SOCIAL AND ENVIRONMENTAL RESPONSIBILITY IN DEVELOPING COUNTRIES: A THEORETICAL APPROACH OF REGULATION

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ABSTRACT

This study aims to analyze and describe the social and environmental responsibility of companies listed on the stock exchange in three developing countries, namely Indonesia, Malaysia, and Thailand, before and after 2007. In 2007 chosen as the cut-off year of observation as we find in each country was issued significant environmental policy. By doing a differential test on a sample of 24.626 independent firms / years, the study found that four variables used in this study, overall showed a significant difference. Environmental costs, disclosure of environmental, social disclosure, and ESG that observed in three developing countries has increased significantly after 2007. However, we did not find significant increase in environmental costs in Indonesia. The findings of this study indicate that the theory of regulation, particularly for public interest theory, can explain clearly the reasons why the four variables research has increased after the environmental regulations issued.

Keywords: Environmental accounting, accounting and social disclosure, developing countries, regulation.

INTRODUCTION

Scheme of government policies related to the environment in Indonesia has been demonstrated with the exclusion of some policies. The government policy was issued as Republic Act No. 17 Year 2004 on the Kyoto Protocol on Framework Convention of the United Nations on Climate Change; Republic Act No. 40 Year 2007 regarding Limited Liability Company; and Government Regulation No. 47 Year 2012 on Social and Environmental Responsibility (Social and Environmental Responsibility - TJSL) Company Limited. Implementation of Corporate Social Responsibility (CSR) in Indonesia has been strengthened and reinforced by the issuance of Government Regulation No. 47 Year 2012.

In other countries, Malaysia and Thailand, we also found that environmental policy was issued in 2007. The findings provide strong reasons for us to determine that 2007 be the year of the revival environmental issues in three developing countries, and then in 2007 became the cut-off on this research. This study aims to analyze and describe the social and environmental responsibility of companies listed on the stock exchanges of developing countries. The three countries intended are Indonesia, Malaysia and Thailand.

The study found that the cost of the environment, disclosure of environmental, social disclosure, and ESG observations in the three countries has increased significantly after 2007. Only in Indonesia we found no significant increase in environmental costs after 2007. The findings of this study indicate that the theory of regulation, particularly for public interest theory, can explain clearly the reasons why the four variables research has increased after the environmental regulations issued.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Chen and Roberts (2010) explains that the theory of legitimacy and stakeholder theory is regarded as an influential theory in the domain of social and environmental accounting research. In our previous studies also have used both of these theories ([1], [2], [3]). All of the above study refers to the opinion of [4] which explains that the theory of legitimacy and stakeholder theory are two theories that explain each other (overlapping theories). Both theories have differences in the level of perception and settlement, and not the conflicting theories. In other words, [5] try to conclude, legitimacy theory and stakeholder theory can both explain and predict the relationship between the organization and the social environment, but with different approaches and decomposition. However, both have profound benefits in providing understanding of the social and environmental accounting research.

The theory of legitimacy (introduced by [6] and [7]) focus on the value system of society. So that the legitimacy theory predicts if the value system of an organization are congruent with the value system in the society around it, then the organization will survive. Therefore, organizations must be able to meet the expectations and subsequent revenues from the public. Meanwhile, stakeholder theory (introduced by [8]) focused on the relationship between the organization and various stakeholders that form (affect) the environment. Stakeholder theory explains that each group of stakeholders has not the same impact on the environment. On the other hand, each stakeholder expectations are often at odds with each other [5].

The public interest theory is the economic theory first developed by Pigou [12], currently known as part of the regulation theory [13]. Public interest theory is expressed as a regulation given in response to society to improve inefficient or unfair market practices. The theory of public interest assumes the provisions of the rules on objectives are made not for the benefit of a particular person or group [14].

