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A REVIEW OF CORPORATE ENVIRONMENTAL RESPONSIBILITY (CER) PRACTICES IN INDONESIA

SKRIPSI



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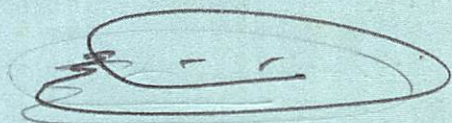
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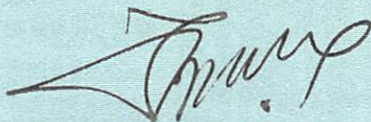


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ABSTRACT

A Review of Corporate Environmental Responsibility (CER) Practices in Indonesia

Syafendri

The aim of this research is to review the practices of Corporate Environmental Responsibility (CER) as subsection of Corporate Social Responsibility (CSR) based on Sustainability Report published by mining industry in Indonesia. This research use nine aspects and thirty indicators Environmental Performance stated by Global Reporting Initiative (GRI) G3 Guideline. There are five Sustainability Report were analyzed as the samples and will be classified as Reported or Not Reported. Then from Reported classification, it will be score as Completely and Partially Reported. The result of the study show that the applications of guideline for reporting on environmental performance within Indonesian companies in mining industry is still far from what the Global Reporting Initiative (GRI) G3 required.

Keywords: CSR, CER, SR, Mining Industry, GRI G3.

CHAPTER I

INTRODUCTION

I. Background

The issue of Corporate Environmental Responsibility has received importance and attention especially when the greatest challenge, global warming with its associated threats of climate change and other environmental problems were occurring in recent years had making our one earth is more prone to natural disasters and widespread ecological imbalances. Nowadays people do not just thinking about its own survival, but they are more concern and critical for the place where they make living, whether they act as an individual or a global society. One of the concerns could be seen toward corporate action in community and environment.

The demand for corporate to pay more attention to environmental issue are increase significantly. Corporate are forced to be more serious in dealing with environmental problems surrounding like environmental pollution, greenhouse gas emissions, large-scale exploitation of energy and natural resources. To respond this condition, corporate required disclosing the activities and efforts in tackling environmental problems by having CER (Corporate Environmental Responsibility) as a subsection of CSR (Corporate Social Responsibility).

By having this report, corporate is not just show their awareness and concern to the environmental problems, but also makes good sense for an

economic and social aspect. The report also can be use as a part of their business strategic in order to increases the value of company (Verecchia, 1983, in Sayekti, 2007) and hopes to get social legitimate and maximize the money strength in long period (Kiroyan, 2006).

As an important part of corporate strategy, this report can balance its responsibility between corporate profits (shareholders) and social goals (stakeholders). This statement is accordance with the concept of 3P, which are Profit, People and Planet.¹ Meanwhile, corporate is no longer stand on “single bottom line”, which only focuses on corporate value reflected to its financial condition. But corporate must integrate on “triple bottom lines”, which also focus on social and environment aspect. Here we can say that the goal of a business entity is not just to make a profit, but also considering the social welfare and protect the environment as well.

Previous research showed that the amounts of corporate reporting the information of CSR are increase in recent years and also the type of information reported (Ernst & Ernst, 1978; in Sayekti 2007, in Erlanda, 2008). One of the reasons caused by a lot of legal body try to define the framework and obligated corporate to implement CSR program in their daily activity. In other side, FASB as one of an Accounting Standard Board in America also obligated corporate to pay more attention to the issue by saying that:

“Financial reporting includes not only financial statement, but also other means of communicating information that relates, directly or indirectly, to

¹ Stated by Global Compact Initiative (2002)

the information provided by the accounting system. New releases, management's forecasts or other descriptions of its plans or expectations, and descriptions of an enterprises social and environmental impact are example or reports giving financial information other than financial statement (FASB 1978, Par 7; Zuhroh and Sukmawati, 2003, in Edya 2009)"

In Indonesia, the regulation about the implementation of Corporate Social Responsibility is arranged by Undang-Undang no 40/ 2007 article 74 that require the companies listed on IDX (Indonesian Stock Exchange) to disclose CSR information. Started on year 2008, for corporate that run their business on or related with natural resources to make a compulsory report on their social responsibility activities. This regulation makes Indonesia as the first and the only country that implement CSR reporting as mandatory (Yorissa, 2009).

Response to increasing of corporate awareness in reporting its Corporate Social Responsibility especially for Environmental Information, this information is often provided in a separate environmental report, but it may be also/or included within other forms of reporting, such as the Annual/Financial Reports, or the Sustainability Reports (which include the economic, environmental and social issues). Here Author focuses only on the environmental disclosure within the companies' Sustainability Reports (SR). There is a question come to our mine that "Does company run everything right on track?" what about the report, is it already done based on the framework?".

II. Problems Definition

Based on the background has been explained above, the writer consider the following research questions:

1. What do Indonesian companies report in their Corporate Environmental Responsibility report?
2. How do Indonesian companies report in their Corporate Environmental Responsibility report? Do they report based on the common accepted framework?

III. Research Design

This research is a qualitative and quantitative research in term of case study that focus on reviewing the application of Global Reporting Initiative (GRI) guideline being used by companies categorized as Mining Industry in reporting their sustainability report in Indonesian. This study will assessed the indicators that listed in Global Reporting Initiative (GRI) Guidelines as measurement tool to review the environmental report that published.

IV. Purpose and Benefits of the Research

The purposes the writer wants to reach by doing this research is to review the practice of Corporate Environment Responsibility in Indonesian and aim to contribute to the literature of Corporate Environmental Responsibility especially the literature in Indonesia. To be detail, the breakdown of the benefits of the research can be as follows:

1. The research will review the practice of business firm in Indonesia concern to the Corporate Environmental Responsibility.
2. The research will increase the horizon concern to environmental responsibility of company.
3. The research will become consideration for company in making decision about environmental and social policy.
4. The result of the research hopefully becomes a consideration to the policy maker to construct the new Corporate Environmental Responsibility policy.

