholder engagement can be attained.

Although all the companies have already explored their stakeholders, there are only two companies that also explained their criteria in conducting the stakeholder mapping. Those companies performed their stakeholder mappings based on several factors such as proximity, power, influence, interest, urgency, and legitimacy; and identified the stakeholder mapping implementer and the execution time of stakeholder mapping. According to GRI (2006), a company should disclose the basis used in identifying and determining the involvement of stakeholders, in which also describes the organizational processes in defining the group or stakeholders that will be involved (or not). The absence of such information may cause readers to question the background of stakeholder mapping along with anxiety of whether the stakeholder is analyzed based on their

needs and interest. As a result, the skepticism of stakeholder mapping will lead to skepticism of report credibility.

On the other hand, during 4 years of reporting, there are slight readjustments in the stakeholder mapping-related information in sustainability reports. Most of the reports conveyed similar information from year to year. In the period of 2008-2011, it could be implied that companies conducted only one stakeholder mapping practice, and then repeatedly used it over and over again. A stagnant stakeholder mapping practice potentially has caused unfavorable things as stakeholders' expectation and condition has gradually changed. Stakeholder mapping is conducted to achieve a variety of purposes, including being the basis to determine business and sustainability strategies and as a tool of risk management. Without implementing a stakeholder adaptation, those objectives will not be accomplished.

In this study, primary stakeholders mentioned by Clarkson (1995) - shareholders, employee, consumers, suppliers, and community - were also considered as key stakeholders. It can be assumed that companies realized the importance of primary stakeholders in their business sustainability. Some companies that had been engaged in mining industry were also classified as secondary stakeholders - local government, center government, media, and non-governmental organization - as their key stakeholders. They were aware that even though secondary stakeholders were not directly involved in their business activity, their existence was also crucial. Media and NGO, for instance, have capabilities to mobilize public opinion and can cause considerable damage if not properly managed.

The Aspect of Stakeholder Representation

Based on 'stakeholder representation aspect', the total average quality of total companies was considered low (3.66).

- ***Stakeholder Identification***

The identification of the stakeholders was undertaken to figure out which stakeholders are directly in touch with company activities and which are not. Each stakeholder group has different demands and expectations towards the information disclosed by the company (Gunawan, 2010). Therefore, stakeholder identification is needed to assist the company in facilitating the need of the stakeholder and the effort of the company.

Through the stakeholder identification practice, it will be easier for the company to track down the concern and interest of each stakeholder. The company will have deeper understanding on the stakeholders' expectation. By identifying the community, for example, it would allow the company to determine which one is

directly affected and which one isn't so that it will be easier for the company to formalize sustainability strategy as well as to monitor a potential of crisis.

Out of the seven companies observed in this study, there is only one company that clearly identified the involvement of community in its sustainability activities based on the provinces and regencies and classified them in several groups based on priority. This decision was made to anticipate the stakeholders of different locations and backgrounds in having different expectation; therefore, the effort of the company will also be different. The absence of stakeholder identification practice may result in the company's failure in defining material issues.

- ***Stakeholder Representation***

This study revealed that the representation of stakeholders in the company's sustainability activities was considered low as more than 50% of the companies provided less than 4 scores. Out of the five observed stakeholders, only the 'Employee' can strongly influence a company's policy through the existence of union. The 'Shareholders' do have the power and representation in the General Meeting of Shareholders (GMS); but based on the disclosed information in a sustainability report, only economic issues had been covered and discussed. The 'Community' had been engaged in sustainability activities, yet only a small number of companies involved them in the process of planning, monitoring, and evaluation as well as decision making. Whereas groups of 'Consumers' and 'Contractors/Suppliers/Partners' have no vehicle to express their aspiration over the sustainability activities.

