

# CHAPTER I

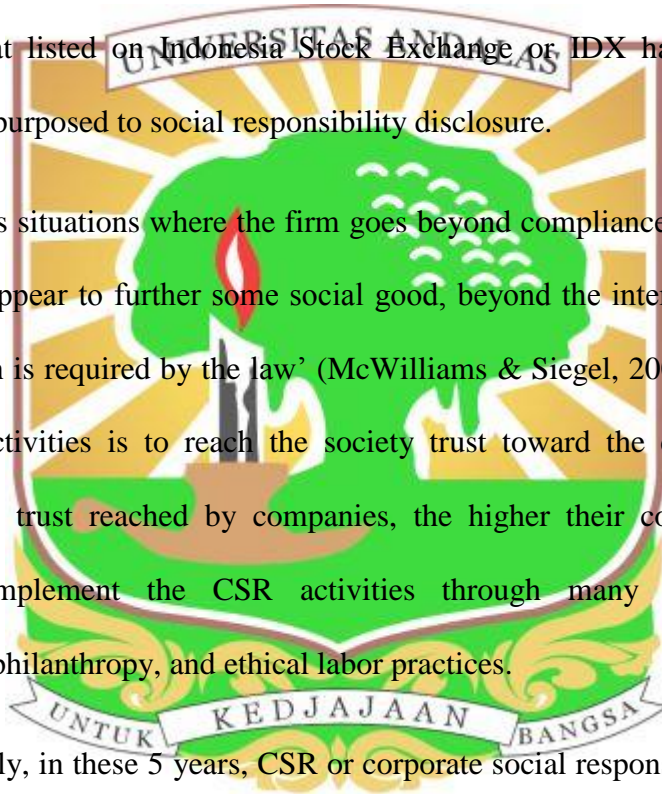
## INTRODUCTION

### 1.1 Background

Corporate Social Responsibility (CSR) has been done by most of companies throughout the world including in The Association of Southeast Asian Nations (ASEAN) region. For Indonesia itself, in recent years, Indonesia companies that listed on Indonesia Stock Exchange or IDX had done several activities that purposed to social responsibility disclosure.

CSR is situations where the firm goes beyond compliance and engages in ‘actions that appear to further some social good, beyond the interests of the firm and that which is required by the law’ (McWilliams & Siegel, 2006). The goal of doing CSR activities is to reach the society trust toward the companies. The higher society trust reached by companies, the higher their companies value. Companies implement the CSR activities through many ways such as environment, philanthropy, and ethical labor practices.

Recently, in these 5 years, CSR or corporate social responsibility has been a trend in Indonesia. Everyone is talking about CSR and also there are more and more companies that started to implement CSR. But, the socialization effort must be done that companies realized and understand the important of using CSR. The tendency lately in Indonesia stated that many industrial corporations have been running the principles of CSR in practical terms, as the linking of decision with ethical values, the rule of law and respect for human life, society and the environment (Tanudjaja, 2006).



Indonesia is one of the members of ASEAN which have great economic growth in recent years. Based on the data of World Bank, Indonesia is now one of Asia Pacific's most vibrant democracies that has maintained political stability and emerged as a confident middle-income country. Indonesia recorded strong economic growth of 5.0% in 2014 which is supported by strong growth in domestic consumption and investment. That economic condition indicates that business sector in the scope of domestic market will have bright prospects. There are many factors that affect the economic growth in Indonesia. The first of all is the increasing of the middle class society. McKinsey estimates that Indonesia will become the world's 7th-largest economy in 2030, overtaking Germany and United Kingdom. That condition supported by the amount of 135 million of consuming class population which is bigger than 45 million ones reported in 2012. For every company in Indonesia, they are not only have a responsibility toward legal capital, such as creditors, investors, and management, they also must have responsibility to the public and society. For this reason, the company was asked to provide information about the company with transparent interest. One of the way company could communicate with the public is by using the media of annual report and or the sustainability report of the company.

The information disclosed in the annual report can be grouped into two categories, those are mandatory disclosure, which is the minimum disclosures required to be disclosed (mandatory regulations). And voluntary disclosure, which is disclosure not required by regulation, in which the company can choose the type of information that can support in making decision. Purpose of disclosure

based on the Securities Exchange Commission (SEC) categorized into two groups:

1. Protective Disclosure, which is protection to investor.
2. Informative Disclosure, with aim to give competent information to report consumer.

The company is defined as a rule of social disclosure of financial information and non standard relating to the organization of interaction with the social and physical environment which is disclosed in the company's annual report (Patria, 2010). Social disclosure of company including the details of the physical environment, energy, human resources, products and issues of public involvement.

Based on the IAI in PSAK No. 1 (revision 1998) paragraph 9 suggests to open problem responsibility would be environmental and social:

*“Company earns also presents additional report like environmental report lived added value report, especially for industry where environment factors plays a part necessary for industry assuming officer as a group report consumer playing a part important”.*

The statement has explained the company has a responsibility to the surrounding environment, especially industrial companies that leaves waste, if the waste is not processed first, it will pollute the environment and negatively impact to the environment. In consequence with existence of PSAK No. 1 is expected the company to the increasing of awareness to the environment.