V. Writing Systematic

The writing systematic of this research comprises five parts. The first chapter describes background, problem definition, research design, research purpose and benefit and also writing systematic. The theoretical framework of Corporate Environmental Responsibility and Global Reporting Initiatives (GRI) Guideline are identify in the second chapter.

The research methodology including the research design, scope of the research, data resources and population and sampling method are review in the third chapter. The analysis of the research results and other factors that could influence the findings applied in the fourth. And the fifth part presents the conclusions, limitations and suggestions of this research.

CHAPTER II

THEORETICAL FRAMEWORK

The objective of this chapter is to review relevant literatures concerning to Corporate Social Responsibility. This chapter explains what Corporate Social Responsibility is, Corporate Social Responsibility dimension, Global Reporting Initiative and Practice Corporate Social Responsibility in Indonesia.

2.1 Literature Review

2.1.1 Corporate Social Responsibility (CSR)

A good corporation should have a responsibility towards its surroundings. This responsibility is called by Corporate Social Responsibility (CSR). CSR was initiated by the World Business Council of Sustainable Development (WBCSD) in year 1995. In the global context, the term of CSR started to use since the 1970s and increasingly popular, especially after the emergence of book “Cannibals with Forks: the Triple Bottom Line in 21st Century Business” (1998), by John Elkington who were developing three essential components of sustainable development, that are economic growth, environmental protection and social equity.

2.1.1.1 Definition of Corporate Social Responsibility

Currently there is no definition of CSR that are universally accepted by various institutions. Some definitions of CSR below show the diversity of understanding of CSR by various organizations.

- **World Business Council for Sustainable Development:** continuing commitment of businesses to behave ethically and contribute to economic development, while improving the quality of life of employees and their families, as well as local communities and the wider community in general.
- **International Finance Corporation:** The commitment of business to contribute to sustainable economic development through cooperation with employees, their families, local communities and society at large to improve their lives in ways that are good for business and development.
- **The Institute of Chartered Accountants, England and Wales:** Guarantee that organizations are able to give business managers a positive impact on society and the environment, while maximizing value for its shareholders (shareholders) of them.
- **Canadian Government:** Business activities that integrate economic, environmental and social to the values, culture, decision making, strategy, and operations conducted in a transparent and accountable for creating healthy communities and developing countries.

- **European Commission:** A concept whereby companies integrate social concerns and the environment in their business operations and in its interactions with the stakeholders (stakeholders) based on the principle of volunteerism.
- **CSER Asia:** the Company's commitment to operate on the principle of sustainable economic, social and environment, while balancing the diverse interests of stakeholders.

Meanwhile **International Organization for Standardization**, an international certification agency, is currently developing an international standard of ISO 26000 Guidance on Social Environmental Responsibility, which also provided the definition of CSR. Although CSR guidelines of this new international standard will be established in year 2010, draft guidelines could be used as a reference. According to ISO 26000, CSR is:

"The responsibility of an organization against the effects of decisions and activities on society and environment in the form of a transparent and ethical behavior consistent with sustainable development and social welfare; consider the expectations of stakeholders, in accordance with established laws and norms of international behavior; and integrated with the organization as a whole"

In Indonesia, CSR has intensified after the firm stated in the Limited Company Act No.40 Year 2007, which in article 74 are regulated that:

- (1) For company whose run their business activities in the field and or relating to natural resources (extractive) must implement Corporate Social Responsibility and the Environment.
- (2) Corporate Social Responsibility and Environment referred to article (1) is duty for company which is budgeted and accounted as cost of implementing its program with attention to propriety and fairness.
- (3) For company who doesn't carry out the duties referred to article (1) will be subject of punishment or sanctions in accordance with the provisions of legislation (Undang-Undang).
- (4) For further provisions concerning the implementation of Corporate Social Responsibility and Environmental will be regulated by Government Policy.

2.1.1.2 Corporate Social Responsibility (CSR) Dimensions

In the green paper for promoting a European Framework of Corporate Social Responsibility (CSR) published by European Commission, Directorate General for Employment and Social Affairs in July 2001 extended that there are two dimensions of CSR; internal and external dimensions (Edya 2009)

1. The Internal Dimensions

a. Human Resource Management

Measurement could include lifelong learning, empowerment of employees, and better information throughout the company, better

balance between work, family and leisure, greater work diversity, equal pay and career prospect for woman, profit sharing, and concern of employability as well as job security.

b. Health and Safety at Work

CSER also part of building the corporate image. Company responsibility for community is necessary, and for internal sector of company. For example, how to create healthy, safety, and comfort in the working environment.

c. Adoption to Change

Restructuring in a socially responsible manner means to balance the interest and concern of all who are affected by the changes and decisions made.

d. Management of Environmental Impacts and Natural Resources

Environmental investment could refer as “win-win” opportunities – good both for business and also for environment.

2. The External Dimensions

a. Local Communities

The companies involved in the local communities such as providing job and create tax revenue for the local government where the

company operates the business. Company also has responsibility for water, air and land pollution.

b. Business Partners, Suppliers and Customers

Built closely relationship with partners and suppliers can reduce cost and increase quality. Companies are expected to provide products and services which customer need and wants, in an efficient, ethical and environmentally – aware manner.

c. Human Right

Human rights are very complex issue presenting political, legal and moral dilemmas. The company faces the challenging questions, such as how to identify their areas of responsibility, how to monitor whether their business partners complying with their values.

d. Global Environmental Resources

Investments and activities of the company may have direct impact on social and economic development of the countries.

2.1.1.3 Benefits of Engaging in Corporate Social Responsibility

CSR will benefit corporations in multiple ways by operating with a perspective broader and longer than their own immediate, short-term profit. Companies could improve their long-term business potentials by linking

company's financial goals and its social goals (Porter, 2002; as quoted by Godfrey, 2005, in Adrian 2009). Below are the reasons why corporate engage in CSR:

1. Increased profit

There is positive relationship between socially responsible business practices and financial performance. Based on DePaul University's study at 1997, the companies with a defined corporate commitment to ethical principles do better financially (based on annual sales/revenues) than companies that do not. Besides that, an 11-year Harvard University study found that "stakeholder-balanced" companies showed four times the growth rate and eight times employment growth when compared to companies that are shareholder-only focused.

