

The Influence of Corporate Social Performance, Budget Emphasis, Participative Budget on Job Related Tension

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This study examines to determine if corporate social performance (CSP), budget emphasis, and participative budget can reduce job related tension, by analyzing thirty seven Indonesian listed companies' 2010 annual reports and published sustainability reporting. Path Analysis has been used to analyzed the collected data and evaluate the hypothesis testing. The analysis reveals that most companies in Indonesia do not supported the hypothesis. This suggest that the implementation of CSP, budget emphasis, and participative budget policies should not only fulfilling the standard setting requirements (normative) but it also have to concern with both employees and managers' expectation in order to reduce job related tension.

1. Introduction

Generally, the main objective of many practitioners build a business is to make a profit. Friedman (1970) also had stated that many company conduct business to fulfill self interest and only concern in achieving profit. Without profit one might not survive in performing business even though they are experiencing lack of concern in social responsibility and environmental motive. However, this condition may drive protest from many communities or stakeholders. Every effort that only concern with profit motive induces miscellaneous reaction and implication on mankind life and environment. Empirically, many disputes emerge and involve community and firm in Indonesia due to economic activities and lack of concern on environmental and social aspects. For example, a certain manufacture company applies downsizing policy which causes many employees stayed home and another case experience by hotel management when they fire their employees as a respond of having demonstration instead of making a wise solution. Another case involves environment pollution such as producing tailing, water pollution etc. From those facts what most companies currently do in doing business seems to be well accepted although Friedman statements raise criticism from many experts (Frooman, 1999).

It widely reported that practitioners should not only concern achieving profit to satisfy shareholders in performing business but also taking into account stakeholders' interest. Employees as part of the stakeholders often receive unfair treatment or having rights not being fulfilled by the companies. Persistent lack of concern on employee's workforce and their rights may give rise to employees receiving job related tension that will affect companies' productivity.

Managers in performing daily operation should consider and pay attention to employees' requirement in order to harmonize conflict of interest (Windsor, 2001). An ability to identify and fulfill aspects or social responsibility is very crucial (Ruf et al.2001;

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Wood & Jones, 1995). Therefore, the expectation of awareness implication on environment and social responsibility will positively affect business organization and employees' (stakeholder's) satisfaction in the future. Otherwise, job related tension will still exist even though companies gaining a profit. However, those companies in the changing global business environmental would not be sustainable enough to survive due to lack of concern in social responsibility and environment.

This paper investigates corporate social performance (CSP) which explain 'the realization of corporate social responsibility (CSR) in business practice' (Maron, 2006). Actually, CSR is not a variable and one can experience difficulty in trying to measure how well the company has performed CSR. However, CSP is a concept which can be integrated in performing business process whereby the company should able "to meet or exceed stakeholder expectations regarding social issues" (Husted, 2007). In executing the business program especially which relates to decreasing of perceiving employees' job related tension a formal budget is required. Moreover, Subramaniam and Ashkanasy (2001) stated that budget affect job related tension or dysfunctional behavior in form of 'frustration, stress, suspicious, conflict of interest, and ambiguity' (Brownell, 1985; Mia, 1989; Chong and Bateman, 2000). Therefore CSP along with well organized budget preparation it is expected that dysfunctional behavior can be reduced and seeks solution to cope with manager task in achieving budget target as managerial performance.

Using statistical analysis, this study investigates the degree to which Indonesian listed firms comply with sustainability reporting measurements. This study finds that simultaneously a low level of 12% CSP, budget emphasis, and participative budget have negative and insignificantly influence job related tension.

This paper proceeds as follows. The next section discusses literature review and hypotheses development. Then followed by research method and model employed. Additionally, two further sections as part of the results / analysis present the descriptive statistics and statistical analysis, respectively. The final section covers the implications and conclusions.

2. Literature Review

2.1 Stakeholder Theory of the Firm

Actually, stakeholder theory includes three aspect: normative (moral) stakeholder theory, Instrumental (business practice) stakeholder theory, and Descriptive (empirical) stakeholder theory (Donaldson & Preston, 1995; Jones, 1995; Jawahar & McLaughlin, 2001; Margolis & Walsh, 2003; Gupta & Grau, 2007). The main issue of normative stakeholder theory concerns with moral as priority compare to business benefit in performing stakeholder management. Thus, question arises whether manager has an ability to fulfill stakeholders instead of shareholders interest and what is the justification (Margolis & Walsh, 2003). Instrumental (business practice) stakeholder theory explains cause and effect between stakeholder management practice and business's performance. Similarly, (Donaldson & Preston, 1995; Berman et al., 1999) highlights the implementation of stakeholder management can improve financial performance. Thus, business organization will work hard in order to achieve maximum profit by considering two main aspects in business. One should concern with both the core business; social responsibility and environment (McWilliams and Siegel, 2001). It is

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expected that the two aspects should be performed parallel in daily operation within certain budget and such interaction and balance maintain. Descriptive (empirical) stakeholder theory describes and to what extent managers concern and act for satisfying stakeholders interest (Margolis & Walsh, 2003).

