

CHAPTER 1

INTRODUCTION

I.1 Research Background

The environmental condition is constantly changing. However, as the environment changes, so does the need to become increasingly aware of the problems that surround it. With the massive natural disasters that happened, ecosystem degradation and much more. Global warming has become a disputed fact about the current livelihood, the planet is warming up and people are definitely part of the problem. All across the world, people are facing a wealth of new and challenging environmental problems everyday. Some of them are small and affect of a few ecosystems, but others are drastically changing the landscape.

However, many institutions and companies are aware of these environmental degradations. The effort of managing the environment is increasing in the business sector. A company's paradigm and orientation have changed, not only to satisfy their stakeholders financially, but also socially and environmentally. Therefore, greater impacts to the environment demand greater social responsibilities to the society and environment.

According to Azyafi (2016), people increasingly do not accept unethical business practices or organizations who act irresponsibly. To adjust with the people's needs related to company social and environmental impact, companies should implement and report on the progress of CSR principles. Corporate Social Responsibility (CSR) is about how firms manage business operations to produce a positive impact on society. Consequently, firms need to account for the quality for

of their management (both in terms of people and process) and the nature of and quantity of their impact on society in various areas (Baker in Omran, 2015). CSR is about company's concerns for community involvement, socially responsible products and processes, environment, and socially responsible employee relations (Ortiz-Martinez & crowther in Crowther & Aras, 2008). CSR practices in Indonesia have been regulated by Article 74 chapter 5 of Law No. 40/2007 on Social Responsibility and Environment stated that the company that conducting business activities in the field and/or relating to natural resources is required to implement the Social and Environmental Responsibility. The provisions concerning social and environmental responsibility also stipulated in Government Regulation No. 47/2012. The disclosure of CSR that has been done by most of the companies in Indonesia is a part of motivation to increase public reliance towards company's achievement in enhancing the environment (Farida, 2013).

Corporate Social Responsibility (CSR) cannot be separated from the concept of sustainable development (SD). CSR and SD programmes are becoming a constant part of company action. Sustainability reporting becomes an important tool to give a clear image of a company and also make it comparable with others. It has to be based on an active dialogue with different stakeholders, as well as an external verification, global operating standards are to be developed (Berkofics, 2010). Sustainability Report presents as a tool to disclose the corporate social responsibility. This report focuses on three aspects, namely economic performance (economic), the environment (environmental) and social (social). These three aspects known as the Triple Bottom Line, commonly referred as the principle of 3P (Planet, People and Profit). 3P principle is used to capture the

whole set of values, issues and processes that companies must address in order to minimize any harm from their activities and to create economic, social, and environmental value (Sejati, 2014).

If financial report has International Financial Reporting Standard (IFRS) as the standard in reporting, sustainability report use Global Reporting Initiative (GRI) as a standard rule of disclosure. That, in which has been adopted in Indonesia. GRI explains that sustainability reporting enabling organizations to be more transparent about their risk and opportunities and also to consider their impacts of sustainability issues. GRI provides the world's most widely used standards on sustainability reporting and disclosure, enabling businesses, governments, civil society and citizens to make better decisions based on information that matters. GRI promotes the use of GRI sustainability reporting as a way for companies to become more sustainable and contribute to sustainable development. GRI seeks to continue to develop "a framework for sustainability reporting", and G4 Guidelines officially released on May 2013 (www.globalreporting.com). While GRI-G4 is more concerned with the materiality of the relevant aspects and topics, the previous GRI focused on complete disclosure in accordance with the standard. It makes this new standard better, because what's matter is not completeness anymore, but the importance of content reported. So the focus of sustainability reporting is shifting from quantity of object reported to quality of information stated.

In Indonesia, the ministry of living environment and forestry initiate PROPER program. PROPER (Program Penilaian Kinerja Perusahaan dalam Pengelolaan Lingkungan Hidup) is the assessment of management environmental

performance of a company that requires measurable indicators. The goal this program is to improve the company's role in managing the environment and cause a stimulant effect in compliance with environmental regulations and the added value to the preservation of natural resources, energy conservation, and community development.

