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ANALYSES OF SOCIAL AND ENVIRONMENTAL REPORTING AS A PRACTICE OF ACCOUNTABILITY TO STAKEHOLDERS

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For those who are very close to my heart
Analyses of social and environmental reporting
as a practice of accountability to stakeholders

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PhD thesis

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Disertasi ini terdiri dari empat artikel yang disusun sebagai bagian dari penelitian mengenai: analisis pelaporan sosial dan lingkungan hidup sebagai praktek akuntabilitas kepada pemangku kepentingan. Disertasi ini disusun dengan asumsi dasar bahwa hubungan antara perusahaan dengan pemangku kepentingan adalah hubungan yang didasarkan pada kontrak sosial. Kontrak sosial mengharuskan perusahaan memenuhi kewajiban akuntabilitas publik sebagai akibat dari konsumsi sumber daya milik pemangku kepentingan oleh perusahaan.


Semua fenomena ini terus terjadi walaupun inisiatif membentuk tata kelola perusahaan dan melakukan pemeriksaan laporan sosial dan lingkungan hidup mulai berkembang. Oleh sebab itu, disertasi ini ditujukan untuk menjawab pertanyaan mengapa dengan makin berkembangnya tata kelola perusahaan dan pemeriksaan laporan sosial dan lingkungan hidup, proses pelaporan terkait gagal mengarahkan isi dan arah laporan yang dihasilkan.

Hasil dari keempat artikel menunjukkan bahwa alasan dasar kegagalan tersebut berkaitan dengan kegagalan dalam mengarahkan struktur di perusahaan. Ketika
tanggungjawab finansial menjadi prioritas, perusahaan hanya menyelaraskan sumber daya terkait untuk mendukung tanggungjawab finansial mereka. Hal ini menimbulkan ketidakseimbangan dalam alokasi sumber daya. Akibatnya, proses pelaporan sosial dan lingkungan hidup tidak didukung dengan sumber daya yang seharusnya dimiliki dari sisi tata kelola perusahaan dan pemeriksaan laporan.

Introduction and Summary

Companies need the resources that stakeholders have. This basic assumption implies that companies must maintain good relations with their stakeholders (see this basic assumption in Sethi, 1979). In return for these resources, the companies should give back to the society and act responsibly in the best interest of the stakeholders (see Harrison & Freeman, 1999; Phillips, Freeman, & Wicks, 2003). These acts of giving back and being responsible constitute a moral obligation that seals the social contract between companies and stakeholders.

The social contract between companies and stakeholders defines stakeholders as “owners” of the resources that companies need and companies as users of the resources. The discharge of accountability to stakeholders is a consequence of this contract because the “owners” need to make sure that companies act in the best interest of the stakeholders (Gray, Owen, & Maunders, 1988). In this respect, social and environmental reports form part of this accountability practice (Gray, 2006). Therefore, the process behind the reports, i.e. social and environmental reporting (SER), is fundamental to the practice of accountability.

Companies respond to the accountability challenge by establishing mechanisms for supporting SER. In order to control and monitor the programmes, companies have recently embarked on SER corporate governance (Kolk, 2008; Kolk & Pinkse, 2010). Social and environmental assurance (SERA) is an initiative taken by a company to verify the resulting social and environmental information of its performance (see the purpose of SERA in e.g. Abt, 1977, p. 60; Beets & Souther, 1999; Carroll & Beiler, 1975; Dando & Swift, 2003; Gray, 2000; Medawar, 1976; Natale & Ford, 1994).
SER thus becomes a reporting process with a monitoring and control mechanism as well as an assurance process.

However, prior studies of social and environmental reports find that they contain information selected with the purpose of safeguarding the interests of shareholders and the corporate managements (see e.g. Deegan & Rankin, 1996; Cerin, 2002; Jenkins, 2004; Palazzo & Richter, 2005; Magness, 2006; Holder-Webb, Cohen, Nath, et al., 2009; Tilling & Tilt, 2010). The selection of information represents the manipulation of negative and positive information. The manipulation causes deviations from the actual performance with an objective to protect the financial interests of shareholders, i.e. managerial capture. Because of the tendency to prioritise the financial interests of shareholders, the reports resulted from SER indicate the undermined interests of the stakeholders. Adams (2004, p. 732) refers to these practices as unbalanced views towards financial and non-financial responsibilities. Given the presence of corporate governance and external assurance processes, the issues of managerial capture and the unbalanced view of responsibilities lead me to ask why SER fails to direct the course and contents of the resulting reports towards the stakeholders.

This doctoral thesis sets out to explain why SER corporate governance and SERA as the processes behind social and environmental reports fail to minimise managerial capture and the unbalanced view of financial and non-financial responsibilities. Prior studies suggest that the sources of the problems include some areas. Those areas are regulatory areas, security markets, and the national economy (see e.g. Cooper & Owen, 2007; Gallhofer & Haslam, 1997; Owen, Swift, & Hunt, 2000; Belal & Owen, 2007; Belal & Roberts, 2010; Islam & Deegan, 2008; Jamali & Mirshak, 2007; see also Teoh & Thong, 1984). These studies indicate multiple factors that can
affect the potential of SER to direct the course and contents of the reports through the implementation of SER corporate governance and SERA. The variety of the factors shows the complexity of business environment and requires the use of different theories. For instance, the explanation about how companies will establish SER corporate governance relative to their known behaviour in security markets needs a modified governance concept. The concept should recognise stakeholders that are beyond shareholders and those that have financial claims on companies. Therefore, I organise a multitude of theories as the base of the conceptual framework.

The framework is divisible into three levels of theories. The first level (Level 1) represents the meta-theories, the second level (Level 2) represents the meso-theories, and the third level (Level 3) represents the micro theories (see the proposed categorization of theories in Gray, Owen, & Adams, 2010, p. 12). In brief, I integrate two meta-theories (see Figure 1). The responsibilities of companies are financial in nature, i.e. profit-making (Friedman, n/d). However, companies need the resources that stakeholders, beyond shareholders, capital suppliers, and employees, have. This need establishes the social contract between companies and the stakeholders (Sethi, 1979). I adopt these two concepts of responsibilities to formulate my world view, i.e. companies are profit-oriented entities that operate under two demands of responsibilities. The responsibilities are financial and non-financial responsibilities. Subsequently, the delivery of one responsibility should avoid subduing the delivery of the other responsibility. The same principle applies to the reporting processes behind the social and environmental reports produced.

[Figure 1. The conceptual framework]
The concept of transaction cost economics (TCE) presents companies as profit-oriented entities that concern the allocation of economic activities to minimise costs (e.g. Williamson, 1981). The concern indicates a focus on the financial unit of cost that is similar to the concept of responsibilities by Friedman. Moreover, the focus on different organizational structures and mechanisms within companies to safeguard the interests of owners or shareholders supports Friedman’s description of the responsibilities of companies. The difference is that TCE specifically entertains the issue of opportunistic behaviour of the corporate managements. On the contrary, the concept by Friedman can embrace on the efficiency of market and the stewardship theories to discuss the delivery of financial responsibilities.

This doctoral thesis pursues the branch of the sub-system (Level 2 theories) that maintains a reservation about the opportunistic behaviour of the managements in organizing internal governance. The managerial capture indicates a deviation from the non-financial responsibility of companies due to a perceived advantage from relations with shareholders. The unbalanced view is the result of the behaviour. The decision to pursue the sub-system reflects my concern over the persistence of these issues that highlight the failures in current SER corporate governance and SERA.

General calls on the need to modify the governance and improve the independent value of SERA have come up (see e.g. Belal & Owen, 2007; Owen, Swift, Humphrey, et al., 2000; O’Dwyer & Owen, 2005). I extend the prior studies by first, incorporating the libertarian stakeholder theory into the TCE framework. This modified TCE recognises the relations between companies and stakeholders in parallel to the relations between companies and shareholders. The recognition streamlines SER into
the operations of companies and enables the discussion of resource allocation for the governance. Second, I incorporate micro-theories that are connected to the sub-system and my world view. This integration of theories helps to discuss the source of SER corporate governance and SERA failures under the two responsibilities. Furthermore, the integrated theories maintain the reservation about the opportunistic behaviour of the managements. Figure 1 depicts the theories that each of the four studies in this doctoral thesis has followed. Each study is independent of one another, but together they represent the efforts to answer the research questions from multiple angles. Further explanation about the theories is available in each of the studies. I present the simplified general framework in the methodology section. However, some readers may find the conceptual framework in this section is adequate to prepare them reading the whole thesis. For these readers, I suggest reading the four studies presented in Chapter 1 to 4, and the conclusion section of the thesis.

The areas of study span from security markets, regulatory areas and national condition areas. The problem with security markets begins with the social and environmental information that companies demand. Shareholders with special interests in socially responsible investment (SRI) need to know how the companies manage their investment (see specifically Friedman & Miles, 2001 for the exploratory study of this relationship). The demand for information motivates the companies to report and demonstrate that the process behind the report, i.e. SER, is a structured process that safeguards the interests.

However, the efforts to position SER in corporate governance are recent (see specifically Kolk, 2008; Kolk & Pinkse 2010). Companies are unfamiliar with the practice of SER corporate governance. Regulatory efforts to formalise social and
environmental reports ignore the issue of SER corporate governance (see Adams, 2004; Cooper & Owen, 2007). The implication of this exclusion is that SER corporate governance is voluntary for companies. Combined with the origin of accountability to stakeholders as a social contract which is of lower contractual importance in a legal environment than a financial legal contract, companies will prioritise their financial responsibility over their non-financial responsibility (see Gray, Owen, & Maunders, 1988 for the comparison between social contract and financial legal contract). Therefore, provided companies have an unbalanced view towards their responsibilities, I propose that when financial responsibility is the focal point, companies will align all of their resources to safeguard the interests of shareholders. These resources include the resources that companies use to practice their SER corporate governance for the monitoring of SER and the external assurance process.

The first study of this doctoral thesis tests proposition one, i.e. the alignment of company resources to safeguard the interests of shareholders. The study integrates the test of difference to evaluate any difference that stems from aligning resources for SER in companies which prioritise their financial responsibility and in those which mix their priorities. The purpose of the study is to seek the presence of balanced view of SER. The test of difference assists to conclude whether the companies that have mixed priorities have a different behaviour than those that prioritise their financial responsibility. If no difference in behaviour can be found, it supports the first proposition, i.e. the alignment of resources as to financial responsibility.

The second study examines the first proposition in the context of social and environmental reporting assurance (SERA) monitoring. The study integrates tests of relations between the expertise of audit committee members and the monitoring of
assuror independence as a proxy of the capability of those members to exercise their expertise in SER. These tests provide the evidence of expertise alignment in the context of SERA. When the expertise of audit committee members does not enable these members to monitor assuror independence in SERA, the compositions of the expertise in the committee are in alignment with their traditional monitoring duty, i.e. auditor independence in financial statement auditing. Since audit committees are resources in companies, findings from the tests assist to conclude whether the first proposition holds.

The problem with the regulatory area of SER begins with the voluntaristic nature of the regulation. Paton (2000) argues that voluntarism is beneficial to invite the active involvement of companies. However, this approach leaves companies with bargaining powers higher than stakeholders due to the possibilities to opt in and out of their involvement. Therefore, companies can marginalise the interests of stakeholders because companies have financial legal responsibility only to shareholders and other financial suppliers (Healy & Palepu, 2001). The possible implication is that companies will prioritise their financially-related legal responsibility.

Additionally, the voluntary nature of the regulations implies the voluntary nature of stakeholder involvement. Stakeholders can be inactive by choice, while companies can choose to limit their involvement based on their financial interests (Freeman & Phillips, 2002). SER is positioned as a part of accountability practices to shareholders and financial suppliers because of low stakeholder involvement. Provided accountability to stakeholders is the purpose of SER, voluntarism can invite problems for the development of SER.

The concept of a more interventionist approach is proposed (see specifically Gallhofer & Haslam, 1997). This approach positions regulators in the
central role of establishing policies based on concepts from different sources, including companies. However, the contractual financial and legal relations between companies, shareholders and other financial suppliers are stronger than with the non-financial social contract between companies and stakeholders (see specifically Gray, Owen, & Maunders, 1988). Inputs from companies to regulators about SER corporate governance reflect this priority of relations. Therefore, I propose that inputs from companies to regulators about SER corporate governance will support their financial responsibilities instead of the balanced view of company responsibilities.

The third study of this doctoral thesis tests the second proposition, i.e. whether inputs from companies to regulators about SER corporate governance will support their financial responsibilities instead of the balanced view of company responsibilities. The study incorporates the tests of directional relations between the adoptions of CSR accounting standards, the accompanying organisational measures, i.e. corporate governance structures, and the resulting potential of minimised manipulation of information. Results from the tests provide evidence of the merits of the adoptions for stakeholders other than shareholders and financial suppliers. The adoptions of standards are the result of company policies. Furthermore, these policies in effect constitute the inputs that companies can possibly formulate. Therefore, findings from this study will assist to conclude whether the second proposition holds.

In developing nations, the unbalanced view of company responsibilities creates a complex situation. A company economic performance can impact the economy of a developing nation. The unbalanced view of responsibilities in companies from developing nations jeopardise the ability of those companies to compete with companies from developed countries (see specifically Gugler & Shi, 2009 for the recent assessment
of companies from a developing nation. The inability to compete can affect the economy performance of those companies and of the developing nations. Accordingly, SER practiced by companies from developing nations potentially focus on image enhancing needs. This focus contradicts the initial purpose of corporate social responsibility and the establishment of SER because the focus reflects a growing tendency to position SER as a management report to shareholders and other financial suppliers to maintain supports from them, i.e. managerial capture. Under this arrangement, the interests of stakeholders that are not parts of the interests of shareholders and financial suppliers are of low importance. Therefore, I foresee the need to moderate the tendency through a framework of cooperation that enables the moderation of different SER perspectives without negligence on the economy development demands in developing nations.

The fourth study examines the growing tendency to prioritise the economic performance of companies in the context of the national economy. The tendency facilitates an understandably different generative source of SER that deviates from the interests of stakeholders that are non-shareholders and non-financial suppliers. The study integrates the sociological approach to culture based on history of subjectivity within the search of technology of the self from Foucault, and the concept of empty signifiers as media of exchange from Laclau. The result of this approach is a framework of cooperation that addresses the need to mediate the differences and allows the transformation of conceptions of SER.

As a summary, findings from the first and second studies of this doctoral thesis support the first proposition. The alignment of resources in companies is intended to safeguard the interests of shareholders and thereby to safeguard the financial interests
of the managements. Findings from the third study suggest that inputs from companies support their financial responsibility. Since all of these studies involve the structures of corporate governance for SER in general and for monitoring SERA, the findings indicate basic problems in SER. Therefore, returning to the main question of this doctoral thesis that seeks to answer why SER fails to direct the course and contents of the resulting reports towards the stakeholders, the failures of SER are failures of structural directions that deviate from balanced view of responsibilities.

The implications of the findings are twofold, i.e. practical and theoretical. The first practical implication of the findings is that regulators and companies need to align the structures of corporate governance for SER in general and for SERA with the contractual responsibility of companies to stakeholders. The second practical implication of the findings is that regulators and companies need to transform their conceptions of SER to balance both the financial and non-financial responsibilities of companies.

The findings call for considerations to apply concepts that streamline SER corporate governance and SERA to the theory of the firm as the theoretical implication. The reason of the failures is the unsynchronized establishment of SER corporate governance and SERA with the intention to balance financial and non-financial responsibilities. In theory, the streamlining of concept will open possibilities to conduct basic research to search for factors that affect the SER corporate governance and SERA under the natural gravity of business environment. In turn, the research will enable the formulation of robust SERA and SER corporate governance theories that explicate future ability and inability to fulfill both responsibilities in balance.
References


Friedman, M. (n.d.). The social responsibility of business is to increase its profits. In Zimmerly, W.C., Richter, K., & Holzinger, M. (Eds.), *Corporate Ethics and Corporate Governance* (pp. 173-178). Germany: Springer.


[Figure 1. The conceptual framework]

**LEVEL 1**

Financial responsibilities

- The four schemes of transaction cost economics of governance:
  - A. Allocations of investments are purely based on market mechanisms.
  - B. Allocations of investments are tied to certain contractual relations. The absence of safeguards leads to premium charges by investors and higher costs for companies. Remedial governance based on regulations can be important.
  - C. Allocations of investments are tied to certain contractual relations. Safeguards are safeguards between companies.
  - D. Internal organisational safeguards as additional safeguards to maintain relations out of markets.

**LEVEL 2**

- Libertarian stakeholder theory that promotes the availability of choices for stakeholders to exercise pressures on companies.

**LEVEL 3**

The alignment of resources with the delivery of financial and non-financial responsibilities that is identifiable through:

1. The strategies of companies perceived as suitable with opportunities in the business environment (the resource-based view of strategy).
2. The alignment of resources with the orientations of corporate governance.
3. The alignment of resources with the delivery of duties related to non-financial responsibilities.

The regulations of SER corporate governance that are based on the wide agreement of stakeholders (the interventionist approach) that is realisable through:

- Companies' good deeds for company SER policies (the concept of well-defined standards) and traceable through:
  1. The SER corporate governance structures.
  2. The outcomes of SER corporate structures.

A framework of cooperation to transform the generative forces of SER based on national conditions, e.g. concerns over the financial performance of companies and national economy (the sociological approach to culture) that can benefit from the practices of:

1. Technologies of the self to liberate one-self from the history of subjectivity.
2. The concept of empty signifiers to create a space for transforming conceptions.

The four schemes of transaction cost economics of governance:

- Allocations of investments are purely based on market mechanisms.
- Allocations of investments are tied to certain contractual relations. The absence of safeguards leads to premium charges by investors and higher costs for companies. Remedial governance based on regulations can be important.
- Allocations of investments are tied to certain contractual relations. Safeguards are safeguards between companies.
- Internal organisational safeguards as additional safeguards to maintain relations out of markets.
Methodology

The purpose of this methodology section is to explain the approaches of the doctoral thesis to interested readers. The thesis consists of four studies. All of these studies are within the conceptual framework of the doctoral thesis. The studies are separate studies that can be read individually but, together, the studies address the main research question and the propositions of the doctoral thesis. Throughout this doctoral thesis, the term SER (social and environmental reporting) refers to the reporting system of social and environmental information that includes the monitoring, control, and assurance of information in the resulting reports. The positioning of SER in corporate governance and assurance refers to efforts that attempt to streamline SER into corporate governance and assurance discussions with a view to establish the monitoring, control, and assurance of information integrated in the resulting reports.

The methodology section begins with the research question and propositions of this doctoral thesis. The next discussion is an overview of the main concepts in this doctoral thesis. The purpose is to present the simplified conceptual framework that is used as the foundation for the thesis. It continues with discussions of the approaches integrated in each study. The focus of the discussions is the relations between the approaches and the conceptual framework. The discussions of each study also include brief discussions of specific methods and variables of the studies. Detailed methods, variables and procedures are described in each study.

Research question and propositions

Studies that examine SER have detected the manipulation of information and raised concerns over the effects of the manipulation on stakeholder interests (see
e.g. Campbell, Craven, & Shrives, 2003; Cerin, 2002; Cho, Phillips, Hagerman, et al., 2009; Deegan & Rankin, 1996; Palazzo & Richter, 2005; Tilling & Tilt, 2010). The manipulation suggests that despite all the processes behind SER, the processes fail to address the issue of accountability to stakeholders. The persistence of managerial capture signifies the failures. In this respect, the corporate managements demonstrate unbalanced views towards their financial and non-financial responsibilities (Adams, 2004, p. 732). The concern over the reporting processes is predominant despite the growing efforts to position SER in corporate governance and to enter on external assurance processes (see e.g. Kolk, 2003, 2008). Therefore, given the emerging presence of SER in corporate governance and external assurance processes, the concern leads to the following research question:

“Why does SER fail to direct the course and contents of the resulting reports towards the stakeholders?”

The basic definition of SER corporate governance is a mechanism designed to minimise the manipulation of information in SER, i.e. managerial capture (see specifically Owen, Swift, & Hunt, 2001; O’Dwyer & Owen 2005, pp. 215, 216-217). As a mechanism to minimise the manipulation of information, SER corporate governance needs to have support within companies that enables the monitoring and control of SER. The support is the alignment of resources because the alignment of resources involves the alignment of organisational structures and human resources to serve the transactions of companies (see specifically the alignment of transaction, corporate governance and resources in Williamson, 2000, p. 597).

However, the efforts to position SER in corporate governance are recent (see specifically Kolk, 2008; Kolk & Pinkse, 2010). Consequently, companies are
unfamiliar with the practice of SER corporate governance. Regulatory efforts to realize social and environmental reports have ignored the issue of SER corporate governance (see Adams, 2004; Cooper & Owen, 2007). The implication is that the governance is voluntary for companies. Besides the issues with SER corporate governance in companies, the base of SER as a practice of accountability to stakeholders, i.e. social contract, provides lower importance of contractual relations with companies compared to financial legal contract in legal environment (Gray, Owen, & Maunders, 1988). The relatively lower importance of social contract can lead to situations where companies prioritise their financial responsibilities over their non-financial responsibilities and set SER in the periphery of their routines. Therefore, provided companies have an unbalanced view towards their responsibilities, I propose that

**Proposition 1.** When financial responsibility is the focal point, companies will align all of their resources to safeguard the interests of shareholders

Voluntarism approach is a positive approach to pursue when inviting more company participation is the objective. The options to engage and disengage from practices that are outside the traditional financial responsibility can assist to overcome company reluctance to adopt SER (Paton, 2000). However, the approach causes problems concerning the development of SER, because the approach depends on an assumption that companies will balance their financial and non-financial responsibilities. This assumption depends on a belief that competitions in security markets or in consumer goods markets to gain and maintain the confidence of shareholders and consumers. The theory of governance presented by Williamson (2002, p. 183) predicts company behaviour in the markets relatives to other companies, government protection, and the specificity of the investment. The theory suggests that
companies will offer additional safeguards in the efforts to demonstrate relatively equal or higher safeguards in the markets compared to their competitors. The offer is the result of market mechanism. Therefore, it suggests the course of voluntary actions in the markets. The concept of social contract embraces an understanding of companies’ urge to fulfil their non-financial responsibilities because they consume the resources that stakeholders have. The contract is beyond legal contracts, and thereby, is voluntary. Accordingly, when companies recognise their ethical responsibilities, they will voluntarily balance their financial and non-financial responsibilities. Unfortunately, a significant amount of SER studies have indicated the opposite (see specifically Gallhofer & Haslam, 1997 for the discussion of these studies).

An alternative of the voluntarism approach is the interventionist approach of developing SER. The interventionist concept allows the ordering of SER based on wide agreement from different groups of the society (Gallhofer & Haslam 1997). Within the approach, regulators have inputs from different groups of the society, most likely from the powerful groups of the society, as a part of the regulation formulation process to order and forbid (von Mises, 1940, pp.10-11). In this approach, companies are stakeholders of regulators and thereby, companies should have chances to provide inputs to regulators. However, the contractual financial and legal relations between companies, shareholders and other financial suppliers are stronger than with the non-financial social contract between companies and stakeholders (see specifically Gray, Owen, & Maunders, 1988). Inputs from companies to regulators about SER corporate governance reflect this priority of relations. Therefore, Proposition 2 is as the following
**Proposition 2.** Inputs from companies to regulators about SER corporate governance will support their financial responsibility instead of the balanced view of company responsibilities.

In order to test Proposition 1, the first two studies of this doctoral thesis incorporate hypotheses about the alignment of resources for SER corporate governance and external assurance processes. The first study presents four hypotheses. Two of them conjecture a company orientation toward financial resources, i.e. shareholders, and the alignment of resources for shareholder interests. Therefore, the orientation represents the priority towards financial interests (see more explanation about it in the first study). Accordingly, these hypotheses test whether a priority to financial responsibility will direct the alignment of resources to safeguard the interests of shareholders. As a comparison of the alignment used by companies that have financial priorities, the first study incorporates two other hypotheses. These hypotheses test the alignment of resources for shareholder and other stakeholder interests in company with mixed priorities. The separate establishment of SER corporate governance structures signifies the alignment of resources in companies with mixed priorities.

The second study focuses on the current ‘knowledge and experience’ of audit committee members as precursors to the support of assuror independence in social and environmental assurance (SERA). The study adopts the assumption that the ‘knowledge and experience’ of audit committee members are parts of resources that companies have. Moreover, the support of assuror independence represents the interests of stakeholders instead of exclusively those of shareholders. Accordingly, the recognition and enforcement of assuror independence in SERA by the audit committee members indicate the alignment of resources in that regard.
The third study tests the second proposition. The first three studies analyse organisational factors that prevent SER from directing the course and contents of the resulting reports towards the stakeholders. Results of the analyses are then compared with the conceptual functioning of companies to meet their financial and non-financial responsibilities (see Figure 1). The purpose of the comparison is to examine any divergence in SER corporate governance and SERA from a balanced view of company responsibilities due to failures in the governance systems.

The fourth study is an additional study. It concerns the emerging generative force of developing SER that deviates from stakeholder interests. The study evaluates the implications of the emerging generative force of SER in developing nations in terms of increased accountability to stakeholders. In this respect, the study provides additional insights into the reason of SER failures to direct the course and content of the resulting reports towards stakeholders, relatives to a specific national condition.

After presenting a brief discussion of the tests for the first and the second propositions in each study of this doctoral thesis, I move on to the discussions of the theories in this thesis. The theory of governance by Williamson (2002) shows how companies react to gain and maintain the confidence of the markets. The theory supports the financial responsibilities of companies as put forward by Friedman (n/d). The concept of social contract signifies the importance of the ethical conduct of companies to secure and maintain resources that stakeholders have. Accordingly, the first theory perceives companies as entities with financial responsibilities while the second theory perceives companies as entities with non-financial responsibilities to stakeholders.
Companies have both financial and non-financial responsibilities. I argue that companies base the fulfilment of their responsibilities on their prior practices to meet their financial responsibility because companies are more familiar with financial than non-financial responsibilities. Accordingly, in the context of SER corporate governance and SERA, I argue that companies will draw on their experience to deliver their non-financial responsibilities. I refer to the theory of governance by Williamson (2002) when explaining the behaviour of companies. Moreover, I refer to the concept of social contract when discussing the importance of maintaining non-financial responsibilities as a stakeholder-oriented responsibilities as opposed to, for example, shareholders in security markets. This approach of arguing embraces two dissimilar theories in order to reflect the complex environment that companies currently encounter.

I propose to view of the world as a complex business environment that requires a combination of different ways of thinking to describe companies as entities with complex perspectives, i.e. financially-oriented and non-financially-oriented. I accept the fact that companies have, for centuries, operated under market mechanisms and thereby, I apply a conservative perspective to show how companies function to deliver financial and non-financial responsibilities. Therefore, although my complex view positions me as a post-modernist, I accept liberal market mechanism concepts and seek to promote discussions about social accounting by maintaining the concept of social contract when discussing the behaviour of companies under market mechanisms (see specifically Gray, Owen, & Adams, 2010, pp. 11-17 for the well-presented definition of meta-theory, post-modernism and for the proposed categorisation of theories).
However, to operationalize the view of the world, I connect the theories with the micro-theories. I adopt organisational micro-theories to test the propositions and the related hypotheses of the studies because these theories conceptually are more operational than theories from the higher systems (see specifically Gray, Owen, & Adams, 2010). The following four sub-sections focus on relations between theories. Afterwards, I include brief discussions about the organisational micro-theories of each study. I depict a more detailed conceptual framework in the introduction section and present the discussions of the theories proportionally in each study.

Security markets, stakeholders, SER corporate governance and SER

SER is a practice of accountability towards stakeholders brought about by the social contract between companies and stakeholders. The emergence of socially responsible investment (SRI) links the security markets with social and environmental reports. In theory, this type of market will force companies to behave responsibly, socially as well as environmentally (Sethi, 2003). The shareholders in this type of markets need social and environmental information of the companies to assess the companies’ performance. Information intermediaries such as social and environmental indices and rating agencies collect the information the shareholders need from the companies (Porter & Kramer, 2006, p.5).

However, information intermediaries have no control over the information that they collect from companies (Chatterji & Levine, 2006). The lack of control requires the companies to demonstrate their commitments to safeguard the interests of these shareholders. Otherwise, the related shareholders withdraw their support, or, if the special features of the market bind the SRI, the shareholders will maintain the relation but charge a premium for their investment (see Williamson, 1985, 2000). Either way,
the consequences of not offering the safeguards are problems that the managements of companies want to avoid.

Under the scheme above, the relations between the companies and SRI shareholders are the same as the companies’ relations to shareholders in any security markets. One response to the problems is to offer safeguards to SRI shareholders. This response is a logical response designed to manage relations with shareholders in security markets (see Williamson, 2002). SER corporate governance is the safeguard that companies is starting to offer (see e.g. Kolk, 2008; Kolk & Pinkse, 2010). Shareholders conceptually support this safeguard because it offers more preventive protection than usually offered by courts (Williamson, 2005). To this point, the position of SRI shareholders for companies is the same as that of other shareholders and financial suppliers in non-SRI markets. Therefore, the focus on shareholders and financial suppliers indicates the companies’ focus on their financial responsibility. Additionally, the alignment of resources towards these groups of stakeholders is an alignment that serves financial responsibility (see Williamson, 2000 for the concept of resource alignment).

Alternatively, the companies formally acknowledge both financial and non-financial responsibilities. Under this scheme, the companies respect their social contract with non-owner stakeholders as well as their legal contract with shareholders and financial suppliers. That the companies choose to acknowledge the voluntary social contract and legal contract reflects the libertarian choice in SER (see specifically Freeman & Phillips, 2002). Regardless whether the corporate laws create stakeholder or shareholder-oriented corporate governance, the companies will make the choices to balance both their financial and non-financial responsibilities. These companies will do
so by aligning their resources to serve shareholders and financial suppliers as well as non-owner stakeholders.

*Security markets, stakeholders, SERA and SER*

The limited control of information intermediaries on company-produced information indicates the need for additional independent intermediaries, i.e. independent assurors of SERA. Unlike information intermediaries, the objective for adding these intermediaries is to monitor, measure, and appraise the social and environmental performance of companies (Carroll, 1974; Carroll & Beiler, 1975). The existence of these intermediaries should minimise the issues that information intermediaries have with non-verified information (Healy & Palepu, 2001, p.408). However, support is needed in order to maintain the independence of these intermediaries.

The support for independence in assurance engagement normally comes from audit committees. These committees have members have knowledge and experience in monitoring auditor independence in financial statement auditing. Assuror independence in SERA has an aspect similar to that in financial statement auditing, i.e. the ability to resist pressures from companies. Because of this similarity, audit committees may be able to monitor the independence of assurors in SERA. Provided knowledge and experience can be adjusted to meet new demands (Swanson, 2001), the members of the committees should be able to monitor assuror independence specific to SERA, i.e. the ability to involve stakeholders other than shareholders and financial suppliers in SERA.
The involvement of non-owner stakeholders characterises assuror independence specific to SERA. This specific concept of independence stems from the benefits of involving stakeholders who are unrepresented in financial reporting, and who are (1) to be involved in internal processes that affect them, and (2) to accommodate voices of non-owner stakeholders (see Gray, Dey, Owen et al., 1997). Therefore, the adjustments of audit committee members’ ‘knowledge and experience’ to cover this specific concept of independence suggest the full monitoring of assuror independence in SERA.

The resulting adjustment will reflect the orchestration of resources to serve both the financial and non-financial responsibilities of companies. When the adjustment is not observable, the companies show signs of concentrating their audit committee resources in the auditing process that is familiar for them, i.e. financial statement auditing. Additionally, when the monitoring of assuror independence similar to that in financial statement auditing is not observable, the companies indicate that the alignment of their audit committee resources is to serve financial statement auditing (see Williamson, 2000 for the concept of resource alignment). Therefore, a balanced view of financial and non-financial responsibilities involves the monitoring of full assuror independence in SERA.

Regulations, stakeholders and SER

The development of SER concepts depends on voluntarism. The mechanisms of security markets in relation to corporate governance and SERA depend on this approach (see Williamson, 2005; see also Sethi, 1979; Roberts, 1992; Ullman, 1985). The benefit of the voluntarism approach is the implementation of SER, because the approach invites companies to adopt new initiatives (see Gallhofer & Haslam, 1997; see also Paton,
Given that SER is a newer practice of accountability directed towards stakeholders as opposed to financial reporting that is a practice of accountability directed towards shareholders and financial suppliers, the voluntarism approach helps stimulate a higher degree of adoption.

However, the voluntarism approach can create difficulties for SER to develop because, first, stakeholders can be inactive by choice (see Freeman & Phillips, 2002). The possibility of inactive stakeholders leads to the central role of companies in SER and the absence of stakeholder pressures on companies to serve stakeholder interests. Since the voluntarism enables companies to choose, the possibilities to direct SER as serving financial legal responsibilities remain. Accordingly, the possibilities lead to the second drawback of voluntarism, i.e. the marginalisation of non-owner stakeholders (see the relations between company interests and stakeholders in e.g. Agle, Mitchell, & Sonnenfeld, 1999; Mithchell, Agel, & Wood, 1997; Jawahar & Mclaughlin, 2001; Scott & Lane, 2000; Driscoll & Starik, 2004).

As an alternative, Gallhofer and Haslam (1997) suggested an interventionist approach to develop concepts of SER. In order to maintain stakeholder involvement, the approach must base the resulting regulations on wide agreements from different groups of the society. Benston (1982) proposed criteria of well-defined standards that can facilitate the wide agreement of different groups of the society in SER issues. The first criterion deals with the ability of standards to provide accepted measures of the issues in question. The second criterion is concerned with the ability of the standards to minimise the manipulation of information. The explanation of the relations between Benston’s criteria and the wide agreement of society is as follows.
As far as SER is concerned, the manipulation of information and the resulting unbalanced view of responsibilities are the issues to address (see Adams, 2004 for the unbalanced view of financial and non-financial responsibilities). Any measure designed to minimise the issue and any indication of reduced level of the issue due to the measure are in harmony with stakeholder interests. SER standards that fulfil these two criteria are standards that reflect wide agreement from different groups of the society.