Even though much research attention has been given regarding corporate social performance definition however lack of convergence remains. Researcher (Clarkson, 1995; Swanson, 1995; Wood, 1991) argues that corporate social performance is a wide construct involves stake holder management (primary stakeholder) and social issue management (secondary stakeholder/public stakeholder). Primary stakeholder is stakeholder which 'bear some form of risk a result of having invested some form of capital, human or financial, something value, in a firm' (Clarkson, 1994). He also pointed out that without any active participation from stakeholder the firm kindly would not able to maintain going concern. Furthermore, several components have been successfully categorized in primary stakeholder that includes: (a) shareholders, (b) employees, (c) other resource suppliers, (d) customers, (e) community residents, (f) natural environment (Clarkson, 1995; Stark, 1995; Hilman & Keim, 2001; Laan et al., 2008).

The other stakeholder categorized as public stakeholder group (social issue management /secondary stakeholder). Secondary stakeholder as a part of CSP elements do not relate directly with primary stakeholder. For example, several activities that involves social issue includes in avoiding using nuclear energy, not producing alcoholic drinks, tobacco, gambling, breach human rights, selling military equipment, and so on. Clarkson (1996) explain that this group includes government and communities who provides infrastructure and market whereby 'laws and regulation must be obeyed, and to whom taxes and other obligations may be due.' However, whenever firms decide to run gambling business that is not supported by certain community, it does not mean that the firm can simply achieve competitive advantage. Therefore, the main characteristics differences between primary and secondary stakeholder lies at the natural relation with the business organization. Laan et al. (2008) suggested that secondary stakeholder should depend more on organization reputation compare to primary stakeholder which have direct interaction with the business organization. Similarly, Mitchell et al (1997) argue that social issue management 'maybe characterized as pertaining broader definition of social responsibility beyond the primary stakeholder exchange.' This research offers a useful and practical application of stakeholder theory of the firm in corporate social performance and budget mechanism in order to seek answer relating to the following research question: *are the concepts of CSP and budget significantly affect job related tension in Indonesian listed companies?*

2.2 Corporate Social Performance (CSP)

According to Wood (1991, p693) CSP is one of the fundamental construct that explains the outcome of socially responsive behavior. This multidimensional construct comprises four components: (a) Economy responsible to customer and investor, (b) Legal responsibility to the government or legal institution, (c) Ethical responsibility to the society and (d) Policy responsibility to the community (Carroll, 1979). Furthermore, Waddock and Cragg (1985, p758) defines CSP as 'the underlying interaction among the principles of social responsibility, the process of social responsiveness and the policies developed to address social issue'.

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Based on the CSP definition, Wood and Jones (1995) argued that in order to gain a better understanding structure and company's social relation it is suggested to have a good knowledge concerning stakeholder theory of the firm concepts first. Freeman (1984, p46) as new classic follower has also defines stakeholders as 'any group or individual who can affect or is affected by the achievement of the organization's objective.' Business organization's action can affect stakeholder's reaction or response in form of supporting or acting as a bottleneck to achieve organization goals. Many researchers (such as Clarkson, 1995; Rowley, 1997; Frooman, 1999) have successfully develop and define stakeholders based on Freeman's definition. In reality, stakeholder can act formally or informally, individually or collectively and this company's external environment main element can affect the organization positively or negatively in achieving its goal (Murray and Vogel, 1997, p142; Rowley and Berman, 2000). Therefore, it is suggested that the organization conduct stakeholder management in order to fulfill stakeholder's expectation and needs avoiding conflict interest which provide positive or negative results (Freeman, 1984; Donaldson and Preston, 1995; Frooman, 1997; Maron, 2006). In practice, to gain a better understanding the following hypothesis is examined:

H₁: There is a negative relationship between the level of CSP and the level of job related tension

2.3 Budget Emphasis (BE)

The study shows that a budget is a management tool in making a course of action plan for the future time period and express quantitatively, coordinating and implementation, controlling operational activities, and evaluating managerial performance (Hopwood, 1972; Brownell, 1982; Dunk, 1993; Chong & Chong, 2002; Dearden & Govindarajan, 2003). Lau & Buckland suggest that budget setting process is better of emphasizing on accounting performance. Budget emphasis is a manager's tool to evaluate subordinate performance (Ross, 1994).