2. Access to capital

Companies that are committed to CSR often have access to capital that would not otherwise be available, due to the increase in Socially Responsible Investment (SRI). Study in 2001 showed that 12% of total investment in USA was of a socially responsible nature. Likewise, there are 313 green, social, and ethical funds operating in Europe in June 2003, showing a 12% increase in the last eighteen months. Furthermore, The Dow Jones Group Sustainability Index, The FTSE Good Index, Morley Fund Management Sustainability Index, BitC Corporate Responsibility Index, all analyze companies' CSR activities (csrnetwork and Yeldar,

2004). It indicated that there is an increasing attention by the investors toward CSR issues conducted by the company.

3. Reduced operating costs/increased operational efficiency

Over time, the environmentally management improve the operational efficiency by reducing waste production and water usage, increasing energy efficiency and in some cases, selling recycled materials. For example, the construction firms that consider the impact of their action to environment, social, and economic benefit, do the reusing product on-site. This action will reduces landfill, reduce community and noise disturbance of additional trucks bringing material to the site, reduces the environmental impact of damage caused by heavy truck wheels and reduces cost for the client of buying new material.

4. Enhanced brand image and reputation

Brand image and reputation are established through the trust of stakeholders. Nowadays, most of customers do not just consider the good and safe products. They also want to know the production process of those products whether in socially and environmentally responsible way. The customers tend to be loyal to these companies. Besides the customers, the government and other regulator also appreciate and give the value added (for example, reducing the red-tape and more cooperative relationship) to the environmentally and socially responsible companies.

5. Increased ability to attract and retain employees

Most of people want to work in a company that conducts CSR activities. They do not just worry about their salary and promotion anymore. For an example, MBA attitude that are willing to take lower pay in order to work for companies that have a more positive social image. Besides that, the employees that have been recruited by these companies will be more satisfied because the company cares with them.

6. Risk management

The more a company is committed to CSR, the less they are exposing themselves to business risk (Wikipedia, 2004). The risk can be in the term of reputational risk following bad press, e.g. the highly publicized “Nike sweatshops”, financial risk, or environmental risk. Today, fund management companies are more vocal and assertive about their expectations regarding a company’s evidence of responsibility in order to reduce risks. For example, Morley Fund Management that has produced the reporting guidelines related to CSR activities.

7. “Keeping up” with competitors and where the market is

Companies that conduct CSR activities will make a good business sense. They will get business opportunities, competitive advantages, and improved management opportunities. In the other hand, the companies that do not engage in CSR will produce negative impact to their society and environment and negative impact to their own economic self-interest.

According to Heal (2004) in Hariani (2009), there are some benefits of Corporate Social Responsibility:

1. Risk management

The more a company is committed to CSR, the less it is exposing itself to business risk. The risk can be in term of reputation risk following bad press, financial risk or environmental risk.

2. Waste reduction

Reduction in waste and reduction in greenhouse gas emissions are very important. It is a recurring theme in studies of the benefits from CSR and suggests that many companies are just not seeing the savings available from better management of materials and processes, perhaps because these in many cases are non-cash costs.

3. Regulatory protections

A corporation's relationship with regulators can be of real significance in heavily-regulated industries. In general, a regulatory decision in favor of a company with a strong reputation for socially responsible behavior will be greeted more positively than one in favor of a company seen as anti-social in its conduct and this must influence regulators in their decision.

4. Brand equity

Brand image and reputation are established through the trust of stakeholders. Nowadays, most of customers do not just consider the good

and safe products. They also want to know the production process of those products whether in socially responsible way. The customers tend to be loyal to these companies. Beside the customers, the government and other regulator also appreciate and give the value added (for example, more cooperative relationship) to the socially responsible companies.

5. Employee productivity

There are several aspects to the impact of CSR on a firm's relationship with its employees. One aspect of this is that people seek to work for "good" companies, a company they can be proud of.

6. Cost of capital

CSR may reduce a company's cost of capital through the impact of CSR's financial cousin Socially Responsible Investment (SRI).

2.1.2 Global Reporting Initiative

Global Reporting Initiative (GRI) was first compile in 1997 by the Boston-based Coalition on Environmentally Responsible Economies (CERES) in collaboration with the Tellus Institute. In March 1999, GRI issued the Sustainability Reporting Guidelines as a draft for feedback and opening a public exposure, with the total of twenty-one companies as its respondents and hundreds of stakeholders from world wide to provide substantive comments into this pilot project.

In June 2000, GRI (G1) launched the first full version of Sustainability Reporting Guidelines that have been adopted by approximately one hundred companies around the world. While its revision launched in 2002 (G2) at the World Summit for Sustainable Development in Johannesburg. Later that year it became a permanent institution, with its Secretariat in Amsterdam, the Netherlands. Although the GRI is independent, it remains a collaborating centre of UNEP and works in cooperation with the United Nations Global Compact.

The Global Reporting Initiative has an ambitious mission to promote sustainable report on the same level of financial reporting through development of common reporting framework that is acceptable. The GRI Guidelines are intended for reporting economic, environmental and social. In the long run, the GRI Sustainability Reporting Guidelines are expected to be able to apply by all types of organizations. This guideline is very helpful in providing the format and content of the report as well as information contained in normalizing and verify the data.

At the same time, GRI has produced guidelines in an effort to promote responsible decision-making in businesses which affect the environment, hoping that these guidelines can improve international business by becoming the standard framework for reporting on sustainability, making comparisons across the board easier and more applicable. In October 2006, it was released the third version guideline (G3) consists of five sections:

- Vision and strategy of the company
- Profile of the company

- Governance structure and management system
- GRI content index
- Performance indicator on the economic, environmental and social perspective.