Benston’s two criteria for well-defined standards require standards to provide both accepted measures and accepted outcome of the measures i.e. minimised manipulation of information. In this way, the criteria are in harmony with the required measure and outcome of the measure above. Therefore, the two criteria that Benston offers assist to facilitate the wide agreement needed in the interventionist approach. In turn, SER concepts based on the adoption of the standards in company SER policies reflect the potentials to improve SER practices for stakeholders. Without the agreement, the concepts indicate the inability to minimise the manipulation of information for maintaining financial support.

National conditions, stakeholders and SER

As described in the previous section, the focus of the interventionist approach is to strengthen the development of SER. However, the development of SER involves decisions that are contingent on national conditions. International stakeholder management, political, social and economic conditions are factors that affect SER development in those nations and represent national conditions (see Belal & Owen, 2007; Belal & Roberts, 2010; Islam & Deegan, 2008; Jamali & Mirshak, 2007; see also
The effects of those factors on the development of SER suggest a contingency relation within the process of adopting SER.

The economic performance of companies can affect national economy. This factor emerges as a recent factor that determines the development of SER (see Gugler & Shi, 2009). This argument is particularly relevant from the standpoint of a nation where its economy development is emerging. However, the focus on the economic performance of companies suggests an unbalanced view on the financial and non-financial responsibilities of companies. Therefore, the focus is in direct contradiction to the generative force of SER, i.e. stakeholder interests based on the social contract between companies and stakeholders. In this situation, a cooperative framework that facilitates the transformation of conceptions becomes necessary. Otherwise, the resulting SER presents an unbalanced view of the responsibilities and results in the manipulation of information that is far from serving accountability to stakeholders.

Overall, market mechanisms and the voluntarism approach of SER open possibilities for participations and new initiatives. However, the same approach hampers SER, because stakeholders can be inactive by choice and thereby, the companies have the central role in deciding SER practices. Returning to their legal relations with shareholders and other financial suppliers, this central role can result in the manipulation of negative and positive information to maintain financial support. When this manipulation remains, non-owner stakeholder interests will be given low priority. The alignment of company resources becomes part of the efforts to serve only the financial responsibility of companies. In this respect, the voluntarism approach introduces negative effects on SER. Therefore, a more interventionist approach can be
an alternative, provided the resulting products reflect wide agreement from the groups of society. Without reflecting the agreement, the approach promotes SER concepts that shy away from stakeholder interests.

Nevertheless, the decisions to develop SER depend on national conditions which, in this doctoral thesis, refer to the national economy of developing nations. A focus on the economic performance of the companies counteracts stakeholder interests in SER. Therefore, a framework of cooperation to moderate the focus is urgently required. Figure 1 depicts the overall conceptual framework of this doctoral thesis.

\[Figure 1\text{ The simplified conceptual framework}\]

\textit{The 1st study - Social and environmental reporting in corporate governance: A positive stance towards accountability to non-owner stakeholders?}

The first study focuses on the achievement of a balanced view of responsibilities through current practices of SER in corporate governance. As a separate study in this doctoral thesis, the study provides an assessment of SER corporate governance practices in companies based on the alignment of resources to support SER corporate governance structures within companies. Separate corporate governance structures for SER and financial reporting indicate the alignment of resources for each reporting purposes. The alignment of resources to support each reporting suggests a balanced practice of responsibilities. Therefore, the emphasis on the balanced view in the study refers to the resource support in the form of SER corporate governance structures for SER as opposed to exclusively for financial reporting.

As an integrated study of this doctoral thesis, the first study investigates the relations between company responsibilities, and company motivation to maintain financial supplies and other stakeholders, i.e. non-owner stakeholders and the alignment
of resources, i.e. Proposition 1. Returning to Figure 1, the balance of company responsibilities has relations to the functioning of security markets and the interests of companies to maintain shareholders and financial suppliers. Accordingly, the first proposition of the thesis is that as financial responsibility is the focal point, the companies align their resources to support shareholder and financial supplier interests.

The alignment of resources to support company interests needs a concept that can provide a way to measure the alignment. The resource-based view of strategy assists to operationalize the alignment. The concept is concerned with the selection of strategies that the companies perceive as suiting the opportunities in their environment when allocating resources (Mahoney, 1995). Hence, the allocation of resources is a response to perceived environmental risks that reflect the company priorities in managing the risks (Amit & Schoemaker, 1993). These priorities create the directions for growth and influence strategies (Tallman, 1991; Mahoney & Pandian, 1992). Strategies thus become the reflections of company priorities.

By detecting the strategies and concluding whether the company strategies are financial or non-financial, it is possible to establish the priorities of responsibilities that the companies have. Therefore, in the study, the resource-based view of strategy that mentioned above functions as a concept that provides a mode to measure the alignment of resources and responsibilities.

The detection of strategy in organisational studies refers to the detection of intended strategy and the actual results of the strategy based on the streams of decisions following the intended strategy (Mintzberg, 1978). The intended strategy is a strategy that a company likes to follow, but the realisation depends on the decisions actually made to implement the strategy. The issue of resource alignment in this first study is
therefore concerned with the substantive support for SER. The measurement of substantive support calls for the need to observe actual results. Therefore, the strategy to align resources is the intended strategy, but the resulting alignment is the actual result of the strategy.

Following the approach of resource-based strategy with intended strategy and the actual result of the strategy as a measure of resource alignment with priorities, the first study uses annual reports as its data source. The use of annual reports to detect intended strategy is similar to the self-typing strategy measurement method (see Snow & Hambrick, 1980). This method of data collection minimises the confusion of the managers regarding company strategy that direct surveys normally experience. Therefore, the intended strategy in a report is the formally agreed intended strategy in a company.

Since strategy includes qualitative data, the strategy data collected for the first study is in the form of company strategy statements. The data collection for these statements is relatively straightforward, because most companies state their strategy clearly in their annual reports. Only in few cases, the reports present statements with different levels of clarity as to the strategy. Furthermore, the classification of financially-oriented strategy and non-financially oriented strategy is based on a common understanding about the classifications of strategy as in the balanced scorecard strategy, which differentiates financial from non-financial strategies of performance (see specifically Kaplan & Norton, 2000).

The scorecard commonly integrates financial and non-financial performance targets. The corporate managements use these targets to formulate company strategy (see specifically Kaplan & Norton, 1996). As the concept prescribes
that the resulting strategy reflects the related financial and non-financial targets, the concept offers a convenient way of identifying a company’s priorities to financial and non-financial responsibilities. In the first study of this doctoral thesis, the identification of companies with financial strategies or mixed strategies, i.e. financial and non-financial strategies, is a part of resource alignment analyses in the context of SER. Therefore, the use of concept in the study only serves the purpose of classifying company strategies.

To the extent that the strategy data consists of qualitative data in the reports that the companies routinely produce, the perspective of the data collection method is similar to the data collection method used for financial statements. To the extent that the data requires some classification based on a common concept, the data collection method uses the content analysis method. The use of the strategy data is to test hypotheses in relation to other variables. In some cases, the data can be found from surveys. However, managers often have different or limited perspectives on company strategies (Snow & Hambrick, 1980). The results of the survey will present strategy data that are unmanageably different in clarity. Therefore, the use of report analyses in the study is to minimise the possibilities of different levels of data clarity (see Krippendorff, 2004, p. 96).

The result of the strategies is the alignment of resources with company responsibilities. In order to detect the alignment of resources to non-financial and financial responsibilities, the related corporate governance must have different structures to serve SER and financial reporting (FR). This is where stakeholder-oriented committees at board level play an important role. These committees represent specific corporate governance structures for SER (Luoma & Goodstein, 1999). The links
between the company priorities of responsibilities and the aligned corporate governance resources determine the alignment of resources.

In the case where the regulators have already determined the orientation of corporate governance for financial reporting, the alignment to non-financial interests still includes the structures. However, in this case, the strategy of companies plays an unimportant role compared to the regulations that determine the directions of corporate governance. Therefore, the alignment of resources to detect balanced responsibilities is no longer between the company strategies and the corporate governance resources, but between the regulations and the corporate governance resources.

The purpose of the first study is to assess the alignment of resources that support SER as to company financial and non-financial responsibilities. The study integrates the test of difference to evaluate any difference that stems from aligning resources for SER in companies that prioritise their financial responsibility and in those that mix their priorities. The test of difference assists to conclude whether the companies that have mixed priorities have a different behaviour than those that prioritise their financial responsibility. If no difference in behaviour can be found, it supports Proposition 1, i.e. the alignment of resources as to financial responsibility.

This first study is based on quantitative method as it serves as an exploratory study to explore the general practices of resource alignment in companies as to SER. Once the practices of resource alignment as to SER revealed, future studies should attempt to present more of the reason for alignment or misalignment by gaining insights into management perspectives with a view to add understanding of the practices. Therefore, an alternative qualitative method that includes semi-structured interviews is a promising method to pursue in future studies of SER.
In the first study included in this doctoral thesis, the control variables, reputation and company size, refer to the intention to maintain support and the ability to adopt sophisticated corporate governance. The inclusion of reputation of a control variable suits the conceptual framework of SER in security markets in which the companies attempt to maintain support from the stakeholders with shareholders and financial suppliers as the focus of attention (see Figure 1).

The 2nd study – Issues of audit committee ‘knowledge and experience’ in social and environmental reporting assurance

As a separate study, the second study provides evidence of the ability of current corporate governance structures to support social and environmental reporting assurance (SERA). Evidence of the ability indicates that SERA as a process behind SER is a structured process which provides independent assurance for a third party. The ability of current corporate governance structures to support SERA reflects the alignment of resources to support SERA. Therefore, as an integrated study of this doctoral thesis, the study assists to establish whether the companies align their resources to support the processes behind SER, i.e. Proposition 1.

In this second study, the support for SERA focuses on the ability of audit committee members to monitor assuror independence. In the study, the ‘knowledge and experience’ of the audit committee members are the proxies of the audit committee members’ potentials to monitor assuror independence. The actual act of maintaining assuror independence is the proxy of the ability to monitor assuror independence. Assessing knowledge and experience based on the actual acts of the subjects researched is a common approach in prior studies of accounting (see e.g. Abbott, Park, & Parker,
In the study, the ‘knowledge and experience’ of audit committee members refers to the accounting and finance ‘knowledge and experience’ of those members. Accounting ‘knowledge and experience’ is further divisible into experience and knowledge in financial reporting and auditing (see, e.g. McMullen & Raghunandan, 1996; Krishnain & Visvanathan, 2008; DeZoort, Hermanson, & Houston, 2008). These categories of knowledge and experience are reportedly linked to the ability of the boards to conduct their duties.

The ‘knowledge and experience’ of audit committee members originally stemmed from financial reporting and financial statement auditing. Hence, the ‘knowledge and experience’ presents the alignment of resources to support financial reporting and auditing. However, knowledge and experience can adjust to new needs (Swanson, 2001; see also Dane, 2010). The adjustments will reflect the alignment of resources to monitor assuror independence in SERA. A lack of adjustment will indicate that the monitoring duty directed at financial statement auditing receives more support than SERA. The lack of support to monitor the general independence suggests that the focus is on financial statement auditing and the alignment of resources to support the auditing (see Williamson, 2000 for the basic concept of alignment).

In this study, assuror independence represents two types of independence. The first type of independence is the general independence of assurors to resist pressures from companies. The use of the term general independence refers to the shared understanding of the independence necessary for external assurors and auditors to remain independent regardless of the context of reporting. The second type of
independence is the specific independence of assurors that gives these assurors the ability to involve stakeholders in SERA. The adoption of the term specific independence refers to the specific role of stakeholder involvement to allow stakeholders to verify the processes of SER as efforts to minimise managerial capture (Laufer, 2003; Adams & Evans, 2004; O’Dwyer & Owen, 2005). These two types of independence present the assuror independence that is necessary to maintain in SERA.

The general assuror independence shares a similar definition of independence of auditors with respect to financial statement auditing. The common proxy to measure auditor independence in financial reporting is the decision that an auditor generates under the effects of incentives from companies, such as the effects of non-audit service fees and initial audit fees on auditor independence (see e.g. DeAngelo, 1981; Craswell, Stokes, & Laughton, 2002; Pany & Reckers, 1983; Simunic, 1984; Kinney Jr., Palmrose, & Scholz, 2004). The proxy is a behavioural proxy that refers to the final acts of the auditors.

However, the assurors of SERA vary from accountant assurors to individual consultants. The assessment of general independence that is similar to that in financial reporting is applicable only to accountant assurors. No legal framework has been set up for the independence of the other assurors. Their behaviour is independent from any legal framework that the accountant assurors have in financial reporting. Therefore, the assessment of the behaviour of assurors is hampered by the fact that the legal role of the two types of assurors do not operate under the same conditions. Therefore, the proxy of general assuror independence monitoring is the involvement of accountant assurors in SERA instead of the behaviour of the assurors in SERA.
The specific assuror independence refers to the ability of assurors to involve stakeholders in SERA. This type of independence suggests the independence in programming SERA. Since this independence specifically leads to stakeholder involvement, the involvement of stakeholders in SER processes is, in itself, the proxy of the independence. Data regarding stakeholder involvement in SERA is available as a part of the assurance procedures in the assurance statement section. In the case of consultant assurors, the processes of SERA are often unclear even though assurance statements are available. Therefore, most of the cases of unclear procedures in the study refer to consultant assurors.

This second study is based on tests of relations between the expertise of audit committee members and the monitoring of assuror independence as a proxy of the capability of those members to exercise their expertise in SER. These tests provide evidence on the possible expertise alignment in the context of SERA. When the expertise of audit committee members does not enable these members to monitor assuror independence in SERA, the compositions of the expertise in the committee are in alignment with their traditional monitoring duty, i.e. auditor independence in financial statement auditing. Since audit committees are resources in companies, findings from the tests assist to decide whether the first proposition is supported.

In this study, additional insights into the management perspectives of the committees’ centrality in SERA are gathered through an interview with one of the companies studied. The interview provides deeper understanding about why the alignment of resources as conjectured in Proposition 1 is supported or not. Therefore, the interview serves as a triangulation of findings to reveal more meaning of the quantitative-based results.
The control variables in this study are audit committee independence, company size and information intermediaries. Prior studies of audit committees have concluded that audit committee independence supports the effectiveness of these committees in conducting their duties (see e.g. Collier & Gregory, 1999; Carcello & Neal, 2003). Additionally, the independence gives the committees power to protect assurors from dismissal (see Carcello & Neal, 2003 for this relation in the context of financial reporting). The protection of assurors is the performance of audit committees. Performance is the basic element in human resource processes (Swanson, 1995, 2001). The monitoring of assuror independence by audit committee members based on their ‘knowledge and experience’ determines the performance of these audit committees. Therefore, audit committee independence is a part of the human resource processes attributable to relations between ‘knowledge and experience’, and assuror independence.

In the case of audit committees, company size has effects on the regular activities of these committees (Collier & Gregory, 1999). Company size also has positive effects on the sophistication of corporate governance practices such as the compliance with codes and the structures of the boards. Therefore, company size indicates the economic capture of resources, i.e. knowledge and experience, to meet productivity (Swanson, 2001, p. 304).

As a control variable, information intermediaries present pressures from the security markets, because the companies listed in SRI indices and rating agencies are more exposed to market mechanisms. Although SRI shareholders have both financial and non-financial interests, their position in the market as financial (capital) suppliers triggers the same market mechanisms as experienced by shareholders without
SRI interests. Therefore, the responses to SRI shareholders tend to be the same as the responses to regular shareholders. In the main conceptual framework (Figure 1), the SRI shareholders are placed in the same box with the regular shareholders to reflect the equal positions of this group of stakeholders.

The 3rd study – Social and environmental reporting corporate governance policies of Fortune 500 Global companies

The third study discusses SER inputs that the companies establish in the context of an interventionist approach of SER. Under the approach, the regulators play the central role of regulating SER having the wide agreement from the society as the base of the regulation (see Gallhofer & Haslam, 1997; see also Nicholls, 2010). Inputs may come from numerous sources during the process of setting up the regulatory framework. However, the possibility of favouring inputs from companies is high because the regulators seek support from the companies (Puxty, Willmot, Copper et al., 1987, p. 284). Therefore, if inputs from the companies are to enter the considerations of the regulators, these inputs should offer merits to stakeholders. Otherwise, the resulting regulation is likely to under-serve stakeholder interests. The results of the third study are assessments of the merits of SER inputs from companies. Therefore, the study tests the second proposition, i.e. inputs from companies to regulators about SER corporate governance will support their financial responsibilities instead of the balanced view of company responsibilities. In the study, the term SER inputs refer to company SER corporate governance policies. These policies determine the CSR standards in adoption. Benston (1982) proposed criteria of well-defined standards. The company policies determine the adoption of the standards, and when the adoption of CSR standards demonstrates merits, the merits are attributable to the policies.
The proxy of standards involves standards from supranational bodies such as the UN and EU. It also integrates standards from NGOs such as AA1000 and GRI G3 with its supplements. Industrial standards are standards followed by related business associations, such as the Equator Principles for the banking industry. These divisions of standards assist to differentiate the regulators of standards and detect the resulting effects of the standards on creating merits for stakeholders.

The merits of standards involve two different proxies. The first proxy is SER corporate governance structures. In the study, the adoption of SER corporate governance structures is used as a proxy of SER organisational measure. In the case of SER, the adoption of CSR standards introduces the issues of monitoring and controlling the implementation. The corporate governance drives the monitoring and control functions inside companies. Therefore, SER corporate governance should be the proxy of the organisational measure that the adoption of standards instigates.

However, the organisational measure provides a merit only when the measure is widely accepted. The concept of structural legitimacy in the study provides a mode to assess whether there is a potential for wide agreement among stakeholders. The concept assumes that the stakeholders perceive a company as a good company based on the appropriateness of the structures established to address the related issue (Suchman, 1995, p. 581). In the context of SER, the adoption of CSR standards should instigate SER corporate governance. Therefore, the wide agreement of stakeholders should be assessable from examining the existence of SER corporate governance structures.

The second proxy of the merits of standards is the outcome of SER corporate governance structures originating from adopting CSR standards. The outcome is the outcome of organisational measure from adopting CSR standards because the
SER corporate governance structures that instigate the outcome are the structures that accompany the adoption of the standards. The second merit of adopting standards is minimised manipulation of information. Therefore, this second proxy should point to minimised manipulation of information.

This third study incorporates three control variables. The first control variable is stakeholder pressure. The term stakeholder pressure refers to non-owner stakeholder pressures. The term refers only to non-owner stakeholder pressures because the other group of stakeholders, i.e. shareholders and financial suppliers, use services from information intermediaries to collect information about companies (Healy & Palepu, 2001).

Non-owner stakeholders have limited access to information intermediaries. However, their control of resources creates social contract with companies. The companies attempt to maintain relations with these stakeholders by presenting information that is otherwise private to companies. However, when concerns about the information arise, intermediaries between stakeholders and companies become important. SERA introduces assurors to function as intermediaries between the stakeholders and the companies. Since the introduction of SER is the result of the companies’ actions to maintain relations with stakeholders, SERA represents stakeholder pressures.

The third study incorporates the tests of directional relations between the adoptions of CSR accounting standards, the accompanying organisational measures, i.e. corporate governance structures and the resulting potential of minimised manipulation of information. Results from the tests provide evidence of the merits of the adoptions for stakeholders other than shareholders and financial suppliers. The adoptions of
standards are the result of company policies. Furthermore, these policies in effect constitute inputs that companies can possibly formulate. Therefore, findings from this study assist to decide whether the second proposition, i.e. inputs from companies to regulators will support their financial responsibility, is supported.

The third study is based on quantitative method because the study is an exploratory study to examine general inputs from companies as to their current policies and practices. It would be possible to provide additional insights into management perspective towards their own policies using interviews. The interviews could assist to present deep understanding about their choices and considerations in policy-making. As such, special streams of studies that examine management perspective can add to current understanding about SER policy-making at company level.

The second control variable is market pressures. The proxy of market pressures is information intermediaries, i.e. SRI indices and rating agencies. These intermediaries expose companies to SRI markets (see Figure 1). Companies offer SER corporate governance as an internal administrative alternative to the courts (Williamson, 2005). Therefore, these intermediaries create pressure on the companies and represent market pressures. The third control variable in the study is company size. The reason to adopt company size as a control variable is similar to the adoption of company size in the other two studies.

*The 4th study – Building a framework of global cooperation beyond the economic performance of companies in developing nations*

The fourth study analyses the emerging generative force of SER development that creates its base on the economic performance of companies. As depicted in Figure 1, the responsibilities of companies include financial as well as non-
financial responsibilities. The presence of these two different responsibilities demands equal care from the companies to maintain a balanced view of these responsibilities. However, the translation of a balanced view is the equal commitment to address accountability issues related to both responsibilities. It does not refer to equalised income from financial activities and expense for social and environmental programmes, because the companies are, after all, profit-oriented organisations. The equalised income and expense suggest that companies should turn to be non-profit organisations. Therefore, the balanced view of responsibilities rather refers to a balanced commitment to address accountability issues for both responsibilities than to equalised income and expense issues.

The generative force of SER development based on the economic performance of companies suggests the income and expense balance with concerns about income lost due to SER and its underlying CSR. Taken further into market mechanisms, the financially oriented generative force will stimulate the companies to manage negative and positive information to maintain support from shareholders and financial suppliers (see e.g. Cormier & Gordon, 2001; Cormier & Magnan, 2003; Coupland, 2006). The companies will offer SER corporate governance based on market pressures. When the offered safeguard structurally exists but is substantially diverted from stakeholder interests, the result is SER as a tool of managerial capture. Therefore, the economic performance of the companies should be transformed into a more balanced view of the generative forces that includes stakeholder interests without subduing the importance of national economy in developing nations.

Transforming the generative force of SER development demands an approach that allows the economic performance of the companies to be negotiated
through a series of processes. The sociological approach to culture provides the basic framework to transform the generative forces. The approach assumes that capacities can be found in the culture that will enable the construction of strategies of action (Swidler, 1986). The strategies are general strategies because they refer to a chain of actions that begins with prior links such as habits, moods, sensibilities and perspective towards the world (Jepperson & Swidler, 1994, p. 364; Swidler, 1986, p. 277). The strategies are the result, while habits, moods, sensibilities and perspective towards the world are the links of conditions attached to the strategies. In this approach, the role of culture is as a tool that affects the organisation and shapes of those links (Swidler, 1986). Therefore, culture is a capacity provider tool.

As a tool that provides capacity to strategies of actions, culture becomes an empty space that individuals or entities must occupy to make changes. The process of occupying the space opens another space for individuals or entities to find, to elaborate and to transform the values of culture when formulating their strategies of action. Therefore, additional explanatory concepts should enter into the basic framework of the sociological approach to culture.

The concept of the history of subjectivity described by Foucault (1997) enters the framework as a concept explaining how individuals or entities classify the historical values of culture to find the values of right and wrong. The elaboration of the values demands that the individuals or entities liberate themselves from the repression of the values that they find. The ability to liberate one-self reflects the technology of the self, a concept that Foucault (1997) introduces as an advancement of the history of subjectivity that classifies values in historical relations.
While Foucault’s concepts assist to explicate the process of finding and elaborating the values of culture to enable a chain of actions, the framework needs an explanatory concept to transform the conceptions. The concept of empty signifiers from Laclau fills the need. The concept presents a process where the homogeneous particulars form the universal (Laclau 1989, 1992, 2001, n.d./2000). However, to extend their influences, the universal needs the participation of other heterogeneous particulars. In the process, the universal must accept the consequences that the universality of its conception becomes more heterogeneous. The result is the cooperation between the universal and the particulars to transform conceptions.

The study adopts the sociological approach to culture based on history of subjectivity within the search of technology of the self from Foucault, and the concept of empty signifiers as media of exchange from Laclau. The result of this approach is a framework of cooperation that addresses the need to mediate the differences and allows the transformation of conceptions of SER.

The study integrates a case study to present the implementation of the framework. The purpose to implement the framework in a case study is to demonstrate the operability of the framework for analytical study of SER based on the sociological approach to culture. The framework requires the need to investigate moods and sensibilities of the social actors. As moods and sensibilities are abstract data attached to the social actors, the interview with one of the officials who have deep involvement in the development of SER in the nation studied serves to provide the data. As the study provides the framework for analytical analyses and questions items based on the sociological approach to culture, future studies can take the alternative methods of data collection such as surveys through written questionnaires.
The next four chapters present each of the four studies mentioned above. As mentioned previously, each of the studies is a separate study, but together, they address the main research question of the thesis, i.e. why SER fails to direct the course and contents of the resulting reports towards the stakeholders.

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Figure 1: The simplified conceptual framework

National Conditions

Stakeholders of companies
- Non-owner stakeholders
- Shareholders & Financial suppliers With and without SRI interests

Information intermediaries

Independent assurors of SERA

Corporate governance structures
- Monitoring & control
  - SER
  - FR

Company reporting policies
- reporting standards

Non-financial responsibility
- Company
  - Social & environmental information

Financial responsibility
- Financial information

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Chapter 1

Social and environmental reporting in corporate governance: A positive stance towards accountability to non-owner stakeholders?
Social and Environmental Reporting in Corporate Governance: A Positive Stance towards Accountability to Non-Owner Stakeholders?

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Abstract

The purpose of this study is to examine whether the structures of current corporate governance are supporting a balanced view of companies’ responsibilities not only to shareholders and other financial suppliers, that is, capital suppliers, but also to non-owner stakeholders. The study adopts the theory of governance based on transaction costs theory to set out the offering of governance as demanded by company financial responsibility. The theory of governance embraces agency theory when describing relations between companies and shareholders and other financial suppliers. The concept of libertarian stakeholder theory modifies the theory of governance to facilitate the offering of governance for non-financial responsibility. The resource-based view of strategy assists to define the proxy of company priorities. The results of non-parametric tests suggest discord in the relations for companies that have recognised both financial and non-financial responsibilities and for those that operate under stakeholder-oriented corporate governance. Furthermore, actual corporate governance structures at companies that recognise only financial responsibility and those at companies with shareholder-oriented corporate governance suggest the maintenance of financial supplies rather than the serving of non-financial responsibility. These results suggest a limited possibility of achieving a balanced view of companies’ responsibilities in current corporate governance practices and thus, accountability to non-owner stakeholders. The study ends with suggestions to investigate choices that the management of companies make as contingent to vast different variables and as stewardship choices.

Key words: Social and environmental reporting, corporate governance, accountability to non-owner stakeholders, legal and social contracts, orchestration of resources, market governance, corporate law.

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1. Introduction

The quality of social and environmental reporting (SER) is disputed\(^1\). Prior studies suggest discrepancies between reported information and companies’ actual performance (see e.g. Deegan & Rankin, 1996; O’Donovan, 2002; Mobus, 2005; Ogden & Clarke, 2005; Cho & Patten, 2007; Gibson & O’Donovan, 2007; Vanhamme & Grobben, 2009). The discrepancies suggest that companies have problems providing transparency and presenting a balanced view of their financial, social, and environmental responsibilities (Adams, 2004, p.732). Therefore, the quality problems relate to the lack of transparency and the uncertainty as to whether a balanced view of responsibilities is actually presented. Nevertheless, more companies publish stand-alone social and environmental reports. Fortune Global (FG) companies increasingly publish the reports (KPMG, 2005, 2008). This increase underlines the urgency to address problems of transparency and a balanced view of responsibilities.

I contend that corporate governance is a potential instrument that may enable higher quality in SER, that is, a balanced view of companies’ responsibilities because corporate governance generally integrates internal structures to monitor a reporting process (see e.g. Turnbull, 1997; Brown, Steen, & Foreman, 2009). The monitoring role of corporate governance may serve to manage conflicting interests in exercising financial, social, and environmental responsibilities. The idea concerning the relation between the increasing pressures to deliver non-financial responsibility, i.e. corporate social responsibility (CSR), and the need to manage the reporting process (see specifically Kolk & Pinkse, 2010 for the recent discussion about the relation between CSR and SER corporate governance).

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\(^1\) I use SER as a term that represents a reporting process for social and environmental practices within companies. Similar use of the term can be found in Gray, Kouhy, & Lavers (1995), and Friedman and Miles (2001).
Even though efforts to position SER in corporate governance are being made, the current efforts have debatable efficacy of accountability to stakeholders (Unerman & O’Dwyer, 2007). A detailed evaluation of voluntary regulations on SER in the UK indicates little value of current regulations for accountability to stakeholders (Cooper & Owen, 2007). Those regulations have separated administrative reforms from institutional reforms of SER.

In Cooper and Owen (2007), administrative reforms refer to the requirement of presenting social and environmental reports. The institutional reforms refer to internal processes that recognise stakeholders other than shareholders and financial suppliers. The separation of the two reforms can lead to more social and environmental reports with accountability to shareholders rather than to other stakeholders. The regulations investigated in Cooper and Owen (2007) present efforts to reform corporate governance but with debatable substance to advocate the recognition of other stakeholders.

At a company level, companies reportedly have integrated corporate governance structures to monitor SER (see specifically Kolk, 2008). The structures vary from board committees to functions under management level. The presence of these structures suggests efforts by companies to position SER in corporate governance. However, whether the corporate governance structures that result from positioning SER in corporate governance eventually lead to a higher quality of SER needs further evidence. Given the present limited evidence, I foresee a strong need for further evaluation aimed at positioning SER in corporate governance.

In this paper, I attempt to evaluate the difference between current structures of corporate governance reportedly practiced for SER with a view to improve
the presentation of companies’ social and environmental responsibilities besides their financial responsibility. By positioning SER in corporate governance, social and environmental reports should present only practices that companies have conducted. The reports should present proven impacts and thereby, a balanced view of companies’ responsibilities depends on reliable monitoring activities of SER.

Cooper and Owen (2007) have expressed concerns for substance over form in corporate governance. Unsynchronised corporate governance reforms aimed at serving stakeholders provide little support of accountability to stakeholders. This issue of substance over form is possible at a company level. Corporate governance structures to monitor SER may exist but only as forms to monitor SER. As in Cooper and Owen (2007), the substance of the corporate governance structures should be the intention they serve. Links between the structures and the accountability intentions they serve are the substance of corporate governance.

In order to examine whether corporate governance monitoring activities can support an increased incentive to serve the intentions that companies state, I test links between corporate governance structures and the priorities of companies to serve shareholders and other financial suppliers as well as non-owner stakeholders. In general, corporate governance structures and stated priorities to non-owner stakeholders should be aligned. Unaligned links present discord between stated priorities and monitoring activities. Companies will have an unclear perspective on what to monitor and what to be accountable for. Ultimately, their social and environmental reports remain of limited value to non-owner stakeholders.

2 Throughout this paper, stakeholder-oriented companies refer to non-owner stakeholder-oriented companies. Special types of non-owner stakeholders are employees. Employees can have stock options. However, they have demands other than financial demands (e.g., safety and health). For this reason, employees are only partly non-owner stakeholders.
Two issues conceptually affect the alignment of those links. The first issue is the effect of legal versus social contracts on the orchestration of resources and costs of governance. Different contractual relations should lead to different objectives to orchestrate resources. Hypothetically, companies with priority on shareholders and other financial suppliers may avoid establishing additional corporate governance structures to oversee their SER. The main concern of these companies is their legal duty to shareholders and other financial suppliers. The priority of their resources is to enable reliable processes for reporting to shareholders. The bases of the hypotheses development are the theory of economics of governance by Williamson with a further modification of the framework of governance by Freeman and Evans. Both theories describe relations between corporate governance, costs of governance, and objectives of firms. However, Freeman and Evans introduce libertarian stakeholder theory to integrate the offering of governance to non-owner stakeholders. In my study, the theory assists to reveal the potential to support companies’ social and environmental responsibilities through current corporate governance practices.

The second issue involves market governance and corporate law. Companies that consider the market for corporate control may overlook the importance of having additional corporate governance structures to oversee their SER. Companies faced by impatient capital and distributed shareholders presumably will concentrate on sending positive signals to the market. The concept of market governance and corporate governance by Williamson serves as the main concept for this hypothetical link. In the concept, when market governance functions well, companies offer corporate governance to reduce shareholders’ perceived costs of not having access to financial activities in companies. Therefore, these types of companies traditionally have
shareholder-oriented corporate governance structures to oversee their financial reporting.

Another possibility may occur when market for corporate control is not a major feature of market governance. In this condition, companies may depend on corporate law. Companies that have to establish shareholder-oriented corporate governance structures for their financial reporting should recognise their contracts with non-owner stakeholders. These companies have recognised stakes that non-owner stakeholders have. Thus, these companies should establish special corporate governance structures to oversee their SER instead of the voluntary nature of SER in corporate governance. The libertarian concept of the representation of stakeholders and the voluntary nature of corporate governance to monitor SER determines the possibilities and willingness to recognise non-owner stakeholders.

In this study, I incorporate the transaction costs concept as appears in the theory of governance by Williamson (2002) to describe the traditional view of doing business to fulfil a company financial responsibility under legal contract. The agency concept of the governance theory assists to explicate relations between non-owner stakeholders and companies where companies are the user of resources that non-owner stakeholders have and thereby, have accountability obligation to the stakeholders under social contract. The adoption of libertarian stakeholder theory by Freeman and Evans allows discussion about how non-owner stakeholders and their social contract relations with companies can fit into the governance framework and SER corporate governance. Therefore, the libertarian stakeholder theory assists to modify governance relations between companies and non-owner stakeholders under the governance framework.
While the resulting modified framework assists to argue how companies will and why they should create SER corporate governance structures, the analyses of the extent to which the structures support SER to meet the accountability to stakeholders depend on the resource alignment concept by Williamson (2000). The concept presents the foundation of aligning company resources with the orientation of the company. The purpose of the alignment is to formulate effective resource allocations to reach the objectives of the company. The concept of resource-based view of strategy is the base of looking into a company strategy to detect the orientation of the company.

The results of non-parametric tests on data collected from the first half of Fortune Global (FG) 500 companies indicate efforts to position SER in corporate governance. However, this positioning offers little substance to support a balanced view of companies’ responsibilities. The finding suggests that in the case of shareholder-oriented companies, the objective to have separate structures to monitor SER is to maintain financial supplies. For these companies, resources are orchestrated to monitor financial reporting with SER as an added reporting to maintain financial supplies. In the case of stakeholder-oriented companies, the finding introduces a reservation about substance over form because the corporate governance of these companies is unitary, that is, consists of one structure, for financial reporting and SER. The implication of this finding is that the corporate governance structures are in discord with the mixed priorities. These results challenge the efficacy of current corporate governance structures to improve SER and accountability to stakeholders.

