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ACCOUNTING FOR BUSINESS ETHICS AND SUSTAINABILITY (A4BES): HARMONIZING ACCOUNTING FOR THE INTERESTS OF SHAREHOLDERS AND NON-SHAREHOLDER STAKEHOLDERS

Bambang Setiono[1]

[1]Accounting Department, Universitas Agung Podomoro, Jakarta, Indonesia

Corresponding Author: bambang.setiono@podomorouniversity.ac.id

Abstract

The purpose of this study is to introduce a framework that assists corporate managers in transforming the promised benefits of sustainability reports into future financial performance by aligning the interests of shareholders and non-shareholder stakeholders. This descriptive study proposes a framework to investigate the stakeholder harmonization process undertaken by managers, with a pilot study focusing on Indonesian mining companies using content analysis methodology. The study hypothesizes that managers' disclosures in sustainability reports reflect their success in achieving stakeholder harmony. Modern corporate managers accomplish stakeholder harmonization by reporting on both financial performances and non-financial performances, I called them Business Ethics and Sustainability (ABES) performances. They provide outcome-based performance information on A4BES performances. The study found that Indonesian mining companies typically disclose more information than required by the capital market regulation on sustainability reporting. Mining managers, categorized as conventional managers at the second level of the stakeholder harmonization process, report over 50% of A4BES accounts but often omit outcome-based performance information. This study extends sustainability accounting literature on stakeholder theory by examining how management processes balance the interests of shareholders and non-shareholder stakeholders.

Keywords: Sustainability Accounting, Business Ethics, Corporate Social Responsibility (CSR), Stakeholders Harmony, Corporate Managers.

1. Introduction

Radhakrishnan et al. (2018) argued that research on corporate social responsibility accounting should look into the win-win relationship between shareholders and non-shareholder stakeholders. Adams & Whelan (2009) suggested that future studies look into sources of dissonance significant enough to result in managerial concern for change within the constraints imposed on managers. This study adds to this stream

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of sustainability accounting research, finding harmony for accounting for the interests of shareholders and non-shareholder stakeholders: employees, local community, customers, and beneficiaries of nature. This stream of stakeholder harmony research should add to the current portfolio of sustainability accounting research dominated by research on manager motives for publishing sustainability reports (example, Cooper & Owen, 2007; O'Dwyer, 2003), on factors affecting CSR disclosures (example, de Villiers & Marques, 2016; Kamla & Rammal, 2013; Orij, 2010; Gray et al.,1995, 1988); on the relationship between disclosures and firm performances (example, Cahan et al., 2016; Clarkson et al., 2008), and assurance services of sustainability reports (example Cohen & Simnett, 2015; Huggins et al., 2011, O'Dwyer et al., 2011). Andrew & Baker (2020) found that research on corporate sustainability reporting for the last 40 years and asked questions on factors influencing managers producing CSR reports, how CSR disclosures impact firm financial performances, and how CSR report improve manager public accountability. Previous studies on the production of CSR reports focused on information disclosed by managers (Diouf & Boiral, 2107; Cornelia et al., 2010) and institutional factors ((Haque et al., 2016; Belal & Cooper, 2011; Tilt, 2001; Deegan and Rankin, 1999). There is a research gap in the literature on how managers harmonize the interests of shareholders and non-shareholder stakeholder interests when they produce CSR or sustainability reports.

There is an increasing trend of capital market regulations on firms to publish sustainability reports.[1] The IFRS Foundation launched the International Sustainability Standard Board (ISSB) in November 2021 and is currently publishing two exposure drafts on general sustainability-related disclosures and climate-related disclosures. Regulators in the UK, EU, and elsewhere

[1] https://www.sullcrom.com/esg-trends-and-hot-topics-may-2022 accessed August 11th, 2022.

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are introducing new environment, social, and governance (ESG) disclosure requirements for corporates and financial institutions, including private, unlisted companies and subsidiaries of foreign companies. The UK's capital market regulator, the Secondary Capital Raising Review (SCRR) published its recommendations for reform of the UK's capital markets to make secondary capital raisings cheaper and more efficient. The U.K. Financial Conduct Authority (FCA) reminded issuers of green, social, sustainability, and sustainability-linked debt instruments (ESG-labelled debt instruments) to earmark the net proceeds for specific ESG projects. The FCA has also endorsed the industry standards for ESG-labelled debt instruments, the Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines developed by the International Capital Market Association ("ICMA"). European Union leaders are about to issue a stricter Corporate Sustainability Reporting Directive (CSRD) for all large EU companies and listed companies in a regulated EU market. The revised CSRD will require non-EU companies to report on a consolidated basis if they generate more than €150 million of annual net turnover in the EU and have at least one large or listed EU subsidiary or branch.

The Indonesian capital market authority (OJK) recognized that Indonesian society must follow in the footsteps of the international financial community to address global climate change challenges and biodiversity loss. It requires the Indonesian public and listed companies to publish a sustainability report at the end of a fiscal year, starting with the 2021 report. The regulation triggers changes in business ethics and sustainability practices of Indonesian company managers. It is questioning their business ethics and sustainability practices. Sustainability accounting researchers have documented that voluntary CSR disclosures could mean managers look for the legitimation of their business operations from non-shareholder stakeholders (example, Patten,1992, Ullman, 1979). They are still conventional managers focusing on the shareholder interests and disclosing limited information on non-shareholder

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interests for their business legitimation. CSR disclosures based on regulations would mean also manager legitimation motive for sustainability disclosures. The sustainability accounting research, however, suggests that publishing sustainability reports help managers improve governance, build trust and image, improve information access, and minimize risk from customer boycott and negative news (Adams, 2002). It means modern managers use the stakeholder model to achieve their business strategy. Research, however, is silent on how managers can transition from the legitimacy motive (conventional managers) into the stakeholder motive (modern managers). Is there any accounting theory that can be used to explain this process? How do corporate managers harmonize the interests of shareholders and non-shareholder stakeholders to achieve better future financial performance? This is the main research question of the study.

This study discusses the importance of harmonizing shareholder and non-shareholder interests through CSR accounting, particularly under new ESG regulations in Indonesia. It emphasizes on addressing the gap in research regarding how managers transition from legitimacy to stakeholder motives. This study will analyze large Indonesian mining companies, using content analysis to understand how managers balance these interests. The content analysis methodology is widely used in accounting research to reveal useful insights into accounting practices (Steenkamp & Northcott (2007). Unlike Baker and Schaltegger (2015), this study investigates how managers balance accounting for stakeholder interests. This study tries to understand the manager's perspective in balancing the interests of shareholders with those of non-shareholder stakeholders. In line with Burrit et al. (2011 and 2002), this study analyzes how managers use sustainable accounting to engage with stakeholders and transform their beliefs in running companies. Behavioral changes will not happen instantly, and they will not happen only by enacting a regulation. Accounting can play a role in developing a manager's beliefs and capacity to address social and environmental pressures put upon the companies by political, social, and economic pressures.