2.1.2.1 Global Reporting Initiative Indicators

From the GRI Guideline (2006), there are 6 indicators which will be use as measurement in reviewing the practice of CER report. These indicators include, such as:

1. Economic Performance
2. Environmental Performance
3. Labor Practice and Decent Work Performance
4. Human Rights Performance
5. Society Performance
6. Product Responsibility Performance

For each indicator there are aspects which more detailed in assessing the company performance in each category. Each aspect can be classified as core aspect and additional aspect. For core aspect, company was insisted to have or to do the exact activities or policies regarding to these aspect. For additional aspect, these were just compulsory but also important in expose the information of this aspect. The disclosure will give additional value for company.

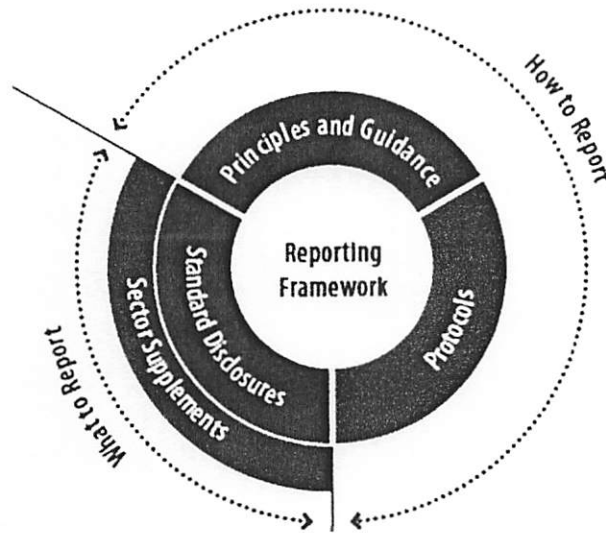


Figure 2.1 GRI Reporting Framework
Source: GRI G3 Guidelines

1. Economic

a. Economic Performance

- Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments
- Financial implications and other risks and opportunities for the organization's activities due to climate change
- Coverage of the organization's defined benefit plan obligations
- Significant financial assistance received from government

b. Market Presence

- Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation
- Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation
- Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation

c. Indirect Economic Impacts

- Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement
- Understanding and describing significant indirect economic impacts, including the extent of impacts

2. Environmental

a. Materials

- Materials used by weight or volume
- Percentage of materials used that are recycled input materials.

b. Energy

- Direct energy consumption by primary energy source

- Indirect energy consumption by primary source
- Energy saved due to conservation and efficiency improvements
- Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives
- Initiatives to reduce indirect energy consumption and reductions achieved

c. Water

- Total water withdrawal by source
- Water sources significantly affected by withdrawal of water
- Percentage and total volume of water recycled and reused

d. Biodiversity

- Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas
- Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas
- Habitats protected or restored

- Strategies, current actions, and future plans for managing impacts on biodiversity.
- Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk

e. Emissions, Effluents, and Waste

- Total direct and indirect greenhouse gas emissions by weight
- Other relevant indirect greenhouse gas emissions by weight
- Initiatives to reduce greenhouse gas emissions and reductions achieved
- Emissions of ozone-depleting substances by weight.
- NO_x, SO_x, and other significant air emissions by type and weight.
- Total water discharge by quality and destination
- Total weight of waste by type and disposal method
- Total number and volume of significant spills
- Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.

- Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff

f. Products and Services

- Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation
- Percentage of products sold and their packaging materials that are reclaimed by category

g. Compliance

- Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations

h. Transport

- Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce

i. Overall

- Total environmental protection expenditures and investments by type.

3. Labor Practice and Decent Work

a. Employment

- Total workforce by employment type, employment contract, and region
- Total number and rate of employee turnover by age group, gender, and region
- Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations

b. Labor/ Management Relations

- Percentage of employees covered by collective bargaining agreements
- Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.

c. Occupational Health and Safety

- Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs
- Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region

- Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.
- Health and safety topics covered in formal agreements with trade unions. Health and safety topics covered in formal agreements with trade unions.

d. Training and Educational

- Average hours of training per year per employee by employee category
- Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings
- Percentage of employees receiving regular performance and career development reviews

e. Diversity and Equal Opportunity

- Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.

f. Ratio of basic salary of men to women by employee category.

4. Human Rights

a. Investment and Procurement Practices

- Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening
- Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken
- Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained

b. Non-discrimination

- Total number of incidents of discrimination and actions taken

c. Freedom of Association and Collective Bargaining

- Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights

d. Child Labor

- Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor

e. Forced and Compulsory Labor

- Operations identified as having significant risk for incidents of forced or compulsory labor, and measures taken to contribute to the elimination of forced or compulsory labor

f. Security Practices

- Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.

g. Indigenous Rights

- Total number of incidents of violations involving rights of indigenous people and actions taken

5. Society

a. Community

- Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting

b. Corruption

- Percentage and total number of business units analyzed for risks related to corruption.

- Percentage of employees trained in organization's anti-corruption policies and procedures
- Actions taken in response to incidents of corruption

c. Public Policy

- Public policy positions and participation in public policy development and lobbying
- Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.

d. Anti-Competitive Behavior

- Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes

e. Compliance

- Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulation

6. Product Responsibility

a. Customer Health and Safety

- Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures

- Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services, by type of outcomes

b. Product and Service Labeling

- Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements
- Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes
- Practices related to customer satisfaction, including results of surveys measuring customer satisfaction

c. Marketing Communications

- Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship
- Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes.

d. Customer Privacy

- Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data

e. Compliance

- Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.

2.1.3 Practices of Corporate Social Responsibility (CSR) in Indonesia

The issue of Corporate Social Responsibility had already reached our country in short time. There are many ways applied by companies in implementing this issue in order to show their awareness to this problem, for some of the usual ways are described by some previous research. According to Gloutie in Zuhroh (2003) in Irawan (2008), there are several themes that carried out by company in expressed their social awareness to surrounding:

1. **Community**, this theme includes social activities followed by companies, such as activities related to health, education, and arts, and disclosure of other social activities.
2. **Employment**, these themes include the impact of corporate activities on the people in company. Activities include recruitment, training programs, salary and benefits, transfer and promotion, and others.
3. **Products and consumers**, this theme involves the qualitative aspects of a product or service, between another usability, durability, service, customer

satisfaction, honesty in advertising, clarity or completeness of the contents on the packaging, and other.