This study re-examine whether there is a relationship regulations issued by the government on the actions of companies in environmental conservation. Corporate response that reflected their actions show their firm adherence to the regulator [9]. Although some have been inadequate disclosure quality and only limited social contract to meet the legitimacy to people around the company (Deegan, 2002; and O'Dwyer, 2003 in [1]), but the research conducted by [1] and [2] found a significant relationship between the regulations issued by the government to accountability on the environment by companies in Indonesia. The findings of previous studies indicates that the regulations issued by the government is very effective in encouraging compliance of company. If in earlier studies we have conducted investigations of companies in Indonesia related to compliance with the policies issued in Indonesia, then this study will conduct an empirical overview of the three developing countries which are relatively have similar cultures and economies, namely Indonesia, Malaysia and Thailand.

Studies conducted by [10] found that the management companies that do not have the basic laws of the government can run but without a clear direction. Research conducted by Börzel and Risse also explained the importance of the role of a state in the making of rules and policies regarding corporate governance. Mandatory action in protecting the environment by the company can be seen as a gesture to the government that it is time for the regulation of an integrated environment in all activities seriously formulated.

This would greatly support the voluntary action taken by the companies earlier (Haufler 2001 in [11]). Research conducted [11] found that the rules issued by the government for an entity would increase the compliance of these entities is greater than ever before. From the above, we establish the following research questions as below:

RQ: how adherence of companies in developing countries on government regulation of social and environmental responsibility.

RESEARCH METHODS

The sample used in this study are all companies listed in Bloomberg databased 2016. The selected country is a country in ASEAN, namely Indonesia, Malaysia and Thailand. The reason we chose the three countries is because these countries are in the same economic level, in relative terms. In addition, these three countries because it is in the same region, furthermore comparisons are expected to be conducted fairly fit.

The data used is secondary data, such as archives (company annual reports and government policies) that contain information about the social and environmental. Investigations carried out on the company in the years around the implementation of policies in their respective countries. Observations will be focused on the company's response on government policies related to social and environmental responsibility. Therefore, this study assesses how environmental performance before and after the issuance and promulgation of regulations related to the environment. The variables measured in this study are the environmental costs, the disclosure of environmental, social disclosure, and governance. Data obtained from Bloomberg database at Gadjah Mada University in 2016. Data were analyzed using Independent Sample test.

The data comes from the Bloomberg database. Until 2016, companies listed on the stock exchange in each of these three countries is as much as 532 Companies Indonesia, Malaysia 958 companies, and 556 companies Thailand. With the 12-year observation (period of 2004-2015), then the total sample of this research is as much as 24 626 years of the company. This amount is sufficient to generalize the results obtained. Furthermore, Table 1 shows the distribution of the sample of study.

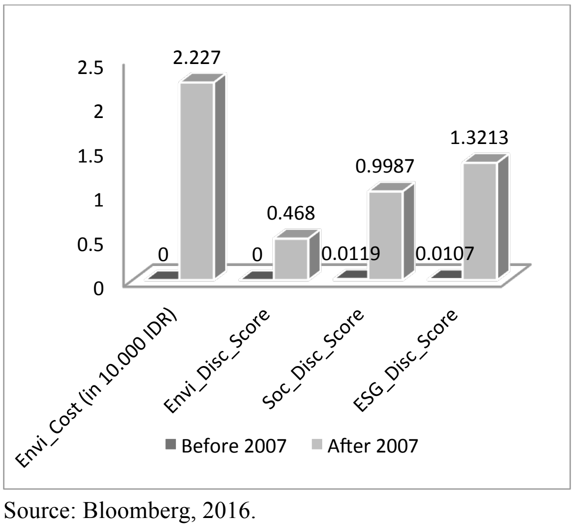
2007 became cut-off because of that year in each country issuing important policies related to the environment.

a) Countries Indonesia issued Law No. 40 of 2007, which in Article 66 and Article 74 explained that companies are obliged to report on social and environmental activities of the company. This law is very revolutionary and very eagerly by the public.
b) in 2007-2009 is the year where Malaysia issued a lot of environmental policies. Department of Environment, Ministry of Natural Resources and Environment, 2010. http://www.doe.gov.my/eia/wp-content/uploads/2012/03/A-Guide-For-Investors1.pdf

c) Based on the Constitution of the Kingdom of Thailand B.E.2550 In 2007, the state environmental management in Thailand changes from the imposition of the previous constitution. This law gives the right of people to participate in the prevention and elimination of business actions that may damage natural resources and pollute the environment. This law has clearly ask the people around the corporate environment play an active role in controlling the operations of the company. On the other hand, companies are required to obey the legitimate social contract and the environment around the company premises.