Prior to the hypotheses development, I present a literature review on corporate governance and reporting processes. This literature review introduces the
constructs of relating corporate governance to reporting processes. In the subsequent methodology section, I provide information on the FG 500 sample companies and details of measurements. I summarise and conclude the findings in the final section.

2. Literature review and hypotheses development

2.1 Corporate governance and corporate reporting

Early discussions about corporate governance view corporate governance as an instrument to align the managers’ interests with those of the owners. Rooted in the separation of ownership and control, governance provides the owners with control to safeguard their interests (see Berle & Means, 1932). This control is in demand due to questionable permeability of employees to serve employers’ interests as quoted from Adam Smith by Jensen and Meckling in their 1976 study. Agency theory with agency costs as the central topic suggests necessary efforts to control these conflicting interests (see Jensen & Meckling, 1976). Corporate governance is an instrument to control these conflicting interests.

Since then, the management of conflicting interests between owners and managers has been a common focus in corporate governance studies. For instance, Niehaus (1989), Beasley (1996), Peel & Clatworthy (2001), Dong-Sung and Kim (2007), and Lara, Osma, and Penalva (2007) studied the roles of boards of directors and ownership structures in managing conflicts of interests and dysfunctional behaviour in financial reporting. Baber, Kang, and Kumar (1999), Boschen, Duru, Gordon, et al., (2003), Qiang & Farber (2008), and Laux and Laux (2009) studied relations between compensation schemes and companies’ performance. These studies present empirical evidence as well as discussions about corporate governance as an instrument to align those conflicting interests.
Other studies present an extended role of corporate governance resulting from reforms to improve the reporting process. Prior research of corporate governance has adopted this extended concept (see e.g. Abraham & Cox, 2005; Bassett, Koh, & Tutticci, 2007; Hoitash, Hoitash, & Bedard, 2009; Mattingly, Harrast, & Olsen, 2009). Corporate governance frameworks have included activities of internal control for risk disclosures (see specifically Solomon, Solomon, Norton, et al., 2000). This relation between corporate governance and internal control is a part of corporate governance reforms implemented to reduce risks and to control risk disclosures. In this respect, corporate governance is an instrument to monitor the reporting process and its internal control. I adopt this understanding of corporate governance to refer to corporate governance for SER and use it throughout this paper.

However, more relations exist between corporate governance, reporting and the information produced. Sloan (2001) presented interdependent relations between corporate governance, reporting, and accounting information. Sloan established the relations between corporate governance and financial reporting through the production of strictly controlled financial accounting information. Parker (2007, p. 41) explained Sloan’s argument as an argument that positions financial accounting information as the main factor of corporate governance mechanisms to function and as the product of corporate governance itself (see also Bushman & Smith, 2001 on the role of financial information in corporate governance processes).

reporting process. Nevertheless, both arguments have extended the role of corporate governance to reporting. The next discussions connect corporate governance to SER.

2.2 Contractual relations, the orchestration of resources, and cost of governance

Previously, I have referred to corporate governance as an instrument to monitor a reporting process. This definition of corporate governance suggests that corporate governance must have its objectives in alignment with the objectives of a reporting process. In the case of financial reporting, corporate governance serves to maintain the financial supply and subsequently safeguards the interests of shareholders and other financial suppliers.

Williamson has presented the alignment well by incorporating the concept of transaction cost economics into the economics of governance (see Williamson, 2005). Figure 1 depicts the overall modes of governance adopted from Williamson (2002). The modes of governance in Figure 1 present alternatives of governance when companies attempt to maintain financial supply and deliver their financial responsibility.

[Figure 1 Modes of Governance]

The figure has its origin from the works of Williamson dating back to 1963. Supports of the figure are traceable to Williamson (1973, 1979, 1981, 1983, 1988, 1991, 1998, 1999, 2000), and Williamson, Wachter, and Harris (1975). In the early works, Williamson established arguments about market mechanisms that govern companies. Arguments about internal mechanisms, that is, corporate governance, are formulated in the later works. All arguments are based on assumptions that transactions are coordinated by both market and companies (see in Coase, 1937, 1988). When market governance is not functioning, corporate governance is an out-of-market
solution to reduce transaction costs. Alternatively, market governance may function, but establishing corporate governance is perceived as a mode to maintain stronger relations with shareholders and other financial suppliers and thereby, to reduce transaction costs.

In general, arguments about the modes of governance in Figure 1 rely on contractual relations between parties, specificity of technology ($k$), safeguards ($s$), and frequency. For any transactions to exist, claims (contracts) on resources must be recognisable. The most recognisable claims are those of shareholders and other financial suppliers on the companies’ resources. Their claims on the companies’ resources are under legal protection due to their financial investment (Healy & Palepu, 2001).

Shareholders and other financial suppliers have legal claims on the companies and consequently, the companies must serve their interests that are primarily financially related claims stemming from transactions meant to generate financial outcomes from invested capital. Unfortunately, the opportunistic behaviour of company management may potentially undermine these interests (Williamson, 2002) and different modes of governance have consequently been created to protect these interests. The suitability of the choice of governance depends on the attributes of the transactions.

Williamson (2002) stated that the attributes of transactions include the specificity of technology ($k$), safeguards ($s$), and frequency. The ease to re-allocate technology ($k$), in this case, financial supply, the presence or absence of safeguards ($s$), and the recurring nature of a transaction determine choices of governance. For instance, when financial supplies ($k$) have ties to specific criteria, re-allocation becomes difficult. The presence of safeguards, that is, corporate governance, provides some assurance from companies to maintain relations with the suppliers. Coherence between these
attributes suggests the alignment between the objective of governance and the subsequent choice of governance.

In this paper, I particularly entertain the notion by Williamson (2005) that it is impossible to have satisfying governance even for legally protected claims, that is, claims arising from financial supply. Shareholders, other financial suppliers, and companies often settle disputes internally rather than through market or legal institutions. More satisfying results for all parties are the main reason for this out-of-court action (see specifically Williamson, 2005).

Out-of-court settlements can take the form of aligned interests and administrative internal governance. Managers signal alignment of their interests with those of shareholders and other financial suppliers in order to avoid divestment. Management of resources for financially related transactions is orchestrated to enable reliable processes of reporting to shareholders and other financial suppliers. The administrative integration under the name of corporate governance is implemented in order to ensure the alignment of interests.

For companies that prioritise shareholders and other financial suppliers, their attributes of transactions are related to financial matters. Their management focuses on financial resources and strives to facilitate a reliable financial reporting process where the internal administrative governance is concentrated on serving the purpose. Williamson (2000) discussed this alignment of transactions, resources, and corporate governance under the second and third order economising themes. The implication is that transactions between companies and non-owner stakeholders are of low priority, that is, companies, shareholders, and other financial suppliers see these transactions as a burden. The companies may object to incur further cost of governance
for these low priority transactions such as setting up additional unique structures of corporate governance to monitor SER. Therefore, in the first hypothesis, I conjecture that

**H1a.** For companies with financial resources as their main priority, the structures of corporate governance for SER are not different from the structures of corporate governance for financial reporting.

In the case of non-owner stakeholders, the base of claims on company resources is more often perceived. These perceived claims exist due to limited legal power of non-owner stakeholders (Mitchell, Agle, & Woods, 1997; Agle, Mitchell, Sonnenfeld, 1999). Consequently, transactions between non-owner stakeholders and companies are flexible in nature. Social contracts rather than legal contracts present the flexible nature of the transactions. The flexible nature of transactions leaves the companies as the principal of transactions. Companies may choose to be responsible mainly to shareholders and other financial suppliers, or to selected non-owner stakeholders (see Jensen, 2002).

The flexible nature of transactions between companies and non-owner stakeholders is the result of the lack of regard for these stakeholders in current legal and economic systems. Freeman and Evans (1990) provided an alternative framework to accommodate companies with financial and non-financial priorities. They argued that stakeholders normatively have the right to exercise their property rights and thus, incur the transaction costs of corporate governance. They also argued that stakeholders conceptually have the privilege to exercise greater pressure on companies than shareholders do³. The number of stakeholders can be greater than the number of

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³ This broad definition of stakeholders is normally narrowed in studies of stakeholder identification to recognise further differences in stakeholders’ ability to affect the companies through the recognition of
shareholders and thereby, the aggregate pressure of stakeholders can conceptually greater than that of shareholders. The implication is that stakeholders must take active roles to create significant pressures on companies. Therefore, although denial or ignorance to exercise the pressure may exist, Freeman and Evans argue that non-owner stakeholders will not be dormant. These stakeholders will exercise their rights and put pressures on corporate governance structures.

The belief that stakeholders will exercise their rights and put pressures on corporate governance structures is a part of the libertarian concept of stakeholder theory (see in particular Freeman & Philips, 2002). Under the concept, companies have choices. For instance, companies may choose to fully externalise, partly externalise, or internally bear the costs of governance. Freeman and Evans (1990) suggested that companies would choose to incur some costs of governance rather than expose their operations totally to market governance. The reason for that choice is the possibility to control governance costs. This cost control is possible through cost sharing with stakeholders. The cost control suggests that companies will share costs of governance with stakeholders represented in the corporate governance structures. Thus, under this argument, the design of SER in corporate governance should enable the representation of non-owner stakeholders in corporate governance structures.

To enable the representation of non-owner stakeholders, companies should choose to have separate structures of corporate governance for their SER. The basic reason is the claim status of non-owner stakeholders. These stakeholders have little claim on companies compared to shareholders and other financial suppliers within the legal and economic systems. Positioning SER in the care of corporate governance for their property rights. However, the two definitions do not contradict each other. Studies of stakeholder identification ultimately recognise wide stakeholder groups as well.
financial reporting suggests that shareholders and financial suppliers should exercise enough pressure on companies to represent non-owner stakeholders. The source of this implication is as follows.

Generally, shareholders and other financial suppliers have an interest in profits. Positioning these stakeholders as the representatives of non-owner stakeholders asks for their willingness to represent non-financially related interests. These different interests can cause internal conflicts. In times of financial need, these stakeholders can shift their interests to mainly financial interests. Their internal conflict of interests provides little guarantee of reliable monitoring activities to improve SER.

The above issues of conflicting interests and the representation of non-owner stakeholders can lead to complex corporate governance structures for companies that formally recognise both interests (mixed objectives). These companies accept their financial as well as non-financial responsibility and thus, position the continuity of their operation in legal as well as social contracts. The social contracts suggest that maintaining non-financial supplies is one of the objectives of their corporate governance. Furthermore, social contracts suggest the voluntary nature of related corporate governance. When a libertarian concept is in operation, companies should choose to separate structures of corporate governance to serve the mixed objectives. Therefore, for the next hypothesis, I conjecture that

H1b. For companies with mixed priorities of financial and non-financial resources, the structures of corporate governance for SER are different from the structures of corporate governance for financial reporting.

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4 This suggestion is based on Freeman and Evans’ (1990) libertarian concept. This concept allows companies as well as stakeholders to establish their own choices based on their interests.
Thus far, the discussion presents contractual relations, the orchestration of resources and costs of governance to explicate the alignment of corporate governance with corporate reporting. In Figure 2, I depict the general concepts and all of the hypotheses. In the next section, the discussions of market governance and corporate law explicate different orientations of corporate governance for financial reporting and the possible corporate governance structures for SER.

[Figure 2 Brief concepts and hypotheses]

2.3 Nature of corporate governance and the structures of corporate governance

Prior studies of corporate governance for financial reporting have shown differing corporate governance designs. For instance, Danish companies commonly have a two-tier system. However, the two-tier system is different from the two-tier system followed by German companies. Rose and Mejer (2003) and Rose (2005) concluded that the difference between the two-tier system in Danish companies and the German two-tier system is to be found in the role of managing directors. Managing directors in Danish companies may gain half of the seats in supervisory boards. The purpose of this arrangement is to protect stakeholders from a hostile takeover. This arrangement with managing directors does not exist in the other design. Large blockholders are the protection device against hostile takeovers in German companies.

The source of differences in corporate governance for financial reporting is corporate law (see e.g. Shleifer & Vishny, 1997; La Porta, Lopez-de-Silanes, & Shleifer, 2000; Denis & McConnell, 2003; Gourevitch, 2003). Corporate law directs the corporate governance regulations, and to the extent that companies must adhere to the law issued by their countries of incorporation, the designs of corporate governance will fit into the subsequent regulations in each related country. For example, Danish
companies will follow Danish corporate governance regulation. The same condition applies to all other companies.

In the context of SER, the establishment of corporate governance structures are voluntary. Even when the presentation of social and environmental reports is obligatory, the choices to position SER in corporate governance are voluntary (see e.g. Danish Financial Act number 1403 dated 27/12/2008 about the presentation of community responsibility in large firms).

The voluntary nature of SER in corporate governance leaves more choices to the individual company. Some companies have already established stakeholder-oriented corporate governance structures for their financial reporting, that is, the representation of stakeholders in board level (see Aguilera & Jackson, 2003). I conjecture that this representation creates possibilities to involve non-owner stakeholders in separate corporate governance structures. Therefore, I hypothesise that **H2a.** For companies with reportedly stakeholder-oriented governance structures for financial reporting, the corporate governance structures for SER are different from the corporate governance structures for financial reporting.

For companies that have shareholder-oriented corporate governance, the transaction costs for adopting more stakeholder-oriented corporate governance for SER may be more than the benefit. This kind of consideration is probable for companies that operate in large markets with distributed shareholders and little interest in direct control as argued by Fama (1980). Based on the low interest in direct control, Fama concludes that the need to align shareholders and management interests is low as the market will act as corporate control (see also Manne, 1965). The establishment of corporate
governance structures in companies that operate in the above market is an additional safeguard.

Williamson proposes that the relations between market for corporate control and additional safeguards are as the following. Williamson (1985, p. 301) proposed that when the specificity of technology \((k)\) is more than zero and when the continuity of the relationship is apparent, companies have incentives to establish corporate governance in those markets. The objective of corporate governance is to disclose information important to the transactions. The disclosure indicates better commitment to safeguard shareholders’ and other financial suppliers’ interests and thereby, reducing the transaction costs of all parties. The motivation to appear as providers of better safeguards suggests efforts to influence market for corporate control.

The efforts to gain influence in the market for corporate control suggests that the objective of corporate governance is to maintain the supply of capital from the market. Therefore, the corporate governance structures are the safeguards of shareholders’ and other financial suppliers’ interests with financial reporting as the focus of the structures. The reporting of non-financial information that forms the foundation of accountability to stakeholders is of low priority in companies because this information is valued in limited markets (see e.g. the European SRI Study, 2008 by EUROSIF for the indication of limited market share of SRI compared to non-SRI market). I conjecture that under this focus, companies may have little incentive to establish additional corporate governance structures to monitor SER. Therefore, I hypothesise that
**H2b.** For companies with reportedly shareholder-oriented governance structures for financial reporting, the corporate governance structures for SER are not different from the corporate governance structures for financial reporting.

### 3. Methodology

#### 3.1 Sample

Large companies have demonstrated a willingness and ability to issue social and environmental reports (see e.g. Snider, Hill, & Martin, 2003; Kolk 2003; Jose & Lee, 2007; see also Gray, Javad, Power, et al., 2001 for the inconclusiveness of relations between company size and disclosures). The sample companies are based on the first quartile of the FG 500 list 2009. These companies are the 125 largest companies in the world based on their 2008 revenues. I excluded one company for not posting both its annual report and social and environmental report, and five companies for not having publicly listed company status. Furthermore, four companies do not post the English version of their annual reports, one does not have a stand-alone social and environmental report, and three do not post their annual reports or 10-K. One company does not mention its strategy, and 15 companies do not post updated social and environmental reports or social and environmental reports at all during the period of data collection. One company appears to have only per country reports. The study will be based on the analyses of the remaining 94 publicly listed large companies from the first quartile of FG 500 (see the description of the sample in Table 1).

**[Table 1 Descriptions of sample companies]**

The fact that 15 companies do not post updated social and environmental reports or post their social and environmental reports in the website is appealing. The reason for this interest is that these companies indicate limited interest, if not disinterest,
in using websites as tools to communicate their social and environmental performance to stakeholders. However, the status of those companies as largest companies in the world suggests that those companies should be able to maintain technical aspects of their websites. These companies should have, at least, the financial resource to update and monitor the traffic of their websites. Therefore, the condition invites two questions. First, do those companies assess that the reports are unimportant for their stakeholders? Second, do they perceive the reports as inviting additional business risks?

3.2 Variable measurements and data collection

Priorities to resources. In order to establish whether a company has financial or mixed priorities, I analyse its strategy. The analyses are based on the established concept of resource-based view of strategy. Mahoney (1995) argued that companies would normatively select strategies that they perceive as suitable with opportunities in their environment when allocating their resources. Amit and Schoemaker (1993) described this allocation of resources as a response to perceived environmental risks that reflects management priorities in their efforts to manage risks. Tallman (1991), and Mahoney and Pandian (1992) concluded that these priorities form directions to growth and influence strategies. Strategy is a reflection of a company’s priority.

I use the annual reports for the fiscal year 2008 as our data source for strategies. The purpose of using annual reports is to find stated intentions by the companies. I principally argue that alignment between intention and actual acts will determine the substance of the acts. In this paper, actual acts refer to actual corporate governance structures while the declared strategy is the intention. The use of annual reports to reveal intended strategies is an approach similar to the self-typing strategy measurement method (see Snow & Hambrick, 1980). I commonly found the companies’
strategies under the strategy sections of the annual reports. Although intended as strategy sections, the titles of those sections are vary from one report to another. Examples of clear titles are “Strategy” and “Our Strategy” while an example of less clear titles is “Our Commitment to Growth” under the “Chairman’s letter”.

I classified the companies’ strategies into two types of strategies. They are financially oriented and a mix of financial with non-financially oriented strategies. The classification process is relatively straightforward. For instance, in its annual report, a financially oriented company states that ‘our strategy of selective purchases and maintaining our strategic and financial discipline were key factors in 2008’. Another company classified as a company with mixed orientations states that ‘during 2008, we continued to pursue our three strategic priorities of “Safety,” “People,” and “Performance”…’. This company uses the language of non-financial and financial targets that are common in the literature of Balanced Scorecard. Therefore, I refer to the language of Balanced Scorecard when I need to classify non-financial and financial targets.

An example of a less straightforward statement of strategy is “Our strategy is to increase our corporate value through domestic and overseas investments, alliances, and collaboration”. For this statement, the year of implementation is in a separate line of the same section. For the purpose of measurement, I have used categorical classifications of 1 for companies with mixed oriented strategies and 2 for those with financially oriented strategy.

**Structures of Corporate Governance.** Structures of corporate governance can include the composition of the board of directors (BOD), the structures of the boards, and ownership structures. In this paper, the structures of BOD, that is, the
boards’ committees, represent the structures of corporate governance. This use of boards’ committees follows the Luoma and Goodstein (1999) definition of stakeholder committees. They define stakeholder committees as committees under boards that have stakeholder orientations, that is, public policy, social responsibility, or contributions committees. These committees focus on stakeholders and thus, provide a potential improving SER.

I collected data about these committees from annual reports, social and environmental reports, and proxy statements. I calculated the total amount of these stakeholder oriented committees for each company. I found that 22 companies have stakeholder committees while 72 companies do not have stakeholder committees. From the 22 companies that have stakeholder committees, 21 of them have one stakeholder committee at board level. One company from the 22 companies has two stakeholder committees at board level. This company is a Japanese company. I applied the same procedure to the structures of corporate governance for financial reporting. Moreover, I adopted this measure of corporate governance structures to detect separate or unitary corporate governance structures in companies as stated in the four hypotheses.

**Shareholder and Stakeholder-Oriented Corporate Governance.**

Jackson (2005) and Jackson and Moerke (2005) have used country of incorporation as an identifier of stakeholder and shareholder-oriented corporate governance. The origin of this proxy of corporate governance orientation is the study about company law and regulations of representation rights by Aguilera and Jackson (2003). The representation rights include:

1. Unilateral worker control
2. Paternalistic employer CG structures to represent stakeholders’ interests
3. Co-determination
4. Consultation (joint consultation through collective bargaining)
5. Statutory law/regulations
6. Employee ownerships (if leading to CG designs involving employees’ reputations)
7. Rights to information (weak representation)

The above criteria assisted to identify shareholder and stakeholder-oriented corporate governance.

According to this classification approach, the majority of European companies follow stakeholder-oriented codes. Germany, Japan, and the Scandinavian countries are some of the examples. Some European countries like Belgium and Italy are significantly influenced by the U.S. However, these countries operate under EU regulations and thereby the regulations position them as having stakeholder-oriented corporate governance.

For countries other than EU countries, the absence of strong representation rights, like unilateral worker control in corporate governance codes, suggests shareholder-oriented corporate governance. The classification of companies according to corporate governance orientations is presented in Table 1. I assigned a categorical code 1 for stakeholder-oriented corporate governance and a categorical code 2 for shareholder-oriented corporate governance. This measure of corporate governance is a part of identifying corporate governance orientation as required to test H2a and H2b.

**Control Variables.** In addition to the explanatory variables considered in this study, I apply control variables in order to accommodate other mediating factors. The first variable is the companies’ reputation per industry. I consider it as an intervening factor of corporate governance. In corporate governance studies, building
reputation is part of financing decisions and market trust (Shleifer & Vishny, 1997; Klapper & Love, 2004). In the context of SER, Bebbington, Larrinaga and Moneva (2008) have proposed relations between the management of reputation risk and SER. Designs of corporate governance for SER may be contingent on management of reputation risk.

The source of reputation per industry is Fortune’s World’s Most Admired Companies 2009 survey. This source was chosen because it too is based on the FG 500 companies. The chance of finding the same companies is greater when using the source as it is managed in a similar source of ranking, that is, Fortune World’s ranking. Similar ranking has also been used to study social and environmental issues (see Waddock, Bodwell, & Graves, 1993). The survey measures nine reputation attributes with social responsibility being one of them. The measurement of reputation in this paper is categorical in nature, that is, 1 is assigned to companies in the top five of their industry while 2 is assigned to those in the 6th to 10th ranks, and 3 is assigned to companies that are ranked beyond the top ten or non-rated.

I also examined the possibility of using company age as a proxy for reputation. Company age indicates a company experience in implementing SER (Roberts, 1992), but because of the lack of data for 19 of our 94 companies, I chose not to apply this proxy for reputation.

The second variable to control is company size. Company size is a factor that determines SER behaviour in companies (Adams, Hill, & Roberts, 1998). Company size presents the predictability of corporate social information, and more importantly, it suggests capabilities to establish complex structures. Company size has positive effects on the sophistication of corporate governance structures and compliance to codes (see
e.g. Craven & Marston, 1997; Werder, Talaulicar, & Kolat, 2005; Akkermans, van Ees, Hermes, et al., 2007). The sample comes from the first quartile of the world’s largest company based on their revenues. I grouped the sample into five parts and assigned five categorical numbers to the sample that enabled us to run non-parametric tests of difference.

**Other variables.** The focus of this study is the possible alignment of corporate governance structures to support a balanced view of companies’ responsibilities. For this purpose, I have adopted a rather limited number of explanatory and control variables while disregarding others. The reasons for disregarding other possible variables are shortly summarised below.

1. Environmentally sensitive industries. Adoption of this variable is common in studies of social and environmental disclosures (see e.g. Cowen, Ferreri, & Parker, 1987; Patten, 1991; Moneva & Llena, 2000). Environmentally sensitive industries tend to disclose extensive environmental information (Patten, 2002). Disclosures of social and environmental issues are industry specific (Guthrie, Cuganesan, & Ward, 2008). However, the relation between this variable and SER specifically covers frequency and tendency to report. I conclude that this relation is different from the issue of alignment between corporate governance structures and SER. The focus in evaluation is the substance of current forms of corporate governance to support a balanced view of companies’ responsibilities. Issues of frequency and tendency to report are less relevant to my theoretical frameworks.

2. Financial data. Financial data such as profitability, leverage, interest coverage ratio, and market performance have been used in other SER studies. However, these variables are not linked directly to our theoretical framework. In addition, the links
to SER have generally been insignificant. Prior studies show that profitability proxies such as return on assets (ROA) and return on equity (ROE) are insignificantly related to extensive disclosures (Patten, 1991). The difference between ethical and non-ethical market performance is insignificant (Kreander, Gray, Power, et al., 2005). Moreover, market performance as a business case to report has inconclusive relations to disclosure practices (Murray, Sinclair, Power, et al., 2006), while intensive environmental disclosures have relations to leverage and interest coverage (Cormier & Gordon, 2001).

3.3 Validity of corporate governance measurements

Positioning SER in corporate governance is a relatively recent effort. The reports of related corporate governance structures are new (Kolk 2008, p. 11). I compiled new information for 2008 and utilised it to test the hypotheses. Thus, I need to evaluate whether the corporate governance structures for both types of reporting, that is, financial reporting and SER, indicate different processes. I implemented the bivariate correlation test and Kendall’s tau-b.

My results indicate that the two measures of corporate governance have low relatedness. The Spearman’s rho coefficient confirms the statistically insignificant relatedness between the two corporate governance data ($\rho = .11, p > .05$). The Kendall’s tau-b coefficient presents a similar unrelated condition between the two corporate governance data ($\tau_b = .10, p > .05$). The implication is that companies seem to integrate corporate governance in their SER (Kolk, 2008). Furthermore, the results suggest that the data contain separate corporate governance committees with different orientations, that is, stakeholder-oriented and shareholder (financial)-oriented
committees. These results suggest the possibility to differentiate between stakeholder and shareholder-oriented committees as in Luoma and Goodstein (1999).

3.4 Results on the alignment of corporate governance structures with priorities

In order to test the alignment of corporate governance structures with the priorities of companies, I applied Wilcoxon signed ranks test. This test is a non-parametric test to compare matched-pairs data. I divided the data into two sets of data based on the companies’ identified priorities, that is, financial and mixed priorities. Each set of data has two separate measures of corporate governance, that is, corporate governance for SER and that of financial reporting. I run a Wilcoxon signed ranks test for each of set of data and summarised the results of Wilcoxon signed rank tests for hypotheses 1 a and b in Table 2.

[Table 2 Results of Wilcoxon signed rank tests to evaluate the alignment of corporate governance structures with financial and mixed priorities]

The findings suggest that companies giving priority to financial resources have established separate corporate governance structures for financial reporting and SER. The mean of corporate governance committees for SER and financial reporting is significantly different. The result for hypothesis 1a reveals a p-value smaller than .05; hence, we can reject the null hypothesis. Further support of this result is in Table 1 Panel 3 in which 20 companies have established different structures.

Based on the modes of governance in Figure 1, companies will provide safeguards ($s$) when the specificity of technology ($k$) is more than zero. The relationships between companies and shareholders and other financial suppliers do exist but the costs to maintain the relationships are higher when safeguards are non-existent than when companies provide safeguards. Shareholders and other financial suppliers calculate their investment at premium costs, and the companies will only have access to
capital with high interest rates. In this respect, the separation of governance structures suggests a commitment to maintain financial supplies with tolerable costs for companies. The commitment is a reflection of financial priority. The implication of the commitment is that corporate governance structures to monitor SER are under the priority to financial resources. Missing in this commitment is the relation between priority to non-financial resources, which are the focus of SER, and special structures to monitor companies’ priorities to non-financial resources.

Companies with mixed priorities have unitary corporate governance structures for financial reporting and SER. The result of Wilcoxon signed rank test for hypothesis 1b suggests that we can reject the null hypothesis. The p-value of the test is smaller than .05. This condition is inconsistent with our prediction of the relationship between mixed priorities and corporate governance structures to monitor SER. It presents a discord between companies’ stated orientation to stakeholders and the potential representation of stakeholders. I interpret this discord as a signal that non-owner stakeholder pressure is non-existent. Freeman and Evans (1990) recognise this possible condition by concluding that stakeholders may choose to be silent. Their silence is their strategy to avoid unforeseeable transaction costs. Accordingly, this silence merely indicates an act of economising transactions. In times of financial needs, a shift to single priority, that is, financial priority, is possible to cater for financial needs.

To evaluate whether the company size affects the ability of the sample to establish additional corporate governance structures for SER, I run Kruskal-Wallis tests. I filtered the company size data based on the priorities of the sample. I implemented similar data filtering for the reputation variable. The results of Kruskal-Wallis tests are in Table 3.
Results from Kruskal-Wallis tests for both company size and reputation suggest insignificant effects (see Table 3). The sample companies appear to have similar capability to position SER in corporate governance. This result is expected. The companies examined are world largest companies. As such, these companies have resources to establish sophisticated corporate governance structures and incentives to comply with codes. Separate corporate governance structures for financial reporting and SER suggest the sophistication of corporate governance. The unitary corporate governance for financial reporting and SER suggests compliance to the current legal system.

Reputation has an insignificant effect on the separation of corporate governance structures to monitor SER. I interpret this result as a possible shift from reputation risk management. However, I can only offer limited interpretation for this finding. The reason for my limited interpretation is that the reputation ranking is a new ranking at the global level. The measurement of this ranking may be new for companies and consequently, the companies had little focus on the ranking measurements at the time the ranking was made. The implication of this possible lack of focus is that the relations between ranking positions and intentions to manage reputation risk are weak.

3.5 Results on the alignment of corporate governance orientations and corporate governance structures

The results of the tests show that companies with stakeholder-oriented corporate governance use unitary (similar) corporate governance structures for financial reporting and SER. Table 4 depicts a summary of the results for companies with stakeholders and shareholders-oriented corporate governance. The results of the Wilcoxon signed rank
test give p-value smaller than .05 (see Table 4). Consequently, I can reject the null hypothesis (see also Table 1 Panel 4).

[Table 4 Results of Wilcoxon signed rank tests to evaluate the alignment of corporate governance orientations with corporate governance structures]

My interpretation of the result is that those companies have followed the current legal system in which corporate governance for SER is voluntary. The legal system is the foundation for establishing a monitoring system for reporting. The implication of this result is that stakeholders need to have a legal position in the economic system before companies will recognise their representation in corporate governance structures. In this regard, those companies appear to have stakeholder-oriented corporate governance structures but to be unwilling to acknowledge the representation of non-owner stakeholders.

However, I should remind the audience that the corporate governance of some EU countries is under heavy influence of U.S. corporate governance code and EU regulations. The corporate governance orientation of these countries can appear as stakeholder-oriented while the contents are shareholder-oriented. Therefore, the finding contains the possibility of having companies that substantially exercise shareholder-oriented corporate governance but appear as having stakeholder-oriented corporate governance. The implication of this possibility is that companies from the related countries need to differentiate between the suggested orientation of corporate governance and the actual orientation of corporate governance that they adopt. This differentiation will help them to assess whether the corporate governance structures are in alignment with the suggested orientation or the actual orientation.
The result of my test on companies with shareholder-oriented corporate governance suggests that those companies have separated committees for financial reporting and SER. The results of the Wilcoxon signed rank test for this hypothesis present p-value smaller than 0.5 (see Table 4). Therefore, I can reject the null hypothesis that those companies have unitary (the same) corporate governance structures for financial reporting and SER.

In relation to the modes of governance, this result supports my prior interpretation for companies with financial priority. To explicate the support, I return to the modes of governance in Figure 1. When the specificity of technology \((k)\) is more than zero and when the continuity of the relationship is important, companies have incentives to establish corporate governance. The objective of corporate governance is to disclose information important to the transactions and to rely on other controls. In this case, the important transaction is shareholder-related transactions with supply of capital as the objective. Once again, the separation of corporate governance structures to monitor SER simply refers to the maintenance of relations with shareholders. I interpret this result as an indication of some reliance on the market for corporate control as in Fama (1980) and Williamson (1985). Any corporate governance structure in these companies is to serve shareholders and other financial suppliers. The link of corporate governance structures to non-owner stakeholder related transactions is missing.

To evaluate possible effects of the control variables on the establishment of corporate governance structures in the sample companies based on their corporate governance nature, I applied Kruskal-Wallis tests (see results in Table 3). Results from the tests reveal p values higher than .05 across types of data sets for reputation. Reputation appears to be a minor factor for the establishment of separate corporate
governance structures for SER. As per my previous interpretation for hypotheses 1a and 1b, the shift away from reputation risk management may be influenced by the new status of the ranking itself.

My findings regarding company size suggest that company size has an insignificant effect on the establishment of separate corporate governance structures. The p-value is higher than .05 for company size. The position of the sample companies in FG 500 diminishes the predicted effects of company size on corporate governance structures.

4. Summary and conclusion

I have evaluated four hypotheses in this study. The first and second hypotheses concern the alignment of corporate governance structures with stated priorities. I developed the hypotheses by arguing about relations between contractual relations, the orchestration of resources and costs of governance. Legal contractual relations may force the companies to orchestrate resources and to minimise costs of governance. Legal contractual relations, in this case, financially related transactions, need commitment to align financial resources with the financial safeguards. However, companies recognising legally protected, that is, financial, and social contractual relations should be committed to align financial and non-financial resources with the safeguards.

The third and fourth hypotheses concern the alignment of corporate governance orientations and corporate governance structures. The arguments for these hypotheses are based on corporate law and the mechanisms of market for corporate control. I argue that corporate governance codes reflect the corporate law that companies would attempt to obey while the voluntary nature of corporate governance to monitor SER should encourage companies to choose and establish separate corporate
governance structures to monitor financial reporting and SER. In the case of market for corporate control, the presence of this market may lead to control dependence. This dependence may lead to lower incentives for companies to incur more costs of governance through the establishment of separate committees for financial reporting and SER.

The findings present inconsistencies with the hypothesised relations for companies with mixed priorities as well as companies with stakeholder-oriented corporate governance. The sample companies with mixed priorities have unitary corporate governance structures for financial reporting and SER. The companies with stakeholder-oriented corporate governance also practice unitary corporate governance for financial reporting and SER. In the case of companies with financial priority and those with shareholder-oriented corporate governance, separate corporate governance structures are detectable for financial reporting and SER. Companies’ size and reputation are insignificant variables for explaining capability and intention to establish separate corporate governance structures.