Social responsibility and environment as intended at government regulation RI No. 40 the year 2007 section 74 sentence (1):



*“The company operating their business related to natural resources should do corporate social and environmental responsibility”.*

Become an obligation of company budgeted and considered as expense of company which exercise is done by paying attention in making properly. Also, what obliges companies to implement social responsibility shows manifestation that the government care about social issues is corporate accountability. The practice of social disclosure standard of company will push to take responsibility for the social environment.

Many previous study of corporate social disclosure has been conducted in Indonesia. Gunawan et. al. (2009) held the study to examine the extent of corporate social disclosure (CSD) in Indonesian Stock Exchange listed companies for the year 2003-2006. He used content analysis to measure the CSD. The result shows that the information which most disclosed in annual report is human resources and the information are mostly disclosed in positive and descriptive manner.

Djajadikerta and Trireksani (2012) conducted the study of corporate social and environmental disclosure in Indonesian listed company. They focused on the disclosure which reported in company’s official websites. The sample used consists of sensitive and non-sensitive companies and content analysis is used to measure social and environmental disclosure items. The results show that the extent of corporate social environmental disclosure of Indonesian companies in their corporate websites is low and descriptive is the mostly nature of disclosure.

This study focuses on non-financial report released by the companies in Indonesia. A company commonly releases annual report that contains financial



and non-financial performance. Based on previous studies, those two information are related each other. Financial performance of a company can affect its non-financial performance. Vice versa, non-financial performance can also affect the company's financial performance. The example non-financial performance is Corporate Social Responsibility (CSR) activity. The financial performance of a company can be found in their financial statements. The items of financial performance usually stated in ratio forms such as Return on Assets (ROA), Return on Equity (ROE), Gross Profit Margin (GPM), and Net Profit Margin (NPM).

There are items that company must disclose in their non-financial performance. Based on Global Reporting Initiative Index 2012 version 3.1, the items are economic, environmental, labor practices and decent work, human rights, society, and product responsibility. A company which disclosed their CSR activity using GRI Index releases a specific report which is called as Sustainability Report (SR). The report contains those items and there are a cross-check index of GRI in the last pages of the report. Some companies do not release a sustainability report to disclose their CSR activity. Instead, they use annual report to inform their CSR activities. Of course, those companies try to mention all the GRI 3.1 items although they do not release the sustainability report and attach a cross index of GRI in the last pages of their annual report.

There are many types of disclosure used by company to disclose the items on GRI 3.1 Index. They are narrative, monetary, and quantitative (Alnajjar, 2000). Narrative type mainly disclose the items in form of sentences or paragraphs. The monetary type mentions the number in *rupiah* or *dollar* of an items that conducted

by company. Quantitative type specify the information of items stated in number form, for example, the amount of waste, the percentage of employee, etc.

Therefore, this study is conducted to provide an up-to-date portrait of how the Indonesia companies do the corporate social responsibility disclosure practices. Global Reporting Initiative (GRI) index 2012 version 3.1 is used to measure the extent of CSR activities. This study investigates the disclosure practices of corporate social responsibility in narrative, quantitative, and monetary types in disclosing that activities. The samples used in this study are annual reports and or sustainability reports of Indonesia companies in 2014. There are top 100 companies were chosen based on their market capitalization during the year. Some research explained that companies which have bigger market capitalization will have a better skill to disclose their CSR activities in their annual reports or sustainability report. Disclosure occurrence is used to measure the corporate social disclosure. Based on Joseph and Taplin (2011), corporate social disclosure is measured by “counts the number of disclosure items in the checklist that have disclosures without taking into account the amount of disclosure for each item”. This method applied in this study because this can avoid the occurrence of double counting caused by repetition information of measuring the items.

From the explanation above, this study aims to investigate the extent of corporate social responsibility disclosure practices of Indonesia companies based on the type of disclosure and also whether the amounts of corporate social responsibility disclosure items are varied between sensitive and non-sensitive industry.

## 1.2 Problem Statements

Based on the explanation in Introduction section, the research questions of this study are:

1. What is the extent of CSR disclosure by the types of disclosure?
2. Is there any difference in the extent of CSR disclosure by types between the sensitive and non-sensitive industry?

## 1.3 Research Objectives

Based on the problem definition above, the aims of this research will be:

1. To analyze the extent of CSR disclosure by the types of disclosure.
2. To find whether any difference exist in the extent of CSR disclosure by types between the sensitive and non-sensitive industry.