Researcher claims budget that emphasize on accounting performance is more objective and logically acceptable in evaluating subordinate performance compare to non accounting performance measurement. Moreover, Hopwood (1970) argues that trust relates to two criteria: 'meeting the budget' and 'concerns with cost.' Consequently, subordinate evaluation tools that base on non accounting performance are hardly to be accepted and believed. On the other hand, opponents such as Cherington & Cherington 1973 (Akhmad, 2002) argue that budget setting process should not only consider accounting performance but also non accounting performance take into account. Budget cannot be analyzed based on accounting perspective to guide managerial activities, control, and performance because sometimes superior will face difficulties when trying to evaluate sub ordinate activities in terms of non accounting performance such as motion, motivation etc.

However, most researcher (Hirst, 1981, 1983; Merchant dan Manzoni, 1989) stated that budget emphasis in operational focus on accounting performance such as setting budget target besides 'the importance of cost control' (Kenis, 1979) as a managerial performance measurement. The criteria of performance evaluation attract many practitioners to study because it relates to rewards and punishment systems. Rewards and compensation on subordinate performance maybe provide in form of remuneration, bonus, and promotion (both intrinsic and extrinsic). Chow, et al (1988) support by

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arguing 'emphasis is placed on how the budget level, in conjunction with budget based rewards or penalties, can be used to cope with information regarding factors such as the subordinates' ability or effort'. To formally test the impact of budget emphasis on accounting performance, the following hypothesis is examined:

H₂: There is a negative relationship between the level of budget emphasis and the level of job related tension

2.4 Participative Budget (PB)

In assessing the relevant literature surrounding the concept of participative budget Shields and Young (1993) defines budgetary participation as "A process in which individuals whose performance will be evaluated, and possibly rewarded. On the basis of their achievement of budgeted targets, are involved in, and have influence on, the setting of these targets." Thus, participative budget can influence subordinate reaction in form of attitude and behavior.

Research on participative budget by studying literature has identified that participative budget provide two function: motivation and information. The motivation function is concern with organizational control mechanism which relates to motivating employees. By involving superior and subordinate in goal setting budget may possibly motivate and force subordinate to receive any consequence due to achieving the budget. The majority of the literature on the effect of subordinates in participative budget relates to improvement in performance (Brownell and McInnes, 1989; Mia, 1988; Chong and Chong, 2000). The information function from participative budget point of view can be seen as a communication facility between superior (job relevant information) and subordinate. Within participative budget it is expected that subordinate private information enables to communicate with superior in order to set budget satisfaction (Chow, Cooper and Waller, 1988; Dunk, 1990; Kern, 1992; Magner et al. 1996; Chong and Chong, 2000). Based on this idea, therefore, hypothesis on the relationship between participative budget and job related tension in Indonesian companies examined:

H₃: There is a negative relationship between the level of participative budget and the level of job related tension

2.5 Job Related Tension (JRT)

Hopwood (1972) defines job related tension (JRT) as "JRT reflects those aspects of a job that give rise to individual frustration and anxiety. Such aspects include situations where individuals are subject to excessive demands, or where they are not appropriately equipped to handle particular work situations." As a consequence of JRT according to Shields and Young (1993) one may have a negative attitude, laziness, depression, physical pain that tends to experiencing contra productive action in workforce?

However, JRT is expected to decrease when managers considers implementing participative budget in setting budget goal. This situation indicates the presence of communication between superior and subordinate. The existence of participative budget allows subordinate to seeks and exchange information with superior to gain a better understanding in budget setting process and other activities within organization. Hence,

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subordinates besides having an opportunity to participate it may also have a probability to influence the budget target. Furthermore, Brownell and Hirst (1986) pointed out that within this circumstance subordinate enables to gain important information in relation to complete their job.

The benefit offer by participative budget give rise to agreement reached on the requirement of evaluation tools to evaluate manager's performance (budget emphasis), reduce suspicion (distrust), reduce feeling stress on the job completion, and laziness in fulfilling the budget target. Therefore, logically it is expected that within evaluation tools that emphasize on accounting performance data (budget emphasis) and participative budget enables to decrease the level of JRT.