4. **Environment**, these themes include environmental aspects of the production process, which including pollution control in running business operations, prevention and repair environmental damage due to natural resource processing and conversion natural resources.

In addition, Harahap (2002) explained the tendency of social involvement done by companies in Indonesia is as follow:

1. **Environment**: monitoring of the effects of pollution, repairs destruction of nature, nature conservation, the beauty of the environment, pollution reduction sound, use of land, waste management and waste water, research and environmental development, energy cooperation with, among others: conservation and the energy savings made by companies in their activities.
2. **Human resources and education**: safety and health employees, education employees, family and recreational needs of employees, increase and expand the rights of employees, efforts to encourage participation, pension improvements, scholarships, assistance to schools, the establishment of schools, helping higher education, research and development, hiring of a group poor, and improving career employees.
3. **Honest business practices**: attention to the rights of female employees, honest in advertising, credit, service, products, security, control product quality, governments, universities, and development of recreation sites.

4. **Communities:** experts use companies in dealing with social problems in the environment, non-interference in the structure of society, building health clinics, schools, houses of worship, improvement of village or town, the community contribution of social activities, improvement rural housing, financial support, improvement of transportation facilities market.
5. **Arts and cultural activities:** to help arts and cultural institutions, sponsor arts and cultural activities, arts and cultural use in advertising, recruit talented in the arts and sports.
6. **Relations with shareholders:** the nature of openness of directors at all limited company, increased disclosure of information in the financial statements, disclosure of company involvement in social activities.
7. **Relations with the government:** comply with government regulations, limiting lobbying activities, control the political activities of the company, helping organizations government in accordance with the ability of the company, assist in general improvement of social welfare society, help the project and policy government, increasing productivity informal sector, development and innovation Management.

CSR model or general pattern applied by companies in Indonesia (Saidi and Abidin, 2004) explained as follows:

1. **Direct involvement,** the company run the CSR program directly by organizing their own social activities or distribute a donation to society without intermediaries. To perform this idea, companies generally

assigned one of his/her senior officials, such as the corporate secretary or public affairs manager, or become part of public relations official duties.

2. **By having a foundation**, the company founded own foundation under the company or group. This model is adopted commonly done in developed countries. Here the company provides initial funding, regular funds or endowment funds that can be used for operational foundation.
3. **In partnership with others**, the company held a CSR through cooperation with institutions / non-governmental organizations, government agencies, universities or mass media, both in managing the funds and in conducting social.
4. **Support or join in a consortium**, company co-founded, or become a member or supporting a social institution which the purpose of establishment is for social activities.

2.2 Review of Previous Research

Previous research about the review of Corporate Environmental Disclosure in Indonesia are still rare, according to Hackston and Milne (1996) in Edya 2009, the researches related to practice of disclosure of Corporate Social Environmental seems just concentrated in U.S, U.K, Australia and other western country. Just small numbers of similar researches found in other countries such as in Asia like Japan, India, Malaysia, and Singapore.

Gunther, E., Hoppe. H & Poser. C., (2007), found that there are still a quantity and quality gap in the reporting of environmental indicators. On average, companies report only one-third of the indicators suggested by GRI. Moreover they focus on the indicators perceived to be the most relevant for the industry or the specific business.

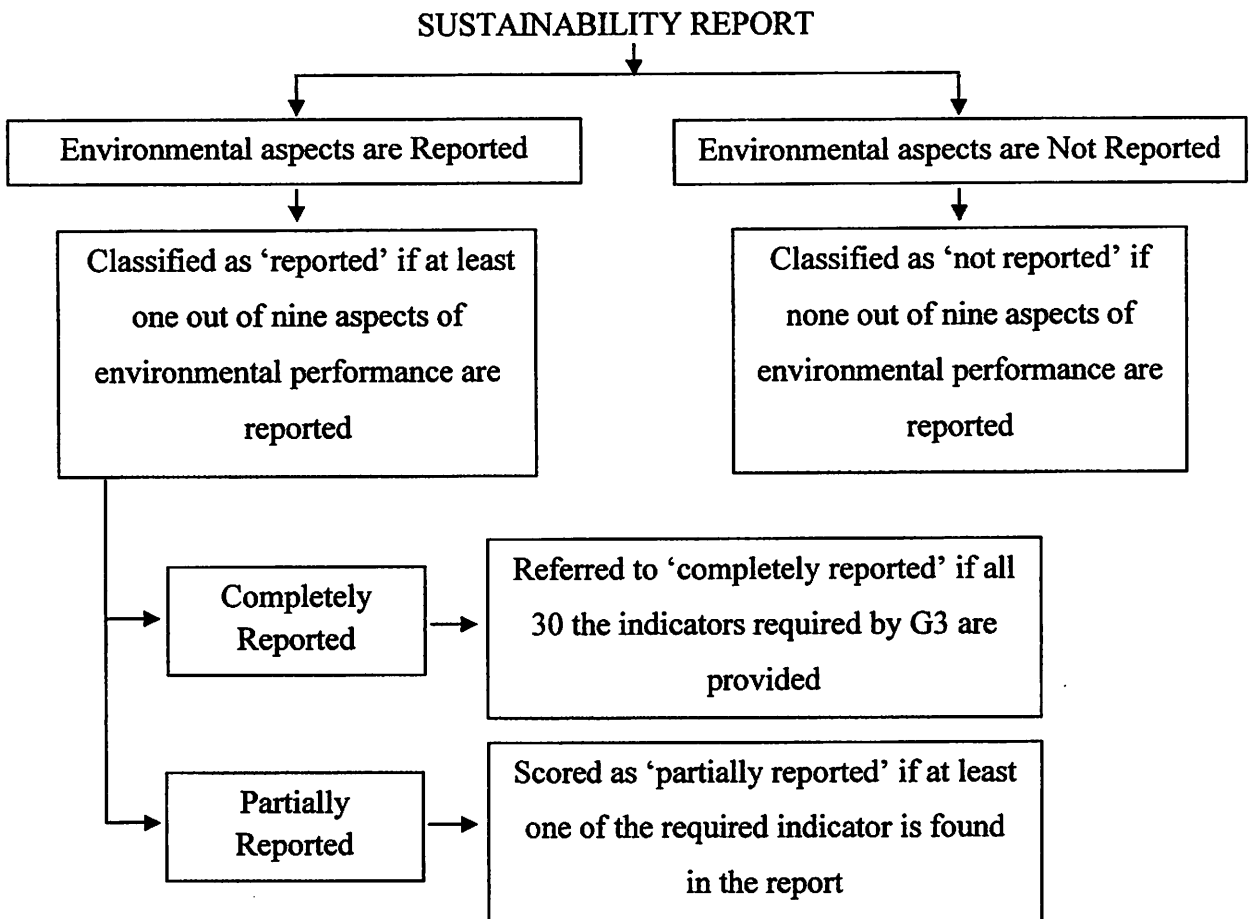
CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Design