The Accounting literature on business ethics and sustainability usually consider company business ethics policies and practices as part of the company social and environmental accounting (example, Clarkson et al., 2019; Allee and Deangelis, 2015). Research investigating the impacts of company accounting activities on employment, economic, and social inequalities are accounting studies for business ethics. Investigating motives and accountability of companies' policies toward their key stakeholders such as employees, community, and customers under a social framework is a study about business ethics practices (for example, Adam et al., 2016; Mattingly and Berman, 2006). Byars and Stanberry (2018, page 9) define business ethics as a guide for the conduct of companies and their agents to abide by the law and respect the rights of their stakeholders, particularly their customers, clients, employees, and the surrounding community and environment. This study argues that accounting for respecting the first three stakeholders is accounting for business ethics and accounting for respecting beneficiaries of the environment is accounting for sustainability. Accounting for all these key stakeholders, I call the accounting for business ethics and sustainability (A4BES). This research aims to contribute to the literature by providing insights into the managerial perspective on sustainable accounting practices and their impact on financial performance. The study's findings could offer valuable recommendations for improving business ethics and sustainability reporting.

After this introduction, the Next section presents theories on accounting for business ethics and sustainability as the foundation of the A4BES framework. Section Three proposes the A4BES framework for analyzing manager efforts in harmonizing accounting for the interests of shareholders and non-shareholder stakeholders. In Section Four, I describe a measurement of stakeholder harmony based on sustainability disclosures. Section Five discusses the stakeholder harmony of

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Indonesian mining companies in 2021. The last section provides the conclusions and recommendations for future studies.

2. Literature Review

2.1 Grand Theory

Sustainability accounting literature on normative studies usually addresses corporates' motives to report their social responsibility and sustainability policies and practices. Companies produce corporate social responsibility (CSR) reports to serve the views of powerful stakeholders (Ullman, 1979), mitigate political and social pressures (Patten, 1992), and media pressures (Deegan et al., 2002). The socio-political theory or the legitimacy theory of sustainability policies suggest a negative relationship between actual company environmental performances and the quality of their environment disclosure. This theory can be used to explain manager behavior that still guided by the conventional shareholder wealth management philosophy. However, other accounting scholars argue that corporations might produce CSR reports as an effective signaling mechanism for the capital market suggested by the voluntary disclosure theory (Clarkson et al.,2008; Bewley and Li, 2000). This signaling theory suggests a positive relationship between company environmental performance and the quality of environmental disclosures. This theory can be used to explain managers that have already adopted the modern stakeholder wealth maximation philosophy. The accounting literature found mixed findings on the relationship between environmental, social, and governance disclosures, firm performances, and firm values (Brooks & Oikonomo, 2018).

Indonesian company managers tend to wait for the last moment or regulation enforcements for giving more disclosures on their social and environmental policies and practices. OJK issued a regulation on sustainable reporting for Indonesian financial service companies, public companies, and listed companies in 2017. By 2020, it was only about 10 percent of listed companies in the Jakarta Stock Exchanges (JSE)

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published sustainability reports (FIHRRST and AJA Indonesian Certification, 2020). This phenomenon suggests that Indonesian corporate managers still uphold the conventional shareholder wealth maximation, which is still managers' main management philosophy. Publishing sustainability reports does not constitute changing their management philosophy toward stakeholder wealth maximation. Forces from OJK regulation and international financial institutions will motivate Indonesian corporate managers to disclose more business ethics and sustainability practices to the public. Publishing sustainability reports helps managers to improve governance, build trust and image, improve information access, and minimize risk from customer boycott and negative news (Adams, 2002). These benefits should help managers preparing their path of transition to stakeholder wealth maximation philosophy. They need to translate the benefits of producing sustainability reports into future economic benefits for companies. Is there any accounting theory that can be used to explain this process?

In contrast to Collier (2008) and Hill and Jones (1992) suggesting managers make a contractual relationship with all stakeholders, this study argues in the line of Jensen & Meckling's agency theory (1976) that managers only enter into a contractual relationship with shareholders and investors. Managers are not the agent of non-shareholder stakeholders. Managers only make a report and are accountable to shareholders. There is no stakeholder-agency relationship between managers and company stakeholders. Corporate governance also is not set up according to this relationship. Protecting the investment of shareholders is the design of current corporate governance.

Freeman and McVea (2006) provide stakeholder theories for explaining different behaviors between conventional and modern managers. Both types of managers already consider the interests of all stakeholders in their business decisions. However, the differences are very striking. The conventional manager will integrate the interests of non-investor stakeholders mainly in the planning process and consider them as constraints on delivering the interests of the firms (i.e., shareholders). Managers will try to understand the needs of non-investor stakeholders to set the bounds of operation. They will develop strategies to maximize the benefit of shareholders within these bounds. Modern managers, in contrast, will try to understand the needs of non-shareholder stakeholders to be integrated into the firm success. In a slightly different approach from Freeman and McVea (2006) and consistent with Radhakrishnan, et al. (2018), this study argues that a modern manager will try to harmonize the needs of non-shareholder stakeholders with the needs of shareholders. They need an accounting tool that can achieve this objective.

The accounting's sustainability literature suggests how conventional corporate managers can transition into modern corporate managers. They need to learn from internal and external stakeholders. They should build institutional knowledge from past engagements with their stakeholders (Mitchell et al., 2012). Managers usually only pay attention to stakeholders when they are nearby (Adams, 2002). They need a better communication channel with the stakeholders, especially those not physically seen by managers. Managers also need an instrument to communicate with investors and financial institutions since they still lack interest in ethical reports. They need an accounting tool that can translate the benefits of investing in business ethics and sustainability into future financial benefits. Investors are concerned with current numbers affecting future financial performances (Adams, 2002, p.232).

Financial capacity and its related corporate governance are the underlying functions of manager behaviors on business ethics and sustainability. Managers cannot invest in business ethics and sustainability when companies do not have the financial capacity to adopt the stakeholder wealth maximation philosophy. A proxy of financial

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capacity is the company size as measured by the total assets or the market values of company shares. Large companies can afford to spend more on business ethics and sustainability than small companies (Adams et al., 1998). Large companies will also be in a better position than small companies to set up corporate governance with members of the stakeholders. Representatives from employees, local communities, and beneficiaries of nature will be present in the corporate governance of large companies.