3. The Methodology and Model

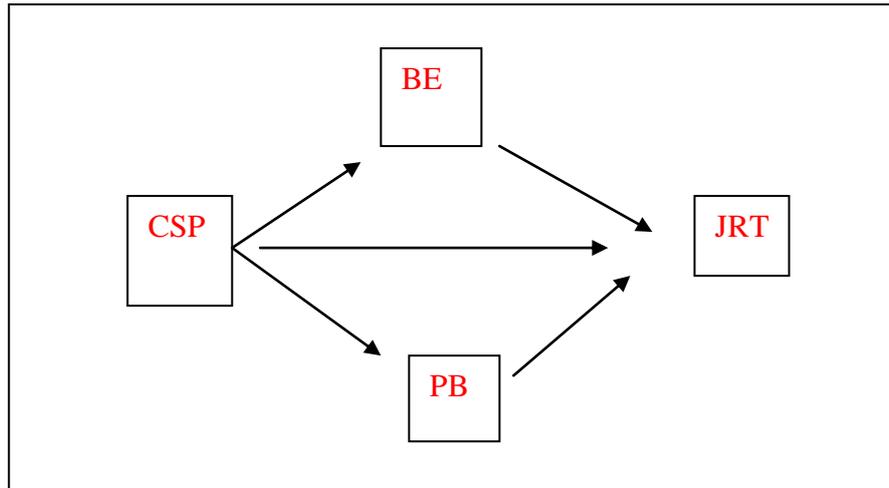
The scope of this research is an explanatory survey method. The method attempts to make survey on certain samples with an effort to investigate and pursue knowledge on hypotheses testing. The population comprises both manufacture and non manufacture companies who have performed social responsibility and environmental activities. The time horizon of the study uses cross sectional for certain period by studying several companies listed at Indonesian Capital Market and simultaneously published sustainability report for the end of year 2009 and 2010 as population target. Representative respondent of 111 from 36 companies have been given questionnaire in order to collect factual and crucial data and information to study further concerning of exercising CSP, budget emphasis, participative budget, and job related tension.

Once the data have been collected then it should be examine to convince that data are reliable and valid. Afterward, path analysis model (figure-1) is conducted to examine the influence of CSP, budget emphasis, and participative budget on job related tension.

3.1 Corporate Social Performance (CSP)

CSP multidimensional construct is measured by adopting Kinder, Lydenberg, Domini (KLD) measurement. This measurement comprises eleven dimensions (Waddock and Graves, 1997). Prior studies also suggest that KLD multidimensional construct consider being precise measurement (Ruf et al, 2001). Hence, base on this suggestion the researcher use KLD measurement with some adjustment. Not all dimension were used, only five dimensions from eleven dimensions investigated due to companies characteristic operate in Indonesia. The five dimensions include: (1) community (charitable giving, support for housing, education other social initiatives);

Figure 1: The Model of Relationship between CSP, BE, PA on JRT



(2) Diversity (female and minority promotion, special interest group policies); (3) employee relation retirement benefits and employee profit sharing, union relations, empowerment; (4) Product; (5) environment (ecological, product attributes, pollution prevention, recycling).

3.2 Budget Emphasis (BE)

The measurement use to measure budget emphasis as managerial tools in evaluating performance base on accounting approach refers to Hopwood's instruments (1972). Hopwood has successfully developed eight item supervisor measures by using nine point likert scales. However, for certain purpose the author adjusts the instrument with five point likert scale instead nine point. It has been pointed out, that there were some previous studies have been applying this measurement up to date (Otley, 1978; Brownell, 1982; Brownell and Hirst, 1986; Brownell and Dunk, 1991; Harrison, 1992; Stede, 2000).

3.3 Participative Budget (PB)

For the purpose of measuring participative budget as variables that may affect job related tension, such measurement is required. Millani has developed participative budget measurement that comprises six item statements. This instruments use seven point likert scales, however the author adjust the instrument with five point likert scale. In previous study, many researchers have claimed using these instruments due to its research interest (Brownell, 1982; Brownell and Hirst, 1986; Chenhall and Brownell, 1988; Brownell and Dunk, 1991; Harrison, 1992; Stede, 2000; Chong et al., 2001).