The performance assessment of PROPER criteria is divided into :

1. Gold is awarded to businesses and / or activities that have consistently demonstrated environmental excellence in production processes or services, and to implement ethical business and responsible to society.
2. Green is for business and / or activities that have environmental management more than required under the rules (beyond compliance) through the implementation of environmental management systems and they have used their resources efficiently and to implement social responsibility well.
3. Blue is for business and/or activities that have made the effort of environmental management, which is required in accordance with the provisions of the applicable legislation or regulation.
4. Red is for those who have made the effort of environmental management but not in accordance with the requirements stipulated in laws and regulations.
5. Black is given to those who are doing business and / or activities, have been intentionally does any act or omission which causes pollution or environmental damage, and violating the laws and regulations in force and / or imposing administrative sanctions. (PROPER, 2015).

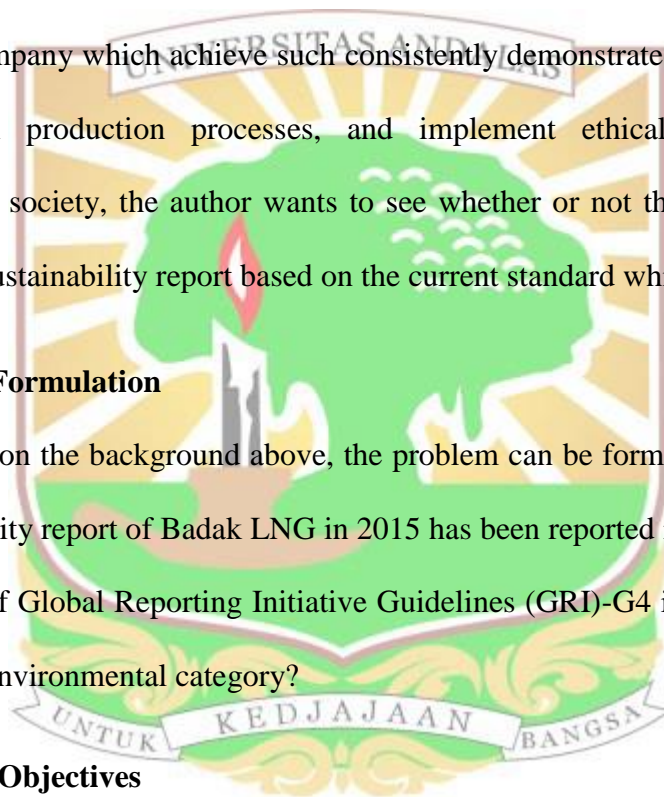
Based on the description above, the author is interested in examine more of the disclosurance of the environmental category in sustainability report. This thesis is examined about the compliance of company's sustainability report disclosure with GRI-G4 standard. In this opportunity, the author is going to take the Natural Gas Liquefaction industry. The company chosen by author is Badak LNG. The reason as to why the author choose this company because this company has consistently, since 2011, achieved Gold rating in PROPER award up until now. As a company which achieve such consistently demonstrated environmental excellence in production processes, and implement ethical business and responsible to society, the author wants to see whether or not this company has reported the sustainability report based on the current standard which is GRI-G4.

1.2 Problem Formulation

Based on the background above, the problem can be formulated as : Does the sustainability report of Badak LNG in 2015 has been reported in accordance to the standard of Global Reporting Initiative Guidelines (GRI)-G4 in disclosing the indicators in environmental category?

1.3 Research Objectives

This research is aims to evaluate the accordancy of the company's sustainability report disclosure with indicators in environmental category of Global Reporting Intitiative guidelines (GRI)-G4.



1.4 Research Benefit

The result of this study are expected provide benefits as follows:

1. Provide additional information for investors and potential investors in making investment decision in order to avoid misleading in decision making.
2. Give input to the company about the content of report in accordance with the standards.
3. Give additional scientific references related to CSR and sustainability reporting which can be developed by further studies.

1.5 Writing Systematic

This research consists of five chapters, arranged and will be explained as follows:

Chapter I is the introduction of this research. Research background, problem formulation, the objectives of the research, research benefit, and also the systematic of writing of this research will be explained in this chapter.

Chapter II talks about the literature review of the research. It discuss about theory that has relation with research problem. This is helpful as think base to solve the problem. Besides that, this chapter also looks previous research that related with this research.

Chapter III explains about the research methodology in conducting the research. It provides overview of plan in doing the research. Along with theories from literature review, this chapter will encompass the research. This chapter

includes type of research, research limitation, types and sources of data, and analysis method.

Chapter IV explains about the result of the study that has been conducted. It contains data processing result based on research methodology. Chapter V describes about the conclusion, research limitation, suggestions addressed to interested parties and for those who may need this research for further study.