The importance of financial capacity in adopting the stakeholder wealth maximation philosophy suggests that the shareholder and investor group is the main force of corporate management change. Shareholders and investors are the stakeholders that expect to get reasonable financial returns from their investments. They expect corporate managers to protect the investment. Corporate investment in business ethics and sustainability policies, i.e., distributing company wealth to non-shareholder stakeholders, will affect wealth distribution to investors. Corporate managers can only do this when they can show the investors impact of the policies on the future financial capacity of the company. Here, corporate managers need an accounting tool to do just that. Clarkson et al. (2011) found that firms with positive (negative) changes in financial performances experienced improvement (decline) in a subsequent year of firm environmental performances. They also found the converse relationship between changes in firm financial performance and environmental performance.

2.2 Accounting for Business Ethics and Sustainability (A4BES)

This study develops an accounting tool or a framework to help conventional managers transition into modern managers with high ethical and sustainable agendas in their decision-making process. Drawing on Freeman and McVea (2006) and Radhakrishnan, et al. (2018), this study argues that conventional managers will harmonize the needs of non-shareholder stakeholders, such as employees, and

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local communities, customers, and beneficiaries of nature, with those of shareholders-investors. Shareholders and managers will create corporate governance that represents this harmony. Corporate governance will support this harmony. Managers achieve stakeholder harmony when they allocate CSR resources and actions within their strategic business models and indirectly address social issues, mitigating negative externalities and promoting positive externalities (Radhakrishnan, et al., 2018). A representative of shareholders will lead the corporate governance team, supported by representatives of non-shareholder stakeholders. Harmony can means balancing the needs of stakeholders. Kirby & El-Kaffass, (2021) argues that harmony is about a good relationship between humans, nature, and the well-being of humans, such as health, nutrition, living condition, education, and spirituality. Humans are a part of a larger ecosystem (Jordan & Kristjánsson, 2017). Harmony is human achievements for peace where there is no gap between what they think (Head), do (Hands), feel (Heart), hope (Purpose and Intent), and say (Srica, 2021).

The concept of harmony implies that there are other parties sharing resources for achieving a group's common objective. Each party in the group has a different role in achieving the group objectives and will use a different number of group resources to achieve different outputs. Each party output is added up to create the group output. The harmony also implies group needs a leader or coordinator who coordinates the functions and roles of each party, divides resources among each party, and coordinates the outputs of each party. In music performance, a lead singer or a band leader will start the music and allow the band members to contribute to the music, and together they entertain their audience. In a group sports competition, the captain of a team will start the game and encourage team members to contribute to winning the game. In life, humans will find harmony with nature when they can understand their role in the universe and their relation with the Creator of the universe. They find

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harmony when they understand the role and the Creator. It is beyond the scope of this paper to discuss the relationship between humans, the universe, and the Creator. Figure 1 illustrates the A4BES framework for stakeholder harmonization:

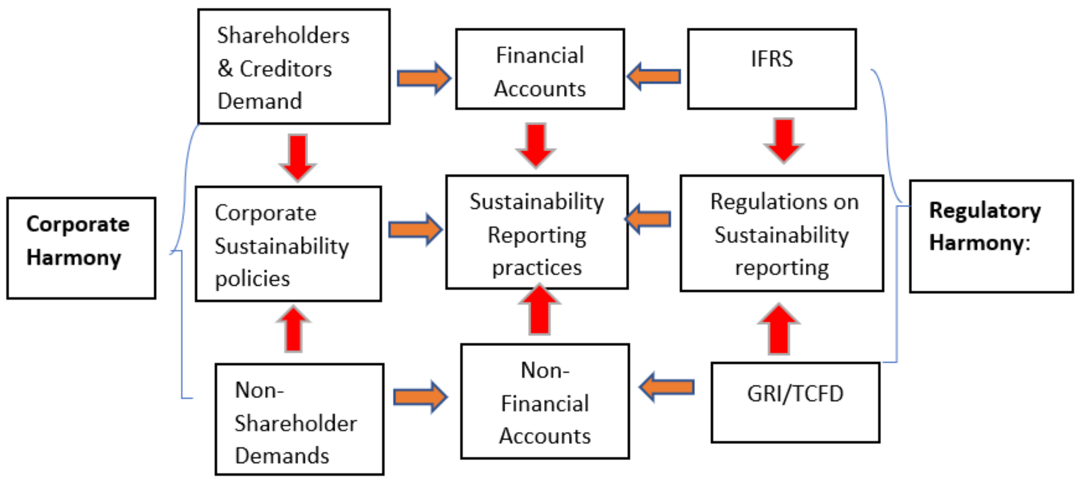

Figure 1. Framework for Harmonizing Stakeholder Interests (Author own Model)

There are two harmonization processes for A4BES: the corporate management level and the regulatory level. At the corporate level, two forces are squeezing managers, demand of shareholders and creditors and demand of non-shareholder stakeholders (supported by social and political groups). At this level, managers must harmonize the interests of shareholders and creditors with those of non-shareholder stakeholders. Managers will issue corporate sustainability policies after considering capital market regulations on sustainability reporting. At the regulatory level, the capital market regulators must deal with demand from financial accounting regulators such as IFRS and demand from non-financial regulators or independent boards, such as the Global Reporting Initiatives (GRI). GRI standards are widely adopted international standards for reporting social and environmental policies and practices (Simmons et al., 2018). Capital market regulators must harmonize the

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interests of IFRS and the interests of GRI to produce sustainability reporting regulations. These forces of harmonization will produce practice of sustainability reporting by corporations.

The disclosures of financial accounts, accounts for shareholders and creditors, and of non-financial accounts, accounts for non-shareholder stakeholders (employees, customers, suppliers, communities, and beneficiaries of natures) reflect the degree of harmonization produced by managers. They report the harmonization results in corporate sustainability reports. At the basic level of harmonization, managers comply with financial authority regulations by producing reports contains all required by the sustainability reporting regulations. They follow the legal requirement on sustainability reporting at a minimum level. At the advanced level of harmonization, managers balance the interests of shareholders with those of non-shareholders stakeholders. They adopt regulations on sustainability reporting into their management strategy. On the other side of harmonization process, capital market regulators harmonize regulations and laws on protecting the interests of shareholders with those on supporting the interests of non-shareholder stakeholders. The rulings on capital market regulations on sustainability reporting reflect the level of regulator harmonization of these two regulatory forces. At the basic level of harmonization, regulators (e.g. OJK) require publicly listed companies to produce annual sustainability reports that are supported by financial accounting regulators (e.g. Indonesian Accountant Association or IAI) and non-financial accounting regulators (e.g. GRI in ASEAN). At the advanced harmonization level, regulators demand companies publish integrated audited financial and sustainability accounts. This study focuses on the harmonization at the corporation level.