DISCUSSIONS AND ANALYSIS OF RESULTS

Figure 1 shows that before the Act No. 40 of 2007 was issued and applied in Indonesia, environmental and social performance in Indonesia is very low, even some variables worth null. But after it is issued and the enactment of Law No. 40 of 2007, environmental and social performance in Indonesia getting better, although there are still companies that do not respond properly government regulation. Nevertheless, it is generally seen that the regulations issued by the government have an impact on the preparation of the purpose of these regulations. This evidence also indicates that the regulations was issued related to this environment has been consistent with the public interest theory which predicts that the regulation should be made for the benefit of society

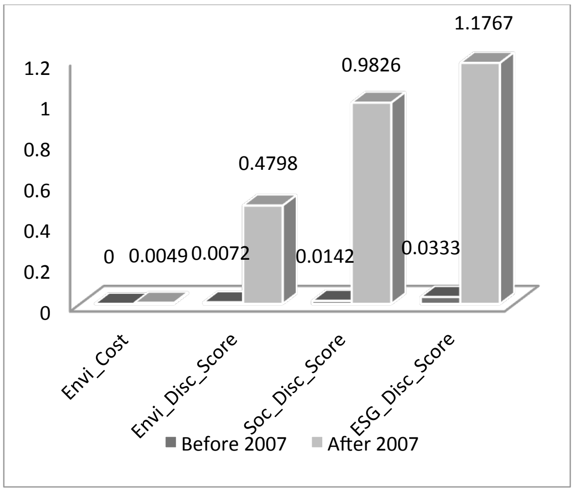


Source: Bloomberg, 2016.

Fig. 1 Environmental and Social Performance Before and After 2007 in Indonesia

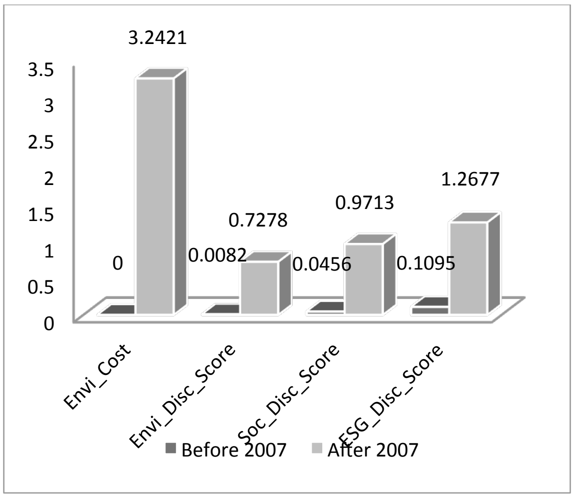
The same condition also occurs in Malaysia and Thailand [see Fig. 2 and Fig. 3]. In the period prior to release and promulgation of regulations related to environmental and social performance of companies in each country do not show a good performance compared with after the enforcement of the regulations. From the three countries observed, changes in the allocation of environmental costs on average occurs in all countries, with the greatest increase occurred in Indonesia (relative to the value of the unit of measure) is from 0 before 2007 to 22270 after 2007. Next is Thailand, of the value

To value environmental disclosure, Thailand experienced the greatest increase, from 0.0072 prior to 2007, to 0.7278 after 2007. Meanwhile, Indonesia and Malaysia are in the same relative value changes. For social disclosure and disclosure of ESG, Indonesia showed the highest value of disclosure, then Malaysia and Thailand. However, the numbers change in each of these countries reached more than 95%.



Source: Bloomberg, 2016.

Fig. 2 Environmental and Social Performance Before and After 2007 in Malaysia



Source: Bloomberg, 2016.