3.4 Job Related Tension (JRT)

In performing daily operation or day to day activities manager may experience inconvenience circumstance that may affects the outcome of work. In an effort to investigate job related tension, such instrument had been developed by Kahn, Wolfe, Snack, Rossenthal (1964) based on job related tension index which was developed by The Institute for Social Research at the University of Michigan (Subraniam & Ashkanasy, 2001). This measurement has fifteen item statements and classified into four dimension job stress includes: role of ambiguity, role of conflict, role of overload,

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and resource inadequacy. According to the previous studies, many researchers have applied and develop the above job related instrument (Hopwood, 1972; Otley, 1978; Bottger & Hirst, 1988; Brownell & Hirst, 1986; Harrison, 1992).

4. Results/Analysis

4.1 Descriptive Statistic

Table 1: Frequency Distribution of Respondent response on CSP

No	Question Item	Response Frequency					Sum	Sum X Freq
		5	4	3	2	1		
1	Community development	27	5	0	3	2	37	163
2	Charity	8	6	3	10	10	37	103
3	Number of breaching regulation	20	10	4	0	3	37	155
4	Community and firms relation	4	1	3	16	13	37	78
5	Employees allocation policy	35	0	0	0	2	37	177
6	Priority of potential employee	1	0	0	0	36	37	41
7	Diversity	3	0	5	6	23	37	65
8	The affect of non diversity	13	6	1	8	9	37	117
9	Superior and subordinate relation	5	18	13	1	0	37	138
10	Attention at union labor	7	14	15	1	0	37	138
11	Employee's right	29	6	0	1	1	37	172
12	Product safety	20	6	7	0	4	37	149
13	Customer response on product	24	5	4	3	1	37	159
14	Response on environment	16	13	4	0	4	37	148
15	Response on pollution	10	10	12	0	5	37	131
	Weight							1934
	Ideal weight							2775
	CSP score							0.70

Tabel-1, provides some empirical evidence concerning firm's behavior in experiencing social responsibility and environmental. Information in relation to business practice has been compiled in form of frequency distribution of respondent response on exercising corporate social responsibility. According to the table-1, ideally weight score achievement for the companies' social performance of frequency distribution should be 2775. However, in fact the score that have been given by the respondent in relation to CSP practice by firms is 1934. Approximately, thus, 70% achievement of CSP is categorized as having quite high interval score.

In sum, most companies who published sustainability report and listed in Indonesian capital stock market have relatively high social responsibility. Their responsibility is reflected in strategy and policy formulation which concern with employee problem solution, environment and product secure. For example, firm's policy without considering gender or minority groups may give rise benefit in productivity improvement, cost reduction, firm's image and market share. On the contrary, diversity treatment between male and female or minority groups may cause firms experiencing controversial and or boycott from the community.

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Within the same pattern as CSP in table-1 for scoring frequency distribution, budget emphasis, participative budget and job related tension respectively has 83%, 79% and 71%. The achievement of 83% of budget emphasis indicates very high performance due to interval score category. This achievement shows that most companies perform their business based on manager's course of action plan and budget setting goal. Budget has a function as a management tools in making planning and control to ensure that firm's resources has been used efficiently and effectively. Within this tool manager can coordinate and communicate each other by providing and transforming information in daily operation. However, when manager uses budget as performance evaluation (as control function), question arise. Whether is better to set a budget process that focus on accounting performance or non accounting performance. Based on the majority respondent' result shows that most companies have consider and apply process budget setting goal by emphasizing on accounting performance data.

Moreover, approximately 79% practitioner in performing business especially when setting budget involve superior and subordinate. Considering participative budget by involving subordinate in setting budget may provide varies benefit. For example, inputs contribution from subordinate affects employee's capability and competency in responding activities (work) to behave productive. Conversely, in reality about 21 % of companies do not give an opportunity to sub ordinate to participate in budget setting process. Therefore, it is likely that the firm will experience contra productive from their employees. Consequently, managers in the future will face some handicaps in achieving company's goal.

Similarly, the importance placed on the job related tension, research indicates 71% of respondent (both manager and employee) receives unsatisfied with their job. This condition is reflected from employee's behavior in performing their job assignment which tends to be unproductive. Lack of conducive relating to Employees or managers condition and environment requires attention and solving the problem.

4.2 Further Statistical Analysis

The Influence of CSP, Budget Emphasis, Participative Budget on Job Related Tension.