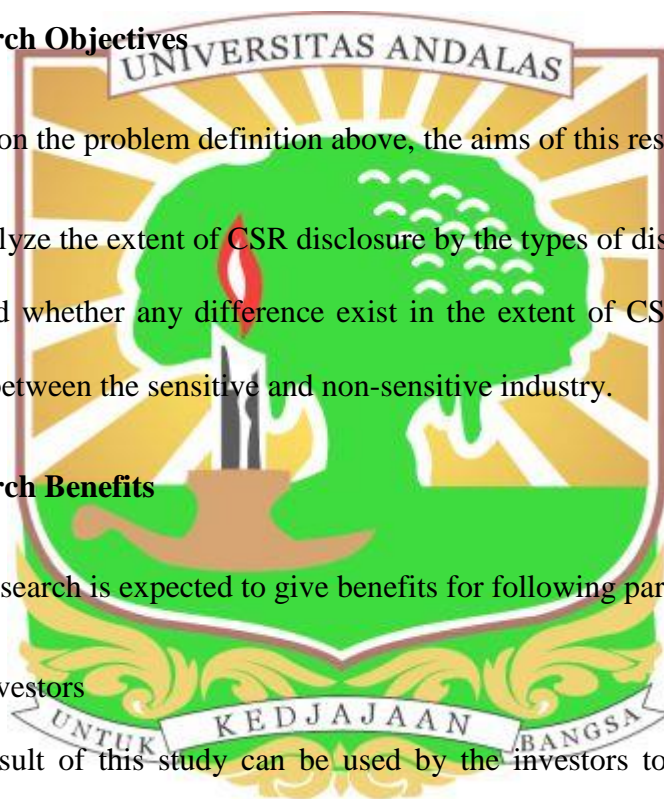
## 1.4 Research Benefits

This research is expected to give benefits for following parties:

1. The Investors

The result of this study can be used by the investors to make business decisions, especially financing decisions and general operation decisions. Investor can assess the social performance of companies in better way. They will get adequate information to predict the future cash flow of the firm they involved in because of the decreasing of uncertainty information between managers and investors.

2. The Management



The result of this study can be used by management to make a better disclosure of CSR activity so that it can increase the willingness of investor to invest their money to the companies. Better disclosure also can keep the trust of the stakeholder.

### 3. The Accountant

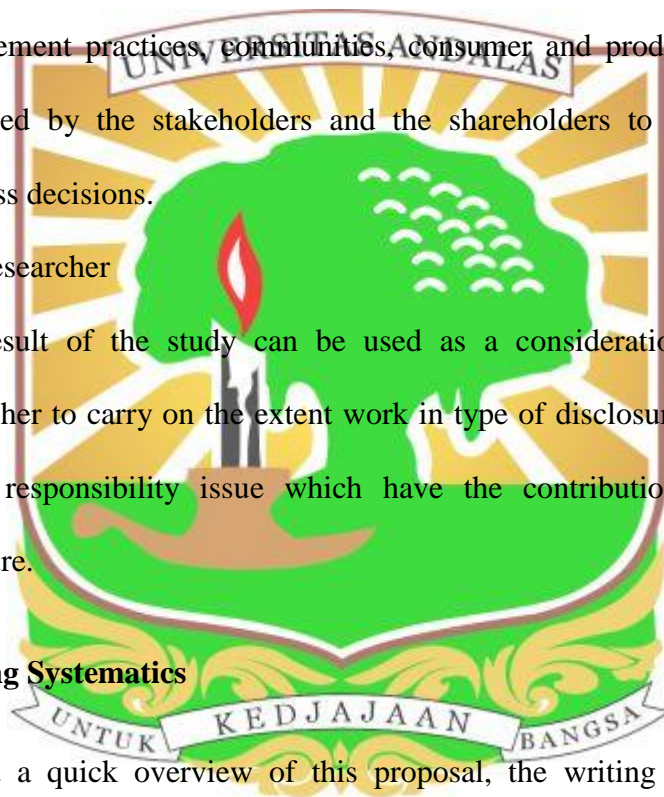
The result of this study can be used by accountant to arrange financial report considering the environmental, employment, investment and procurement practices, communities, consumer and product issue which can used by the stakeholders and the shareholders to make the right business decisions.

### 4. The Researcher

The result of the study can be used as a consideration for the next researcher to carry on the extent work in type of disclosure and corporate social responsibility issue which have the contribution for the next literature.

## 1.5 Writing Systematics

To get a quick overview of this proposal, the writing system will be divided into the following chapters. Chapter One is the Introduction, consists of the background of the research, problem definition, research objectives and the research benefits. Chapter Two is Literature Review, which explains the concepts and basic theories for corporate social responsibility and disclosure practices. And this chapter also explain the theoretical framework and review the literature about all related previous researches and the hypothesis development. Chapter Three is





Research Method, that contains the description of how to conduct this research operationally. So this part is needed to explain the research method, data collection method and data analysis method. Chapter Four is Research Result and Discussion, which explains the object of the research, the whole research process, the data analysis techniques and the results according to the method that is used. Chapter Five is Conclusion and Suggestion, which describes the overall conclusion from the results that have been obtained in this study. It also explains what the limitations are to this research and suggestions for further studies in order to develop their research.