Essentially, the existence of representation will allow stakeholders to get involved in a company's decision making process. It will provide the opportunity for stakeholders to participate in business management and information sharing process as well as to create a mutually beneficial relationship between stakeholders and the company. Representation will also allow stakeholders to voice their questions and concerns that may be a reference for the company's policy. Without the presence of stakeholder representation who have the capability to influence the company's decision making by referring to the concept of gradual growth path of the stakeholder's involvement (Svendsen, 1998; Waddock, 2002), companies were only accomplishing the stage of stakeholder management.

The Aspect of Stakeholder Engagement

Based on the 'stakeholder engagement aspect', the average quality was considered low, with a total average of 3.94. Among all the stakeholders, 'Community' was the one who acquired the highest disclosure quality score

regarding engagement; while ‘Consumers’ and ‘Shareholders’ were considered having the lowest scores.

From the report, it can be inferred that companies had involved their stakeholders in sustainability activities. Yet, the involvement was presumably passive. There were very few stakeholders’ perception/testimonials related to the presented sustainability in the report. Meanwhile, GRI (2006) explicitly stated that the sustainability report should be prepared based on the expectations and interests of the stakeholders. Therefore, the perception of stakeholder is important to ensure that the stakeholder has significant role in the process. Besides, the perception is also crucial to assure that the report was not unilaterally prepared by the company.

In contrast, the appearance of stakeholder perception illustrates that a stakeholder actively participates in communication and disclosure practices rather than only getting involved passively. Otherwise, the small degree of active stakeholder participation showed that the company had only reached the level of ‘informing’ and had not reached the level of ‘involving’ as indicated in the disclosed sentences in the sustainability report. The limited stakeholder perception disclosures will make it harder for a company to measure impacts and benefits of the sustainability strategy.

The Aspect of Methods and Channel of Stakeholder Engagement

Based on ‘methods and channel aspect’, the average quality was considered moderate with a total average score of 2.79. Among all the stakeholders, the ‘Consumers’ group was the one who acquired the highest disclosure quality score, while ‘Shareholders’ received the lowest score.

According to GRI (2006), a company needs to document various processes of relationship building with stakeholders; such as the approach applied in engaging stakeholders as well as the process and the time of stakeholder engagement. It is also necessary to outline how communication practices have affected sustainability activities and report content.

In this study, the observed companies have identified and implemented communication channels to build relationship with their stakeholders. Nonetheless, each stakeholder has a different level of involvement.

Most companies have conducted consumer satisfaction surveys and the results in the sustainability report revealed the fulfilled qualitative and non-monetary types of disclosures. As a result, methods and channels disclosures of ‘Consumer’ acquired the highest score (3.25 compared to other stakeholders group who received less than score 3) and thus it had the utmost quality. The method and

channel disclosures of other stakeholders were not equipped with a well-defined measurement method so that it only met the qualitative element.

However, the high quality of disclosure did not portray the high quality of the implementation of stakeholder engagement. Consumers were being given regular communication channels and methods to deliver complaints and inputs to the company. It can be indicated that there was a two-way communication practice between the company and the consumer. Yet, the consumers' input may not necessarily have a strong influence towards the company's decision. Consumers may be heard and their opinion may be taken into consideration, but there is no guarantee that the company will refer to those inputs as the basis for their strategy. Consumers have the opportunity to utter their concerns over certain issues but there is no assurance that the consumers' voice will affect the final result as the decision making still remains as the company's right.

ADDITIONAL DISCUSSION

Stakeholders Ranking

Out of all the stakeholders observed in this study, the 'Employee' is the one who had got the highest score (453) of disclosure quality. This shows that companies pay close attention to employee-related issues as the data and information of the employee were well documented – in currency, number, and described descriptively. On the other hand, the disclosure quality of 'Shareholders' holds the lowest score (181) as most of the companies had only identified the shareholders but had not explored their engagement in sustainability activities. Shareholders' interest of sustainability was mainly focused on economic related issues, such as the company's ability to gain maximum return. This is in line with Gunawan (2010) who stated that the stakeholder's attention on the company's social disclosure is mostly focused on reduction of operational cost and improvement of product quality.