The findings have some practical implications and lead to some suggestions. The finding for companies with mixed priorities suggests (1) a discord between the stated priorities and corporate governance structures to serve the priorities, and (2) the lack of pressure from non-owner stakeholders on companies. As previously argued, the mixed priorities are the results of recognising both financial (legal) contracts and social contracts. The discord indicates imbalanced support for one of the contracts. The fact that these sample companies operate corporate governance structures for financial reporting to monitor SER suggests the imbalanced support for SER monitoring. In order to balance the support, non-financial interests of non-owner
stakeholders in social contracts need to be acknowledged formally in the legal system. The lack of pressure from non-owner stakeholders emphasise the urgency to acknowledge formally these interests.

For sample companies with stakeholder-oriented corporate governance, the findings lead to a similar recommendation. Those companies present unitary corporate governance structures for financial reporting and SER, which suggests strong adherence to the current legal system for corporate governance. The implication of this practice is that separate corporate governance to monitor SER is almost non-existent. For these companies, formal recognition of the importance of having representations of non-owner stakeholders to monitor SER fits the demonstrated behaviour of adherence.

As regards the companies with financial priority, I find a representation of non-owner stakeholders to monitor SER. Separate corporate governance structures for financial reporting and SER signal the representation. However, this separation is theoretically to maintain relations with shareholders and financial suppliers. I detect a missing link between the existence of special committees to monitor SER and the priority that those companies serve. A practical suggestion for this inconsistency is to recognise mixed priorities.

I find that the sample companies with shareholder-oriented corporate governance establish separate corporate governance structures for financial reporting and SER. The orientation of the corporate governance suggests the importance of shareholders over stakeholders as the objective served by the corporate governance. The practical implication of this corporate governance orientation is that separate corporate governance structures to monitor SER serve to maintain relations with shareholders. Furthermore, these companies seem to rely on the market for corporate control.
Practical suggestions are to (1) recognise formally the representation of non-owner stakeholders in the corporate governance codes, and (2) to establish a strong non-financially related investment market to direct the functioning of the market for non-financial interest related corporate control.

I conclude that the findings have some theoretical implications arising from social contracts and stakeholder versus shareholder-oriented corporate governance codes. In the case of social contracts, these contracts lead to unforced non-financial priority in companies. I detect a need to establish theoretical links between this priority and corporate governance structures. Furthermore, the theoretical links need to recognise differences in corporate governance codes and the markets in which the companies operate. The results from the sample companies clearly show that different corporate law leads to different corporate governance codes and thus, different possibilities to address problems of the discords and missing links.

Borrowing from Gray (2006), the findings present the condition of non-accountability or accountability “lite” at the most. I find efforts to establish separate corporate governance to monitor SER but with missing links to the intention served by the corporate governance. Furthermore, the recognition of non-financial priorities and the orientation of stakeholders in corporate governance structures have discords with the corporate governance structures practiced to monitor SER. These findings suggest that positioning SER in current corporate governance offers little possibility to have higher transparency and balanced view of responsibilities that determines the quality of SER.

I have suggested a formalisation of non-financially related priorities in the current legal system. Future research should attempt to probe as well as evaluate the functioning of corporate governance structures in companies after formal integration of
non-financial priorities. Focus on the functioning means that future research should attempt to evaluate closely the involvement of non-owner stakeholders in corporate governance structures. The alignment between the stated intentions and forms of corporate governance is an initial step to evaluate the issue of substance over form. Even if all companies have mixed priorities and separate corporate governance structures for each reporting, the issue of substance over form remains. How non-owner stakeholders interact with management and maintain their status will determine the substance of the alignment in the future. For the purpose of future research, it is important to establish theoretical foundations on the links between non-financial priorities, corporate governance, SER, and the markets in which the companies operate.

Contingency theory may serve well the purpose to establish further foundations on the links between non-financial priorities, corporate governance, SER and the markets. The primary concern of the theory is the choice of strategy by the management of a company under various environmental and organisational variables. These variables spans from economic conditions to organisational characteristics and resources (see specifically Hofer, 1975, p. 798 for extensive potential variables related to contingency theory). The theory suggests that companies can operate under financial and non-financial pressures. The recognition of business complexity facilitate the streamlining the study of non-financial priorities, SER and SER corporate governance within natural business environment. This opportunity will substantially further concepts and practices of SER provided careful studies be made to disclose empirically the importance of each variable before further quantitative approach studies can proceed.
Another opportunity that the contingency theory offers is the possibility to present SER corporate governance practices as the positive or potentially positive practices. A combination of contingency theory with stewardship theory creates a perspective that the choices that the management of a company makes are representing the mandated responsibilities. This perspective takes a different position that agency theory has because agency theory preserves some reservations about the possibility of dysfunctional behaviour of the management. An attempt to situate the practices of companies in relation to managerial capture must consider the possibilities of the individuals within a company to affect the decision made in management level. However, in the case that a combination of agency theory and stewardship theory introduces the burdens of economy and time for the researchers, separate streams of studies that represent each theory will benefit the field.

Acknowledgements
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References


Node A. Specificity is zero. Allocations of investments are purely based on market mechanisms.

Node B. Specificity is more than zero. Allocations of investments are tied to certain contractual relations. The absence of safeguards leads to premium charges by investors and higher costs for companies. Remedial governance based on regulations can be important.

Node C. Specificity is more than zero. Allocations of investments are tied to certain contractual relations. Safeguards are safeguards between competing companies.

Node D. Internal organisations of safeguards as additional safeguards to maintain relations out of markets.

Source: Adopted from Williamson (2002, 183) in which \((k)\) is the specificity of technology and \((s)\) is the safeguards.
Figure 2: Brief concepts and hypotheses

H1a: Acceptance of legal contract with shareholders and other financial suppliers

- Financial resources
- One corporate governance structure for financial reporting and SER

H1b: Acceptance of legal contract with shareholders and other financial suppliers and social contract with non-owner stakeholders

- Financial & non-financial resources
- Different corporate governance structures for financial reporting and SER

H2a: Corporate governance and corporate law for financial reporting, but voluntary corporate governance for SER

- Stakeholder-oriented corporate governance structures for financial reporting

H2b: Market for corporate control and the resulting intention to maintain the supply of capital from the market

- Shareholder-oriented corporate governance structures for financial reporting
- One corporate governance structure for financial reporting and SER
Table 1 Descriptions of sample companies

Panel 1

<table>
<thead>
<tr>
<th>Priorities</th>
<th>Corporate Governance Orientations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Shareholder</td>
</tr>
<tr>
<td>Companies with financial priority</td>
<td>37</td>
</tr>
<tr>
<td>Companies with mixed priorities</td>
<td>7</td>
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</tbody>
</table>

Panel 2

Countries of Incorporation

<table>
<thead>
<tr>
<th>Country</th>
<th>Count</th>
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</thead>
<tbody>
<tr>
<td>Netherlands</td>
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</tr>
<tr>
<td>France</td>
<td>10</td>
</tr>
<tr>
<td>Germany</td>
<td>14</td>
</tr>
<tr>
<td>Belgium</td>
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<tr>
<td>Italy</td>
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</tr>
<tr>
<td>U.K.</td>
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<td>Spain</td>
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</tr>
<tr>
<td>Norway</td>
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</tr>
<tr>
<td>Denmark</td>
<td>1</td>
</tr>
<tr>
<td>Finland</td>
<td>1</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>1</td>
</tr>
<tr>
<td>U.S.</td>
<td>28</td>
</tr>
<tr>
<td>Russia</td>
<td>2</td>
</tr>
<tr>
<td>Australia</td>
<td>1</td>
</tr>
<tr>
<td>Japan</td>
<td>10</td>
</tr>
<tr>
<td>People’s Republic of China</td>
<td>1</td>
</tr>
<tr>
<td>(including Hongkong)</td>
<td>2</td>
</tr>
<tr>
<td>Korea</td>
<td>3</td>
</tr>
<tr>
<td>Thailand</td>
<td>1</td>
</tr>
<tr>
<td>Mexico</td>
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Panel 3

<table>
<thead>
<tr>
<th>Priorities</th>
<th>Corporate Governance Structures</th>
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<td>with one structure</td>
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<tr>
<td>Companies with financial priority</td>
<td>59</td>
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<tr>
<td>Companies with mixed priorities</td>
<td>10</td>
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</table>

Panel 4

Corporate Governance (CG) Orientations

<table>
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<th>Corporate Governance Structures</th>
</tr>
</thead>
<tbody>
<tr>
<td>with one structure</td>
</tr>
<tr>
<td>Companies with stakeholder CG</td>
</tr>
<tr>
<td>Companies with shareholder CG</td>
</tr>
</tbody>
</table>
Table 2 Results of Wilcoxon signed rank tests to evaluate the alignment of corporate governance structures with financial and mixed priorities

<table>
<thead>
<tr>
<th>Priorities: Financial resources</th>
<th>Mean Rank</th>
<th>Test Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>CG financial reporting-CG SER</td>
<td>Negative ranks</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Positive ranks</td>
<td>38.5</td>
</tr>
<tr>
<td>Z</td>
<td>-7.61</td>
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</tr>
<tr>
<td>Asymp. sig. (2-tailed)</td>
<td>.00*</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Priorities: More non-financial resources</th>
<th>Mean Rank</th>
<th>Test Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>CG financial reporting-CG SER</td>
<td>Negative ranks</td>
<td>.00</td>
</tr>
<tr>
<td></td>
<td>Positive ranks</td>
<td>7.5</td>
</tr>
<tr>
<td>Z</td>
<td>-3.32</td>
<td></td>
</tr>
<tr>
<td>Asymp. sig. (2-tailed)</td>
<td>.00*</td>
<td></td>
</tr>
</tbody>
</table>

* = significant at .01
Table 3 Kruskal-Wallis tests for company size and reputation

<table>
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<tr>
<th>Category</th>
<th>Chi Square</th>
<th>Asymp. Sig.</th>
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</thead>
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<td></td>
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<tr>
<td>CG financial reporting</td>
<td>3.53</td>
<td>.47**</td>
</tr>
<tr>
<td>CG SER</td>
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<td>.73**</td>
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<tr>
<td>Company size, Priority: more non-financial</td>
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<td>CG financial reporting</td>
<td>9.96</td>
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<tr>
<td>CG SER</td>
<td>6.65</td>
<td>.16**</td>
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<td>Reputation, Priority: financial</td>
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<td></td>
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<tr>
<td>CG financial reporting</td>
<td>2.24</td>
<td>.33**</td>
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<tr>
<td>CG SER</td>
<td>2.63</td>
<td>.27**</td>
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<tr>
<td>Reputation, Priority: more non-financial</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CG financial reporting</td>
<td>3.13</td>
<td>.21**</td>
</tr>
<tr>
<td>CG SER</td>
<td>.18</td>
<td>.92**</td>
</tr>
</tbody>
</table>

| Company size, Nature of CG: Stakeholder-oriented |            |             |
| CG financial reporting                      | 6.58       | .16**       |
| CG SER                                     | 1.35       | .85**       |
| Company size, Nature of CG: Shareholder-oriented |          |             |
| CG financial reporting                      | 11.38      | .02*        |
| CG SER                                     | 6.45       | .17**       |
| Reputation, Nature of CG: Stakeholder-oriented |          |             |
| CG financial reporting                      | 2.46       | .29**       |
| CG SER                                     | .81        | .66**       |
| Reputation, Nature of CG: Shareholder-oriented |          |             |
| CG financial reporting                      | 2.52       | .28**       |
| CG SER                                     | 1.43       | .49**       |

** = significant at > .05
* = significant at < .05
Table 4 Results of Wilcoxon signed rank tests to evaluate the alignment of corporate governance orientations with corporate governance structures

<table>
<thead>
<tr>
<th>Nature of CG: Stakeholder-oriented</th>
<th>Mean Rank</th>
<th>Test Statistics</th>
</tr>
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<tbody>
<tr>
<td>CG financial reporting-CG SER</td>
<td>Negative ranks</td>
<td>1</td>
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<td></td>
<td>Positive ranks</td>
<td>24.5</td>
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<td>Z</td>
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<td>Asymp. sig. (2-tailed)</td>
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<th>Nature of CG: Shareholder-oriented</th>
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<td>CG financial reporting-CG SER</td>
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<td>Asymp. Sig. (2-tailed)</td>
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<td>.00*</td>
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</table>

* = significant at .01
Chapter 2

Issues of audit committee ‘knowledge and experience’ in social and environmental reporting assurance
Issues of Audit Committee ‘Knowledge and Experience’ in Social and Environmental Reporting Assurance

DewiFitriasari*
Claus Holm**

Abstract

The number of companies that publish social and environmental reports is increasing although managerial capture remains a common problem. External assurance by independent intermediaries is a solution to minimise managerial capture provided that the intermediaries meet the general and specific independence of social and environmental reporting assurance (SERA). Companies have the corporate governance mechanism to monitor independence in external audits, i.e. audit committees. Audit committees have prior ‘knowledge and experience’ in securing the independence of intermediaries for financial reporting. Therefore, we ask a question regarding the extent to which audit committees are able to secure the independence of intermediaries in SERA. We design an archival study of reports published by Fortune Global companies to examine associations between audit committee ‘knowledge and experience’ and the independence secured. Using an interview, we triangulate results from the archival study to attain insights into management perspectives of SERA practices. From the archival study, we find that audit committees are unable to secure the independence of intermediaries as required in SERA. Our interview indicates that the centrality of management in social and environmental reporting (SER) is the possible cause of the lack of associations. Consequently, we suggest that reliance on audit committees with their kind of ‘knowledge and experience’ in conjunction with good corporate governance structures and financial reporting is an irrelevant route for the current development of policies and practices in the field of SERA.

Key words: Knowledge and experience, audit committee, social and environmental reporting assurance, assuror independence

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1. Introduction

All stakeholders have the right to have information on the social and environmental performance of companies. The right is established by the social contract between companies and societies at large (Sethi, 1979). Companies need the support of societies because they need resources that societies have\(^1\). The need for resources makes the presentation of social and environmental information a part of companies’ accountability to societies (Gray, Owen, & Maunders, 1988). Therefore, the presentation of this information to stakeholders by companies is inevitable.

Prior studies of published information suggest that corporate managements tend to manage negative company information and thereby present information based on managerial capture. The evidence of the tendencies is explicit because companies manage information as parts of their strategic responses to the expectations of societies (see e.g. Cerin, 2002; Deegan & Rankin, 1996; Jenkins, 2004; Magness, 2006; Holder-Webb, Cohen, Nath, et al., 2009; Palazzo & Richter, 2005). Additionally, the number of social and environmental reports is increasing despite management tendencies to manage negative information (see e.g. Kolk, 2003, 2004, for evidence of the increasing publication of this information). Therefore, intermediaries between companies and stakeholders become an important reporting structure in minimizing managerial capture in SER.

An important indication of companies’ efforts to minimise managerial capture is the involvement of external assurors in social and environmental reporting.

\(^1\)The social contract that binds companies and societies is the basis of studies using legitimacy theory. The main objective of legitimacy theory in those studies is to discuss companies’ behaviour in fulfilling expectation gaps between societies and company management. In our paper, the social contract explicates the basic reason that companies have to be accountable to stakeholders and present information to stakeholders.
Owen, Swift, Humphrey, et al. (2000) describe the main role of those assurors as independent verifiers of the actual conditions of reporting processes for all stakeholders. In effect, they suggest that the obligation of the external assurors is to dedicate the assurance to stakeholders and limit managerial capture in the resulting reports.

Ten years after the study by Owen, Swift, Humphrey, et al. (2000), a study by Edgley, Jones, and Solomon (2010) reveals the perspectives of those assurors on the assurance. The study discloses an emerging perspective of assurors to see themselves as representatives of stakeholders. This perspective indicates that some assurors understand the role of stakeholders in social and environmental reporting assurance (SERA), i.e. to ensure the documented processes reflects the actual processes. The presence of this perspective is a sign of assuror independence because assurors can limit their dependency on company-provided information and thereby, limit managerial capture.

However, the issue of managerial capture over SERA is strong in companies (Ball, Owen, & Gray, 2000; see also Kolk, 2004, p. 62). This issue suggests that corporate managements decide most processes of SERA. Ultimately, the managerial capture leaves little room for assurors to resist pressures from companies in SERA processes. Therefore, the implementation of assuror independence in SERA faces challenges from companies. We argue that the challenges are indications of opinion gaps between companies and assurors because posing these challenges is an act that undermines the conceptual importance of assuror independence in SERA.

The presence of opinion gaps between external assurors and companies in the area of assuror independence is unexpected because companies have had the corporate governance mechanism to monitor auditor independence in external auditing,
i.e. audit committees. The principal role of the committees in financial statement auditing is common in corporate governance codes such as in the Combined Code on Corporate Governance 2006 in the UK and its later revisions. Provided the ability of assurors to resist pressures from companies is a concept that audit committees have to secure for auditors in financial statement auditing, the committees have the ‘knowledge and experience’ to secure assuror independence. Therefore, the gaps raise a question about the extent to which audit committees are able to secure the independence of assurors in SERA based on their current ‘knowledge and experience’.

This paper sets out to answer the question of audit committees’ ability to secure assuror independence. Prior empirical studies of audit committees have examined knowledge and experience execution focusing on ‘final actions’ associated with the committees (see e.g. Abbott, Parker, Peters, et al., 2003; Carcello & Neal, 2003; DeZoort, Hermanson, & Houston, 2003; Zhang, Zhou, & Zhou, 2007; DeZoort, Hermanson, & Houston, 2008; Pomeroy, 2010). Those studies generally find that the actions have associations with audit committees’ ‘knowledge and experience’. The associations indicate that the use of ‘final actions’ to examine the extent to which audit committees execute their current ‘knowledge and experience’ to support SERA is appropriate.

The ‘final actions’ that we examine in this paper are the maintenance of assurors’ general and specific independence. We define the actions as actions that should be benefiting from the delivery of audit committee monitoring task. General

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2Throughout this paper, the term ‘knowledge and experience’ refers to the knowledge and experience that audit committee members have to monitor financial statement audits unless when referring to basic concepts and definitions. In corporate governance codes, the ‘knowledge and experience’ that at least one of the members must have is in finance or accounting. Similarly, studies of financial statement audits refer to ‘knowledge and experience’ as knowledge and experience in finance and accounting with specific aspect of accounting, i.e. auditing as a variation.
independence refers to the assurors' ability to resist pressure from companies. This independence is a typical independence that auditors of financial reporting have established as a part of their role in independent intermediation (see Healy & Palepu, 2001 for the role of auditors). Therefore, the immediate signal of the independence is the appointment of accountant assurors in SERA. However, SERA also has specific independence, i.e. assurors’ ability to involve stakeholders in order to reduce managerial capture, and thereby, to minimise the centrality of the management in directing SERA. The involvement of stakeholders is part of the effort to minimise managerial capture in SERA. The specific independence needs to be differentiated from general independence because the specific independence indicates assuror independence in building procedures that is unique to SERA, i.e. the ability to involve stakeholders. Therefore, the proxy of specific independence is the involvement of stakeholders beyond employees, shareholders, and other capital suppliers. This exception is a consequence of their financial interests in companies that can drive management capture in SER (see O'Dwyer, 2003 for the application of the concept). All other beneficiaries of company social and environmental programmes should be proportionally accessible to assurors.

We establish two hypotheses to examine audit committee ‘knowledge and experience’ in companies providing SERA. The first hypothesis concerns the maintenance of general assuror independence. The second hypothesis addresses the maintenance of specific independence. The hypotheses reflect our main argument that audit committee ‘knowledge and experience’ should indicate their ability to secure assuror independence, and thereby, suggest the minimisation of managerial capture. By using the first half of the Fortune Global (FG) 500 2009 list, we conduct non-parametric
statistical tests. Using an interview with key personnel of a company in the list, we triangulate the statistical results. The triangulation is a part of our effort to provide insights into corporate managements’ perspectives on SERA practices.

After controlling for some basic corporate governance and SER variables, i.e. audit committee independence, company size, and the pressure of information intermediaries, the results of both hypotheses indicate the lack of associations between current ‘knowledge and experience’ and the ability to secure assuror independence. We then conduct additional research to examine the role of stakeholder-oriented committees in SERA. The results indicate the lack of associations between stakeholder-oriented committees (CSR committees) and the ‘knowledge and experience’ of audit committees, despite the presence of audit committee members in stakeholder-oriented committees. The presence of audit committee members in stakeholder-oriented committees is associated with company size only. Our interview reveals a practical explanation of why the knowledge and expertise of audit committees has no significant association with SERA.

Our results suggest that while assuror independence is an important concept to minimise managerial capture, the adoption of the concept at the operational level by audit committees is lacking. In our study, the adoption is the operational indication of audit committee ‘knowledge and experience’ shared and exercised within companies by audit committees to maintain assuror independence. Accordingly, the lack of the adoption indicates the irrelevance of the current ‘knowledge and experience’ of audit committees. Specifically, we conclude that the reliance on audit committees and

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3The decision to include only the first half of the list is based mainly on the consideration that only a small amount of stand-alone social and environmental reports will be available from the second half of the list (see Kolk, 2008 for the availability of stand-alone reports from FG listed companies).
their kind of ‘knowledge and experience’ in conjunction with good corporate governance structures and financial reporting is an irrelevant route to take in the current development of SERA policies and practices. The implication is that any current development of SERA policies and practices should seek alternatives to address the issue of ‘knowledge and experience’ that are necessary to deliver the task. Another implication is that current literature of SERA should consider the problem of managerial capture as a problem that spans to board level.

The remaining sections of the paper are structured as follows. The second section has two sub-sections. The first sub-section contains discussions about assuror independence in SERA and financial statement auditing. In the second sub-section, we establish the specific ‘knowledge and experience’ needed to monitor assuror independence in SERA and present our hypotheses. The third section presents our methodology. We present a discussion of the results with a presentation of the interview with one of the companies in the fourth section. The conclusion and the implications of the results are presented in the final section of this paper.

2. Conceptual framework and hypotheses development

In the following sub-section, we present the similarities between assuror independence in SERA and auditor independence in financial statement auditing. We show that the current concept of auditor independence in financial statement auditing has entered SERA. Finally, we discuss stakeholder roles in SER and present the resulting needs of assuror independence as specific independence in SERA.
2.1 Assuror independence: A comparison of SERA to financial statement auditing

Prior studies of social and environmental reports have reported the tendency of management to manage negative and positive information (see e.g. Deegan & Rankin, 1996; Cerin, 2002; Campbell, Craven, & Shrives, 2003; Jenkins, 2004; Palazzo & Richter, 2005; Magness, 2006; Holder-Webb, Cohen, Nath, et al., 2009; Cho, Roberts, & Patten, 2010). Efforts to limit management control over SER have included stakeholder involvement. However, empirical studies of dialogues between management and stakeholders have found that management tends to control the outputs and processes of the dialogues (Owen, Swift, & Hunt, 2001; Unerman & Bennett, 2004; Cuganesan & Khan, 2008). Direct relations between management and stakeholders are under management control. Therefore, the presence of intermediaries between stakeholders and companies is important.

External assurors are important intermediaries between stakeholders and companies. The involvement of the assurors as intermediaries originates in the objective of SERA. The original objective of SERA was to introduce monitoring, measurement, and appraisal of social and environmental performance (Carroll, 1974; see also Carroll & Beiler, 1975). Information intermediaries such as indices and rating agencies have performed such duties in securities markets. However, these intermediaries have little control over the information that companies provide (Porter & Kramer, 2006, p. 5; Chatterji & Levine, 2006). The verification of information by external parties should minimise problems with non-verified information (Healy & Palepu, 2001, p. 408). External assurors are external parties. The involvement of these assurors marks the involvement of ultimate intermediaries to appraise information that would otherwise be completely under the control of companies.
The role of external assurors as intermediaries between companies and stakeholders requires a certain condition. The source of this need is the nature of the task of the assurors. These assurors understand that their task is to appraise social and environmental information for stakeholders instead of companies (see Boele & Kemp, 2005 for the assurors’ tasks from the perspective of external assurors). This task requires that the assurors resist pressures from companies, i.e. to be independent from companies. Therefore, assuror independence is a condition that external assurors must have.

Assuror independence is a typical condition in a reporting process that targets external parties as the audience of the resulting reports, e.g. the long-standing process of financial statement auditing and the shareholders as one of the target audience. The function of external auditors in financial statement auditing is to verify information that information intermediaries use (see specifically Healy & Palepu, 2001 for the overall relations in the context of financial reporting). This function positions the auditors as intermediaries between companies and shareholders. Consequently, external auditors must be able to resist pressures from companies. In this respect, the general concept of assuror independence is the same as that of auditor independence in financial statement auditing.

The general concept of assuror independence is the state of being able to resist pressures from companies. In SERA, this concept of assuror independence is inseparable from stakeholder involvement because stakeholder involvement in SER ensures that (1) companies give stakeholders access to internal processes that affect them, and (2) companies accommodate the voices of those stakeholders (see this central role of stakeholder involvement based on the polyvocal citizenship perspective
discussed in Gray, Dey, Owen, et al., 1997). These objectives of stakeholder involvement show that SER is a two-way reporting process and suggest that assurors should verify the processes of SER with stakeholders in order to minimise managerial capture (see also Laufer, 2003; Adams & Evans, 2004; O’Dwyer & Owen, 2005). Therefore, the specific concept of assuror independence in SERA is the ability of the assurors to involve stakeholders. When the assurors advocate the importance of stakeholders in SERA, they safeguard the interests of stakeholders and see themselves as the representatives of stakeholders.

2.2 Hypotheses

We have stated that SERA helps to removing the problems of non-verified information from companies. The role of this assurance is the same as that in financial reporting (see Healy & Palepu, 2001 for the role of auditing in financial reporting). Under this role, the need of assuror independence in SERA is the same as that in financial statement auditing. Therefore, the general concept of assuror independence in SERA, i.e. the ability to resist pressures from companies, is a long-standing concept of external assuror independence. The issue is, whether those who are supposed to monitor the assuror independence, i.e. audit committees, recognise and eventually enforce this concept of independence in SERA.

Audit committees have members who have certain ‘knowledge and experience’ in the monitoring of auditor independence in financial statement auditing. In fact, the composition of audit committees must include those who have ‘knowledge and experience’ that can assist in the monitoring of auditor independence in financial statement auditing. This requirement is common in corporate governance codes.
The basic role of external assurors in SERA resembles that in financial statement auditing, i.e. as intermediaries that assist in verifying information from companies. The subsequent general concept of assuror independence is the same as that in financial statement auditing. Therefore, the current ‘knowledge and experience’ of audit committee members should be enough to recognise this resemblance and secure the general independence of assurors. We posit the following hypothesis to present this association.

**H1.** The current ‘knowledge and experience’ of audit committee members has a significant association with the general assuror independence in SERA.

We mentioned earlier that the concept of assuror independence in SERA contains the specific concept of assuror independence. This concept of assuror independence is based on stakeholder involvement in SER. This involvement should extend to stakeholder involvement in social and environmental assurance (Laufer, 2003; Adams & Evans, 2004; O’Dwyer & Owen, 2005). Moreover, the stakeholders in discussion should extend beyond shareholders and those that have financial claims on companies because the actual stakeholders of companies can extend beyond those types of stakeholders. This kind of stakeholder involvement is a more recent concept compared to the involvement of shareholders or those that have financial claims in companies. Therefore, the specific assuror independence in SER is a newer concept of independence compared to that in financial statement auditing.

In relation to current knowledge of audit committee members, the concept of assuror specific independence requires the members to make adjustments because the concept is a newer concept of independence compared to that in financial statement auditing. This requirement means that the delivery of the task to maintain the
independence will be difficult lacking until the adjustments take place. These adjustments are possible because human knowledge and experience can extend to meet new demands. Providing that human expertise is dynamic (Swanson, 2001), the presence of stakeholder involvement in SERA is the result of an extension of knowledge and experience. Therefore, the possibility that members of audit committees make the required adjustments conceptually exists. We posit the following hypothesis to reflect this association. Additionally, we depict the overall conceptual framework and the examined associations in Figure 1.

**H2.** The current ‘knowledge and experience’ of audit committee members has a significant association with specific assuror independence in SERA.

[Figure 1 Conceptual framework and the associations between audit committee ‘knowledge and experience’ and assuror independence]

3. Methodology

3.1 Triangulation approach

We adopted triangulation to answer our research question. The general benefit of this approach is the possibility of integrating different methods or theories in a study in order to present a more comprehensive detail (see Blaikie, 1991; Flick, 1992; see also Fielding, 2009 for the triangulation of methods). Therefore, we adopt the approach in order to provide a more complete answer to our question concerning the ability of audit committees to secure assuror independence.

We question the ability of audit committees to secure assuror independence in SERA using their current ‘knowledge and experience’. We design an archival study to examine the associations between audit committee ‘knowledge and experience’, and actions resulting from the ‘knowledge and experience’, i.e. the attainment of assurors’ general and specific independence. The results of the statistical
analyses in the archival study indicate the ability of audit committees to secure assuror independence in SERA. Therefore, the results from our statistical analyses directly answer our research question.

However, audit committees are established formally as a part of financial reporting. This formal purpose of audit committees has an implication, i.e. the functioning of audit committees in SERA depends on internal perspectives of the centrality of these committees in relation to SERA. This implication is important for our study because these perspectives determine how audit committees can exercise the ability questioned in this paper. Therefore, to provide a more complete answer to our research question, we need to obtain insight into the management perspectives of the committees’ centrality in SERA. We do so by implementing an interview. In this respect, the interview serves as a triangulation method that we can use to provide a more complete answer.

3.2 Archival study
3.2.1 Dataset and variables

We derive our dataset from the first half of the FG 500 list for the year 2009. This list represents the 500 largest companies in the world based on their revenues. Companies in the FG 500 have increasingly engaged in social and environmental assurance (Kolk, 2003). This trend among FG 500 companies provides more possibilities to find data concerning assurance. The 2009 data account for 2008 performances of the companies. We extended our data collection period until the end of 2009 to anticipate the different time of publications in public domains for the 2008 performance.

The companies in the list are relevant for our study if they meet two criteria. The first criterion is their status as publicly listed companies. The status is
important because audit committees are mandatory in companies with the status (Klein, 2002, p. 375). In the case of Japanese companies, the companies must choose between the corporate auditor or audit committee systems. However, both systems carry the same responsibility that audit committees in other non-Japanese companies have (see specifically the Japanese Principles of Corporate Governance for Listed Companies 2004 and its 2009 revision). Therefore, knowing their status enabled us to collect data on as many audit committees as possible. After filtering the dataset, 213 companies from the list fit the first criterion.

The second criterion is the publication of stand-alone social and environmental reports that have been through the external assurance process. These reports normally become the focus of SERA (see Kolk, 2003). From the 213 publicly listed companies, 132 companies produce social and environmental reports. However, 80 of those companies have inadequate information (see details of the inadequate information in Table 1 Panel 1). Therefore, we include 52 stand-alone reports with assurance in this archival study. We present the overall details of the reports from the first half of the FG 500 list in Table 1 Panel 1. Finally, we present the description of the external assurors in Table 1 Panel 3.

[Table 1 General description of the dataset]

Referring to the study by Bradbury, Mak, and Tan (2006) that involves non-U.S. listed companies, we collected audit committee members’ ‘knowledge and experience’ data mainly from annual reports. The use of proxy statements as a principal source of data is more common in the studies of audit committee expertise that use U.S. listed companies (see e.g. Abbott, Parker, Peters, et al., 2003; Berdard, Chtourou, & Courteau, 2004; Chan & Li, 2008; Khrisnan & Lee, 2009).
We collected all data regarding SERA, including assuror independence, from stand-alone social and environmental reports and assurance statements. Assurance statements are commonly inserted in this kind of reports, although in a few cases companies publish these statements exclusively on their websites. We collected our data from 2008 sources. An additional data source, the Fortune Global 500 website, provides revenue data for 2008. The sources of all other data are publicly available from companies’ official websites. We provide details on the unusable reports from the websites in Table 1 Panel 2.

‘Knowledge and experience’ of audit committee members. We examine the execution of ‘knowledge and experience’ in SERA by anchoring it in the concept of expertise. Knowledge and experience are the basis of expertise (Herling, 2000). A specific feature of human expertise is that it is dynamic because it must adapt to new needs (Swanson, 2001; see also Dane, 2010). These needs require new methods to address them. Current knowledge and experience may have embodied these needs and reflected the subsequent change in the behaviour displayed. The concept of expertise provides a way to see the execution of knowledge and experience as extending in nature when exposed to new demands. SERA is a newer demand of assurance than financial statement auditing; therefore, audit committees relatively have less applicable ‘knowledge and experience’ (see Gray, 2000, pp. 256-257 for the new demands of SERA practices and knowledge as compared to financial statement auditing). In brief, the examination of ‘knowledge and experience’ execution in SERA is the examination of expertise. Accordingly, we need to determine the expertise that audit committee members currently have.
Commonly, the expertise required for audit committees is in finance or accounting\(^4\). However, accounting expertise reflects the experience and knowledge in financial reporting and its auditing (see, e.g. McMullen & Raghunandan, 1996; Krishnain & Visvanathan, 2008; DeZoort, Hermanson, & Houston, 2008). This suggests differences between the required expertise and empirical evidence from prior studies of corporate governance. Therefore, we decide to examine both types of expertise, although a direct application of the term accounting and finance expertise is rare in the studies of audit committees\(^5\).

We assume that measurement noise may hinder us from obtaining desirable results. For instance, general finance expertise has been insignificant in improving financial reporting (DeFond, Han, & Hu, 2005). This lack of significance makes the relationship between the expertise and assuror independence difficult to examine. Furthermore, measurement noise can result from mixing both types of expertise into one expertise. Such a mixture of expertise has resulted in insignificant results (see specifically Abbott, Parker, Peters, et al., 2003). Therefore, we compared the effect of mixing both types of expertise against a separate expertise in our analyses.

DeFond, Han, and Hu (2005, p. 162) identified the proxies of accounting expertise in audit committees as directors with ‘knowledge and experience’ as public accountants. The experience is common for those who have as public accountants, assurors, chief financial officers, controllers, or chief accounting. Therefore, the

\(^4\)The minimum expertise and experience requirements for audit committee members are commonly found in corporate governance codes.