Following equation communicates the result of exercising statistical package for the social science software correlation coefficients and path to investigate the influence of CSP, budget emphasis, participative budget on job related tension.

$$Y_3 = P_{yx_1}X_1 + P_{yx_2}X_2 + P_{yx_3}X_3 + \epsilon_1$$

$$Y_3 = (-0.114X_1) + (-0.321X_2) + 0.198X_3$$

The equation shows that direct path correlation of CSP on job related tension ($P_{yx_1}X_1$) is -0.114; direct path correlation of budget emphasis on job related tension ($P_{yx_2}X_2$) is (-0.321 X_2); and direct path correlation of participative on job related tension ($P_{yx_3}X_3$) is (0.198 X_3).

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Table 2: The Direct and Indirect Influence of CSP, BE, PA on JRT

The influence Variable	The amount of influence
CSP (X₁) influence on JRT (Y): Direct : $= (P_{yx_1X_1})^2 = (-.114) \times (-.114)$	0.012996
through budget emphasis (X ₂) : $= P_{yx_1X_1} \cdot r_{X_1X_2} \cdot P_{yx_2X_2} = (-.114) \times (0.105) \times (-0.321)$	0.003842
through participative budget (X ₃): : $= P_{yx_1X_1} \cdot r_{X_1X_3} \cdot P_{yx_3X_3} = (-.114) \times (0.321) \times (0.198)$	(0.00725)
Total influence of X ₁ on Y through X ₂ and X ₃	0.009593
BE (X₂) influence on JRT (Y): Direct : $= (P_{yx_2X_2})^2 = (-0.321) \times (-0.321)$	0.103041
Through CSP (X ₁) : $= P_{yx_2X_2} \cdot r_{X_2X_1} \cdot P_{yx_1X_1} = (-0.321) \times (0.105) \times (-.114)$	0.003842
Through participative budget (X ₃):: $= P_{yx_2X_2} \cdot r_{X_2X_3} \cdot P_{yx_3X_3} = (-0.321) \times (0.232) \times (0.198)$	(0.01475)
Total influence X ₂ on Y through X ₁ and X ₃	0.092138
PB (X₃) influence JRT (Y): Direct : $= (P_{yx_3X_3})^2 = (0.198) \times (0.198)$	0.039204
through CSP (X ₁) : $= P_{yx_3X_3} \cdot r_{X_3X_1} \cdot P_{yx_1X_1} = (0.198) \times (0.321) \times (-.114)$	(0.00725)
Through budget emphasis (X ₂) : $= P_{yx_3X_3} \cdot r_{X_3X_2} \cdot P_{yx_2X_2} = (0.198) \times (0.232) \times (-0.321)$	(0.01475)
Total influence X ₃ on Y through X ₁ and X ₂	0.017213
Total influence of X ₁ , X ₂ and X ₃ on Y	0.118944

Furthermore, the hypothesis that states: there is a negative and significant influence of CSP, budget emphasis, participative budget on job related tension has been examined by comparing F results to F table. In fact, the following equation indicates that F-results < F-table or (1.485 < 5.162). This means hypothesis null is accepted. Thus, CSP, budget emphasis and participative budget do not influence job related tension significantly negative.

Furthermore, Table-2 below communicates the extent of CSP, budget emphasis and participative budget influence directly and indirectly on job related tension.

In short, table-2 shows the influence results of corporate social performance (X₁), budget emphasis (X₂), participative budget (X₃) on job related tension (Y) both directly and indirectly is 0.11894 or 12%. Unfortunately, the result amount of 12% is considered insignificant because it is less than 25% (as goodness of fit measurement). This is consistent with Friedman (1970) view stating that many company conduct business to fulfill self interest and only concern in achieving profit even though it's statement raise criticism from many experts (Frooman, 1999).

5. Conclusion

The main objective of this study is to examine the level of social and environmental reporting in form of sustainability reporting and companies listed in Indonesian stock market. In addition this study determines if corporate social performance, budget emphasis, and participative budget influence job related tension. Results show that simultaneously corporate social performance, budget emphasis, and participative budget have negative influence on job related tension approximately 12%. This insignificant result perhaps is a negative indication for companies' workforce in Indonesia. Similarly, the results of the analysis showed that budget emphasis and participative budget also have relatively small influence on the level of job satisfaction perceive by both employees and managers. The possible explanation of having small influence may be that it is rather simplistic to use five dimensions instead of fifteen multidimensional construct of CSP. The specific type of companies being investigated may be inappropriate than general companies made some kind of social and environmental disclosure.

It is expected that the results of this research enables practitioners gain some knowledge, skill and ability concerning sustainability report as strategic tool in creating value and maintaining sustainability development besides providing symmetric information.

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