This research is quantitative and qualitative content analysis methodology. It tries to review the practice of corporate environmental responsibility based on Sustainability Report published by company in Indonesia following the Global Reporting Initiative (GRI) G3 guideline. The research framework is described as follow:

Figure 3.1
The Research Framework



3.2 Variables Measurement

It is widely agreed that Global Reporting Initiative guidelines is becoming the standard framework for reporting on sustainability report. In order to narrow the research scope, this research will only use a categorization scheme based on the environmental performance indicators provided by Global Reporting Initiative G3 Guideline released in 2006.

For each performance indicator there are aspects which more detailed in assessing the company performance in each category. Each aspect can be classified as core aspect and additional aspect. For core aspect, company is insisted to have or to do the exact activities or policies regarding to these aspect. For additional aspect, these are not just compulsory but also important in expose the information of this aspect. The indicators can be seen as follow:

Figure 3.2
Environment Performance Indicators

Environment Performance Indicators			
1. Aspect : Materials			Notes
1	EN 1	Material used by weight or volume	Core
2	EN 2	Percentage of material used that are recycled input material	Core
2. Aspect : Energy			
3	EN 3	Direct energy consumption by primary energy source	Core

4	EN 4	Indirect energy consumption by primary sources	Core
5	EN 5	Energy saved due to conservation and efficiency improvements	Add
6	EN 6	Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives	Add
7	EN 7	Initiatives to reduce indirect energy consumption and reductions achieved	Add
3. Aspect : Water			
8	EN 8	Total water withdrawal by source.	Core
9	EN9	Water sources significantly affected by withdrawal of water	Add
10	EN 10	Percentage and total volume of water recycled and reused.	Add
4. Aspect : Biodiversity			
11	EN 11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Core
12	EN 12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Core
13	EN 13	Habitats protected or restored	Add
14	EN 14	Strategies, current actions, and future plans for managing impacts on biodiversity	Add

15	EN 15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	Add
5. Aspect : Emissions, Effluents, and Waste			
16	EN 16	Total direct and indirect greenhouse gas emissions by weight	Core
17	EN 17	Other relevant indirect greenhouse gas emissions by weight	Core
18	EN 18	Initiatives to reduce greenhouse gas emissions and reductions achieved	Add
19	EN 19	Emissions of ozone-depleting substances by weight.	Core
20	EN 20	NO _x , SO _x , and other significant air emissions by type and weight.	Core
21	EN 21	Total water discharge by quality and destination.	Core
22	EN 22	Total weight of waste by type and disposal method.	Core
23	EN 23	Total number and volume of significant waste spills.	Core
24	EN 24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	Add
25	EN 25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	Add
6. Aspect : Product and Services			

26	EN 26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Core
27	EN 27	Percentage of products sold and their packaging materials that are reclaimed by category.	Core
7. Aspects : Compliance			
28	EN 28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Core
8. Aspects : Transport			
29	EN 29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforces	Add
9. Aspects : Overall			
30	EN 30	Total environmental protection expenditures and investments by type.	Add

Sources: GRI G3, Environmental Indicators

3.3 Population and Sample

The population of this research is mining industry in Indonesia. The reasons for choosing mining industry as the population are because this industry is one of the most high profile industries (Hackson and Milne, 1996: Utomo, 2000; Henny and Murtanto, 2001; Sembiring, 2005; in Adrian 2009). Many potential

environmental problems arise through the operation of these industries. Beside that in order to maintain their license to operate, this industry has a higher reporting rate than another industry. In addition, the core operations of this industry also have high risk related to the employees. So, the attentions of people are more intent to this industry. Companies that will be a sample of this study must meet the criteria as companies which publish Sustainability Report for period of year 2008.

3.4 Data Type and Sources

All data used in developing this research is a secondary data. Secondary data is the source of research data obtained by author indirectly through an intermediary (Indriantoro and Supomo, 1999 in Wirasastri, 2009). The data will be used in this research consists of:

1. Sustainability Report downloaded from companies' website.
2. Data from books, journals, magazines and article related to the topic in order to get the basics of theories and information support.

3.5 Data Analysis

First, the quantity of environmental aspects in the Sustainability Report is assessed by using the categorization "reported" or "not reported". This classification is based on the ninth aspect of Environmental Performance required

by Global Reporting Initiative G3 frame work. If at least one of nine aspects is found it means that the environmental aspects refer to be reported, but if none aspect is found, it will classified as not reported. Quantities of environmental aspects that is reported and do not reported is expressed in term of percentage.