\(^5\)More often, prior studies of expertise in finance and accounting use the term ‘financial’ as opposed to ‘accounting’ expertise before dividing the expertise into financial accounting expertise and general finance expertise (see e.g. Krishnamoorthy, Wright, & Cohen, 2002; Dezoort, Hermanson, & Houston, 2003; Scarpati 2003, but see Karamanaou & Vafeas, 2005 for an example of uninflected definition of financial expertise).
positions indicate the expertise in accounting. General financial expertise (non-financial accounting expertise in DeFond, Han, & Hu, 2005) refers to CEO’s or presidents of for-profit organisations (DeFond, Han, & Hu, 2005, p. 162). The study considers experience and knowledge other than the aforementioned proxies as representing non-accounting and non-financial expertise. Based on our data, individuals with non-accounting and non-financial expertise can include lawyers, presidents of universities or charitable organizations, and engineers.

We adopted the proxies applied in DeFond, Han, and Hu (2005) because the divisions between accounting and general finance expertise are clear. Furthermore, Krishnain and Visvanathan (2008) adopted the proxies in a relatively recent study. The description of the types of expertise is in Table 1. Additionally, the coding of the expertise for the statistical purpose is available in Table 2.

[Table 2 Summary of variables coding]

The proxy of general assuror independence. Audit committee members are likely to execute the same ‘knowledge and experience’ in financial statement auditing by choosing assurors that have general independence that is similar to the independence required to accountant auditors. Therefore, the proxy of general assuror independence is accountant assurors. In this paper, the assurors from public accounting firms are the first type of social and environmental assurors. Other types of assurors are consultant assurors and individual experts (see Owen, Swift, Humphrey, et al., 2000).

We present the description of all external assurors in Table 1 Panel 3.

We relied on the International Standards on Assurance Engagements (ISAE) 3000 to decide accountant assurors as the proxy of general independence. The formulation of this standard is under the coordination of the International Auditing and
Assurance Standards Board (IAASB). ISAE3000 clearly requires the maintenance of auditor independence for all services of assurance, and demands the production of a prominent statement when the independence is compromised (ISAE3000, 2008, p. 4). Furthermore, IAASB requires professional accountants to explain how the accountants address the requirements in the International Standards on Auditing (ISA) or the basic principles in other engagement standards that IAASB publishes when the accountants are not applying or considering them. Those requirements enforce the maintenance of assuror independence for accountant assurors. Moreover, IAASB is an independent standard-setting body that is under the auspices of the International Federation of Accountants (IFAC) and the oversight of the Public Interest Oversight Board (PIOB). The affiliation to an internationally recognized professional body and the presence of an oversight system for IAASB suggests that ISAE3000 is the product of an established system of international standards. Since ISAE refers to accountants, accountant assurors have well-established standards for assuror independence. Combined with the long tradition of having accountants as independent intermediaries in the context of financial reporting, audit committee members can easily relate the definition of general independence to accountant assurors for SERA.

**The proxy of specific assuror independence.** The proxy of specific assuror independence is the involvement of stakeholders that are beyond employees, shareholders, and other capital suppliers. Employees, shareholders, and other capital suppliers often represent indirect interests on companies’ social and environmental programmes. Therefore, the proportional involvement of direct beneficiaries of the programmes indicates the maintenance of specific assuror independence. We recorded all stakeholder involvement. The reason for this decision is to avoid early dismissal of
any kind of stakeholder involvement data. We added an additional category, i.e. unclear procedures, to describe assurances that have little description of the assurance processes. We present the coding of this variable in Table 2.

**Control Variables.** In this paper, we adopted three control variables. The description of these control variables is as follows. The first control variable is audit committee independence. We chose this control variable for two reasons. First, prior studies of audit committees have commonly related the committee independence with the effectiveness of audit committees to fulfil their duties (see e.g. Collier & Gregory, 1999; Abbott, Park, & Parker, 2000; Carcello & Neal, 2003). Second, audit committee independence is important to protect assurors from dismissal (see specifically Carcello & Neal, 2003). These factors are part of human resource processes (Swanson 2001, p. 304). Therefore, these factors can contribute to the hypothesised associations.

Recent corporate governance codes have established a definition of independent directors. All of these codes have recognized the importance of audit committee independence. Furthermore, most of those corporate governance codes have specified the degrees of independence (see specifically Collier & Zaman, 2005, p. 758). This condition leads us to conclude that some differences in the degrees of independence prevail. Since our dataset comprises companies from different countries, in general, we decided to follow the status of independent directors as reported by companies based on the corporate governance codes they have adopted.

We calculated the percentage of these directors and grouped those committees with 50% or more independent directors into one group. We applied this grouping to control the effect of having greater or fewer numbers of the directors in audit committees. Furthermore, we found similar procedures in Cotter, Shivdasani, and
Zenner (1997), and Anderson, Mansi, and Reeb (2004). We found 42 companies with audit committees that had 50% or more independent members. We found four companies with audit committees that had less than 50% independent members. The coding of this variable is shown in Table 2.

The second control variable is company size. Company size has been related to the ability of companies to host regular audit committee activities (Collier & Gregory, 1999). Regular activities lead to the routine delivery of obligations. Furthermore, company size has positive effects on compliance with corporate governance codes (see specifically Akkermans, van Ees, Hermes, et al., 2007; see also Werder, Talaulicar, & Kolat, 2005 for recent examples of company size effects). In this respect, company size affects the extent to which a company complies with the codes it follows. The effects of company size suggest the economic capture of resource use, i.e. expertise, to meet productivity (Swanson, 2001, p. 304).

We base our measurement of company size on revenues mainly because the dataset contains the world’s largest companies based on their revenues. We grouped companies into two groups. The first group contains companies with revenues reaching nine digits. The second is for those with revenues reaching eight digits. By dividing companies based on the digits in their revenue, we directly divide those companies into large- and small-sized companies. Furthermore, we inherently collect information about companies alongside this division. In this respect, our approach is similar to that of Zelechowski & Bilimoria (2004) for collecting data from the Fortune list. Further information about the coding of these two groups is in Table 2.

The third control variable is the pressure from information intermediaries. A company has more exposure to markets when it is listed in socially responsible
investment (SRI) indices and rating agencies than if exclusively listed in a security market. The criteria of SRI indices and rating agencies connect companies to stakeholders with specific ethical investing interests (see specifically Collison, Cobb, Power, et al., 2009, p. 47). These types of stakeholders represent non-financial demands as well as financial performance demands. These demands introduce motivations to gather verified information from companies. This reasoning is in line with our conceptual framework in which companies feed the information to the information intermediaries, i.e. indices and rating agencies, and produce demands for external assurors to verify information from companies. We present the coding of this variable in Table 2.

3.3 Interview design

We conducted one interview with one of the companies in our dataset. The interview contains semi-structured questions. The questions probe into the whole process of SER, including the whole assurance process. We formulated the questions based on the potentially influential themes of SER reported by Adams (2002, pp. 230-231). Adams uses the themes to capture the reporting process as well as the perspective of key personnel in SER. Beyond the themes, we created questions that allow the participants to add their opinions regarding the themes and the operation of the interview itself. The summary of the questions based on Adams’ themes (2002) is in Appendix 1.

Prior to the interview, we asked one of the participants to review the language of the questions for clarity. All of the initial activities are based on e-mails. We interviewed the group sustainability manager and the data manager who processes all of the SER data. We recorded the interview using a voice recorder. The interview took place at the head office of the company. The interviewees confirmed the
transcription of the interview via e-mail. Furthermore, the interviewees were willing to make further comments regarding any citation of the interview when we asked them.

The background of the company and the context of their report are as follows. The company is transnational. Their SER for 2008 contains a report of their performance in health, safety, security, and environment (HSSE) categories. The assuror of their report is a consultant assuror.

4. Statistical analyses and discussion of the results

4.1 Statistical analyses

We ran chi-square and log-linear tests to examine the association between the current ‘knowledge and experience’ of audit committees and the general assuror independence in SERA (hypothesis 1). The chi-squares contained a 2x2 design of contingency cells for each test we ran for hypothesis 1. We included Fisher’s exact test because some data in the contingency cells contain frequencies of less than five; therefore, they have a sampling distribution that defies chi-square distributions (Cochran, 1954). The likelihood ratio serves as an alternative goodness-of-fit-test for small data. The details of the cells are in Table 3.

We merged the categories of audit committees with finance experts only or accounting experts only with the categories of audit committees with finance and other experts, and accounting and other experts. There were two reasons for this decision. First, the two original categories represent a small amount of companies; therefore, they would have provided little significance. Second, merging the two original categories to the later two categories increases the amount of finance and
accounting experts in both categories. The results of the chi-square tests without controlling for other variables are presented in Table 4.

[Table 4 Results of chi-square tests for the relationships between the execution of current ‘knowledge and experience’ of audit committees to support the general concept of assuror independence in SERA]

The first hypothesis concerns the association between the current ‘knowledge and experience’ of audit committee members and the general assuror independence in SERA. The representation of the ‘knowledge and experience’ is expertise in finance and accounting. In the first test, we examined this association by comparing audit committees that have accounting and finance experts with those that have other experts. The result of this test is in the first row of Table 4. The chi-square value shows that the association, in general, is weak. The likelihood ratio for this relationship supports the result of the chi-square test (see the likelihood ratio in the first row of Table 4). After correcting the model due to the small frequency in other experts’ contingency cells (see Table 3 Panel 1), we conclude the same insignificant association (see the Fisher’s exact test in the first row of Table 4).

We further examined the insignificant result of hypothesis 1 by differentiating audit committees with accounting expertise from those with finance. This division is relevant because mixing these two types of expertise can cause the result (see Abbott, Parker, Peters, et al., 2003). We tested the effects of the divided expertise in three ways. First, we included the categories of audit committees with finance experts and other experts, and accounting experts and other experts. Therefore, this test clearly differentiates finance experts from accounting experts. Second, we integrated the categories of audit committees with accounting and finance experts, and finance and other experts. In the test, we focused on the role of finance experts in audit committees
on the general relationship. Third, we included the categories of audit committees with accounting and finance experts, and accounting and other experts. We emphasized the effect of accounting experts on the general association in this test.

We present the results of these three tests of hypothesis 1 in Table 4. The chi-square value of the first test shows a strong relationship. However, this value represents relationships between variables that have very small frequencies in the contingency cells (see Table 3 Panel 2). Similarly, the likelihood ratio presents a strong relationship; however, one must note the small frequencies of the related contingency cells. Therefore, we turned to the Fisher’s exact test value to determine the nature of the relationship. The result of the Fisher’s exact test is large (see Table 4 row 2). This result suggests that we should disregard the strong relationships from the chi-square and the likelihood ratio. We have the same statistical conditions for the second and third tests (see Table 4 rows 3 and 4). These results show that the insignificant result of hypothesis 1 has an insignificant measurement noise effect from mixing accounting and finance expertise in the audit committee categories.

We used log-linear analyses to examine hypothesis 1 by controlling audit committee independence, company size, and the pressure from information intermediaries. We adopted the likelihood ratio for the goodness-of-fit test. This ratio is relevant for small data. The following cross-tabulation data in Table 5 contains the frequencies of all contingency cells.

[Table 5 Log-linear contingency cells for the interactions between the current ‘knowledge and experience’ of audit committee members, general assuror independence, and control variables]

In preparation for running log-linear tests, we combined the categories of audit committees with finance experts only and other experts only to create the category
of audit committees with finance experts and other experts. Furthermore, we combined the two categories of audit committees, i.e. audit committees with accounting experts only, and those with accounting and other experts, with the category of audit committees that have accounting and finance experts. The purposes of these integrations are twofold. First, we increased the frequencies of accounting expertise in the related contingency cell by adding more audit committees with accounting experts to audit committees with accounting and finance experts. A similar reason applies to the category of audit committees with finance experts only. Second, we needed to collapse the categories of audit committees with small frequencies in order to avoid zero frequencies in the cells and meet the 20% margin of frequencies less than five in all cells. This was the main reason we combined the category of audit committees with other experts only with that of finance and other experts.

After controlling for audit committees’ independence and pressures from information intermediaries, some contingency cells remain at zero expected counts (see Table 5 Panels 1 and 3). The conditions of those contingency cells violate the basic assumption of log-linear analysis, i.e. no expected count less than one. Therefore, we are unable to continue to log-linear analyses for these two control variables.

After controlling for company size, we found that 25% of the contingency cells have expected counts of less than five. This result presents a violation of the 20% maximum margin of expected counts that are less than by 5%. However, the likelihood ratio indicates that this last model is a good fit of the observed data (see Table 6). Furthermore, each contingency cell has an expected count larger than zero. Overall, we concluded the presence of a slight violation of the assumptions of the log-linear test. For
these reasons, we continued to examine the model. We presented the results of the test in Table 6.

[Table 6 The results of the log-linear test for the relationships between the current ‘knowledge and experience’ of audit committee members, general assuror independence, and company size]

The results in Table 6 show that after controlling for company size, audit committee expertise in general has a weak relationship with assurors of SER. The likelihood ratio and Pearson values of the K-way effects (K= 3) and higher order effects (K= 3) suggest the result. Both values show that removing the interaction between company size, audit committee expertise, and assurors of SER has little effect on the model. However, the significant likelihood ratio and Pearson values of the K-way effects (K= 1, 2) and higher order effects (K= 1, 2) all indicate an important variable for the model and at least one important two-way interaction.

The z-scores of the parameter estimates in Panel 2 of Table 6 confirm the presence of the important variable and its interaction with the model. The largest z-score in the model belongs to the interaction between company size and assurors. Furthermore, company size is the specific variable that increases the score because it has the second largest z-score in the model. The significance levels of interaction and company size support this conclusion. Audit committee expertise has the most insignificant effect on the model as a single variable (z = -.438, p = .661). This result shows that the general relationship between audit committee expertise and any type of assuror is insignificant. Therefore, we fail to confirm the relationship hypothesised between the current ‘knowledge and experience’ of audit committees and the general assuror independence represented by accountant assurors.
The second hypothesis concerns the association between the current ‘knowledge and experience’ of audit committees and the specific independence of assurors in SERA. For this hypothesis, we applied partial correlations. The main reason we chose to apply this statistic is because 41 assurance processes in the 52 companies involved only employees, and 11 involved unclear procedures. The distribution of stakeholder involvement data creates significant zero cell counts in contingency cells for our analyses. As a result, we were unable to examine any association with chi-square and log-linear tests. Instead, we decided to apply partial correlation to test hypothesis 2. The tests enable us to observe variations of stakeholder involvement with other variables. The existence of significant variance indicates associations between variables.

[Table 7 The results of the partial correlation tests to examine the relationship between the current ‘knowledge and experience’ of audit committees and specific assuror independence]

As presented in Table 7, the partial correlation between audit committees that have both finance and accounting experts and stakeholder involvement is insignificant. After controlling for auditor independence, company size, and pressure from information intermediaries, this missing relationship remains. Therefore, hypothesis 2 has no statistical support. Finance and accounting experts in audit committees have no association with any stakeholder involvement; therefore, they are not associated with any specific independence of assurors in SERA.

Similarly, we examined the effect of combining finance and accounting expertise on the result of our tests as in hypothesis 1. Therefore, we ran two additional partial correlation analyses. These additional analyses involve audit committees with accounting or finance experts. We combined the categories of audit committees with accounting and other experts and those with finance and other experts the category of audit committees with accounting or finance experts. The results of these additional
analyses present no relationship between each expert and stakeholder involvement \( (r = .00, p = .001 \text{ for each expertise}) \). The same results prevail after controlling for auditor independence, company size, and pressure from information intermediaries. Therefore, the presence of both types of expertise in the analysed audit committees results in insignificant measurement noise.

4.2 Additional analyses

Audit committees function in certain organizational contexts. Turley and Zaman (2004, p. 323) argued, among other things, that other governance mechanisms within organizations may have impacts on reaching corporate governance goals. The objective of this argument is to examine whether audit committees are the mechanism that all companies and market regulators need to focus on. In this respect, we have incorporated audit committee independence as our control variable. Furthermore, we controlled aspects of corporate governance, i.e. audit committee independence, company size, and pressures from information intermediaries, which can affect the mechanism.

However, additional data attracted our attention. We found 16 companies in the sample have additional corporate governance for SER, i.e. CSR committees. Of these 16 companies, seven companies have mixtures of members between audit committees and CSR committees. Moreover, from the 16 companies, nine exhibit the presence of both finance and accounting experts in their audit committees. The rest of the companies have either finance experts or finance and other experts in their audit committees.

The fact that only some companies have CSR committees suggests that these committees are another organizational context. According to Turley and Zaman
(2004), these committees may have effects on the relationships that we examine in this study. Therefore, we acknowledge the importance of testing this additional variable in our two hypotheses. Furthermore, studying the effects of this variable will assist in determining areas for further corporate governance improvement in the context of SER.

We examined the potential of CSR committees and audit committees having joint effects on general and specific assuror independence through partial correlations. The reason for choosing this test is that we were unable to control audit committee independence and pressures from information intermediaries in hypothesis 1 due to the null distribution of data in contingency cells that violates basic assumptions. The partial correlation results are in Table 8.

[Table 8 Results of the partial correlation tests to examine the joint effects of CSR committees and audit committees on general assuror independence]

After controlling for auditor independence, company size, pressures from information intermediaries, and the presence of CSR committees and CSR committees that have audit committee members, we found no relationship between the finance and accounting expertise of audit committees and assurors (see Table 8). Therefore, we conclude that the joint presence of audit committees and CSR committees has not changed the state of assuror independence in SERA. Furthermore, the fact that some CSR committees have the members of audit committees does not result in increased support for assuror independence. We can observe this lack of a relationship from the significantly missing relationship between the expertise of audit committees and assurors in Table 8. In Table 9, we present the partial correlation results for our second hypothesis.

[Table 9 Results of the partial correlation tests to examine the joint effects of CSR committees and audit committees on specific assuror independence]
From the partial correlation test and after controlling for all five control variables, we found an insignificant relationship between the current ‘knowledge and experience’ of audit committee members and stakeholder involvement in assurance processes (see Table 9). Therefore, we conclude that the presence of CSR committees has no effect on the hypothesized association of specific assuror independence. Furthermore, the presence of audit committee members on CSR committees in general has not stimulated stakeholder involvement. Drawing from the general effect, we conclude that the presence of audit committee members in CSR committees does not support specific assuror independence in SERA.

Furthermore, we found significant relationships between company size and the presence of audit committee members in CSR committees. The markers of these relationships are negative (see Tables 8 and 9). The results indicate that the presence of those members on CSR committees is likely to be the result of the size of companies. These results can be the initial indicators of the economizing of corporate governance costs of the functions of CSR committees in SER assurance.

4.3 Triangulation and discussion of the results

In the previous sub-section, we examined our hypotheses together with their control variables. Additionally, we ran additional analyses. The first key finding is that the current ‘knowledge and experience’ of audit committees, as reflected in finance and accounting expertise, has insignificant associations with general assuror independence (H1) and specific assuror independence (H2).

The basis of our first hypothesis is the resemblance of general assuror independence in SERA to that of financial statement auditing. The source of the
resemblance is the role of external assurors as intermediaries in both SER and financial reporting. Therefore, the result of H1 indicates that external assurors in SERA have no intermediary role or importance in the eyes of audit committee members. This result specifically confirms the prior analysis by Belal (2002), who concluded that external assurors in SERA were barely independent. Consequently, the presence of external assurors is part of managements’ control over their social and environmental information, i.e. managerial capture.

The results of our second hypothesis indicate that current ‘knowledge and experience’ of audit committee members are not associated with the specific assuror independence in SERA. The basis of this specific assuror independence is the two-way nature of SERA, in which stakeholder involvement is necessary if dependency on management-provided information is to be minimized. Therefore, the lack of association indicates that the current ‘knowledge and experience’ of audit committee members does not address the issue of stakeholder involvement in SERA. This result points out the specific factors of corporate governance that can hamper the quality of SERA, i.e. the independence of assurors from management-provided information. Furthermore, the result indicates knowledge gaps. Therefore, accounting education, as a part of accounting knowledge, needs to integrate topics of social and environmental accounting with its stakeholder involvement (see specifically Mathews, 1994; Parker, 2001; and Ferguson, Collison, Power, et al., 2005).

In addition to the first key finding, controlling company size results in a strong interaction between company size and assurors rather than between expertise and assuror independence. This result indicates that this economy factor has effects on the
choices of assurors as a reflection of general assuror independence. Specifically, the economy factor is an important consideration in SERA.

The second key finding is that the presence of audit committee members on CSR committees indicates the economizing of corporate governance costs. This finding indicates that in relation to the extension of ‘knowledge and experience’, the presence of audit committee members on CSR committees leads to an insignificant extension of ‘knowledge and experience’ on the part of audit committee members. This finding is important because the staffing composition benefits companies from the economizing effects of having audit committee members in CSR committees. This staffing has unclear benefits for stakeholders.

Overall, our results indicate no significant association between current ‘knowledge and experience’ of the audit committee members and assuror independence in SERA. Therefore, we attempted to determine the perspective of key SER personnel toward boards of directors, specifically their auditing committee, in SER and SERA.

As a beginning, we asked a company about its overall data collection process for SER, and the following is the company’s response:

> We have a tool on our intranet which the business units have access to. So, they report their data via the intranet. We share our reporting tool on the intranet where they insert data (group sustainability manager).

> …

> … There is basically an info path solution for the data tool and every business unit has access to that tool. So, every business unit has a resource to report their environmental data and the safety data as well. So, they enter data to that tool and we collect and consolidate the data and publish it in the sustainability report (data manager).

These answers describe the presence of intranet-enabled electronic processing of data collection in SER from business units at the group level. This process suggests a
bottom-up process of SER data collection, but it unnecessarily refers to the involvement of the whole structure of the company.

We continued to inquire into the organizational structures involved in SER. The following are excerpts of the responses:

The group sustainability team and the business units (group sustainability manager)…
…the majority of our data is collected via the health, safety and environment functions in the business units. Other data like number of employees, group programmes (e.g. anti-corruption) are collected via group functions such as Group HR and Group Legal [functions] (group sustainability manager).

The responses above suggest that the organizational structures involved in SER are divided into group and business unit levels. We probed into the internal control structure of the data collection process. Below is an excerpt of the responses:

… when we get data from the business units, the data manager goes through all the data … to make sure that the figures look ok … Once we have gone through the data the [business units] are asked to verify it again. … that’s the data manager job (group sustainability manager).

This response indicates that the internal control structure of the data collection process is relatively simple. It excludes higher structures in the companies. Therefore, we inquired about the involvement of any higher structures in SER.

When asked whether the board or the audit committee are involved in any level of the reporting process, the following response was given:

No. … The board does not sign off on our sustainability report. … It [the scope of the verification] purely depends on the group sustainability. … We have the mandate to do that (group sustainability manager).

This response suggests that the board of directors and audit committee are normally in a certain distance from SER and SERA. Furthermore, it shows the acceptance of management level structures to be the main decision makers in SER. We
received a confirmation of this acceptance after we had asked whether the interview had left out any significant factors of SER:

... I’ve been thinking [that] in terms of the board, I mean, the group CEO is involved in that we keep him informed. And, obviously, he has the introduction part of the report which obviously he’s involved in. Also, if some of the key messages of the report go into the Chairman’s speech at the annual general assembly, we obviously provide him [with] input about that. Also, some parts of the data from the sustainability report are mentioned in the annual report (group sustainability manager).

In response to one of our closing questions, the group sustainability manager confirmed the centrality of the management level structure in SER. This centrality was also evident in SERA when we asked about the scope of their external assurance and the party who decides the scope:

The scope is defined by the so-called “operational control approach” … (group sustainability manager).

… we simply picked our largest business units and also ensured that there was a variety of business unit … (group sustainability manager).

The condition implied by those answers is that SER is an accepted obligation of accountability, but one with little support and monitoring from the boards and audit committee. The implication of these perspectives in relation to our statistical results is that the non-significant association between the current ‘knowledge and experience’ of audit committee members and assuror independence in SERA can be part of this separated arrangement of SER in the management and board levels.

5. Conclusion and implications of the results

In brief, the results of our examination on the associations between the current ‘knowledge and experience’ of audit committee members and assuror independence indicate the lack of associations. These results suggest that the ‘knowledge and
experience’ of the audit committee members need some adjustments to recognise the importance of assuror independence. Therefore, returning to our research question, it is currently unlikely that these audit committee members are able to secure assuror independence by (1) executing their current knowledge and expertise in financial statement auditing to secure the general assuror independence, or (2) extending their knowledge and expertise to cover the specific assuror independence.

Our interview with one of the companies examined has strengthened our doubts about the ability of audit committees to extend their ‘knowledge and experience’, because audit committees and boards of directors can have little involvement with SER. The interview suggests that the role of management can be dominant in SER and in SERA. The managements of companies retain possibilities to manage information in SER and SERA. As we have discussed, the management of information is a part of managerial capture. Therefore, the issue of managerial capture remains a significant issue to address in SER and SERA.

The implication of the findings is that current efforts to develop SERA policies and practices should exercise less reliance on audit committees, because their ‘knowledge and experience’ are concentrated in financial reporting. Furthermore, the belief that audit committees are part of good corporate governance structures in SERA should be minimised at the current stage in relation to our further analyses of audit committee members’ presence in CSR committees.

Another implication of the findings is related to the conceptual role of audit committees in securing the independence of third party intermediaries in external assurance services. Our findings suggest that these committees are currently unable to secure assuror independence in SERA despite the status of the assurors as third party
intermediaries. Therefore, the validity of the conceptual role of audit committees is weak in the field of SERA. Future studies should attempt to establish the conceptual role of audit committees in the field of SERA or propose other concepts to establish mechanisms to secure the independence of third party intermediaries in SERA.

This paper has some limitations pertaining to the data. First, the number of data in each cells of the chi-square is small. In some cells, the data can be as small as one. Although we have analysed the data using special measurements to minimise the misrepresentation of results, the overall study can benefit from a larger dataset. Second, considering the limited availability of FG500 companies’ data, future studies may need to use a different source of dataset that includes companies unlisted in FG500. These companies are smaller than the FG500 companies are. However, they may still be able to support advanced SER corporate governance and SERA.

Acknowledgements
We would like to thank Dr. Mahbub Zaman, Manchester University, for sharing the inspiration during the early stage of writing this paper, and Professor Iris Stuart, Norwegian School of Economics and Business Administration, for sharing opinions about auditor independence.

References


Figure 1 Conceptual framework and the associations between audit committee ‘knowledge and experience’ and assuror independence
Table 1 General description of the dataset

Panel 1

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Inadequacy of information and status of the reports:

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Panel 2

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Panel 3

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### Table 2 Summary of variables coding

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<td>With non-Accounting and non-Finance experts (other experts) in audit committee*</td>
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* We applied different descriptions of these codes when we tried to examine further the effects of having both accounting and finance experts in audit committees. The description of the changes is in the related explanation of the tests.
Table 3 Chi-square contingency cells for the execution of current ‘knowledge and experience’ of audit committees to support the general concept of assuror independence in SERA

### Panel 1

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</table>

<sup>a</sup>We collapse the frequency in the category of audit committees with finance expertise only to the examined expertise but leave the category of audit committee with other experts only

<sup>b</sup>We collapse the frequency in the category of audit committees with accounting expertise only to the examined expertise but leave the category of audit committee with other experts only
Table 4 Results of chi-square tests for the relations between the execution of the current ‘knowledge and experience’ of audit committees to support the general concept of assuror independence in SERA

<table>
<thead>
<tr>
<th>Comparison</th>
<th>Pearson chi-square</th>
<th>Likelihood ratio</th>
<th>Fisher’s exact test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit committees with Accounting &amp; Finance experts and non-Accounting and non-Financial experts (other experts)</td>
<td>.006**</td>
<td>.006**</td>
<td>.674</td>
</tr>
<tr>
<td>Audit committees with Finance &amp; other experts and Accounting &amp; other experts</td>
<td>.615**</td>
<td>.659**</td>
<td>.414</td>
</tr>
<tr>
<td>Audit committees with Accounting &amp; Finance experts and Finance &amp; other experts</td>
<td>.352**</td>
<td>.354**</td>
<td>.390</td>
</tr>
<tr>
<td>Audit committees with Accounting &amp; Finance experts and Accounting &amp; other experts</td>
<td>1.33**</td>
<td>1.43**</td>
<td>.261</td>
</tr>
</tbody>
</table>

** significant at p > .10
Table 5 Log-linear contingency cells for the interactions between the current ‘knowledge and experience’ of audit committee members, general assuror independence, and control variables

**Panel 1**

<table>
<thead>
<tr>
<th>Audit committee independence</th>
<th>Accountants as assurors</th>
<th>Other assurors</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>With less than 50% independence</td>
<td>Audit committees with Accounting &amp; Finance experts</td>
<td>Count 1</td>
<td>.</td>
</tr>
<tr>
<td></td>
<td>Expected count 1</td>
<td>.</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Audit committees with Finance &amp; other experts</td>
<td>Count 3</td>
<td>.</td>
</tr>
<tr>
<td></td>
<td>Expected count 3</td>
<td>.</td>
<td>3</td>
</tr>
<tr>
<td>With 50% or more independence</td>
<td>Audit committees with Accounting &amp; Finance experts</td>
<td>Count 12</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>Expected count 10.9</td>
<td>18.1</td>
<td>29</td>
</tr>
<tr>
<td></td>
<td>Audit committees with Finance &amp; other experts</td>
<td>Count 6</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>Expected count 7.1</td>
<td>11.9</td>
<td>19</td>
</tr>
</tbody>
</table>

**Panel 2**

<table>
<thead>
<tr>
<th>Company size</th>
<th>Accountants as assurors</th>
<th>Other assurors</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>With 9 digits revenue number</td>
<td>Audit committees with Accounting &amp; Finance experts</td>
<td>Count 7</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Expected count 6.5</td>
<td>2.5</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Audit committees with Finance &amp; other experts</td>
<td>Count 6</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Expected count 6.5</td>
<td>2.5</td>
<td>9</td>
</tr>
<tr>
<td>With 8 digits revenue number</td>
<td>Audit committees with Accounting &amp; Finance experts</td>
<td>Count 6</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>Expected count 7.4</td>
<td>13.6</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>Audit committees with Finance &amp; other experts</td>
<td>Count 6</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Expected count 4.6</td>
<td>8.4</td>
<td>13</td>
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</table>

**Panel 3**

<table>
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<tr>
<th>Pressures from information intermediaries</th>
<th>Accountants as assurors</th>
<th>Other assurors</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies are listed in SRI indices and/or SRI ratings</td>
<td>Audit committees with Accounting &amp; Finance experts</td>
<td>Count 13</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>Expected count 11.9</td>
<td>13.1</td>
<td>25</td>
</tr>
<tr>
<td>Audit committees with Finance &amp; other experts</td>
<td>Count 6</td>
<td>9</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Expected count</td>
<td>7.1</td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>----------------------</td>
<td>----------------</td>
<td>-----</td>
</tr>
<tr>
<td>Companies are not listed in</td>
<td>Audit committees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SRI indices and/or SRI ratings</td>
<td>with Accounting &amp;</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Finance experts</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Count</td>
<td></td>
<td>.</td>
</tr>
<tr>
<td></td>
<td>Expected count</td>
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<td>1</td>
</tr>
<tr>
<td>Audit committees with Finance</td>
<td>Count</td>
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<tr>
<td>&amp; other experts</td>
<td>Expected count</td>
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<td>3</td>
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</table>
Table 6 The results of the log-linear test for the relationships between the current ‘knowledge and experience’ of audit committee members, general assuror independence, and company size

**Panel 1**

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<thead>
<tr>
<th></th>
<th>Likelihood Ratio</th>
<th>Pearson</th>
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<tr>
<td>Goodness-of-fit-test</td>
<td>.00*</td>
<td>.00*</td>
</tr>
<tr>
<td>K-way and higher order effects</td>
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<td></td>
</tr>
<tr>
<td>1</td>
<td>14.927**</td>
<td>16.308**</td>
</tr>
<tr>
<td>2</td>
<td>8.611***</td>
<td>8.340***</td>
</tr>
<tr>
<td>3</td>
<td>1.052***</td>
<td>1.057***</td>
</tr>
<tr>
<td>K-way effects</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>6.316**</td>
<td>7.968**</td>
</tr>
<tr>
<td>2</td>
<td>7.558**</td>
<td>7.283**</td>
</tr>
<tr>
<td>3</td>
<td>1.052***</td>
<td>1.057***</td>
</tr>
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</table>

**Panel 2**

<table>
<thead>
<tr>
<th></th>
<th>Z scores</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company size<em>Audit committee experts</em>Assurors</td>
<td>-.991</td>
<td>.321</td>
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<tr>
<td>Company size*Audit committee experts</td>
<td>-.756</td>
<td>.450</td>
</tr>
<tr>
<td>Company size*Assurors</td>
<td>2.245</td>
<td>.025</td>
</tr>
<tr>
<td>Audit committee experts*Assurors</td>
<td>-.203</td>
<td>.839</td>
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<tr>
<td>Company size</td>
<td>2.010</td>
<td>.044</td>
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<tr>
<td>Audit committee experts</td>
<td>-.438</td>
<td>.661</td>
</tr>
<tr>
<td>Assurors</td>
<td>-.580</td>
<td>.562</td>
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</tbody>
</table>

* Significant at $p < .001$

** Significant at $p < .10$

*** Significant at $p > .10$
Table 7 The results of the partial correlation tests to examine the relationship between the current ‘knowledge and experience’ of audit committees and specific assuror independence

<table>
<thead>
<tr>
<th>Control variables</th>
<th>Audit committees with accounting &amp; Finance experts</th>
<th>Stakeholder involvement</th>
<th>Audit committee independence</th>
<th>Company size</th>
<th>Pressure from information intermediaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>-none- Audit committees with accounting &amp; Finance experts</td>
<td>Correlation</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Significance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stakeholder involvement</td>
<td>Correlation</td>
<td>.</td>
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<td>-.253</td>
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<td>.</td>
<td>.</td>
<td>.36</td>
<td>.111</td>
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<tr>
<td>Audit committee independence</td>
<td>Correlation</td>
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<td>.075</td>
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<td>.36</td>
<td>.</td>
<td>.074</td>
</tr>
<tr>
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<td>Correlation</td>
<td>.</td>
<td>-.253</td>
<td>-.298</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Significance</td>
<td>.</td>
<td>.111</td>
<td>.074</td>
<td>.</td>
</tr>
<tr>
<td>Pressure from information intermediaries</td>
<td>Correlation</td>
<td>.</td>
<td>.109</td>
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<td>.202</td>
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<td></td>
<td>Significance</td>
<td>.</td>
<td>.302</td>
<td>.388</td>
<td>.166</td>
</tr>
<tr>
<td>Audit committee independence; Company size; Pressure from information intermediaries Audit committees with accounting &amp; Finance experts</td>
<td>Correlation</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Significance</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stakeholder involvement</td>
<td>Correlation</td>
<td>.</td>
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</tr>
</tbody>
</table>
Table 8 Results of the partial correlation tests to examine the joint effects of CSR committees and audit committees on general assuror independence

<table>
<thead>
<tr>
<th>Control variables</th>
<th>Audit committees with accounting &amp; Finance experts</th>
<th>Assurors</th>
<th>Audit committee independence</th>
<th>Company size</th>
<th>Pressure from information intermediaries</th>
<th>CSR committees</th>
<th>CSR committees with audit committees’ members</th>
</tr>
</thead>
<tbody>
<tr>
<td>-none-</td>
<td>Correlation</td>
<td>1</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
</tr>
<tr>
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<td>Significance</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
</tr>
<tr>
<td>Assurors</td>
<td>Correlation</td>
<td>.</td>
<td>1</td>
<td>.</td>
<td>.158</td>
<td>.</td>
<td>-.550</td>
</tr>
<tr>
<td></td>
<td>Significance</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.342</td>
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<td>.062</td>
</tr>
<tr>
<td>Audit committee independence</td>
<td>Correlation</td>
<td>.</td>
<td>.</td>
<td>1</td>
<td>.</td>
<td>.</td>
<td>.</td>
</tr>
<tr>
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<td>Significance</td>
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<td>.</td>
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<td>.</td>
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</tr>
<tr>
<td>Company size</td>
<td>Correlation</td>
<td>.</td>
<td>.158</td>
<td>.</td>
<td>1</td>
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<td>-.632</td>
</tr>
<tr>
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<td>Significance</td>
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<td>.342</td>
<td>.</td>
<td>.</td>
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<tr>
<td>Pressure from information intermediaries</td>
<td>Correlation</td>
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<td>.</td>
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<td>Significance</td>
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<td>.</td>
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<tr>
<td>CSR committees</td>
<td>Correlation</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>1</td>
<td>.</td>
<td>.</td>
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<tr>
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<td>CSR committees</td>
<td>Correlation</td>
<td>.</td>
<td>.-550</td>
<td>.</td>
<td>-.632</td>
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<td>.</td>
<td>.062</td>
<td>.</td>
<td>.034</td>
<td>.</td>
<td>.</td>
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</tbody>
</table>

Audit committee independence; Company size; Pressure from information intermediaries

| Audit committees with accounting & Finance experts | Correlation | 1 |
|---------------------------------------------------|-------------|
| Significance                                      | .           |

Assurors

<table>
<thead>
<tr>
<th>Correlation</th>
<th>1</th>
</tr>
</thead>
<tbody>
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<td>Significance</td>
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</tr>
</tbody>
</table>

Table 9 Results of the partial correlation tests to examine the joint effects of CSR committees and audit committees on specific assuror independence

<table>
<thead>
<tr>
<th>Control variables</th>
<th>Audit committees with accounting &amp; Finance experts</th>
<th>Stakeholder involvement</th>
<th>Audit committee independence</th>
<th>Company size</th>
<th>Pressure from information intermediaries</th>
<th>CSR committees</th>
<th>CSR committees with audit committees’ members</th>
</tr>
</thead>
<tbody>
<tr>
<td>-none-</td>
<td>Audit committees with accounting &amp; Finance experts</td>
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<td>-</td>
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<td>-</td>
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<td>-</td>
<td>-.632</td>
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<td>Significance</td>
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<tr>
<td></td>
<td>Audit committee independence; Company size; Pressure from information intermediaries</td>
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<td>-</td>
</tr>
</tbody>
</table>
Appendix 1 Themes of the interview questions adjusted from Adams (2002)

1. Organisational constituencies involved in the decision making process
   - Who are involved in this data collection process? (including what organizational structures are involved? Ad hoc or formal?)
   - Who are involved in this internal verification process? (including what organizational structures are involved? Ad hoc or formal?)
   - Who is the decision maker(s) of the scope of the external verification? (including what organizational structures are involved in the decision making? Ad hoc or formal?)