Indonesian managers will response to OJK ruling on sustainability reporting. OJK is guided by IAI that has adopted the IFRS standard for disclosing the interests of shareholders and

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creditors. GRI standards for disclosing the interests of non-shareholder stakeholders influence OJK ruling on sustainability reporting. OJK and other capital market regulators will follow the new board created by IFRS, the International Sustainability Standard Board (ISSB). Capital market regulator may also look into recommendations issued by the task force on climate-related financial disclosures (TCFD) as a body created by the Financial Stability Board of the Bank for International Settlements. More than 2,600 corporations, 12 governments, dozens of central banks, supervisors, and regulators have endorsed TCFD recommendations (TCFD, 2021). The work of TCFD is also adopted by ISSB. In the future, ISSB will be the guiding standard for managers for disclosing accounts to non-shareholder stakeholders.

This study predicts that conventional corporate managers will harmonize the interests of non-shareholder stakeholders with those of shareholders. Corporate managers initially consider the interests of non-investor stakeholders as constraints on delivering the interests of the firms (shareholders). As shareholders and investors grow their beliefs in living harmoniously with other non-shareholder stakeholders, corporate managers will be balancing the needs of all stakeholders if necessary, reducing the profit available for shareholders. Managers achieve stakeholder harmony when improvement in the welfare of non-shareholder stakeholders means also increasing the wealth of shareholders of the firm. The opposite is also true. A reduction in the non-shareholder wealth is associated with a fall in shareholder wealth. There is a positive association between changes in the welfare of non-shareholder stakeholders and changes in shareholder wealth.

In the first stage of stakeholder harmonization, managers will harmonize the interests of shareholders with the interests of employees since this harmonization process is natural in business. Managers take benefit from better employee productivity when they improve the welfare of employees

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(Radhakrishnan et al., 2018; Butko, 2014; Ballaban, 2014) and attract better talent (Edmans, 2011; Roberts & Dowling, 2002; Tuban & Greening, 1997; Waddock & Graves, 1997). Managers must also abide by the employment regulations on pay, employee health and safety, and equal opportunity.

In the second stage of the stakeholder harmonization process, managers will attempt to integrate the harmonization process of employees-shareholders with the interests of local communities, including government interests, to achieve employee-shareholders-community harmony. Managers in developing countries such as Indonesia and India must allocate a certain percentage of their profits for social activities (Devie et al., 2020; Manchirajau & Rajgopal, 2017). In addition, managers engage with local communities to repair damaged reputations (Werbel & Wortman, 2000), increase customer base (Porter & Kramer, 2002), improve brand reputation (Brown & Dacin, 1997), and improve the relationship with government and community leaders (Brown et al., 2006; Baron, 2001). The employee-shareholder-community harmony would be more apparent when managers invest or allocate firm resources to higher education activities and institutions. It will stimulate innovation and access to technical expertise for current and future employees that contribute to future firm financial performances (Lev et al., 2010; Neiheisel. 1994).

In the third stage of the harmonization process, managers will find employee-shareholder-community-customer harmony. Producing high-quality products or services for customers is the first requirement for firms to be successful and sustainable. With the increasing digitalization of customer identities and behavior, managers face new pressure from customers and governments to protect customer privacy (FTC, 2012, Kauffman et al., 2011). Managers may introduce a chief privacy officer in the new stakeholder governance to manage high-level corporate privacy management and

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the integration of privacy into entity-wide risk management (Bamberger & Mulligan, 2011). The growing concerns over climate change, waste, energy use, and biodiversity are putting additional pressure on managers to achieve employee-shareholder-community-customer harmony. Customers require more products and services friendly to local communities and the environment, especially the use of plastics, waste, and pollution (Yang, 2017; Ghosh & Shah, 2015).

At the final stage of the harmonization process, managers will harmonize the third stakeholder harmony with the interests of beneficiaries of nature, including improving biodiversity, reducing global warming, and other United Nations sustainable development goals. Biodiversity and global warming are social and environmental issues at an international level (Durrant & Maguire, 2006). Transnational corporations (TNCs) play significant roles in global environmental governance to reduce biodiversity loss and global warming (Clapp, 2005). Indonesian managers will attempt to harmonize the interests of national stakeholders (shareholders, employees, local communities, and local customers) with the interest of international stakeholders (international customers and communities). They face the challenge of supporting the Indonesian government's pledge to the Paris Agreement on climate change to reduce 29% of its GHGs emission emissions against the business-as-usual scenario by 2030 (Handayani et al., 2017).

A4BES is an accounting instrument to help corporate managers identify, measure, and report stakeholder harmony, as illustrated above. It focuses on accounting transactions with non-shareholder stakeholders: employees, customers, local communities, and beneficiaries of nature as shown in Table 1 below. This framework is developed based on Impact Institute framework 2019, GRI standards, International Accounting Standards Board (IASB), International Integrated Reporting Council (IIRC), and the United Nations Global indicator framework for the

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Sustainable Development Goals. It also summarizes the interests of non-shareholder stakeholders as reported by the world's best ethical companies ranked by *Ethisphre* (https://worldsmostethicalcompanies.com/honorees/).

Table 1. A4BES for Non-Shareholder Stakeholders

No	Stakeholders	Dimension	Valuable 1	Valuable 2	Valuable 3	Valuable 4	Valuable 5	Valuable 6	Valuable 7	Valuable 8
1	Employees	Social working environment	Life-Work Balance (1.1)	Friendly environment (1.2)	Equal opportunities/ no discrimination (1.3) **SEOJK.F18**					
2	Employees	Employment Status	Rewarding & Fair benefits (2.1) **SEOJK.F20**	Long-term employment (2.2)	Promoting from within (2.3)	Avoiding lay-offs (2.4)	Relations with trade (labor) unions (2.5)			
3	Employees	Physical and Mental working environment	physical health (3.1) **SEOJK.F21**	Mental health & stress level (3.2)	damage due to fatal and non-fatal occupational incidents (3.3)	disease in the workplace (3.4)				
4	Employees	Training & Development **SEOJK.F22**	Workforce's skills (4.1)	Competences (4.2)	Employability (4.3)	Careers (4.4)	Entrepreneurial environment (4.5)			
5	Customers	Product responsibility	Product Quality (5.1) **SEOJK.F26, 28, 29, 30**	Customer Health and safety (5.2) **SEOJK.F27**	Preserving product integrity (5.3) **SEOJK.F17**	Customer privacy (5.4)				
6	Local community	Society welfare	CSR (6.1) **SEOJK.F23, 24, 25**	Public Health (6.2)	Public accountability (anti-corruption) (6.3)	No child labor (at the organization & in the value chains (6.4) **SEOJK.F19**	No forced labor (at the organization & in the value chains (6.5) **SEOJK.F19**			
7	Beneficiaries of Nature	Use of resources	improving supply chain management (7.1)	reduce use of scarce, non-recyclable materials (7.2) **SEOJK.F5**	Reduce use of scarce water resources (7.3) **SEOJK.F8**	Reduce use of scarce energy (e.g., fossil fuels) (7.4)				