Fig. 3 Environmental and Social Performance Before and After 2007 in Thailand.

Test of performance of Environmental, Social, and ESG

Environmental cost

Environmental costs are allocated in Indonesia, Malaysia, and Thailand on average increased from before and after it is issued and the enactment of regulations on the environment in these countries. From the test results of independent sample test found that there were significant differences in the allocation of environmental funds in Malaysia and Thailand, respectively at a significance level of 0.000 and 0.001. However, no significant differences were found for the allocation of environmental funds in Indonesia (P-value of 0.244) (see Table 1, Panel 1).

Investigations into the findings of the environmental cost allocation in Indonesia shows that no account name can be used to record and report the costs associated with managing an environmental company. The absence of the name of this account is suspected as the cause the level of lack environmental cost allocation found in the company's financial statements.

Table 1. Test of performance of Environmental, Social, and ESG

Panel 1. Environmental Costing

		Sign.	$F_{\text{-value}}$	$t_{\text{-value}}$
1	Thailand	0,001	10.956	-1.655
2	Malaysia	0,000	18.431	-2.144
3	Indonesia	0,244	1.357	-0.0585

Panel 2. Environmental Disclosure Score

		Sign.	$F_{\text{-value}}$	$t_{\text{-value}}$
1	Thailand	0,000	128.646	-5.61
2	Malaysia	0,000	230.727	-7.545
3	Indonesia	0,000	123.284	-5.505

Panel 3. Social Disclosure Score

		Sign.	$F_{\text{-value}}$	$t_{\text{-value}}$
1	Thailand	0,000	177.847	-6.561
2	Malaysia	0,000	336.522	-9.001
3	Indonesia	0,000	181.699	-.6.617

Panel 4. Environmental, Social, and Governance Score

		Sign.	$F_{\text{-value}}$	$t_{\text{-value}}$
1	Thailand	0,000	274.414	-8.117
2	Malaysia	o,ooo	533.08	-11.094
3	Indonesia	0,000	406.386	-9.786

Environmental Disclosure Score

Results of independent sample test showed a significant difference in the score disclosure of the company's concern the environment in Indonesia, Malaysia, and Thailand (see Table 1, Panel 2). Each level of significance obtained from the statistical test result is 0000 for all countries. Malaysia has a value F-value is higher (ie 230.727) compared to Thailand and Indonesia (which is 127.646 and 123.284).

Social Disclosure Score

On average, social disclosure made by the company increased before 2007 and thereafter. Social disclosure in Indonesia, Malaysia, and Thailand experienced a significant increase from before and after it is issued and the enactment of regulations on the environment in these countries. The test results of independent sample test showed significant difference at the level of 0000 in all countries. Respectively, Malaysia showed the highest increase, then Indonesia and Thailand (see Table 1, Panel 3).

Disclosure of Environmental, Social and Governance (ESG) Score

Results of independent sample test, showed a significant difference in scores ESG disclosure in Indonesia, Malaysia, and Thailand. Each level of significance obtained from the statistical test result is 0000 for all countries. Malaysia has a value F-value is higher (which is 533.080) compared with Indonesia and Thailand, with each value of the F-value of 406.386 and 274.414. (see Table 1, Panel 4).These results indicate that the government's policy governing environmental, social and governance very effective in improving environmental awareness by companies.

CONCLUSIONS

By doing independent sample t test on a sample of 24 626 firms / years, the study found that the cost of the environment, disclosure of environmental, social disclosure, and ESG observations in the three countries has increased significantly after 2007. In Indonesia was found no significant improvement only in environmental costs.

The findings of this study indicate that as predicted the theory of public interest that the existence of the policy should be aimed at the interest of the people is confirmed by this study. It is seen from the four variables were observed in this study as a whole showed a significant difference from before and after the issuance and implementation of policies in 2007. Each of the companies in the three countries that were observed in this study indicate compliance with the regulations issued on each country. In addition, the results of this study also indicate that the rules are mandatory (regulatory) much more real impact, than just voluntary, especially for developing countries.

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