2. Stakeholder involvement
   - How is data for social and environmental reports collected?
   - In the context of external verification by an external auditor, how is the scope of the verification defined?
   - Who will discuss results of the external verification prior to the issuance of verification statement? (including what organizational structures are involved? Ad hoc or formal?)

3. Reasons for ethical reporting and its increase, and the perceived benefits of ethical reporting
   - Please describe the importance of publishing social and environmental reports for your company.

4. Perceived cost of ethical reporting
   - How much time is needed for internal verification? (average time in days)
   - How much time is needed for data collection? (average time in days)
   - How much time is needed for data editing? (average time in days)
   - How much time is allocated for the external verification itself? (average days)
   - How much time is needed to decide on which verifier to be engaged? (average days)

5. Extent to which the company studies other companies’ ethical reports and refers to guidelines on environmental reporting
   - What are the principles used to collect and input data to the reports?

6. Media used to communicate ethical information
   - In overall, what are the steps to collect, to present and to verify your company’s social and environmental reports?

7. Attitude to reporting information which might be regarded as bad news
   - How is data for social and environmental reports verified internally?
   - What is your company’s current scope of external verification on its social and environmental reports?
   - How does your company ensure the independence of the external verifier? (including factors considered as limiting the independence of the external verifier)
   - Is there anyone in board level have expertise and/or experience in social and environmental reporting? (please specify the position in the board and what expertise and/or experience she/he has)

8. Views on reporting in the future
   - Is there any factor of the reporting processes that has not been discussed? If yes, please describe.

9. Comments on environmental verification
   - Is there any factor of the verification processes (both internal and external) that has not been discussed? If yes, please describe.
Social and environmental reporting corporate governance policies of Fortune 500 Global companies
Social and Environmental Reporting Corporate Governance Policies of Fortune 500 Global Companies

Dewi Fitriasari*

Abstract

Regulators have central roles in establishing public policies. In the context of SER corporate governance, this role leads to different inputs. In this paper, I examine one alternative source of inputs, i.e. the companies. Regulators involve the companies in public policy-making, and considering that the regulators have the central roles, they need to make sure that the inputs that the companies offer serve stakeholder interests. Consequently, the question to answer is what those inputs will contribute to improve the public policy of SER corporate governance. Based on the practices of the first half of the FG 500 year 2009 companies, I find that the inputs support the financial responsibility of the companies. This finding is based on (1) the lack of monitoring process for the implemented SER corporate governance policies, and (2) the absence of the outcome of SER corporate governance information, representing the merits of those policies for the stakeholders. Therefore, the inputs that companies can possibly offer based on their current practices are in the interest of shareholders and financial suppliers. The first implication of the findings is that the regulators need to consider inputs from other groups of the society in policy-making. The second implication involves a call for more analyses of the tendency to arrange only internal control instead of establishing the monitoring and control of SER as the consequence of adopting industry standards.

Key words: SER corporate governance, Fortune 500 Global companies, SER corporate governance public policies, internal control

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1. Introduction

The concept of voluntarism that stimulates companies to participate in SER introduces problems for the development of SER. Paton (2000) observes that voluntarism is useful only to overcome the reluctance of the companies to adopt initiatives that are outside their traditional profit-seeking responsibility. However, stakeholders can be inactive by choice (see specifically Freeman & Phillips, 2002). The possibility of having inactive stakeholders positions companies in the central position of SER. Along with the cost-benefits consideration that the concept of voluntarism offers, the possibilities to direct SER to serve only financial responsibility remain. This direction of SER hinders the development of SER as a practice of accountability to stakeholders with non-financial interests. Therefore, the possibilities to direct SER to serve only financial responsibility lead to another problem, i.e. the marginalisation of stakeholders by the companies to favour their financial responsibility in voluntaristic environment (for the relations between company interests and salient stakeholders, see e.g. Agle, Mitchell, & Sonnenfeld, 1999; Mitchell, Agel, & Wood, 1997; Jawahar & McLaughlin, 2001; Scott & Lane, 2000; Driscoll & Starik, 2004).

As an alternative, Gallhofer and Haslam (1997) propose an interventionist approach to develop SER concepts. The approach supports the use of regulations as tools to develop SER. Within the approach, regulators have inputs from different groups of the society, most likely the powerful groups of the society, as a part of the regulation formulation process to order and forbid (von Mises, 1940, pp.10-11). The opportunity to order and forbid is the benefit of adopting the interventionist approach to develop SER. The possibility to order and forbid should serve to minimise behaviour that deviates from a balanced view of financial and non-financial responsibilities of companies.
because the order and the restriction minimise the options to deviate from stakeholder interests and the related accountability to stakeholders that companies normally have under the concept of voluntarism. Therefore, the interventionist approach offers an opportunity to direct the behaviour of companies towards accountability to stakeholders.

Gallhofer and Haslam (1997) make a further suggestion that the interventionist approach should be the result of wide agreement of groups of the society. A consensus from different groups of the society is important because those groups are the stakeholders of companies. A recent study by Nicholls (2010) demonstrates that although the overall process of SER public policies is negotiated among different groups of the society, the regulators have the central role. This finding indicates regulators as the central actors in the negotiation process and the possibilities for regulators to have alternative inputs about SER from different groups of the society. The implication of this finding is that the regulators must have in-depth knowledge about the alternatives of SER concepts. In the case of companies, regulators need to consider carefully their inputs despite the bargaining power of companies in public policy-making because the inputs are ideas that companies formulate based on their practices.

In this paper, I examine the SER corporate governance policies of one group of the society, i.e. the companies. The decision to examine the inputs from companies is based on the fact that regulators involve companies in the course of public policy-making to seek support (Puxty, Willmot, Cooper, et al., 1987, p. 284). The implication of the involvement is that the regulators will favour the inputs that originate from companies in order to secure support from companies. Therefore, the inputs from companies should have values that serve stakeholder interests. Otherwise, the
interventionist approach of SER stimulates the prescribed policies that do not serve stakeholder interests sufficiently. Therefore, the question to answer is, “what will SER corporate governance inputs from companies contribute to SER corporate governance public policies?”

I take the context of the central role of regulators in formulating SER public policies and the alternatives of inputs that regulators are likely to have in the topic of SER corporate governance public policies¹. Academics have expressed their concern about the inadequacy of SER public policies. The policies ignore the issue of information manipulation in SER by overlooking SER corporate governance (see Adams, 2004; Cooper & Owen, 2007). The basic definition of SER corporate governance is a mechanism designed to minimise the manipulation of information in SER, i.e. managerial capture (see specifically Owen, Swift, & Hunt, 2001; O’Dwyer & Owen, 2005, pp. 215, 216-217). Without regulating SER corporate governance, the mechanism will be under the concept of voluntarism. The implication is that companies can direct the mechanism to serve financial reporting more than it serves SER. However, the interventionist approach demands informed decisions in public-policy making. Therefore, I set out this paper to examine the SER corporate governance practices that can be the base of inputs from companies.

The research question focuses on the merits of possible inputs from companies in developing SER corporate governance public policies. The SER corporate governance inputs in this paper are company SER policies. These policies consist of corporate social responsibility (CSR) standards and the measures, i.e. the SER corporate governance structures that the standards instigate. Accounting policies in companies

¹ In this paper, the term regulator refers to governmental regulators that extend to security market authorities.
contain the accounting standards followed and the measurements applied. The elements of the policies are similar to the elements in the SER policies. Therefore, the use of the term company SER policies in this paper is equal to the use of the term company accounting policies in financial reporting studies.

I follow the characteristics of well-defined standards described by Benston (1982) to hypothesise the merits of SER corporate governance inputs from companies. Referring to the first characteristic described by Benston (1982), the adoption of CSR standards will result in the establishment of accepted organisational measures. I assume this relation to be true and adopt it as the base for the first hypothesis. The fulfilment of the first characteristic suggests that the company SER policies are widely acceptable, replicable, and verifiable (Benston, 1982, p. 10). Following the second characteristic, the adoption of CSR standards will minimise the amount of manipulation of information reported, i.e. the second hypothesis. I relate the latter characteristic to the potential of minimising managerial capture.

The proxy of organisational measure is SER corporate governance structures. In this paper, corporate governance structures refer to structures that host the monitoring and control of adopted standards. I define the type of corporate governance that consists of structures to control as internal control structures. The monitoring function lies in the board structures (see specifically Boulton, 1978, p. 830). Therefore, the full range of corporate governance should include structures in board level. Stakeholder-related board committees are SER board structures (see Luoma & Goodstein, 1999).

The CSR standards are the standards laid down by supra-national bodies, SER guidelines by NGOs, and SER industry standards. These issuers of standards are
different from regulators because, unlike public policies under an interventionist approach, the standards that these issuers produce are voluntary standards. These standards represent standards that have some level of wide acceptance such as GRI (Global Reporting Initiative) G3, SA8000, and AA1000\(^2\). I use the outcomes of SER corporate governance structures to detect the minimisation of information manipulation. The minimisation of information manipulation is one of the merits for adopting standards. The base of these proxies are the concept of structural legitimacy (Suchman, 1995).

Findings from companies studied in this paper indicate that companies adopt CSR standards, although the adoption does not lead to the establishment of SER corporate governance structures as the accepted organisational measure of implementing standards. The manipulation of information remains a problem, because the adoption of CSR standards does not instigate the corporate governance structures that potentially can minimise such manipulation. Furthermore, the sample companies do not demonstrate any result from the structures, and thereby, the manipulation of information potentially remains. Provided these practices are the results of company policies, the merits of company policies are lacking. When proposed as inputs to public policies, company policies will offer little to improve SER corporate governance public policies.

The findings have two implications. The first implication is that the regulators need to take precautions when formulating SER corporate governance public policies. To use policies that companies are currently using entails a need to add inputs

\(^{2}\) The formulation of voluntary standards involves companies, NGOs, and scientists (see specifically Kolk, van Tulder, & Welders, 1999). Therefore, the resulting standards reflect some level of wide acceptance despite the voluntary nature of the adoption by companies.
from other groups of society, i.e. NGOs and academics. The second implication is a conceptual implication that arises from the significant role of industry-formulated standards. These standards create more internal control than a full range of corporate governance in board level while SER in internal control indicates total management control over SER. SER in corporate governance suggests the monitoring of SER by the representatives of stakeholders in stakeholder-related committees in addition to the internal control by the management (see Luoma & Goodstein, 1999). The monitoring by the representatives of stakeholders in stakeholder-related committees indicates the merit of implementing standards. Provided industry associations need to demonstrate that their members have commitments towards stakeholder interests, the result indicates limited commitment of the industry association to improve SER, and thereby, needs further studies.

In the next section, I present the conceptual framework and the hypotheses. I continue the section by presenting the methodology that I adopt to examine the data. Next, I present and discuss the results of the statistical tests in the section following the methodology section. Finally, I conclude the study and present the implications of the study in the last section.

2. Conceptual framework and hypotheses
2.1 Conceptual framework for fostering SER corporate governance concepts within public policies

SER corporate governance is a mechanism designed to minimise the manipulation of information in SER (Owen, Swift, & Hunt, 2001; O’Dwyer & Owen 2005, pp. 215-217). The managements of companies have a tendency to manage negative and positive social and environmental information in the resulting reports (see e.g. Deegan & Rankin, 1996; Cerin, 2002; Jenkins, 2004; Palazzo & Richter, 2005; Magness, 2006;
Holder-Webb, Cohen, Nath, et al., 2009; Tilling & Tilt, 2010). The tendency prospers because stakeholders gain knowledge about companies based on the information exposed to them (Wigley, 2008). The rest of the information remains private information that companies own. Therefore, a mechanism that minimises the manipulation of information serves the interests of stakeholders in order to avoid managerial capture.

When stakeholders, including shareholders, turn to information about companies in socially responsible investment (SRI) markets, they depend on information intermediaries to obtain the information (see specifically Healy & Palepu, 2001, for the general framework in security markets). In turn, those intermediaries gather company-produced social and environmental information (Porter & Kramer, 2006). However, the type and extent of information that the companies give to information intermediaries are beyond the control of those intermediaries (Chatterji & Levine, 2006). Accordingly, the need for any mechanism that can minimise the manipulation of information in SER remains strong.

The strong need for mechanisms to minimise the manipulation of information in SER is generally a motivation for establishing those mechanisms. There is a strong probability that companies recognise this motivation and attempt to conceptualise SER corporate governance in addressing the need because:

1. companies, shareholders, and other capital suppliers support out-of-court actions to settle disputes through administrative internal governance, i.e. corporate governance (see specifically Williamson, 2005), and
2. Companies need support from stakeholders who control resources that the companies need (see Sethi, 1979, for the social contract between companies and stakeholders; see also Roberts, 1992, and Ullman, 1985, for the application of the contract under stakeholder theory).

The two explanations above are voluntary drivers for companies to conceptualise SER corporate governance under the pressures from shareholders and other stakeholders.

The need for a fairly interventionist approach arises from the need to direct the behaviour in such a way that it can be supported by the public opinion that motivated the intervention in the first place (von Mises, 1940, pp. 10-12). In the case of SER corporate governance, academics have expressed their concern about the inadequacy of SER public policies that ignore the importance of SER corporate governance. This concern is a part of the public opinion as academics are members of the society. Provided public opinions drive the regulators to improve public policies, the regulators should consider conceptualising SER corporate governance.

The central role of the regulators is, in fact, the very nature of an interventionist approach. Nicholls (2010) reported the central role of regulators in the process of negotiating SER public policies. Implied in the process is that the regulators will get inputs from different groups of the society. While the process is a democratic process based on the freedom to express opinions, it has a bottom line. The centrality of the regulators requires that the regulators must care about public, i.e. stakeholder interests regardless the fact that companies are also the stakeholders of regulators.

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3 In his book, von Mises (1940) discussed interventionism, liberalism, capitalism, socialism, and communism. In my paper, I adopt the term interventionism as a general way to change the behaviour of companies based on the broad acceptance from groups of society. The extent to which interventions take place to address an issue is the factor that differentiates political forms of order (von Mises, 1940).
When the regulators have central roles, they must have a clear view about the merits of each input from each group of the society. Otherwise, the regulators will seem to be merely ‘accommodating’ stakeholder interests, while their decisions are under the control of companies (see specifically von Mises, 1996, pp. 31-32, for a discussion of how public concerns should drive regulators and how interventionism can be destructive for a nation). Therefore, examining the SER corporate governance inputs that companies conceptualise based on their current policies will be a valuable way to disclose the merits of the inputs.

In the next sub-section, I introduce two characteristics of well-defined standards that assist in determining the merits of SER corporate governance concepts from companies. Benston (1982) built the characteristics to assist the future discussions of accounting standards of CSR-related issues. I formulate two hypotheses based on the two characteristics to determine the merits of SER corporate governance policies in companies.

2.2 Hypotheses

Benston (1982) established two characteristics of well-defined standards. The two characteristics are based on agency theory concerning the distance between shareholders and companies. The managements of companies will avoid the publication of any data that will be against their own and shareholder interests in order to maintain support from the shareholders (Benston, 1982, pp. 9-10). Benston argues that accounting standards can solve the problem by instigating the accepted organisational measures (Benston, 1982, p. 10). The accepted organisational measures are the first merit of inputs that companies can possibly contribute to policy making on the basis of their current practices.
There is abundant evidence within SER of how the managements of companies avoid the publication of data that will not serve their interests and the interests of shareholders. Literature using legitimacy theory provides notable streams of evidence for the avoidance through the manipulation of negative and positive information (see e.g. Clarke & Gibson-Sweet, 1999; Mobus, 2005; Coupland, 2005). Therefore, the intention to protect the interests of companies and shareholders is strong.

Provided (1) the companies will protect the interests of shareholders as well as their own interests and (2) the companies do need the resources that stakeholders have, the companies will formulate SER corporate governance policies to maintain support. As with accounting policies in companies, SER corporate governance policies should determine the CSR standards adopted. These standards should instigate certain organisational measures in the form of SER corporate governance structures if the companies want to signal that their policies, and thereby their inputs, have certain merit. Therefore, for the first hypothesis, I conjecture the following.

**H1.** The adoption of CSR standards has positive effects on the creation of organisational measures.

However, to signal that their policies have merits because the policies result in organisational measures is only the first step. The next step is to demonstrate that the policies will reduce the manipulation of information. Benston (1982, p. 10) stated that accounting standards are useful in this respect, as their organisational measures should result in insignificant manipulation of information. This second criterion is the key merit of company SER corporate governance policies, because it refers to the outcomes of the standards as opposed to physical measures that signal efforts to minimise the manipulation of information. Any reported perceived effects of
the structures on the minimisation of information manipulation will suggest that the structures have actual merits. Moreover, because the adoption of standards are the results of company policies, the merit of inputs that company can contribute to policy-making depends on the presence of merit from adopting CSR standards. Therefore, I conjecture the following for the second hypothesis.

**H2.** The adoption of CSR standards has positive effects on the minimisation of information manipulation.

I depict the overall conceptual framework and the hypotheses in Figure 1.

[Figure 1 The conceptual framework and the relations analysed]

### 3. Methodology

#### 3.1 Data

Kolk (2008) reported that the first half of the Fortune Global (FG) 500 companies had begun to incorporate corporate governance aspects in their reporting. Therefore, I collected data from the first half of FG 500 companies for the year 2009. The list comprises the world’s largest companies based on their revenues. The reason to use the 2009 list is to ensure that all companies had had their reports published publicly by the time I collected the data.

I applied two criteria for including companies in the data collection process. The first criterion is the publicly listed status of the companies. All the companies must be publicly listed companies. Publicly listed companies normally have to have corporate governance because of the distance between the owners and the managements of the companies. This distance creates space, enabling the managements to build private information (Berle & Means, 1932; Jensen & Meckling, 1976). The
private information includes information that shareholders need in order to ensure that the companies serve their interests (Fama & Jensen, 1983). Therefore, stakeholders have a distance problem similar to the one that shareholders have with companies.

I have established that the role of corporate governance is to reduce the problem in accessing private information that only companies have access to and interests to manage for their financial responsibility, i.e. managerial capture. The objective of this paper is to examine SER corporate governance inputs to regulators that companies conceptualise based on their SER corporate governance policies. Therefore, the use of publicly listed companies increases the likelihood of data availability. This criterion results in 213 companies. Table 1 shows the general description of the dataset from the websites.

[Table 1 General description of the dataset]

The second criterion is the publication of separate social and environmental reports. Using the separate reports is vital as integrated reports in the form of annual reports very rarely present the practices that companies actually have (see specifically Unerman, 2000; Wiseman, 1982). From the 213 publicly listed companies, 132 companies have social and environmental reports accessible for public use (see Table 1 for further description of the usability of data, including the details of private companies from the first half of the FG 500 list).

The main data source for all variables in this paper is separate social and environmental reports publicly accessible from company websites. The data sources for other variables in this paper are company websites with the exception of information about company size. I compiled information about company size from the FG 500
website. This website is also accessible to the public. In brief, all data sources used in this paper are accessible to the public.

Although my data collection period extends only until the end of 2009, the public accessibility of the data should allow replications of this paper. During the period, I had 14 technical problems with publicly listed companies’ websites. Therefore, any replication of this paper should consider the technical and data collection period aspects of this paper. The detailed description of the dataset is presented in Table 1.

3.2 Variables and measurements

I use SER corporate governance inputs to refer to ideas that companies can propose to policy makers. Companies can formulate these ideas based on their SER policies. In this paper, the use of the term SER corporate governance policies is equal to the use of accounting policies by companies that are related to choices of standards and the accompanying organisational structures of corporate governance in financial reporting studies (see e.g. Hagerman & Zmijewski, 1979; Hope, 2003; Klapper & Love, 2004; Watts & Zimmerman, 1990).

**CSR standards.** In the first hypothesis, I conjecture that the adoption of CSR standards will have positive effects on the creation of SER organisational measures. In this paper, CSR standards are standards and guidelines that supra-national bodies, NGOs, and industry associations formulate. These standards are voluntary standards that comprise of CSR principles and targets. Guidelines by NGOs such as the GRI are guidelines for SER that consist of principles and structures for reporting social and environmental activities. Moreover, I assumed that all companies follow national regulations, e.g. environmental regulation issued by the Ministries of Environment. A significant number of companies adopt a mix of NGOs and supra-national standards.
Standards such as EMAS represent standards issued by supra-national bodies. As presented in hypotheses 1 and 2, these standards should have positive effects on the two expected merits of adopting and implementing the standards.

**SER organisational measures.** For the first hypothesis, I conjecture that the adoption of CSR standards will have positive effects on the creation of SER organisational measures. The merits of adopting CSR standards are that the resulting policies reflect widely agreed, replicable, and verifiable policies⁴. I adopted the concept of structural legitimacy from Suchman (1995) to operationalise the term *wide agreement from different groups of the society* as the merit of adopting CSR standards.

Suchman (1995, p.581) introduced structural legitimacy as a type of moral legitimacy because stakeholders will perceive a company as good when the company establishes certain structures that are morally appropriate to address an issue. Implied in this concept is the agreement and support from stakeholders when a company demonstrates proper structures for addressing an issue. In addition, such support depends primarily on the presence of physical structures within the companies, showing that the companies are potentially capable of conducting the intended activities (Suchman, 1995, p.581).

In this paper, the issue raised by the adoption of CSR standards is the monitoring and control of the standards implemented. This issue is a common issue when adopting standards. Prior studies of accounting standards suggest that the choices and implementation of accounting standards depend on the incentives of the preparers of the reports (see e.g. Ball, Robin, & Wu, 2003; Jeanjean & Stolowy, 2008; Zmijewski

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⁴ Benston (1982, p. 10) describes the merits as the merits of adopting SER accounting standards. In my paper, the choices of standards and their adoption are part of the SER corporate governance policies in companies. Therefore, the merits from the adoption of standards are part of the merits of the policies.
& Hagerman, 1981). These management incentives can undermine the original purpose of the standards through the presence of dysfunctional behaviour, and thereby, the implementation needs monitoring and controls.

The structures that support all monitoring and control mechanisms of reporting in companies are corporate governance structures (Williamson, 1984, p. 1203). Since the monitoring function is at the board level, I classified all structures that do not have board-level links as internal control (see Table 2). Because the aim of corporate governance structures is to monitor and control the implemented standards, the structures are the morally appropriate structures to address the issue, and thereby, they are accepted organisational measures. Additionally, corporate governance structures have physical form. The physical presence enables the stakeholders to observe and compare. Therefore, the structures have replicability and, thereby, verifiability merits.

[Table 2 Details of corporate governance structures related to adoption of standards]

**The minimisation of information manipulation.** For the second hypothesis, I conjecture that the adoption of CSR standards will have positive effects on the minimisation of information manipulation. The SER corporate governance structures are structures that accompany the adoption of SER standards. Therefore, the outcome of the structures is the resulting outcome from adopting CSR standards. In this respect, the use of the outcome fits the second criterion given by Benston (1982), i.e. the minimisation of manipulated information.

I used the outcome of SER corporate governance structures as a proxy for this variable. As the reason for manipulating SER information is to serve the interests of shareholders and managements, any outcome that serves the interest of stakeholders...
suggests a lower potential for such manipulation (see also O’Dwyer, 2003). Since the available concept refers to any outcome that serves the interest of stakeholders as indicating a lower potential for manipulated information, any outcome from SER corporate governance structures indicate lower manipulation of information. In order to ensure that the outcome is the outcome of SER corporate governance, I strictly examined pages where companies described their corporate governance in their social and environmental reports. I did not record the description of jobs related to each structure as the outcome. Moreover, because I only recorded the outcome that companies reported, the outcome is the potential outcome according to companies. Therefore, this proxy is not intended as a direct measurement of companies’ actual performance from the perspectives of stakeholders.

When the section ‘Corporate Governance’, ‘Good Governance’, or ‘Governance’ existed in a social and environmental report, I strictly collected the data from the sections. Otherwise, I searched in other sections such as ‘Our Approach’ and ‘Strategic Priorities and Engagement’. As the focus is the outcome of SER corporate governance structures, I examined only companies that have such structures. This filter reduces the number of companies to 32 companies.

**Control variables.** This paper integrates three control variables. The first control variable is stakeholder pressures. The pressures come from the companies’ needs for resources that stakeholders have (see Sethi, 1979, for the social contract relations between companies and stakeholders). Support from stakeholders ensures the uninterrupted flow of the resources. In return, the companies disclose their private information that stakeholders need to establish their perception towards companies. When the disclosures emanate from stakeholders’ concerns, the companies are under
stakeholder pressures to incorporate intermediaries between companies and stakeholders (see Healy & Palepu, 2001, for the relation in the context of financial reporting and security markets). The intermediaries who address the concerns from stakeholders are assurors of social and environmental reports. These assurors are a part of social and environmental reporting assurance (SERA). Therefore, I examine the involvement of companies in SERA as a proxy for the presence of stakeholder pressures.

The second control variable is market pressures. The emergence of SRI has resulted in a pressure on the companies to disclose social and environmental information that the companies own (Friedman & Miles, 2001). In the case of SRI security markets, the pressures from the markets are observable through SRI information intermediaries, i.e. SRI indices and rating agencies that collect information regarding the companies. The companies react to the pressures by offering SER corporate governance as an internal administrative alternative to the courts (Williamson, 2005). Therefore, I adopted information intermediaries as the proxy for the presence of market pressures.

The third control variable is company size. Company size can affect the sophistication of the corporate governance established in the companies (see e.g. Craven & Marston, 1997; Akkermans, van Ees, Hermes, et al., 2007). Reportedly, company size also determines company behaviour in SER (Adams, Hill & Roberts, 1998). I adopted revenues as the proxy for company size. The revenues data are accessible from the FG 500 website in dollar values. All details of variable coding are presented in Table 3.

[Table 3 Details of variable coding]
3.3 The model

For the two hypotheses, I conjecture that the companies will adopt CSR standards that can fulfil the criteria of well-formulated standards. In this respect, the CSR standards are the predictor variables, while the other two variables, i.e. organisational measures and the minimised potential of information manipulation, are the outcome variables.

The predictor variables are categorical. The control variables are also categorical with company size as the exception. For this mix of variables, I run logistic regressions to test the two hypotheses. The type of the logistic regressions is forward stepwise. The decision to choose forward stepwise is to conclude the hypothesis based on the strongest variable proxies that can affect the relation predicted. The general model for the two hypotheses with the control variables is as follows.

\[
P(Y) = \frac{1}{1 - e^{-(b_0 + b_1 \text{SPst} + b_2 \text{NGOst} + b_3 \text{Indst} + b_4 \text{LnSize} + b_5 \text{Stkpr} + b_6 \text{Mktpr})}}
\]

with

- \( \text{SPst} = \) Supranational bodies’ CSR standards
- \( \text{NGOst} = \) NGOs’ CSR standards
- \( \text{Indst} = \) Industry CSR standards
- \( \text{LnSize} = \) Company size
- \( \text{Stkpr} = \) Stakeholder pressure
- \( \text{Mktpr} = \) Market pressure
- \( Y = \) Organisational measures OR the minimised potential of information manipulation
All variables are categorical variables. I present the details in Table 3. More explanations about the variables are in the related variable measurement sections.

4. Results and discussion of the results

4.1 The first hypothesis: The adoption of CSR standards and organisational measures

Before running the logistic regression to test the first hypothesis, I run linearity and multicollinearity analyses. The linearity analysis is performed in order to check whether the transformed company size proxy is linearly related to the outcome variable, i.e. organisational measures. I adopted Mansfield & Helms (1982) for the VIF value significantly larger than 1.0 as the indicator of multicollinearity. Additionally, I analysed any tolerance value less than 0.1 as a cross-reference to the VIF value. The results of these analyses are given in Table 4. The results show no issue of collinearity. Additionally, the transformed company size proxy met the assumption of linearity in logistic regression. I present the results of the logistic regression for hypothesis 1 in Table 5.

[Table 4 Linearity and multicollinearity analyses for hypothesis 1]

The results of the forward stepwise logistic regressions suggest that CSR standards from industry initiatives have significant effects on the initial model (see Table 5, Panel 2, Step 1). Combined with company size, which is a control variable, the model has slightly better significance (see Table 5, Panel 2, Step 2). However, the initial model predicts that the adoption of CSR standards result in SER internal control structures instead of SER corporate governance structures.

I examined the residuals to observe whether the model contains data points that can result in bias of model fits. I applied two measures, i.e. Cook’s Distance
and DFBeta. All the residual values are within the parameter of Cook’s Distance and DFBeta. Therefore, the model fits.

4.2 The second hypothesis: The adoption of CSR standards that potentially minimise the manipulation of information

I run linearity and multicollinearity tests before continuing with the logistic regressions. The principles of running these preliminary tests are the same as those presented for the first hypothesis. The results of these tests are shown in Table 6. The results show that some variables, i.e. NGOst, Indst, Stkpr, and Mkptr, have high VIF values. However, their tolerance values are significantly far from the minimum margin of 0.1. Therefore, I conclude that those variables meet all requirements for logistic regressions.

[Table 6 Linearity and multicollinearity analyses for hypothesis 2]

I applied the same forward stepwise logistic regression to test hypothesis 2. The results of the regressions can be found in Table 7.

[Table 7 Forward stepwise logistic regression predicting the potential of minimised manipulation of information from the adoption of CSR standards]

The results of the logistic regressions in Table 7 (Panel 1) show that the potential to minimise the manipulation of information from the adoption of CSR standards is insignificant in the initial model. SERA, as the proxy of stakeholder pressure (Stkpr), has the highest negative effect on the result that was expected from the adoption (see Table 7, Panel 2). When combined with SRI indices and ratings as the proxy for market pressure (Mkptr), the level of significance is lower, although the previous proxy remains significant.
4.3 Discussion of the results

The results from the analyses of the first hypothesis suggest that the adoption of CSR standards, except for standards issued by industries, has an insignificant effect on the instigation of organisational measures. Returning to the discussion in the methodology section, the central issue of adopting CSR standards is related to the monitoring and control of the implementation. The structure that deals with the monitoring and control function in companies is corporate governance. Internal control constitutes only the control part of corporate governance. Therefore, the adoption of CSR standards by the companies in my sample does not result in the organisational measures expected.