						SEOJK.F6, F7				
8	Beneficiaries of Nature	Impact to the society	reduce air emissions - and air pollution (8.1) SEOJK.F11, F12	Reduce waste (8.2) SEOJK.F13, F14	Reduce hazardous waste (8.3)	reduce water discharges and water pollution (8.4) SEOJK.F13, F14	Spills (8.5) SEOJK.F15	Biodiversity (8.6) SEOJK.F9, F10	partner with environmental organizations (8.7)	Land transformation (8.8)

Note: SEOJK refers to OJK circular letter No.16/SEOJK.04/2021 concerning the form and content of annual reports of issuers or public companies. It will be discussed in the Section on the A4BES in the Indonesian Mining sector.

There are 38 measures (accounts) of A4BES. World best ethical companies generally report more interests of employees and beneficiaries of nature than customers and local communities. Interests of employees cover four dimensions: employment status, social working environment, physical and mental working environment, and training and development. There are 17 accounts for accounting employee interests. The employment status dimension records interests in job security and financial security of the employees by disclosing rewards and benefits, long-term employment (versus part-time and short-term), promotion from within organizations, policy on avoiding layoffs, and relationship with trade (labor) unions. The social working environment dimension accounts for life-work balance working hours, employee relationships, equal opportunity, and no discrimination policies. The physical and mental working environment discloses employee interests in facilities to protect employees, both physically and mentally, employee stress levels, occupational incidents, and diseases in the workplace. The training and development dimension describes employee interests in skills, competence, employability, careers, and intrapreneurship. Corporate managers expect that by investing in these working environments, job satisfaction, loyalty, and productivity improve. Improving the working environment increases job satisfaction (Taheri et al., 2020) and employee productivity, especially in the social working environment (Haynes, 2008).

Ethical company leaders disclose 12 accounts in two dimensions that

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represent the interests of beneficiaries of nature. The resource use dimension accounts for the nature interests in improving supply chain management, use of scarce and non-recyclable materials, use of scarce water resources, and use of energy resources. In supply chain management, corporate managers will provide training and facilitation for suppliers to improve the use of natural resources and non-recyclable materials. The impact dimension discloses nature's interests in air emissions, air pollution, waste, hazardous waste, water discharge, water pollution, spills, biodiversity, partnering with environmental organizations, and land transformation. Modern corporate managers disclose progress in reducing air emissions (greenhouse gases, F-gases, ozone-depleting substances, NO2, and SO2) and air pollution. They report on progress in reducing waste and hazardous waste, managing water discharge, water pollution, and spills. They will work with an environmental organization in reducing biodiversity loss and managing land transformation in their business operations. Clarkson et al. (2008) found that firms with better environmental performance disclose more beneficiaries of nature interests.

World best ethical companies account for customer interests in one dimension with four (4) accounts. In the product responsibility dimension, they disclose customer interests in product quality, customer health and safety, product integrity, and customer privacy. On product quality, modern corporate managers report improvement in the usefulness of products, especially in the efficient use of energy and its impact on climate change. Lastly, the world's best ethical companies disclose local community interests also in one dimension with five (5) accounts. Under the society welfare dimension, corporate managers describe their corporate social responsibility activities, contribution to public health, strengthening of public accountability (fight against corruption), no child labor, and forced labor.

3. Research Methods

We can measure stakeholder harmony using a survey, a content

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analysis method, or a case study. This study chose the content analysis method since managers disclosed accounting information to test the A4BES model in sustainability reports. Content analysis is a systematic method of categorizing and analyzing the content of texts (Steenkamp & Northcott, D, 2007). This study employed the form (manifest) analysis and meaning analysis (Guthrie et al., 2004; Smith, 2003; Smith and Taffler, 2000). Form analysis counts words related to A4BES in firm sustainability reports, and meaning analysis examines information disclosed by managers in sustainability reports, whether they are outcome-based performance information.

4. Discussion

4.1 Measuring Stakeholder Harmony

This study predicts that corporate managers will disclose more interests of non-shareholder stakeholders if they have strong performances (Clarkson et al., 2008). Managers will likely disclose information on the social working environment, especially about equal opportunity and non-discrimination, given that Indonesian companies must adopt the Pancasila philosophy. It requires Indonesian to uphold unity in diversity. Indonesia is a large country with more than 270 million of population, home to 6 major religions in the world, and has more than 300 distinct ethnic and linguistic groups. Corporate managers disclose information on the training and development of their employees since it is required by laws and for their benefit. This study also predicts that managers disclose information on local community interests, mainly corporate social responsibility (CSR) activities. They abide by Indonesian corporate laws that require companies to perform CSR, providing financial and non-financial support for local community needs. Managers also disclose accounts required by OJK in their annual sustainability reports.

This study argues that corporate managers in Indonesia are in the second stage of the harmonization process: employee-shareholder-local community harmony. They are conventional

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managers maintaining the profit maximation objective but recognizing the interests of non-shareholder stakeholders. They will follow OJK requirements for sustainability reporting. Given shareholders' focus, managers will not change the members or structure of corporate governance. They will maintain the form and function of corporate governance to support the shareholder wealth maximation philosophy. Conventional managers will disclose only activities conducted by companies related to non-shareholder accounts. Sometimes, they explain targets to be reached and actual company performances. Managers do not explain the negative impacts of their business operations to the non-shareholder stakeholder, how they set the target to eliminate negative impacts, and how they will finance the investment for delivering the target.

Managers will become modern corporate manager when they disclose all accounts in Table 1 and present outcome-based performance in each valuable. They describe the vision and mission related to non-shareholder accounts, the baseline condition of the accounts, and the target to be achieved for the accounts. The disclosed information includes budget and finance to achieve the target and actual company performances. For example, in the dimension of resource use, the beneficiaries of nature, managers explain policies and strategies to transition from fossil fuel energy to battery energy. If the company determines the year 2020 as the baseline year, it will account for fossil fuel use in the year 2020 as the baseline quantity or the upper ceiling level of energy use. The company will reduce the use of fossil fuel energy after 2020. They will determine the level of fossil fuel use in the next five years, ten years, and until 0 fossil fuel use. Managers explain the budget and finance to achieve these targets and the actual performance. Transition managers will be in between the two types of managers.