Table 4: Ranking of Stakeholders Disclosure Quality

Rank	Stakeholders	Total Scores 2008-2011
1	Employee	453
2	Community	367
3	Contractor/supplier/partner	230
4	Consumer	199
5	Shareholder	181

Trend of Disclosure Quality

- ***Shareholders***

During the period of 2008-2011, only ‘Shareholder’ related information encountered a decrease of quality. An increasing disclosure quality occurred in 2009, stagnated in 2010, and declined in 2011 as there were companies that disclosed shareholder-related information in 2009 and 2010 but did not mention it in the 2011 reports.

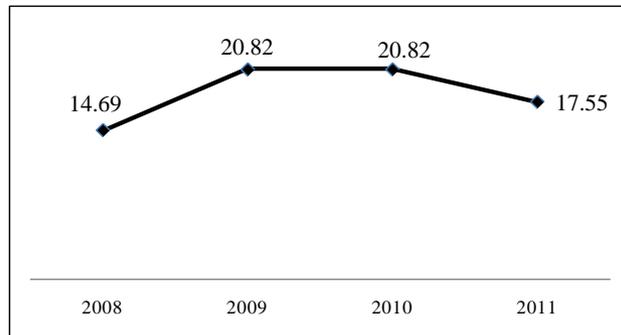


Figure 1: Disclosure Quality of Shareholders (%)

- ***Employee***

Employee’s disclosure quality encountered an increasing trend during 2008-2011 that was caused by the growing number of disclosed items. In the early period, companies only disclosed information of employee identification and employee representation. Hereafter, companies also mentioned employee involvement and employee perception over sustainability activities. Those findings showed that the practices and documentation of employee engagement in sustainability movements were improving.

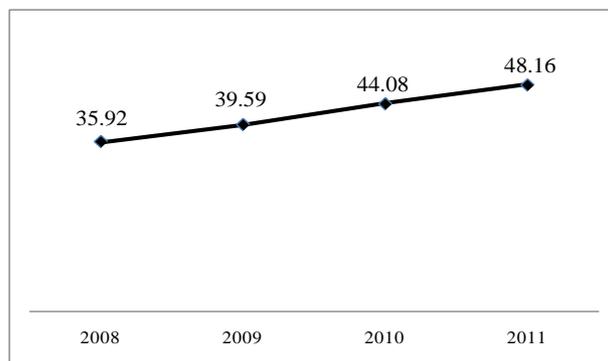


Figure 2: Disclosure Quality of Employee (%)

- *Consumers*

The quality of consumer disclosure has consistently increased during 2008-2011. It took place due to the increase of the number of items disclosed by the respective companies. It also illustrated the better awareness of companies in engaging consumers in sustainability activities and reporting it afterwards.

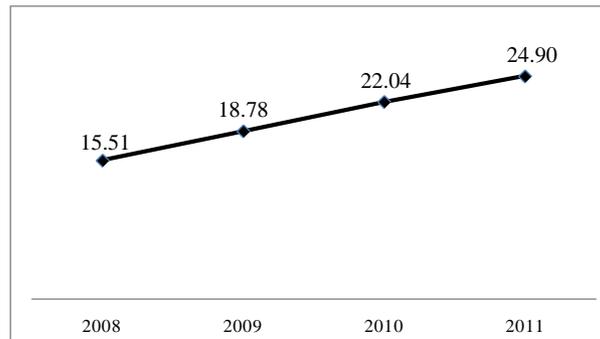


Figure 3: Disclosure Quality of Consumer (%)

- *Contractors/Suppliers/Partners*

Figure 4 shows that the disclosure quality of contractors/supplier/partners had continuously increased during 2008-2011 although it briefly declined in 2010. It can be assumed that companies were more active to embrace contractors/supplier/partners in sustainability activities. Companies may realize that their involvement will strengthen positive impact of activities and at the same time also reduce the possibility of negative incidents.