Benston’s (1982) first criterion of well-defined standards requires the standards to provide widely accepted organisational measures. This criterion is a criterion for CSR accounting standards. When the companies decide to adopt standards, their choices reflect their company policies. Based on this relation between standards and company policies, the failure to meet the criterion is a failure of policies. Since the first hypothesis reveals the unfulfilled criteria from the adoption of CSR standards, the policies behind the choices suffer from the same condition.

The results of the analyses of the second hypothesis suggest that the adoption of CSR standards fails to show any potential to minimise the manipulation of information in SER. Benston (1982) states that well-formulated standards should instigate the potential to minimise such manipulation of information. Provided the adoption of those standards is the reflection of company policies, the policies do not live up to Benston’s criterion either. The policies do not meet the ultimate merit of standards, i.e. to minimise the manipulation of information.
The first key finding from the analyses of the first hypothesis indicates that the structures of reporting are present, although the structures tend to be in the form of internal control instead of a full string of corporate governance. Additionally, the industry standards instigate these internal control structures. The tendency to concentrate the structures in the form of internal control suggests that, at best, the monitoring duty of SER is an added duty to the monitoring of financial reporting. To this point, an imbalanced view of company financial and non-financial responsibilities and unclear mechanisms of safeguarding stakeholder non-financial interests prevail.

In the light of prior studies of SER corporate governance, the finding related to hypothesis 1 specifically supports the suggestion that Cooper and Owen (2007) made. Cooper and Owen (2007) stated that while administrative reforms, indicated by reports and the related structures, had increased in number, the institutional reform to empower stakeholders as a part of accountability to stakeholders is lacking. Provided the empowerment of stakeholders includes the creation of mechanisms and structures to safeguard their interests, the tendency of structures within the studied companies reflect support to shareholders and financial suppliers.

The second key finding related to the second hypothesis suggests that even if SER corporate governance structures are present, the potential of information manipulation remains significant. The outcome of the structures is largely undetectable from the reports. However, the descriptions of each structure involved in SER are available in the reports. The lack of information about the outcome of SER corporate governance structures leads to difficulties in determining the level of information manipulation in the reports. In turn, the difficulties in determining the level of information manipulation lead to the lack of informational values of the reports for
stakeholders. Accordingly, current SER corporate governance structures fail to direct the content and course of the reports as a practice of accountability to stakeholders.

5. Conclusion and implications of the study

The results of this paper suggest that company SER corporate governance policies tend to refer to internal control instead of a full string of corporate governance, i.e. monitoring and control. Additionally, the industry-formulated standards instigate the results. Provided the companies conceptualise their SER corporate governance inputs based on their policies, their inputs will tend to support SER internal control instead of SER corporate governance.

Furthermore, since company policies also fail to minimise the manipulation of information, the inputs build upon policies that do not exhibit the ultimate merit of adopting and implementing CSR standards. This finding suggests that the CSR standards do not instigate the potential to minimise the manipulation of information. The potential is undetected because the outcomes of the SER corporate governance information are barely detectable or referred in the social and environmental reports by the companies. The absence of the information also indicates a limitation to collect the data from the reports.

However, the interventionist approach will allow companies to propose their concepts. The role of the regulators is to filter and refine the alternatives of concepts that they receive. The issue with this approach is to ensure that the regulators act in the best interest of the stakeholders. Otherwise, the regulators will produce public policies that do not adequately serve the stakeholders, and thereby, stakeholder interests will be marginalised.
From the theoretical point of view, the findings disclose the relations between industry-formulated standards and the tendency to have internal control instead of corporate governance. This relation needs further conceptualisation as to how and why the standards instigate such tendency. Internal control refers to total management control over processes within a company. This control reflects the distance between companies and stakeholders to monitor and control SER. Provided the stakeholders control non-financial resources that a company actually needs, the distance mimes the agency problem that the distance between companies and shareholders has created. Therefore, answers to those questions will assist in answering the ‘agency’ problems between stakeholders and companies. From practical perspectives, the findings suggest that the regulators need to seek and consider other alternatives of inputs when formulating the related public policies.

Acknowledgements

I would like to thank Professor Claus Holm, Aarhus School of Business and Social Sciences, Aarhus University for guiding me during the writing process of this paper, and Karin Vinding for providing premium language editing service during the last stages of this paper.

References


Figure 1 The conceptual framework and the relations analysed

- Inputs from other groups of the society as the stakeholders of regulators
- Regulators

Companies as one of regulators’ stakeholders

- SER Corporate Governance inputs (based on company SER Corporate Governance Policies)
- Adoption of CSR standards

H1

1. Accompanying organisational measures
2. The potential of minimised manipulation of information

H2

Maintaining support from shareholders & other stakeholders
### Table 1 General description of the dataset

#### Panel 1

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<td>Number of reports from publicly-listed companies’ websites</td>
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</tr>
<tr>
<td>Number of reports unusable from private companies’ websites</td>
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<td>Number of 2008 reports unusable from publicly-listed companies’ websites</td>
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#### Panel 2

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<td>Total number of 2008 reports unusable</td>
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<tr>
<td>Total</td>
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### Table 2 Details of corporate governance structures related to adoption of standards

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<th>NGOs standards only</th>
<th>Industry standards only</th>
<th>Supranational &amp; NGOs standards</th>
<th>Supranational &amp; Industry standards</th>
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<td>Mktpr</td>
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Spst = Supra-national bodies’ CSR standards  
NGOst = NGOs’ CSR standards  
Indst = Industry CSR standards  
LnSize = Company size  
Stkpr = Stakeholder pressure  
Mktpr = Market pressure
Table 5  Forward stepwise logistic regression predicting the presence of corporate governance structures as the organisational measures from the adoption of CSR standards

**Panel 1**

*Initial model*

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**Panel 2**

*Forward stepwise model*

**Step 1: Indst**

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**Step 2: Indst & LnSize**

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**Residuals**

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<tr>
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</table>

*significant at $p \leq .01$

** significant at $p < .05$

SPst = Supra-national bodies’ CSR standards
NGOst = NGOs’ CSR standards
Indst = Industry CSR standards
LnSize = Company size
Stkpr = Stakeholder pressure
Mktpr = Market pressure
## Table 6 Linearity and multicollinearity analyses for hypothesis 2

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Spst = Supra-national bodies’ CSR standards
NGOst = NGOs’ CSR standards
Indst = Industry CSR standards
LnSize = Company size
Stkpr = Stakeholder pressure
Mktp = Market pressure
[Table 7 Forward stepwise logistic regression predicting the potential of minimised manipulation of information from the adoption of CSR standards]

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<td>Model removal (log LR):Mktp</td>
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Residuals
Cook’s distance | < 1 |
DFBeta | < 1 |

*significant at $p \leq .01$
** significant at $p < .05$

Spst = Supra-national bodies’ CSR standards
NGOst = NGOs’ CSR standards
Indst = Industry CSR standards
Mktp = Market pressure

LnSize = Company size
Stkpr = Stakeholder pressure
Building a framework of global cooperation beyond the economic performance of companies in developing nations
Building a framework of global cooperation beyond the economic performance of companies in developing nations

Dewi Fitriasari*
Constance Kampf**

Abstract

We examine the emerging generative force in developing SER (social and environmental reporting) that focuses on the economic performance of companies from developing nations. The focus raises our concern because it suggests that the development of SER is for shareholders and other capital suppliers. We observe that the focus is in direct contradiction to the original generative force of SER, i.e. stakeholder interests. This leads to the marginalisation of other stakeholder groups’ interests. In order to shift the focus of developing nations, cooperation between developing nations and international SER standard setters is important because the cooperation is a place for negotiating and transforming conceptions. We adopt the sociological approach to culture because SER in developing nations have significant relations to national conditions. The history of subjectivity outlines the stages of social actors to give insights into their cultural values. The technology of the self with its care of one-self introduces the concept of social actors’ liberation from the history of subjectivity and thereby, to elaborate and transform their self-conceptions in relation to others’ conceptions of their identity. Construct of empty signifiers as used by Laclau assists to allow communication between social actors as the processes of empty signifiers bring homogeneous and heterogeneous particulars in one place. Findings from our case study of a historical progression of Indonesia from the third century to the present day suggest that the mix of national context and universal standard focuses is desirable provided all social actors are willing to communicate and transform their conceptions.

Key words: Social and environmental reporting, accountability, culture, empty signifiers, history of subjectivity, technology of the self

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**Department of Language and Business Communication, Aarhus School of Business and Social Sciences, Aarhus University, Fuglesangs Allé 4, DK-8210 Aarhus V, Denmark. E-mail: cka@asb.dk
1. Introduction

Social and Environmental Reporting (SER) in developing nations can be understood as both an act of reporting and an implementation of Corporate Social Responsibility (CSR) at the intersection of local and global concerns. There are three key approaches to understanding SER in developing nations. First, as a company strategy for managing international pressures and dimensions of international stakeholder management (Belal & Owen, 2007; Belal & Roberts, 2010; see also Islam & Deegan, 2008). Second, as a process contingent on national, political, social and economic conditions (see Jamali & Mirshak, 2007; see also Teoh & Thong, 1984). Third, as a governmental process for securing the economic performance of companies (Gugler & Shi, 2009). The third and second approaches have similarities. Both approaches argue that the development of SER is contingent to national conditions. The difference is that the third approach promotes a way to see national conditions as progressive conditions made possible by the direct involvement of national government to protect the economy performance of companies.

The third key approach secures only the interests of shareholders and other capital suppliers. This is problematic because findings from prior studies of SER in developed nations suggest that focus on the economic performance of companies results in the filtering of positive, as well as negative, information to secure the interests of shareholders (see e.g. Cormier & Gordon, 2001; Cormier & Magnan, 2003; Coupland, 2006). In this kind of practice, SER becomes a tool of managerial capture instead of a tool of accountability to stakeholders.
Provided accountability to stakeholders is the objective of SER, this paper focuses on strategies for securing the interests of wider groups of stakeholders through a focus which goes beyond the economic performance of companies to include national conditions as a precursor for decision making with respect to the contents of SER reports. This implies a framework of cooperation between companies, the national government, local society, international society and the global markets.

In this paper, we use a post-modern approach to global and local cultures as key elements for building a framework of cooperation, arguing that SER reporting guidelines need to be contextualised in a framework that enables the interaction between national and global interests to be transformative in both directions. The paper is divided into four sections. The section "Understanding empty signifiers and history of subjectivity in intercultural collaboration contexts" presents our conceptual framework. This framework focuses on stakeholder interests as a generative force in developing SER in order to minimize the need for managerial capture and thereby, to move beyond the economic performance of companies. We argue that a sociological approach to culture based in Laclau's empty signifiers and Foucault's history of subjectivity within the creation of technology of the self can be used as an analytical tool for stakeholder alignment. The section, “Indonesia: A case study,” presents the implementation of our sociological approach to culture in a developing nation that has historical records of SER. Finally, in the last section, we conclude and present the implications of our study.
2. Understanding empty signifiers and history of subjectivity in intercultural collaboration contexts

2.1 The intercultural context of SER and the resulting generative forces

The global concerns about climate change and the global connections of SRI security markets in the form of SRI Indexes have put companies in all nations under the scrutiny of stakeholders as well as shareholders and capital suppliers. Consequently, companies try to address social and environmental issues in their operations because the scrutiny represents the threats of support retrieval by stakeholders as well as shareholders and capital suppliers. The reporting of social and environmental practices becomes important to communicate the related performance. Subsequently, SER international guidelines become important for companies because the guidelines provide the principles and structures of reporting (Göbbels & Jonker, 2003; Hedberg & von Malmborg, 2003; Logsdon & Lewellyn, 2000; Perez & Sanchez, 2009). The guidelines enable companies to replicate the SER processes in a comparable manner. Therefore, the guidelines stimulate more social and environmental reports by companies which information otherwise remains private information.

From the perspective of stakeholders, the adoption of SER guidelines by companies is a step. The adoption is significant because the guidelines assist to institutionalise stakeholder involvement in the whole processes of SER by including stakeholder involvement as the main principle (Brown, de Jong, & Levy, 2009). Stakeholder involvement introduces other voices and opens dialogues between companies and stakeholders with a view to integrate the needs of stakeholders in business operations (Adams & Whelan, 2009; Bebbington, Brown, & Frame, 2007; Gray, Dey, Owen, et al.,
In this respect, stakeholder interests are the generative force in developing SER that aligns stakeholder and companies.

However, a different generative force in developing SER begins to enter the discussions about SER. Efforts to develop SER in nations that struggles with their national economy, i.e. developing nations, focus on the economic performance of companies. This focus is a reaction to the requirements of SER principles and standards that companies from those nations are unaccustomed to although the concept of living in harmony with the nature and within the society can pre-exist in the cultures of those nations. The unpreparedness of these companies weakens their competitiveness in global markets and thereby, is a threat to the economic performance of companies (Gugler & Shi, 2009). Because the economic performance of those companies affects the national economy, the focus is relevant to those nations. The concern over the economic performance of companies suggests that the generative force in developing SER is shareholders’ and capital suppliers’ interests, i.e. a part of managerial capture, although the link to the issue of national economy is justifiable from the perspective of social justice and human rights.

The different generative force is an important issue of SER because it implies managerial capture that involves the management of information to serve shareholders’ and capital suppliers’ interests (see Bebbington, 1997; Owen, 2000; O’Dwyer, 2003). Managerial capture leads to selection of information that supports the interests of shareholders and capital suppliers in maximising their wealth. Under managerial capture, stakeholder interests are subordinated. Therefore, a framework of SER that is based on the
economic performance of companies has little relevance to local and global stakeholders provided markets and business operations are globally connected. These stakeholders should have little incentives to align themselves with the framework.

The two different generative forces in developing SER present two different priorities. We have presented that the two different priorities are reflections of different conceptions of issues important in global and national levels. These conceptions are far from instantaneous and, to some extent, are the results of national conditions. Furthermore, the consequences of these conceptions affect all parties. Therefore, the framework of SER in developing nations needs to have structures to examine the different conceptions, the national conditions of developing nations, and the results of their SER conceptions in relation to the conceptions of global others. In the following sub-section, we present the sociological approach to culture as an approach that can enable us to examine differences in SER conceptions in context. Differences in context produce these differing SER conceptions, allowing us to distinguish approaches to SER in developing nations versus global organizations and probing the conceptions for a transformation.

2.2 The sociological approach to culture

The sociological approach to culture assumes that culture provides capacities to enable the construction of general strategies of action (Swidler, 1986). The strategies of action are regarded as general level of strategy because they represent a chain of actions beginning with habits, moods, sensibilities and the perspective towards the world (Jepperson & Swidler, 1994, p. 364; Swidler, 1986, p. 277). The strategies of action are the results, habits, moods, sensibilities and perspectives towards the world emerge from conditions
attached to these strategies of action. Swidler (1986) presents culture as functioning in the form of a tool that influences both the organisation and shape of those links. Therefore, we assume that culture is a capacity provider in this approach.

As a capacity provider, culture creates an empty space that individuals or entities should occupy to instigate strategies of action. Thus, the position of individuals or entities, i.e. social actors, as habitué of culture plays an active role instead of a passive role (Kaufman, 2004, p. 340). Accordingly, the sociological approach to culture allows social actors to find, elaborate and transform cultural values in formulating their strategies of action, instead of merely being directed by the values of culture.

The next issue that the sociological approach to culture needs to explain is the technology to find, to elaborate and to transform the values of culture in formulating strategies of action. In Ethics: Subjectivity and Truth, Foucault (1997, p.88) argued that efforts to understand, to elaborate and to transform experience are parts of history of subjectivity. The efforts to understand experience reflect efforts to classify the experience and learn the effects of the classifications on the establishment of the values of rightness in culture. Foucault uses the classification of madness and the resulting constitution of rational subjects to introduce the idea of classifications and the establishment of cultural truth as a result of the classifications. Therefore, to find the values of culture is to understand the classifications of right and wrong in the culture.

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1 The term entity in this paper refers to any entity that has people as the representatives of the entity because, unlike an individual, an entity is unable to voice a perspective although the perspective itself can be as obvious as, for example, the traditional responsibility of a company which is to maximise shareholders’ wealth.
The technology to elaborate and to transform the values of culture requires more than the understanding of classifications. The elaboration and the transformation of values require social actors to liberate themselves from the classifications of values that they find and form their own perspectives on how habits, moods, sensibilities and the perspective towards the world link to their actions. The formation of the perspectives is the conceptions of social actors.

In *Ethics: Subjectivity and Truth*, Foucault (1997, pp. 90-92) presented the ability to liberate one-self from the repression of value classifications in culture as a part of the technology of the self. The technology of the self is a care of one-self under new relations to other social actors. Within the technology of the self, social actors must play an active role to liberate themselves from any repressions of prior classifications of values, i.e. history of subjectivity, and thereby, to refine their conceptions of acts based on their new relations to one another. Because the refinement of acts is the key of the concept, a refusal to elaborate and to transform suggests (1) a breach of ties between social actors, (2) a denial of the ability of social actors to renew the covenants of their ties, (3) degenerative effects on all parts of social actors, and (4) a denial of prognostic values of visions that social actors have.

However, in a case where two conceptions are based on very different habits, moods, sensibilities and the perspective towards the world, the conceptions raise tensions between social actors because of different resulting actions they align themselves with. In the context of SER development in developing nations, the conception of the national government result in the alignment of governmental actions with the company actions to
serve shareholders’ and capital suppliers’ interests. In the context of international guidelines, the conception of standard setters results in the alignment of actions with stakeholder actions to be involved in SER. In turn, the tension can hamper social actors to advance because none of the social actors is willing to cooperate while they occupy a globally linked world. In another scenario, the cooperation can and is formally exist. However, it represents the economy power of companies from few countries in the world that raises a reservation about the readiness of companies to compete in the part of developing countries representatives. Within the later scenario, the cooperation represents an artificial cooperation because it maintains the superiority of certain power without reference to the existing reservations. The worst scenario of results from this kind of cooperation is hollow commitments in the part of developing nations that hinder any substantial development of SER in the countries. The best scenario of results is the raising consciousness of the presence of “the others”. In either scenario, a framework that opens the possibility to create mutual understanding between those social actors is an urgent need.

Laclau (1989, 1992, and 2001) and Laclau (n.d./2000) presented tensions between two parties that have different bases of conceptions as the tension between the universal and the particulars. Laclau (1992, p. 89) argued that

...the universal is part of my identity insofar as I am penetrated by a constitutive lack —that is, insofar as my differential identity has failed in its process of constitution. The universal emerges out of particular not as some principle underlying and explaining it, but as an incomplete horizon suturing a dislocated particular identity.

....

Now a third alternative emerges: the universal is the symbol of a missing fullness, and the particular exists only in the contradictory movement of asserting a differential identity and simultaneously cancelling it through its subsumption into a nondifferential medium.
Laclau (1992) presented that the universal actually consists of the particulars that manage to focus on and represent a specific conception that matters most to them. The seamless support towards the conception sends a message to other particulars that reside outside of the universal that the universal is a homogeneous or, homogenised group of the particulars. In order to extend its influences, the universal must include the rest of the particulars, and thereby, accept the consequences that the universality of its base of conception becomes more heterogeneous.

As the heterogeneous become a generic brand of universality, the universal reaches the status as an empty signifier (Laclau, 1989, p. 80; 1992, p. 90; 2001, p. 11). Laclau argues that only from the inclusion of the heterogeneous particulars that the universal becomes more open because the universal becomes a dynamic group that consists of the representatives of different bases of conceptions. As a conclusion, by including other particulars, the universal is now able to transform its own conception as well as to facilitate the transformation of conception of the heterogeneous particulars.

Returning to the different bases of conceptions between SER standard setters and developing nations, the tension between the two parties are the tension between the universal, i.e. the standard setters, and other particulars, i.e. developing nations. The standard setters are the universal because it consists of the particulars that have homogeneous base of conceptions, i.e. to involve stakeholders in SER. The developing nations are other particulars that have a different conception, i.e. to secure the economic performance of their companies. In order to advance together, developing nations need to be in the universal, i.e. the group of standard setters. In turn, the universal needs to facilitate
the different conception of the developing nations, and facilitates the transformation of the conception with a view to transform its own conception and thereby, transform the base of the conception, i.e. the values of culture. The resulting actions are cooperative actions to advance together.

Although the universal attempts to extend its influences to the heterogeneous particulars, the effort needs to be differentiated from the repressive actions of a regime. The purpose of a regime is to secure the ideology that establishes the regime by teaching others to practice a discipline. To differentiate the process behind the formulation of empty signifier from the repressive process of a regime, we present a discussion from Foucault’s *Discipline and Punish: The Birth of the Prison*.

In *Discipline and Punish: The Birth of the Prison*, Foucault (1995) utilised the processes of a court, a military camp, and an orphanage to present the disciplining processes practiced by the court, the military camp, and the orphanage. The process of a court is process of judgement and punishment for failures to execute the pre-fabricated tasks. The process of a military camp is a training of correctness for individuals that include the observation of the exercise in a mechanism that the individuals participate in.

The process of an orphanage is a mix of processes of both the court and the military camp. The pupils are trained to learn correct behaviour and observed based on the delivery of the behaviour. When they fail, the punishment is the other end of the discipline. The difference of the punishment in an orphanage from that in a court is that in the orphanage, the punishment is in the form of corrective training. In a court, the punishment
is the practice of imposing the term of illegality that the court and its constituencies established (Foucault, 1995, p. 282).

The processes of disciplining and punishing the individuals in Foucault’s essay are vivid processes of mental institutions. The vividness of the processes reaches the level of which the processes become as solid as the physical existence of the disciplining and punishing institutions. At the same time, the processes are discreet in the sense that the result is intangible behaviour to observe others and discipline oneself. In this respect, the whole processes of disciplining and punishing individuals recreate and secure the ideology of correctness that a regime teaches. Therefore, the processes deny other ideologies of correctness.

In Laclau’s empty signifiers, the processes that the homogenous particulars practice reflect the process to occupy the empty space of democracy (Laclau, 2001). Integrated in one group, these homogeneous particulars become the universal. Other heterogeneous particulars are the counterparts of the universal. The attempts to extend the influences of the universal to the heterogeneous particulars are natural efforts of democracy in which the homogeneous particulars try to occupy but need the other particulars to participate in.

Once the other particulars participate in it, the universal becomes a dynamic group that can acknowledge and work with different bases of conceptions for SER standards. Unlike the processes of institutionalising correctness in a regime, the processes of empty signifiers guarantee any party to secure dominance over others. Therefore, Laclau’s concept of empty signifiers is different from the repressive processes of a regime.
In Figure 1, we depict the framework that we have discussed in this subsection. The figure depicts the layers of experience underlying cooperation between the universal, i.e. international standard setters, and other particulars, i.e. developing nations. These layers can be seen as working together in the form of a process—whereby the initial, separate stage for both global and local action chains is represented through their own history of subjectivity—with emerging economies as the particulars and international standard setters as playing the role of the universal. This initial layer is accessed through a search for cultural values to fit actions into existing classifications. In other words, a history of subjectivity helps to reveal the values of culture.

Thus, in the model depicted in Figure 1, each of the different strategies of action in the centre boxes C and C' are supported by cultural resources in the form of habits, moods, sensibilities and perspectives on the world. The arrows to boxes B and B' and A and A' demonstrate this layered relationship.

These habits, moods, sensibilities and perspectives affect implicit assumptions about SER reporting by affecting definitions of social responsibilities from corporations, and perspectives on the benefits and costs that corporations have for that particular society or social system. These definitions and implicit assumptions can be understood as reflections of the values of culture (as described in the history of subjectivity). In turn, they also work together to elaborate the values of culture as we move from boxes B and B' to the chains of action represented in boxes C and C'.

Developing nations and international standard setters both use and make choices in SER reporting through applying available strategies of action (boxes C and C')
and the resulting chains of action which draw resources from boxes B and B', and in turn are determined in their separate histories of subjectivity shown in boxes A and A'.

The negotiation of SER conceptions between emerging economies and international standard setters reflects Laclau’s process of empty signifiers that act to transform conceptions. The transformation is currently depicted as one way—that strategies of action that rely on stakeholder interests to establish SER are defined by universal standard setters should change the strategies of action in developing nations contexts. However, following Foucault’s processes in finding and elaborating the values of culture as a basis for chains of action that, in turn, interact across world views through empty signifiers, a single generative force for SER cannot suffice because the result would be replacing rather than transforming strategies of action. The universal offers no covenant of cooperation. The absence of covenants situates the other particulars to accept the single generative force for SER without reference to cultural values exploration that is the cornerstone of establishing substantial strategies of action. Thus, a bidirectional transformation and dialogue become important for the universal and the other particulars. In order to make the transformation bidirectional and open up dialogue between developing nations and international standard setters, an additional generative force is required—that of SER based on the economic performance of companies.

The centre of Figure 1 demonstrates an interaction through the process of empty signifiers located between chains of action in different context. This interactional space is the key place where the interaction between strategies and the resulting action chains in Indonesia or other emerging economy country contexts and chains of action
inspired by global SER reporting standards occurs. The significance of this interaction is the possibility to transform both actions and conceptions even though values and cultural resources that underlie them are different.

The transformation of conceptions regarding SER is important for developing nations that generally face a context where the generative force of SER is based on the economic performance of companies. Underlying assumptions for this perspective include the notion that SER and the CSR that follows are a matter of income and expense. However, global frameworks for SER often look away from or beyond economic performance, focusing on the social performance with respect to stakeholders as the generative force of SER reporting. This gap in underlying assumptions causes global frameworks for reporting based on social performance to be limited in their effects for developing nations. This is because developing nations have a basic need to keep economic performance in focus.

Thus, when the development of SER takes SER and the CSR that follows beyond social capital and stakeholder focused perspective by also including the issue of income and expense, companies in emerging economy contexts will begin to manage information with a view to maintain financial supports from shareholders. We have presented this condition in the previous section as a condition of managerial capture. The consequence of this financial-based conception is that the development of SER in developing country contexts takes the direction of conceptualizing SER from a financial perspective only. A balanced view of financial and stakeholder responsibilities that should drive the development of SER is unachievable because of the potential to concentrate only
on the financial-based conception, i.e. managerial capture. Accordingly, this imbalanced view under-serves stakeholders and thereby, undermines the social contract between companies and stakeholders.

For international standard setters, the possibility to transform conceptions is conceptually part of their efforts to extend their influences and teach the conceptions that base their chains of action as universal. However, to become inclusive to developing country needs, the possibilities for transforming conceptions do not replace, but rather maintain the original conceptions, i.e. stakeholder interests, while acknowledging the process of empty signifiers that makes it possible to align their conception with the economic performance of companies conception of developing nations. The transformation of conceptions should generate a balanced view of company responsibilities that serve the needs of both developing nations and universal principles for stakeholders with an expanded notion from both parts regarding required accountability. Therefore, the transformation represents a move towards a balanced view of company responsibilities to meet a wider set of demands in accountability.

We will look at the interaction of particular, country-based strategies and actions chains with strategies and actions chains set up by global SER reporting agencies in the next section. The interaction over time between the local, particular circumstances in Indonesia and global forces for SER standards offers a basis for demonstrating the cultural resources that shape Indonesia’s approach to SER, reminding readers that an early instance of a written SER practice in Indonesia is dated in the 1930s. We present the case study with an emphasis on the cultural resources because the link to these resources determines the
substantiality of actions that deserve evaluations. Thus, SER is not only an external phenomenon imposed on Indonesia by international standard setters, but also an internal resource formed by the history of industry in the context of Indonesia as a developing nation with emerging economy.

[Figure 1 The framework of cooperation for transforming conceptions]

3. Indonesia: A case study

Our interest in Indonesia is based on the fact that it has historical records of SER preceding international SER reporting standards, although the number of records is limited. Nevertheless, the presence of the records enables us to examine early perspectives on SER. We secured a copy of the historical archive in SER from the Mangkoenagara Royal Library, Surakarta, Indonesia. The document is a copy of consolidated 1938 financial statements of Mangkoenagara businesses. The document contains reports for 1936 to 1938 activities. The document is written in Dutch.

We will explain a brief business history of the context from which this early SER document emerged in Indonesia together with the historical records of SER from the Mangkoenagara businesses to present the Indonesian values of business culture. To examine the moods and sensibilities towards SER as a history of subjectivity as well as an elaborated value, we also included an interview with one of the current management board members of NCSR (National Center for Sustainability Reporting). The centre is an Indonesian centre that the Institute of Management Accountants in Indonesia co-sponsors. The centre provides training and certification for SER preparers.
The interview is a recorded interview. Prior to the interview, we sent the overview of the questions to the interviewee. The purpose of sending the overview is to gain comments as to whether the questions are understandable or whether they need further modifications. The interview is in Indonesian language. We translated the transcription into English. Before the interview, we gained an approval to use the resulting recorded data for our research. Furthermore, the interviewee agreed to permit the use of the recorded data for five years, starting from the day of the interview, June 18, 2010. The interviewee has received the electronic copy of the recorded data. Furthermore, the interviewee is willing to provide further comments when needed. All of the initial communications with the interviewee are by e-mails.

The interview was designed as a semi-structured interview. We developed questions of the interview from Swidler’s concepts of settled and unsettled cultures within the sociological approach to culture. The concept follows the basic framework of sociological approach to culture in which culture is a provider of habits, moods, sensibilities, and perspective of the world (Swidler, 1986). Unsettled culture refers to culture that attempts to teach coherent ideology to others. This culture depends on others’ acceptance for survival (see Swidler, 1986). In this respect, the unsettled culture resembles the universal, i.e. international standard setters.

The settled culture refers to a culture that has different competing ideas in it to create refinements as continuities of styles in organising the strategies of action (Swidler, 1986). Provided a nation contains different ideas evolving to reach refinements over its history, developing nations can be understood as settled cultures. The interview provides insights into unelaborated and elaborated values of SER in Indonesia. Therefore, the
interview is a part of the data that we examine to present the presence of history of subjectivity and the technology of the self to form strategies of action. We presented the interview questions in Appendix A.

We use the combination of historical documents, the history and cultural resources underlying Indonesian business culture and strategies for action, and current initiatives of SER in Indonesia in conjunction with the interview mentioned above. This combination allows us to present the elaboration process of Indonesian business culture values through strategies of action that are the results of elaborating the values of business culture. Finally, we contrast the conception underlying both values and strategies of action with that of international standard setters to probe a new cooperative base of conception for both parties with both economic and stakeholder interests working together as shared generative forces for developing SER in developing nation contexts.

3.1 A business and SER history in Indonesia: The search for values of business culture

The framework (Figure 1) is a framework of cooperation to change conceptions in developing SER. This framework demands insights into SER, the related CSR, and the other business activities that accompanying SER and CSR. In this context of evaluation, Box B in Figure 1 should lead to values of business culture, SER and the related CSR. Accordingly, business activities, CSR and SER historical data are the appropriate data for this discussion. Results of the discussion should point to the values of SER within business and CSR activities during the relevant historical period.
This sub-section refers to Box B from Figure 1—culture as the provider of habits, moods, sensibilities, and perspectives on the world. In turn, these habits, moods, sensibilities and the perspective of the world reflect underlying values of culture. Therefore, the data analyzed for Box B link the search for the values of culture to the elaboration of culture in the form of action in Box C.

We collected printed data, internet data and journal articles as the sources of our data. The use of secondary sources of data for the study of culture allows us to reveal the discourse of culture relating to Indonesian business culture (see Griswold, 1992, for the debate on meaning and culture in the study of culture using the sociological approach to culture). The implication of using secondary data is that we are unable to present any mood and sensibilities that pertain to individuals, but rather approach habits and perspectives through an analysis of the secondary data. Nevertheless, the sources of data are appropriate for our study because the primary sources of data are either unavailable or inaccessible for our use, e.g. primary data of business activities in the 3rd century of Indonesia.

Brown (2003) finds that China had the earliest documented international trading history with Indonesia. Evidence from China records the presence of trading activities with Indonesia from as early as 500 B.C. Java, an island in Indonesia, was part of the trade route that linked China to the Roman Empire in the Mediterranean. Moreover, Brown noted that a document from China dated 3 A.D. described large Indonesian ships entering China for trading purposes. Therefore, Indonesia’s involvement in international trading activities was not a history of passive trading in which Indonesian ports acted as hubs for trading activities from other nations.
Indonesia’s early international trading history with the Europeans began when the Portuguese envoys came to Molluca. However, the European colonization era in Indonesia began with the growing interests of the Netherlands in Indonesia. The Dutch presence in Indonesia itself began with the arrival of a Dutch envoy led by Cornelis de Houtman in June 1596 in Banten, Java. Since this first envoy, unregulated voyages of Dutch shippers drive profits from Indonesian spices down (Ricklefs, 1993, p. 28). Ricklefs further explains that eventually in 1602 these competing companies merged and formed the VOC (Vereenigde Oost-Indische Compagnie). However, in 1604, there was fierce competition between English East India Company and VOC in Ternate, Tidore, Ambon and Banda. After that, an enforced cultivation system in Indonesia and the dominance of the Dutch government in managing trading activities eradicated Indonesia’s active history in international and local trading (Alexander & Alexander, 1991; Post, 1996).

Although Indonesia’s active history in trading was eradicated, Indonesia progressed in finance industry. In 1895, the Indonesians exercised an early banking system tied to religious matters, in order to manage funding for local mosques during the colonization era (Bank Rakyat Indonesia, 2011). In addition to the banking system, the first stock exchange in Indonesia was established in 1912 by the Dutch government in Indonesia (Indonesia Stock Exchange, 2011).

The secondary sources documenting business activities in Indonesia that we presented above indicate that the context of business culture in Indonesia had four key features: (1) active international participation in business activities, (2) indirect participation in business activities for most Indonesia people during the colonization era
except for certain elite groups, (3) active involvement in the development of a banking system through the exercise of an alternative banking system, and (4) indirect participation in the mechanism of capitalism, i.e. stock exchange. Overall, the values of business practices above are a mix of government as well as private values to conduct businesses.