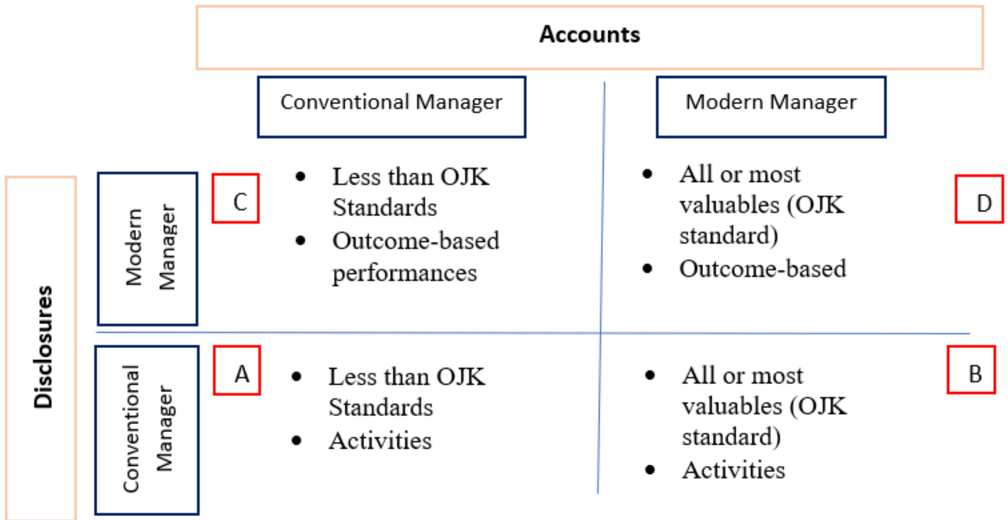

Figure 2. Matrix of Stakeholder Harmony Performance (Author's own model)

Corporate managers A are conventional managers for both reporting accounts and disclosing information. They report accounts less than those required by OJK. Conventional managers inform mostly activities they did on each account. Corporate managers B are modern managers for reporting accounts but conventional managers for disclosing information. They inform all or most accounts (meet the OJK standard) in Table 1 but mainly report activities of the accounts. Corporate managers C is conventional managers for reporting accounts but modern managers for disclosing information. Unlike managers A, managers C explains account using outcome-based management. Corporate managers D achieve the stakeholder harmony. These are modern managers for both reporting accounts and disclosing information. They inform all or most accounts in Table 1 and use outcome-based information in explaining each valuable.

4.2 A4BES in Indonesian Mining Sector

The World Economic Forum listed Indonesia as the world's fifth-largest coal producer producing 460-million-ton coal in 2017, about 6.3% of

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the world's coal last year.[2] Coal industry plays a prominent role in Indonesian economic development. However, it is a dirty business (Fatah, 2008). It contributes to water contamination, coal dust permeating the air and coating everything inside and outside houses, and health problems. Coal mining also causes floods and destruction of land and ecosystems due to the abandonment of mining areas. Coal vehicles contribute to road accidents, road damage, and nuisance to the communities living along the roads.

This study analyses the A4BES of the five largest coal companies listed on the Indonesian Stock Exchanges (IDX). Table 2 presents the name, description, financial capacity in 2021 measured by the total revenues and change in the total revenue, and reported accounts in the sustainability report 2021.

Table 3. The Five Largest Coal Companies in Indonesia

No.	Company	Description	Revenue 2021		% Accounts Compared to Table 1
			Million US$	% Change	
1	PT. Adaro Tbk. (ADRO)	Owned Tutupan mine located in South Kalimantan. Adaro is owned by PT. Saratoga Investama Sedaya Tbk. The surface mine produced an estimated 38.66 MTPA of coal in 2020.	3,992	57%	50%
2	PT. Indika Energy Tbk (INDY)	Owned Tambang Pasir mine in East Kalimantan. It can produce more than 34 MTPA of coal in 2020 and has more than 47.000 hectares of coal mines areas.	3,069	69%	51%
3	Bayan Resources Tbk (BYAN)	Owned FTB Project located in East Kalimantan. The mine produced an	2,852	105%	41%

[2] https://www.weforum.org/agenda/2018/01/these-are-the-worlds-biggest-coal-producers
https://www.mining-technology.com/marketdata/five-largest-coal-mines-indonesia-2020/ accessed 10 July 2022.

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		estimated 24.4 MTPA of coal in 2020. The mine will operate until 2055.			
4	PT. Bukit Asam Persero Tbk. (PTBA)	Located in Bukit Asam city, Tanjung Enim regency, South Sumatra. It is a state-owned company producing more than 400 tons of coal mines daily.	2,049	67%	51%
5	PT. Indo Tambangraya Megah, Tbk. (ITMG)	Owned Indominco-Mandiri mine, a surface mine located in East Kalimantan. It produced an estimated 12.81 MTPA of coal in 2020. Owned by Banpu Minerals (Singapore) Pte. Ltd. Via PT Centralink Wisesa International.	2,076	75%	59%

Generally, companies with better financial capacity disclose more accounts of A4BES than the weaker companies. The study uses revenue increases as a proxy for a firm's financial capacity. BYAN recorded a 105% revenue increase in 2021, reporting the highest revenue increases in the sample companies. BYAN is the third largest mining company in Indonesia, with annual coal production of 24.4 million tons per annum (MTPA). Despite showing the largest financial capacity, it reports the lowest percentage of accounts among the sample companies in the Indonesian mining sector. BYAN reports only 41% of A4BES accounts described in Table 1. It is an anomaly for Adams (2002) that suggests the opposite direction. BYAN observation is an outlier in the sample, while four other companies show consistency with Adams (2002). ADRO, the biggest mining company in Indonesia, with annual coal production of 38.66 MTPA, reported the lowest earning increase in 2021. It reported a 57% revenue increase in 2021 and disclosed 50% of A4BES accounts in 2021. Companies with higher revenue increases than ADRO disclose more accounts than those disclosed by ADRO. BTBA, reporting a 67% revenue increase in 2021, disclosed 51% of A4BES accounts. INDY, which reported a slightly higher revenue increase of 69%, also disclosed 51% of A4BES

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accounts. ITMG, the fifth largest mining company in Indonesia with 12.81 MTPA, reported a 75% revenue increase in 2021. It discloses 62% of A4BES accounts, the highest A4BES reporting among the sample.