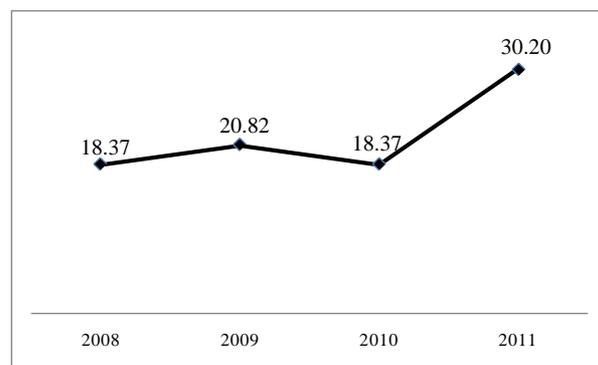


Figure 4: Disclosure Quality of Contractor/Supplier/Partner (%)

- **Community**

Figure 5 shows that the quality of community disclosure was relatively stagnant in the period of 2008-2010, but progressively increased in 2011 due to more community related information disclosed by companies. It illustrates that the community reporting and engagement grew better.

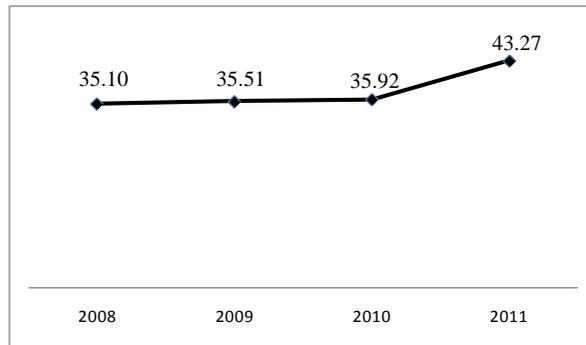


Figure 5: Disclosure Quality of Community

CONCLUSIONS AND RECOMMENDATIONS

This study aims to determine the level of quality of stakeholder engagement disclosures in sustainability reports. After conducting the analysis, the results show that the general quality of stakeholder engagement disclosures of sustainability reports in Indonesia was considered to be ‘moderate’. The moderate level is shown by two aspects (report content and methods and channels) In Table 4, it shows that ‘Employee’ is the stakeholder who has the highest disclosure quality (453), while ‘Shareholder’ is the one who has the lowest disclosure quality (181).

‘Employee’ is the only stakeholder that has a strong influence on the company’s decision making process. Other stakeholders might have been involved in the process, but they slightly have the power to act upon the final decision. According to the observed disclosures in sustainability reports, the representation levels of stakeholders were still low as the stakeholders were not genuinely having a significant power over the company’s decision. Therefore, stakeholder engagement companies are more practicing stakeholder management.

However, those findings cannot be generalized as this study was only conducted on seven companies that consistently published sustainability reports in the period of 2008-2011. Data interpretation was undertaken based on the respective period of time. In addition, this study was only carried out upon the information

disclosed in sustainability reports; therefore, it could not be utilized to measure the actual stakeholder engagement practices in the field. Moreover, there were only five primary stakeholders who had been observed in this study so that the engagement of other stakeholders could not be evaluated. For future research, it is recommended to include a wider range of stakeholders as well as to consider other aspects such as the type of industry or company size.

On the other hand, subjectivity could not be avoided in content analysis study. Furthermore, Raar's scoring methods could not be implemented to all disclosure items as some items could not be assessed under the monetary aspect. There was no disclosure that complied with both monetary and non-monetary causing score 6 as Raar presented to be not relevant. Therefore, the scoring methods could be improved.

Future study can continue this study along with the development of sustainability reports in Indonesia which tend to be higher. The analysis of which group of stakeholder is the major stakeholders for every different type of companies will also be interesting to be discussed.

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