A notable early written historical record of SER in Indonesia is the consolidated 1938 financial statement of Mangkoenagara businesses. Mangkoenara businesses were a group of businesses that was founded by the Indonesian Monarch in the late 1800s (see Nijhoff, 1950 for the history of the businesses). The document contains reports for business activities in the period from 1936-1938. Some of the accounts represent activities that suggest recognition towards employee and other stakeholder needs. We refer to these accounts as social accounts. The accounts represent activities related to:

1. pension funds, and
2. people funds.

The pension funds are pension funds for employees of Mangkoenagara companies. With the exception of the hotel businesses in the Mangkoenagara companies, all companies present pension fund accounts.

The people funds in Mangkoenagara businesses are social funds managed in corporation level. The funds cover:

1. funding to pay the tuition fees of basic and advance industrial courses, and
2. free health access for students and teachers in the health clinic of Tasikmadoe factory which mainly produced sugar (one of the factories owned by Mangkoenagara).

Further evaluation of the people funds account reveals both governmental and corporate levels initiatives in the creation and management of social accounts. The initiator
of the account is the government of the local Dutch colony. The concept was elevated in
1919. The first objective of the account is to reduce the increasing discontent among people
in the area. The second objective is to maintain the intellectual capital that supports

To this point, we concluded that, in the historical context of Indonesia,
government-related programmes drove the creation and management of accounts. In the
case of Mangkoenagara companies, efforts to reduce people’s discontentment were the
initiating force for people funds. The management of this account is part of the popular
credit scheme by the Dutch government. In 1919, village banks had new status. Village
banks became philanthropic associations (Schmit, 1994). The supply of qualified human
resources for businesses is the secondary driver. Based on the historical data and the studies
presented above, the values of SER culture in Indonesia can be described as (1)
philanthropic, (2) tied to government participations to instigate the process, and (3) tied to
the economic performance of companies.

3.2 Finding the values of SER: A history of subjectivity

This sub-section refers to the process between Box A and Box B in Figure 1, i.e. the
process for finding the values of culture. The process is a process of linking back to the
existing values of culture, i.e. history of subjectivity. This process is a process in which
related actors engage to be able to form strategies of action through the elaboration of
values of culture. Therefore, the process is different from the process of searching or

2 Popular credit scheme is a credit scheme for Indonesian people during Dutch colonial period. This scheme is
a part of the welfare policy to reduce discontentment on the Dutch government in Indonesia (Maddison 1989,
p. 656).
formulating the values of culture as described in the previous section. Additionally, because the process refers to existing values of culture, the values discussed represent those of existing values of culture.

The data that we bring in here comes from a recent (2010) interview with one of the current management board members of NCSR (National Center for Sustainability Reporting), which focused on current strategies for action. In the beginning, we asked whether SER initiatives come from inside or outside Indonesia. We received the following responses:

Both, I think.
....
I think, there are influential people related to the field. Especially in agriculture, ..., the issue of sustainability is very important.
....
We tried to introduce that it is obligatory for our colleagues in companies to realise that the underlying principles of sustainability is the right way of doing businesses (member of the NCSR management board).

The initial answers provide a confirmation of SER and CSR as recognised knowledge in the culture, although, based on the expectations from companies, CSR is not a way of doing business. This expectation indicates that for Indonesian companies, CSR activities are currently understood as ad hoc activities. The economic performance of companies is the focus of companies for both reporting and developing business strategy. This focus is a focus that has historically existed in the Indonesian business culture. This focus is an indication of the values of Indonesian business culture traceable by companies and our interviewee through a history of subjectivity in which the economic performance of companies is the primary focus for defining company responsibility.
To find out whether SER initiatives originate from outside or inside Indonesia, or both, we asked a question about the effects of outside initiatives on the development of SER in Indonesia. The following response confirms the response to question one by providing more detail about how the initiatives come from both directions.

Outside initiatives have influential effects. Those NGOs [that concern about SER] have tremendous data relating to existing issues [in SER]. However, I think the initiatives will not be effective if the pressures come only from outside. Therefore, the initiatives should be also from inside. Otherwise, we [our colleagues in companies] will present the skin of the reporting while we want them to realise that [the reporting] is of highly important issue for them... (member of the NCSR management board).

By presenting the “skin of the reporting,” the interviewee indicates that if pressure for SER reporting is only an outside pressure, the reports will comply in the “letter of the law” sense rather than the “spirit of the law” sense. We probed further into existing initiatives in Indonesia by asking a question about how SER has been documented in Indonesia. We received the following answer.

...[at least] the routes should include Indonesian publicly listed companies and foreign companies in Indonesia. However, we expect all publicly listed companies, when the time is right, will adopt SER as an obligation. [Therefore], in the future we will have not only audited financial reports..., but also ...sustainability reporting (member of the NCSR management board).

The expectation that Indonesian public companies are to adopt SER when the time is right indicates that, at the time of the interview, the perspective towards company responsibility remains, to some extent, in the area of company financial responsibility. This view indicates the history of subjectivity in which companies and related institutions such as the Indonesian National Center for Sustainability Reporting attempt to interact with the current Indonesian business culture by linking their view with existing values.
We probed further to examine the extent to which companies and related regulators in Indonesia tried to find links to existing values of business culture. We asked a question about the history of SER practice in Indonesia. The following answer presents a link to existing local wisdom that Indonesia earlier had independently created the concept of sustainability, but it was forgotten in the development of the nation due to short term and pragmatic economic needs. The pragmatic needs are also part of existing business culture. Therefore, the following response reflects the links to complex and intertwined values as a part of history of subjectivity.

If we review it chronologically from the creation of local wisdom [there was] a developing condition that ignored local wisdom to emphasise more on pragmatic economy... (member of the NCSR management board).

To conclude this discussion, the history of subjectivity in relation to the development of SER in Indonesia is evident in current thinking around developing SER in Indonesian business contexts. We detected efforts to first find the values of existing business culture that put emphasis on the economic performance of companies, and saw that these values were developed as response to local immediate and pragmatic needs even though earlier local wisdom understood stakeholder needs as an important part of doing business. In the following section, we discuss interview questions that connect elaborations of Indonesian business culture values with strategies of action.

3.3 Elaborating the values of SER and its underlying CSR to form strategies of action: Technology of the self and empty signifiers

The elaboration of Indonesian SER values and the underlying CSR is the process that links Box B and Box C in Figure 1. This process demands that the social actors elaborate the
values found in the previous process linking box A to box B. However, as in a settled culture, the elaboration should show competing ideas that exist at the same time (Swidler, 1986). The social actors attempt to elaborate the ideas to reach refinements, although the conceptions behind the elaboration are the same. The maintenance of conception is part of maintaining the same style of conducting SER resulting from the existing habits, moods, sensibilities, and perspective of the world in a settled culture. Therefore, the elaboration of values refers to the co-existence of existing and newer but competing ideas within the same period with a view to reach a refinement.

The process of finding the values of SER within the existing business culture indicates that the value is similar to that of the existing business culture, i.e. the economic performance of companies. We asked some questions about the development of SER in Indonesia to gain insights not only into the existing practices, but also into the ideas behind the reporting. The following are the excerpts of the answers.

...when problems arise, they [companies] begin to acknowledge ecosystem, social and other related issues. [This] social accountability is the concept that they [companies] adopt for their social responsibility. However, the roles of NGOs and the Ministry of Environment that forces companies to prepare environmental feasibility study [are important]. It is true that for the beginning [the] environmental feasibility study tends to be a tool of professionalising [companies] in following regulations. However, [in further process] companies begin to accept their [responsibilities], I think.

... Assuming that [all of] these [the related regulations] are applied, I think these [documents] are available in the Ministry of Environment. However, [these documents] need public exposure. [I guess] with [hope] that [companies] will increasingly accept their [responsibilities] and stop treating SER as reactive responses instead of proactive [responses in order to] rejuvenate and motivate [other companies] while preparing the infrastructures and [related] media because if we
do not prepare owners, managers, shareholders, and stakeholders [to understand issues behind SER], we will be quite left behind...

... Some sectors [receive] great pressures that are customer-based pressures. ...

The customer-based pressure is the main pressure. This pressure is the factor that drives companies. During the learning [process], [companies will] realise that actually sustainability [demands] [from customers] affect the sustainability of their companies from their operational, sales, and breeding [in the agricultural sector] aspects. [Once they realise these benefits] they [companies] will safeguard the environment [in a level] that is more advanced than now [with a view] to safeguard the sustainability of their operations.

... I think, if we look at the corporate governance and social responsibility [aspects in SER guidelines], some of the factors are too advance for us [our companies]. However, we should not [insist that] it is too late for us to catch up [because] we will be, in fact, left behind. Therefore, we must try to catch up in one way or another.

... If it is about the environment, I see that there are demands from customers [besides] the internal awakening to check whether [companies] change their behaviour or not. [Since] we have realised [the importance of SER], these [efforts become] the processes of re-growth instead of [strictly] pressure-based. I think, the foundation of the ideology [of international SER guidelines] fits [for companies in Indonesia]. In fact, if [we discuss it together with] local wisdom, the ideology fits in local wisdom (member of the NCSR management board).

The excerpts of the answers above indicate that companies begin to accept that they have two responsibilities, that is, financial and non-financial responsibilities. These responsibilities are two different concepts of responsibilities. However, these different concepts co-exist to lead to refinement in delivering the responsibilities. Furthermore, the excerpt reveals that the advances of international guidelines and the limited resources in companies hinder the direct adoption of the guidelines. At this point, the development of SER depends on the economic conditions of companies to provide more resources. Pressures from customers are potential drivers that can shift the generative
force of SER reporting from financially oriented to stakeholder oriented generative force, although current conception remains similar to the existing values of business culture.

We probed further about the existence of different ideas that shape strategies of action and lead to transformation of conceptions provided the interactions between the nation as the particular and the universal happen. We asked about the relation between international SER standards, pluralism in Indonesia, and the possibility to develop SER standards. The following are excerpts from the responses:

There are conditions that we can standardise. There are partially different conditions because every region has differences from one another.

And, every business sector is different from one another. Therefore, the variations [in reporting] will often happen, I think. [Although] some parts are general, some parts have to have adjustments due to cultural, environmental, [and] regulation conditions that currently exist. I think, it [the adjustments] will happen and we will have to accept it [the adjustments].

The environmental condition shapes culture. Therefore, any sustainability reporting that does not correspond with the existing different environmental conditions that shapes [different] cultures will need to undergo the [adjustment] processes. General standards are applicable only as deictic...

Perhaps, [national] economy [conditions] automatically affects it [the structures of SER]. For instance, if we want to enforce the application [now, we] are not ready.

We are not ready in terms of manpower, the culture of the society in relation to policies, identifications, measurements, [and] reporting. Therefore, differences [of SER practices] between developed and developing nations will happen. Just like when we first have to [regulate financial] accounting reports, [because] we have publicly listed companies, we must make the related regulations... (member of the NCSR management board).

The excerpts reveal the further existence of different ideas about international SER standards. While general parts of international SER standards are acceptable, some
adjustments are important due to the different environmental and economy conditions in, for example, emerging economies. Additionally, there are in-country differences in Indonesia as well. Different environmental conditions shape different cultures in every region of the nation. The idea that arises in Indonesia is that SER has to be able to accommodate these regional differences. A specific remark about the willingness to adjust standards from the interview follows:

Perhaps, with the course of time, there [will] be more people who master it [the SER-related knowledge], specifically in academic level and, hopefully, in all regions [of Indonesia] to [include] decision makers in those regions. They are the ones who can contribute to it [the standards]. This will be our [Indonesia’s] contribution... (member of the NCSR management board).

The next step of our examination of the process of elaborating values that underlie chains of action is to look at current initiatives for SER in Indonesia as they interact with other social actors in global level. These initiatives reflect the strategies of action resulting from the elaboration of the existing values and transformed conceptions from the process of empty signifiers (see Box C and the process between Box C and Box C’). The importance of the process of empty signifiers is to include the heterogeneous conceptions of the particulars into the conception of the universal. The expected benefit of this inclusion is the possibility to moderate a particular to Indonesia SER conception that is different and deviates from the normative conception in behind universal standards for SER. Accordingly, the universal SER standard architects would be able to use our model to recognise heterogeneous conceptions of not only the Indonesians, but also other developing nations. For the model to be effective, a positive interaction of chains of action and strategies would be bi-directional, with particulars such as Indonesia also creating ways to
both adopt the form and part of the spirit underlying the normative conception of the universal.

Currently, some initiatives are underway in Indonesia. The first initiative to discuss is the SER-related legislation by the Indonesian government (*Undang-Undang Republik Indonesia Nomor 40 tahun 2007, 2011*). The legislation on limited liability companies positions CSR planning and SER as mandatory for those companies. SER is not part of the legislation. Returning to the values of business activities and SER in Indonesia, the effort mimes the government-initiated culture. In this stage of analysis, we concluded that the conception of SER resides in the company level agenda.

The second major initiative is the debt-for-nature swap between the Indonesian government and the U.S. government. The purpose of the initiative is to mainstream CSR as part of the agenda for national development (Mulyani, n.d.). In this initiative, the conception is based on the Millennium Development Goals (MDGs) that represent global pressures on developing nations to become more developed in social and economy aspects. Moreover, the action is more elaborated than the previous form of action that depends on legislation on company reporting practices because the initiative is fiscal-related in collaboration with a developed nation. Therefore, this elaborated action is an indication of technology of the self because the Indonesian government goes beyond the traditional perspectives on CSR and the related SER in company level to include larger society.

The third initiative is the REDD (Reducing Emissions from Deforestation and forest Degradation) initiative. In Indonesia, this initiative is the result of Indonesia-Norway
cooperation. This initiative connects deforestation and forest degradation issues to the livelihood of the people and the national economy (REDD-I Facts and Figures, 2011). In this respect, this initiative is based on the same conception as the debt-for-nature swap is, i.e. MDGs. However, unlike the debt-for-nature-swap, REDD integrates efforts to shift the national economy activities from forest-based economy to sustainable economic activity.

The last two initiatives by the Indonesian government are based on a conception that is more complicated than the economic performance of companies. When we examined the chains of actions together, we detected the elaboration of business culture values in a way that the Indonesian government liberates itself from the values of business culture in Indonesia. The fact that it cooperates with developed nations by combining MDGs and international concerns about climate change indicates a transformation of conceptions of the particular and the universal to align with their stakeholders.

These three initiatives, i.e. limited liability legislation, debt-for-nature, and REDD demonstrate chains of action at the interface of Indonesia and universal SER reporting initiatives. These chains of action interact in multiple contexts with differences in strategies of action and cultural values. As chains of action interact and influence each other, the influence can move back down from Box C through Box B and Box A—using processes of transformation that extend to (re)elaborating and (re)finding values of culture in changed cultural context—one that relies on the interaction between Indonesia and current universal SER standards for regulation.

The same type of transformation can also happen at the company level, but it is more difficult to quantify for now. In the context of company level SER, the initiatives to elaborate the values of business culture and to transform conceptions are less obvious.
However, as far as our secondary data is the consideration, the conception that bases the strategies of action in Indonesia is MDGs. Returning to the values of business culture that reflect company dependency on governmental programmes, the development of SER in companies may be directed towards the MDGs. The implication of this possible direction is that the companies can bypass all of the principles of SER that include dialogues with stakeholders and stakeholder involvement in SER by using the normative agenda and adjusting it to their current practices. If this happens, stakeholder interests would not operate as a generative force in developing SER, yet appearances could be kept up, so that the letter of the law, rather than the spirit of the law, is a driving force. In this case, the national government becomes the major stakeholder for companies who are required to comply with its normative MDGs.

In order to balance stakeholder interests and the national agenda, a transformation of conceptions is important. However, just like the transformation of conceptions between the Indonesian government and other developed nations, the transformation of SER at the company level need not abandon the different conceptions about SER and CSR that Indonesian companies have. In fact, the Indonesian companies as social actors must find ways to connect MDGs to stakeholder interests. As the international SER standard setters attempt to extend their influences, they should facilitate this need in the standards and thereby, allow a mix between stakeholder interest and the national context in which companies make choices in balancing economic and stakeholder perspectives as the generative forces in developing their particular SER. The mix is in alignment with the core practices of and underlying values for universal SER standards.
4. Conclusions and implications of the study

Investigating the interaction between strategies of action as a process of Laclau’s empty signifiers demonstrates the link between current conversations about SER, chains of action, and the layers of culture underneath with affect and provides resources for differing perspectives on SER and underlying CSR strategies. The combination of these elements form a process that relies on Foucault’s history of subjectivity and technology of the self to (1) define processes of finding the values of culture to understand habits, values, sensibilities and perspectives, (2) elaborate on those values to build strategies of action, and (3) transform the values of culture through interaction via empty signifiers. The notion of empty signifiers allows space for transformation, through which developing nations with emerging economies and international SER standard setters can engage and affect each other. Applying the case of Indonesia to this space demonstrates a direction for understanding SER in developing nations as not only being generated by stakeholder needs, but also generated by economic needs.

The framework proposed is based on the sociological approach to culture. However, we formulate the framework by using concepts from Foucault and Laclau to show how social actors are related to culture and create their strategies of action. Our framework for cooperation combines and extends concepts of culture that allow for a transformative and dynamic view of the interaction between developing nations with emerging economies and international SER standard setters.

Overall, we conclude that the mix between stakeholder interests and national conception of SER, often based on the economic outcomes in developing nations can work
together as generative forces in developing SER. Returning to the problem of managerial capture caused by the focus on the economic performance of companies, the fear of managerial capture can be minimised by transforming conceptions. Using the sociological approach to culture, we have presented a case where through cooperation between developing nations and international community, it appears to be possible to transform the SER focus of developing nations. This case can extend to the transformation of conceptions between companies in other developing nation settings and international standard setters for corporate reporting.

Our framework of cooperation for transforming conceptions offers a framework that can increase the effectiveness of cooperation between developing nations and international SER standard setters. This framework of cooperation enables the mix of focus on the economic performance of companies and stakeholder interest as the generative forces in developing SER. The mix is the result of democratic processes resulting from the process of empty signifiers. The possibility to have mixed generative forces for SER to substantially develop SER in developing nations addresses the concern that Gugler and Shi (2009) raised over the bargaining power of companies from developing nations and answer the challenge to develop a framework of cooperation to address the concern.
Acknowledgements

We are grateful to Professor Tom Tyson, St. John Fischer College, Rochester, New York for his inputs to the discussion of cultural and historical aspects that we take into consideration during the development of this paper, and to Dr. Matthew Haigh for sharing his ideas that we can use to develop further the main concepts of this paper. Last, but not least, we would like to thank all participants of Global Dialogue Conference 2009 and the Sustainability Workshop, Aarhus University, for their interest in this paper.

Primary source

Rudyan, K. (2010, June 18). Interview by D. Fitriasari [MP3 recording].

Secondary sources


References


[Figure 1 The framework of cooperation for transforming conceptions]

**BOX B**
Culture as the provider of:
- Habits
- Moods
- Sensibilities
- Perspective of the world

**BOX A**
Developing nations as social actors and the heterogeneous particulars

**BOX B’**
Culture as the provider of:
- Habits
- Moods
- Sensibilities
- Perspective of the world

**BOX C**
Strategies of actions:
Chains of actions
(Conception: the economic performance of companies to develop SER)

**BOX C’**
Strategies of actions:
Chains of actions
(Conception: stakeholder interests to develop SER)

**BOX A’**
International standard setters as social actors and the universal

The process of empty signifiers (transforming conceptions resulting from the maintenance of styles in culture)

Elaborating the values of culture (technology of the self)
Appendix A

**Culture as provider for constructing strategies of action (general)**

- According to you, how does social and environmental reporting in Indonesia evolve during your career?
- According to you, does the change to standardised social and environmental reporting come from inside Indonesia?
- About the development of social and environmental reporting in IIA — do you know how long that the discussion has been around?
- According to you, how has social and environmental reporting been documented, in general, during your entire career?
- According to you, how has social and environmental reporting been documented, in general, in the history of Indonesia?

**Culture asprovider for constructing strategies of action (low coherence of ideas)**

- According to you, how have local and global companies been involved in social and environmental reporting in Indonesia? Is there any difference in their social and environmental reporting behaviour?
- What do you see as the effects of GRI G3 guidelines on local reporting practices?

**Culture as provider for constructing strategies of action (Encapsulating ideas to refine skills, habits, modes of experience to create continuity in styles in the organisation of strategies of action)**

- Do you see that GRI G3 or other social and environmental reporting standards as suitable for developing countries?
- What do you see as the effects of GRI G3 or other social and environmental reporting standards on local stakeholders?
- According to you, is the logic behind these standards effective for local and global companies?
- In Indonesia there us history in cultural pluralism. Can GRI G3 or other social and environmental reporting standards maintain pluralism?
- According to you, is pluralism important in social and environmental reporting?
- According to you, should pluralism in a company’s performance, based on economy (developed versus developing countries), affects the structures of social and environmental reporting?
Conclusion

The companies align their resources for SER corporate governance and assurance to serve shareholder and financial suppliers’ interests. The first two studies of this doctoral thesis support the first proposition, i.e. when financial responsibility is the focal point, companies will align all of their resources to safeguard the interests of shareholders. The first study provides evidence of efforts to position SER in corporate governance, but the positioning has little substance in supporting a balanced view of financial and non-financial responsibilities. This is because the alignment of resources, i.e. SER corporate governance structures, tends to prioritise the financial responsibility of companies.

In the case of shareholder-oriented companies, the separate stakeholder-related committees in those companies have no link to the non-financial priorities of the companies. The implication is that the orchestration of the resources is to serve the monitoring of financial reporting with SER as an added reporting to maintain financial supplies. In the case of stakeholder-oriented companies, the alignment of resources is intended to serve the financial responsibility of companies. Those companies maintain the same corporate governance structures for all types of reporting. These findings provide evidence of a lack of directions in linking SER corporate governance structures with company responsibilities. Overall, the findings contribute to answer the research question of the first study that concerns the ability of SER corporate governance structures to improve the quality of SER.

Cooper and Owen (2007) concluded that while efforts to engage organisational stakeholders can support mandatory reporting, the institutional reforms within the companies must be part of the efforts. Without institutional reforms, stakeholders have no means to hold companies accountable for their actions (Cooper &
Owen, 2007, p. 664). Parts of the findings of the first study of this doctoral thesis provide evidence of corporate governance maintenance for financial reporting purposes. In relation to this prior study, the findings of the first study indicate a lack of institutional reforms in the stakeholder-oriented companies studied. Therefore, the stakeholders, especially non-owner stakeholders, have no means to hold companies accountable for their actions.

However, other findings from the first study indicate that shareholder-oriented companies create separate corporate governance structures to support SER. These findings suggest structural institutional reforms in these companies. The issue with these companies is that they have a single priority, i.e. financial priority. The separate stakeholder-oriented committees in their corporate governance structures are in discord with this priority, because the financial interests of shareholders and financial suppliers are different from the non-financial interests of non-owner stakeholders. Therefore, in addition to the general call for institutional reforms from Cooper and Owen (2007), the findings of the first study also lead to a specific call for structural and directional reforms in the companies.

Alternatively, the representation of non-financial interests by the SRI shareholders forces the companies to offer corporate governance as a way to reduce the corporate control exercised by the market and to maintain support from the shareholders. Without the offer, the shareholders will charge a premium for their investments due to their specific interests in SRI. Relating this market mechanism to the findings from the first study, the shareholder-oriented companies create separate corporate governance structures to indicate commitment to SER as well as to financial...
reporting in order to avoid the market for corporate control and a premium of shareholder investments.

The above perspective of SER will work only if SRI shareholders, as the representatives of non-owner stakeholders, will move away from companies that have negative actual social and environmental performance. In order to do so, these shareholders must have reliable and complete information about the social and environmental performance of the companies. Information intermediaries can supply the service, provided they have control over all information that they gather.

Reportedly, however, these intermediaries have little control over information from the companies (Porter & Kramer, 2006; Chatterji & Levine, 2006). Therefore, the issue with this market-based perspective returns to the issue of developing SER in order to produce reports that meet the accountability demands. The first study provides evidence of fundamental flaws in one of the processes behind SER, i.e. SER corporate governance. These findings provide fundamental directions for developing SER. Other use of theories, such as contingency theories and stewardship theory, will extend the discussions into choices of strategies and the positive studies of SER corporate governance.

The second study presents evidence of the inability of SER corporate governance structures to secure the independence of intermediaries, i.e. assurors, as required in SERA. The findings indicate that the ‘knowledge and experience’ of the audit committee members need some adjustments to recognise the importance of assuror independence. Therefore, returning to our research question that concerns the ability of audit committee members to secure assuror independence relative to their current ‘knowledge and experience’, it is currently unlikely that these audit committee
members are able to secure assuror independence. Originally, these audit committee members were parts of resource alignment for financial reporting. Although SERA shares a general concept of independence with financial reporting, the committee members demonstrate a dissociation with the monitoring of that independence. In the case of the specific assuror independence in SERA, the members are unable to adjust their knowledge and experience to meet the new demands despite of the adjustable nature of knowledge and experience (Swanson, 2001; Dane, 2010).

Those audit committee members are resources that the companies have to monitor SERA. However, their knowledge and experience indicate an alignment with financial reporting. Therefore, the alignment of resources remains to serve shareholders and financial suppliers. As in the first study of this doctoral thesis, the direction of the alignment raises concerns about an imbalanced view of responsibilities. A call for structural directional corrections and concepts to adjust the knowledge and experience of audit committee members is the relevant implication of the second study.

The third study analyses SER corporate governance inputs that companies formulate based on their current SER corporate governance policies. The first finding from the study presents that the adoption of CSR standards does not lead to the establishment of organisational measures, i.e. SER corporate governance structures. Although internal control of the reporting exists in the majority of the companies studied, few have links to the monitoring part of corporate governance. At best, corporate governance structures for financial reporting share this monitoring duty. Provided all of these practices are the base of inputs that companies possibly propose to regulators, inputs from companies to regulators about SER corporate governance support their financial responsibilities instead of balanced view of responsibilities.
The second finding of the study presents that the potential to minimise the manipulation of information is insignificant. This finding suggests that the shared corporate governance structures do not instigate the potential to minimise the manipulation of information. The potential is undetected because the outcomes of the structures are barely detectable or referred in the social and environmental reports by the companies. Therefore, relating to the research question of the third study that concerns the contribution of the inputs from companies, the overall findings indicate that the inputs will contribute to the financial responsibilities of companies.

The outcomes of the SER corporate governance structures in the third study are just potentials outcomes because, so far, the information from the company managements in the reports is a part of the managerial capture (see references about managerial capture in the second study). However, even if the potential to be a measure of merit, the fact that it is almost non-existent in the reports suggests that there is little interest in providing the information. This little interest indicates a tendency to keep the information as private information. Therefore, all of the findings indicate that the SER corporate governance inputs from the companies have unclear merits for stakeholders. These findings provide evidence that supports the second proposition, i.e. inputs from companies to regulators about SER corporate governance will support their financial responsibilities instead of the balanced view of company responsibilities.

The concern of the fourth study is the economic performance of the companies as the generative force for developing SER. This generative force presents financially related arguments that focus on shareholders and financial suppliers. The financial focus is at variance with the stakeholder interests as the generative force of SER, although the financial orientation is justifiable for developing nations. Therefore,
this generative force needs to be present in a framework of cooperation with SER standard setters in order to moderate and transform conceptions without subduing the importance to improve national economy and economic performances of the companies in developing nations.

The case study integrated in the fourth study demonstrates that such transformation is possible. However, the process needs to be a process of finding and elaborating cultural values at each side of the parties to form a chain of actions. The transformation also needs a direct participation from both parties as imposing one conception over the other creates tensions as opposed to modes to advance. Therefore, relating to any doubt about the ability of developing nations to direct the development of SER towards stakeholders, the case study highlights the importance of connecting to internal cultural values before the expected transformation can take place.

The potential sources of bias from the studies integrated in this doctoral thesis are the qualitative data gathered from the social and environmental reports, and the subjective nature of the fourth study. However, the qualitative data involve only minimum interpretation of the context of the reports. This minimum need for interpretation should reduce the level of bias that naturally rises from qualitative data. The publicly available nature of the data assists to provide a mode for others to replicate the studies. The efforts to avoid excessive subjective views on the data in the fourth study involve the documentation of the secondary data for future replications of the study.

The practical implication of the findings is that future policies should focus on correcting the structural directions of SER corporate governance, including its structure that supports the monitoring of SERA. Correcting the structural directions of
SER corporate governance to support a balanced view of company responsibilities demands changes in the ways companies currently arrange their corporate governance structures. Therefore, this practical implication introduces a specific call for directing SER corporate governance and adds to the general call for institutional corporate governance reform (see specifically Cooper & Owen, 2007). SER corporate governance and SERA could be in the mainstream of company reporting, if corrected along these lines. In relation to this correction of structural directions, the other implication of the findings is conceptual in nature. The concepts of corporate governance and assurance must incorporate the effects of SER corporate governance and assurance on the delivery of accountability to all stakeholders. Therefore, the opportunities to further the studies depend on the success of integrating both concepts of corporate governance and assurance in the functioning of a company to serve a balanced view of company responsibilities. This integration will require the mainstreaming of SER corporate governance and assurance in the existing theory of the firm based on a balanced perspective of company responsibilities.

References


Appendix

Letters of permission to put co-authored papers in doctoral thesis
Letters of co-authoring
Dewi Fitriasari

From: Claus Holm
Sent: 25. januar 2011 15:22
To: Dewi Fitriasari
Subject: RE: Request for permission to place material in the doctoral thesis

Dear Dewi Fitriasari,

I hereby grant permission to include our coauthored paper in your thesis. If you forward an authors’ statement with indication of how contributions were shared, I will be happy to sign it.

Sincerely,

Claus Holm

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Claus Holm
Professor, Centre Director
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---

From: Dewi Fitriasari
Sent: 25. januar 2011 15:02
To: Claus Holm
Subject: Request for permission to place material in the doctoral thesis

25 January, 2011

Dear Professor Claus Holm,

Request for permission to place material in the doctoral thesis

As a doctoral student at Accounting Research Centre, Aarhus School of Business and Social Sciences, Aarhus University, I would like to deposit the full text of our paper in my doctoral thesis.

I am contacting you as a co-author in order to seek your permission to do this.

Paper:
Issues of audit committee knowledge and experience in social and environmental reporting assurance

The doctoral thesis is a part of obligatory thesis that I must submit at the end of the doctoral programme. Placing this paper in the thesis complies with the requirement from the school to integrate minimum 3 papers in the thesis.
I would be grateful if you could contact me to give your permission to include this paper. Thank you for your attention with this and I look forward to hearing from you.

Yours sincerely,

Dewi Fitriasari
PhD Student at Accounting Research Centre

Dewi Fitriasari
PhD Student

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Accounting Research Centre,
Department of Business Studies,
Aarhus School of Business

AARHUS SCHOOL OF BUSINESS
AARHUS UNIVERSITY
Dear Dewi Fitriasari,

You have my permission to place our paper, Building a framework of global cooperation beyond the economic performance of companies in developing nations, as part of your doctoral thesis.

Best regards,

Constance Kampf, Ph.d.
Associate Professor,
Department of Language and Business Communication Aarhus School of Business and Social Sciences Aarhus University, Denmark

cka@asb.dk

---

Dear Dr. Constance Kampf,

Request for permission to place material in the doctoral thesis

As a doctoral student at Accounting Research Centre, Aarhus School of Business and Social Sciences, Aarhus University, I would like to deposit the full text of our paper in my doctoral thesis.

I am contacting you as a co-author in order to seek your permission to do this.

Paper:
Building a framework of global cooperation beyond the economic performance of companies in developing nations

The doctoral thesis is a part of obligatory thesis that I must submit at the end of the doctoral programme. Placing this paper in the thesis complies with the requirement from the school to integrate minimum 3 papers in the thesis.

I would be grateful if you could contact me to give your permission to include this paper. Thank you for your attention with this and I look forward to hearing from you.

Yours sincerely,
Dewi Fitriasari
PhD Student at Accounting Research Centre

Dewi Fitriasari
PhD Student

Direkte tlf:
+45 894 86693
E-mail:
27 January, 2011

Co-authoring Agreement

Professor Claus Holm and Dewi Fitriasari herewith agree that the parties hereto are co-authors of a copyrightable work entitled:

Issues of audit committee knowledge and experience in social and environmental reporting assurance

The descriptions of co-authoring jobs are as the following:
1. substantial contributions to conception and design, or acquisition of data, or analysis and interpretation of data
2. drafting the article or revising it critically for important intellectual content
3. final approval of the version to be published

As a co-author of the paper, Professor Claus Holm contributes up to 25% of the jobs being done with while 75% of the jobs are parts of Dewi Fitriasari’s contribution.

All exploitation of this work for commercial advantage shall require unanimous consent of the parties. Other issues not mentioned here are to be decided by the parties on a case-by-case basis.

[Signature]

Professor Claus Holm
Director of Accounting Research Centre
Aarhus School of Business and Social Sciences
Aarhus University

[Signature]

Dewi Fitriasari
PhD Student at Accounting Research Centre
Aarhus School of Business and Social Sciences
Aarhus University
Dear Dewi Fitriasari,

I confirm that you have contributed at least 60% of the work and engaged in the tasks you described below.

Best regards,

Constance E. Kampf, Ph.d.
Associate Professor,
Aarhus School of Business and Social Sciences Aarhus University Denmark

ckae@asb.dk

---

From: Dewi Fitriasari
Sent: Wednesday, January 26, 2011 4:20 PM
To: Constance Elizabeth Kampf
Subject: Request for confirmation of co-authoring contribution

26 January, 2011

Dear Dr. Constance Kampf,

Request for confirmation of co-authoring contribution As a doctoral student at Accounting Research Centre, Aarhus School of Business and Social Sciences, Aarhus University, I would need to gain your confirmation of co-authoring contribution to our paper

Building a framework of global cooperation beyond the economic performance of companies in developing nations

The descriptions of co-authoring jobs are as the following:

1. substantial contributions to conception and design, or acquisition of data, or analysis and interpretation of data

2. drafting the article or revising it critically for important intellectual content

3. final approval of the version to be published

As a co-author of the paper, you contribute up to 40% of the jobs being done with while 60% of the jobs are parts of my contribution.

I would be grateful if you could contact me to confirm the co-authoring contribution. Thank you for your attention with this and I look forward to hearing from you.

Yours sincerely,

Dewi Fitriasari
PhD Student at Accounting Research Centre

Dewi Fitriasari