Second, the quality of environmental aspects is evaluated. If an indicator was classifying as 'reported', then the quality of the reporting is assessed based on classification of "completely reported" and "partially reported". Referred as 'completely reported' if the entire indicator required is provided, while environmental aspects scored as "partially reported" if at least one of the required indicators is found in the report. Required indicators here mean that 30 indicators including in Environmental Performance Indicators. The quality of environmental aspects which refereed as completely and partially reported is expressed in term of percentage.

CHAPTER IV

RESEARCH RESULTS

4.1 Sample Overview

This research is conducted to review the practice of Corporate Environmental Responsibility (CER) applied by companies in Indonesia regards to application of Global Reporting Initiative G3 guideline. The object of this research is mining companies that publish Environmental Report as part of Sustainability Report during the period year of 2008. Based on the criteria stated, then there are only 5 mining companies are eligible for the study. List of companies sample are presented in Table 4.1:

Table 4.1

Name of Sample Companies

No	Name of Companies
1	Aneka Tambang (Persero) Tbk
2	Timah (Persero) Tbk
3	Tambang Batu Bara Bukit Asam Tbk
4	Medco Energi International Tbk
5	Adaro (Persero) Tbk

Sources: Companies Website

4.2 What do Indonesian companies report in their Corporate Environmental Responsibility Report?

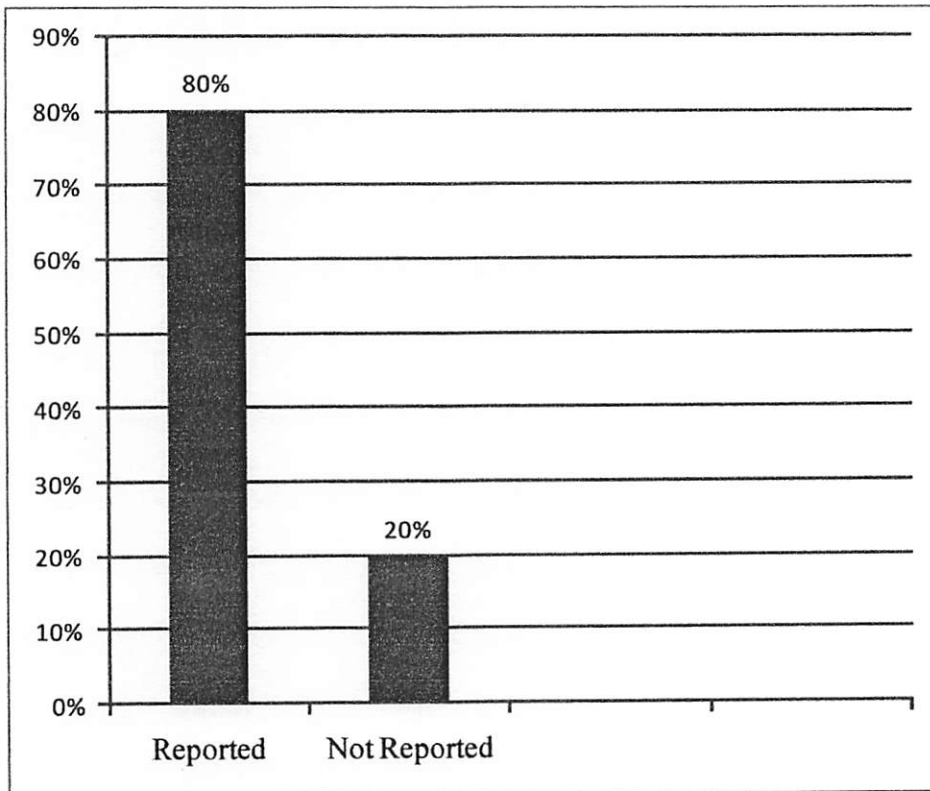
In order to answer this question, the author uses nine aspects of Environmental Performance (see figure 3-2). The Aspects in the Environment Indicator set are structured to reflect the inputs, outputs, and modes of impact an organization has on the environment. Energy, water, and materials represent three standard types of inputs used by most organizations. These inputs result in outputs of environmental significance, which are captured under the Aspects of Emissions, Effluents, and Waste.

Biodiversity is also related to the concepts of inputs to the extent that it can be viewed as a natural resource. However, biodiversity is also directly impacted by outputs such as pollutants. The Aspects of Transport and Products and Services represent areas in which an organization can further impact the environment, but often through other parties such as customers or suppliers of logistics services. Compliance and Overall Aspects are specific measures the organization takes to manage environmental performance.

From the calculations for these nine Aspect Environmental Performances, the disclosures of Corporate Environmental Responsibility on Sustainability Report for the year 2008 are shown in Table 4.2 below:

Table 4.2

Calculation for Nine Aspects of Environmental Performance



Sources: Own Calculation

From table 4.2 we can see that there are 80 % sample (four company), reported the Nine Aspect of Environmental Performance required by the Global Reporting Initiative G3. While the remaining 20 % (only one company, it is ADARO) which did not report the disclosure of Corporate Environmental Responsibility for the year 2008. ADARO did not report all the Nine Aspects of Environmental Performance required by the Global Reporting Initiative G3, because this coal mining company where based in South Kalimantan is just focused on the social and ignore the environmental disclosure in its Sustainability Report.

Of the total 4 companies categorized as “environmental aspects are reported”, Aneka Tambang (ANTAM) is the only one company reported all nine aspects of Environmental Performance (100%), but some of aspects was not reported in the way suggested by the GRI guideline, such as aspect number five which are Emissions, Effluents, and Waste. ANTAM does not include all the core and additional indicator as guideline should be presented in its Sustainability Report, since Author found that it is not relevant for their operation.

While other 2 companies, TIMAH and Bukit Asam only reported 88% from the total 9 Aspects of Environmental Performance. TIMAH as tin mining company is missed to disclose Product and Service aspect while Bukit Asam is not disclose Compliance aspect in its Sustainability Report. MEDCO only reported 33%, which means that they just concern on the top three indicators suggested by GRI; Energy, Biodiversity and Emission, Effluents, and Waste aspect, while they missed to report other six items which are Material, Water, Product and Services, Compliances, Transport and Overall.