OJK requires companies to disclose sustainable finance governance, i.e., corporate governance protecting the interests of non-shareholder stakeholders (SEOJK.E). The requirements include descriptions of the person in charge of implementing sustainable financing, development of sustainable competencies, sustainable finance risk assessment, stakeholder relationships, and issues in sustainable finance implementation. This study argues that conventional managers will maintain governance to protect the interests of shareholders. In this case, there is no stakeholder accountability in producing sustainability reports (Cooper and Owen, 2007; O'Dwyer, 2003). If only corporate shareholders embrace the stakeholder maximation philosophy, then managers can adopt modern governance allowing non-shareholder stakeholders involvement in governing the interests of non-shareholder stakeholders. This study found that INDY was the only company creating a sustainability board committee. Nevertheless, no participation or representation from non-shareholder stakeholders is on the committee. Other companies describe the same governance structure as those they disclose before disclosures of business ethics and sustainability issues to the public become mandatory.

A4BES in the Indonesian mining industry can indicate the harmonization level of corporate managers in Indonesia. As suggested in Figure 2, the level of regulatory harmonization strongly influences the manager harmonization level. Managers at least will achieve the second level of harmonization by following OJK regulation.[3] OJK is in the second level of stakeholder

[3]OJK Circular Letter No.16/SEOJK.04/2021 concerning form and content annual reports of listed and public companies.

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harmonization, following the international standards on disclosing the interests of non-shareholder stakeholders. It asks companies to report more accounts consistent with A4BES, but it does not require companies to disclose outcome-based performances for each valuable. However, OJK requires companies to disclose negative impacts of company business operations to their local communities (SEOJK.F23).[4] Table 1 shows that OJK regulators require companies to disclose activities on 47% of A4BES accounts. The sample companies, except for BAYN, voluntarily disclose more A4BES information than OJK requirements. This evidence suggests that large mining companies follow the signaling theory of the capital markets (Clarkson et al.,2008). OJK requires companies to report company economic, social, and environmental performances for the past three years. On the economic performances, companies need to disclose a comparison between target and actual productions, portfolio, investment, financing, as well as profit and loss account (SEOJK.F2). OJK also requires companies to disclose their sustainable finance performance (SEOJK.F3) in economic performance. SEOJK.F3 requirement provides an opportunity for corporate managers to disclose the degree of harmonization of the interests of shareholders with the interests of the non-shareholder. A modern corporate manager will use the space in SEOJK.F3 to explain their outcome-based performances in reducing the negative impacts of company operations on employees, customers, local communities, and nature. They will explain in more detail this outcome-based performance in each valuable addressing the interests of non-shareholder stakeholders. ADRO did not use this opportunity and did not give an index on how OJK requirements were implemented in its 2021 sustainability report. PTBA and INDY also did not use this opportunity. PTBA explains only

[4] SEOJK.F23 means OJK Circular Letter No.16/SEOJK.04/2021 requirement No. F23.

activities and comparison of target and actual financial supports provided to local communities under the CSR program. INDY did not give an OJK sustainability index page on its 2021 sustainability report.

BAYN and ITMG managers are in the transition into modern corporate managers. Providing an OJK sustainability index page on its 2021 sustainability report, BYAN disclose information on the economic value produced and distributed to stakeholders (SEOJK.F2). The manager of BAYN distributed 2.7% mining revenues for employees and less than 0,1% for local communities. There is no information on mining revenues channeled to the interests of customers and beneficiaries of nature. However, the disclosure on operational costs can be used as a proxy for producing quality products for customers. In 2021, BAYN distributed 10,5 percent of its revenues to pay dividends for the shareholders, 32% to the operational costs, and 17% to the government. A large share of government is due to royalty of mining extraction. For SEOJK.F3, BYAN discloses brief information on putting solar panels for their employees' housing and local community energy needs, as well as using 30% biodiesel for their energy use. Unlike BAYN, ITMG did not provide the OJK sustainability index in its 2021 sustainability report, making difficult to analyze its A4BES. For the year 2021, ITMG managers distributed 3,8% of its revenues to employees, 28% to operational costs, 0.2% to local communities, 5,6% to shareholders, and 15% to the government (SEOJK.F2). ITMG did not disclose harmonization information according to SEOJK.F3. BYAN and ITMG managers have plenty of room for improvement in harmonizing the interests of shareholders and the interests of non-shareholder stakeholders. Notice discussed earlier, BYAN disclosed the least A4BES accounts despite having the highest financial capacity.

OJK requires companies to disclose their vision, missions, and values on sustainability (SEOJK.C1), their strategy for achieving this vision

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and missions (SEOJK.A1), and director (management) discussion on sustainability (SEOJK.D1). Modern corporate managers will use this space in the sustainability report to explain outcome-based performances in the reducing negative impacts of firm operations to employees, customers, local communities, and nature. This high-level disclosure will explain more detail in each A4BES valuable. The sample companies did not use this opportunity. They explain vision, mission, values, strategy, and discussion on sustainability but fail to explain outcome-based performances for achieving firm operational and financial sustainability.

OJK requires companies to disclose four (4) accounts of the-17-A4BES accounts disclosing the interests of employees in company profiles (SEOJK.C). OJK requirement is only about 24% of A4BES accounts. Managers need to explain the scale of company operations, including the number of employees by gender, position, age, education, and employment status (SEOJK.C3. b). Detail policies and practices to protect employee interests need to explain equal employment opportunity (SEOJK.F18 or A4BES 1.3), child labor and forced labor (SEOJK.F19 or A4BES 6.4 & 6.5), regional minimum wage (SEOJK.F20 or A4BES 2.1), decent and safe working environment (SEOJK.F21 or A4BES 3.1), and employee training and capacity development (SEOJK.F22 or A4BES 4.1 to A4BES 4.4). All sample companies disclosed much higher accounts for employee interests than those OJK requirements. ITMG disclosed the highest accounts for protecting the interests of employees, followed by ADARO. ITMG disclosed 8.5 accounts for the interests of employees or 50% of A4BES employee accounts, while ADARO disclosed eight (8) accounts in the employee interests. This finding is consistent with the prediction of this study. Indonesian companies are comfortable disclosing performances protecting employee interests.

For explaining company policies on customer interests, OJK requires

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firms to explain responsibility for the sustainable product or service development. It requires firms to disclose three (3) out of four (4) A4BES accounts protecting customer interests. For delivering quality products or services (A4BES 5.1), OJK requires managers to explain the innovation and development of sustainable financial products/services (SEOJK.F26), product/service impact (SEOJK.F28), the number of a product recall (SEOJK.F.29), and customer satisfaction survey on sustainable financial products and or services (SEOJK.F.30). OJK also requires firms to disclose products/services evaluated for safety for customers (SEOJK.F27 or A4BES 5.2). In protecting customer interests, OJK also requires firms to disclose social performance on the commitment to provide the same quality products/services to consumers (SEOJK.F17). It is equal to the A4BES 5.3 principle, preservation of product integrity. The best company for protecting customer interests is PTBA, which disclosed three (3) accounts or 75% A4BES accounts protecting customer interests. The second-best company protecting customer interests is BAYN. It reported 2.5 accounts or 63% of A4BES accounts protecting customer interests. Other companies only disclosed one (1) out of four (4) A4BES accounts protecting customer interests.

For the local community's interests, OJK requires firms to disclose three (3) out of five (5) of the A4BES accounts. Firms need to report the impact of operations on surrounding Communities (SEOJK.23), public complaints (SEOJK.24), and activities on environmental and social responsibility (TJSL) (SEOJK.25). According to A4BES, firms explain these requirements in A4BES 6.1 company CSR activities based on the outcome-based performance principle. Managers disclose the baseline condition of local communities impacted by their operations, targets for reducing the negative impacts, budget, finance, and activities performed during the reporting year. In protecting the interests of local communities, OJK also requires firms to report on policies and practices of no child labor and no forced labor (at both

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the organization level and in the value chains (SEOJK.F19 or A4BES 6.4 and 6.5). ITMG was the best company in reporting local community interests. It disclosed four (5) out of five (5) A4BES accounts, higher disclosure than the OJK requirement. INDY was the second-based company disclosing four (4) out of five (5) A4BES accounts. Against the prediction of this study, the other three companies disclosed fewer accounts than the OJK requirement. Firms fail to report on SEOJK.F19.

Information on beneficiaries of nature obtained the highest interest from OJK with eight (8) out of twelve (12) A4BES accounts. Companies should disclose three (3) out of five (5) A4BES accounts on resource use: reduce the use of scarce, non-recyclable materials (SEOJK.F5 or A4BES 7.2), reduce the use of scarce water resources (SEOJK.F8 or A4BES 7.3**),** and use of scarce energy (e.g., fossil fuels) (SEOJK.F6 & F7 or A4BES 7.4). SEOJK.F5 requires companies to disclose the use of environmentally friendly materials. For the impact on society, OJK regulation requires firms to disclose five (5) out of eight (8) A4BES accounts. The requirements include the impact of operational areas near or located in conservation areas or possessing biodiversity (SEOJK.F9) and biodiversity conservation efforts (SEOJK.F10). These two requirements are A4BES valuable 8.6. OJK requires firms to disclose the amount and intensity of emissions produced by type (SEOJK.F.11) and emission reduction efforts and achievements (SEOJK.F.12). Firms should explain both requirements in A4BES valuable 8.1. Firms need to disclose the amount of waste and effluent produced by type (SEOJK.F.13) and mechanism of waste and effluent Management (SEOJK.F.14). Both requirements are part of disclosure for A4BES 8.2. Under the impact on society, firms also need to explain spills that occur (if any) (SEOJK.F.15 or A4BES 8.5) and the number and material of environmental complaints received and resolved (SEOJK.F.16). The last requirement, SEOJK.F16, for A4BES, is a part of corporate governance. ADRO and ITMG reported the highest accounts

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for the interests of nature. They disclosed 75% of A4BES accounts for the resources use and the impact to the society.

All companies fail to provide outcome-based information on each valuable disclosed to the public, especially the negative impacts of their operations on non-shareholder stakeholders. Without this information, managers cannot genuinely start the stakeholder harmonization process. The information is the basis for determining the baseline outcomes of company operations. Managers use the baseline data to set the long-term, medium, and short-term targets reducing the negative results for non-shareholder stakeholders. With this information, managers prepare budgets and finance to achieve the targets. Managers need management and financial accounting to perform this task. The finding supports the prediction of this study that Indonesian companies are still followers or in the second stage of the stakeholder harmonization process.

5. Conclusions and Future Studies

5.1 Conclusions

This study develops an accounting tool (framework) that helps managers to communicate with company stakeholders. This study argues that accounting for respecting the interests of non-shareholder stakeholders such as employees, customers, and local communities is accounting for business ethics, and accounting for respecting beneficiaries of the environment is accounting for sustainability. A4BES is the accounting for all these non-shareholder stakeholders. This study adds to the literature the theory of stakeholder harmonization by corporate managers and regulators. In contrast to Collier (2008); Hill and Jones (1992) suggesting managers make a contractual relationship with all stakeholders, this study argues that managers only enter into a contractual relationship with shareholders and investors. Managers are not the agent of non-investor stakeholders. Managers only make a report and are accountable to shareholders. Given the relationship, managers give more concerned with the interests of shareholders, that is fully disclosed using IFRS or US GAAP.

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Corporate governance is also designed to support the interests of shareholders.

A4BES looks into managers' disclosure of the interests of non-shareholder stakeholders and how they harmonize the relationship between the interests of shareholders and the interests of non-shareholder stakeholders. This study argues that manager will try to harmonize the needs of non-investor stakeholders with the needs of shareholders. Initially, they will consider the interests of non-investor stakeholders as constraints on delivering the interests of the firms (shareholders). Over time, as shareholders and investors grow their beliefs in living harmoniously with other non-investor stakeholders, corporate managers will be balancing the needs of all stakeholders if necessary, reducing the profit available for shareholders.

This study found that mining managers are conventional managers at the second level of the harmonization process. Managers disclosed more accounts than the OJK requirements. They provided information on more than 50% of A4BES accounts, while the OJK requires 47% of A4BES accounts but did not give information on outcome-based performances in each reported valuable. BYAN and ITMG provided information on economic value distribution to the stakeholders, and INDY formed a sustainability committee at the board of directors' level. It indicates that managers of these three companies achieved a better stakeholder harmonization level than managers of PTBA and ADARO. This study predicts that firms with higher financial capacity will disclose more A4BES accounts than those with lower financial capacity. The small sample used in the study supported this theory. Managers describe more interests of non-shareholder stakeholders if they have strong performances on the interests. As predicted, this study found that managers disclose more information on the social working environment, information on the training and development of their employees, and information on local community interests, mainly corporate social responsibility (CSR) activities.

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This study offers a new framework for understanding the behavior of corporate managers in harmonizing the stakeholder relationship. This study tested the framework using sustainability reports to assess manager achievement in stakeholder harmonization of a small sample of large mining companies in Indonesia.

5.2 Future Studies

Future studies can test the framework in larger multi-year sample firms with different ethical environments. Researches may use the framework to test the association between the welfare of non-shareholder stakeholders and shareholder wealth. Future studies can also use the framework to understand the management accounting process to harmonize shareholder and non-shareholder interests. The focus of this study is on corporate managers. Future accounting researchers may investigate how capital market regulators harmonize accounting regulations for stakeholder interests.

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