For the detailed results, it is described in table 4.3 as follow:

Table 4.3
Reporting Classification

No	Aspects	Aneka Tambang	Timah	Bukit Asam	Medco	Adaro
1.	Material	R	R	R	NR	NR
2.	Energy	R	R	R	R	NR
3.	Water	R	R	R	NR	NR

4.	Biodiversity	R	R	R	R	NR
5.	Emission, Effluents, and Waste	R	R	R	R	NR
6.	Product and Services	R	NR	R	NR	NR
7.	Compliance	R	R	NR	NR	NR
8.	Transport	R	R	R	NR	NR
9.	Overall	R	R	R	NR	NR
Summary		Reported	Reported	Reported	Reported	Not Reported
Percentage Reported		100 %	88 %	88 %	33 %	0%

Sources: Own Calculation

4.3 How do Indonesian companies report in their Corporate Environmental Responsibility Report?

From the previous results, we can see that there are 80 % company categorized as “reported”. Of the four companies categorized as “reported” there is only one company is classified as “fully reported” that is, ANTAM (25%) while the remaining are classified as “partially reported” (75%). The result of assessment for indicators are visualised in figure 4.1 below:

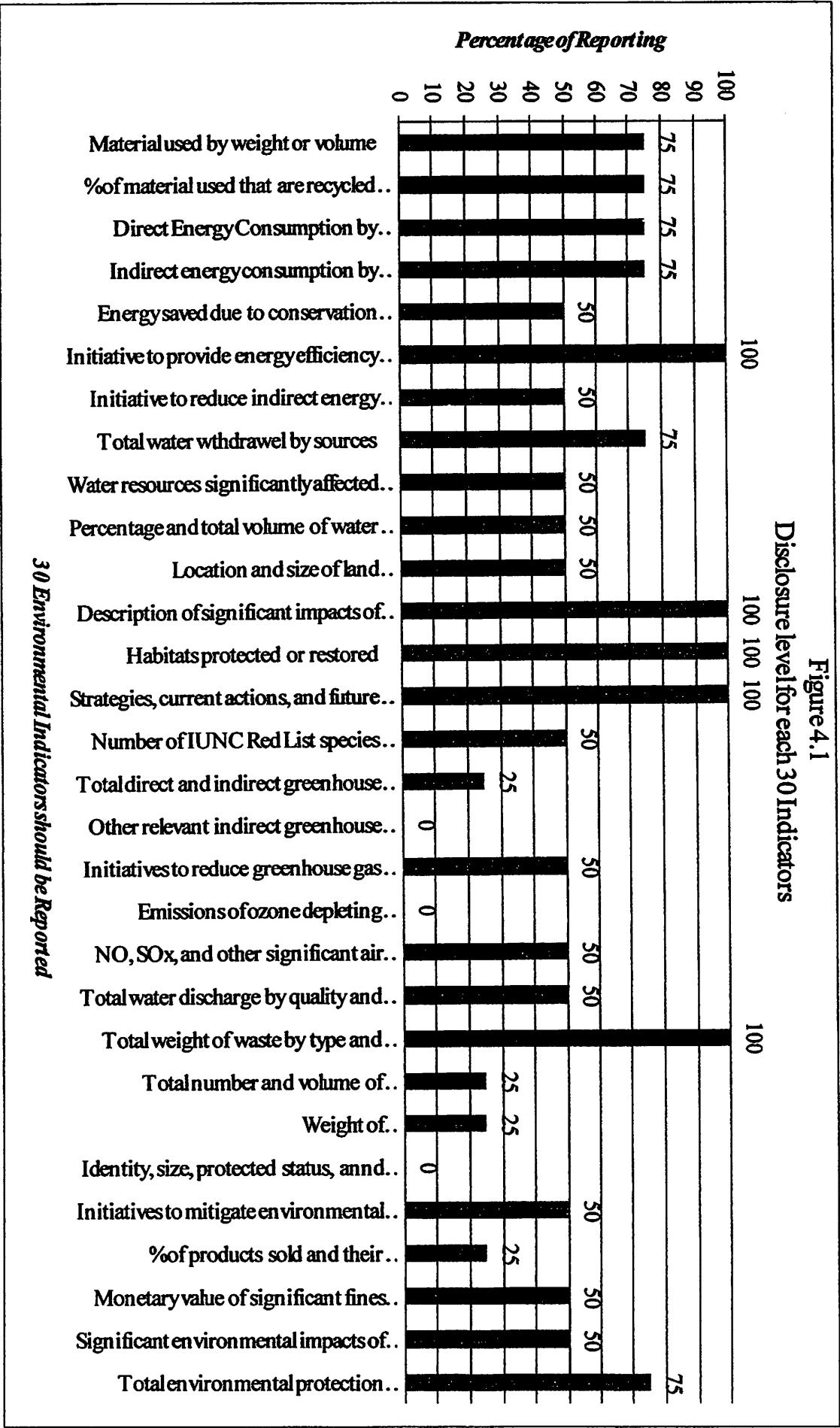


Figure 4.1 shows the spread of 30 item Environmental Indicators of the 4 companies from the mining industry. Only five indicators got 100 % fully attention from companies, they are 1) Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives, 2) Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas, 3) Habitats protected or restored, 4) Strategies, current actions, and future plans for managing impacts on biodiversity, and 5) Total weight of waste by type and disposal method.

For those six indicators, 1) Material used by weight or volume, 2) Percentage of material used that are recycled input material, 3) Indirect energy consumption by primary sources, 4) Direct energy consumption by primary energy source, 5) Total water withdrawal by source and 6) Total environmental protection expenditures and investments by type, are partially reported for almost 75 % companies.

For each following 12 indicators are partially reported by 50 % companies, they are 1) Energy saved due to conservation and efficiency improvements, 2) Initiatives to reduce indirect energy consumption and reductions achieved, 3) Water sources significantly affected by withdrawal of water, 4) Percentage and total volume of water recycled and reused, 5) Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas, 6) Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of

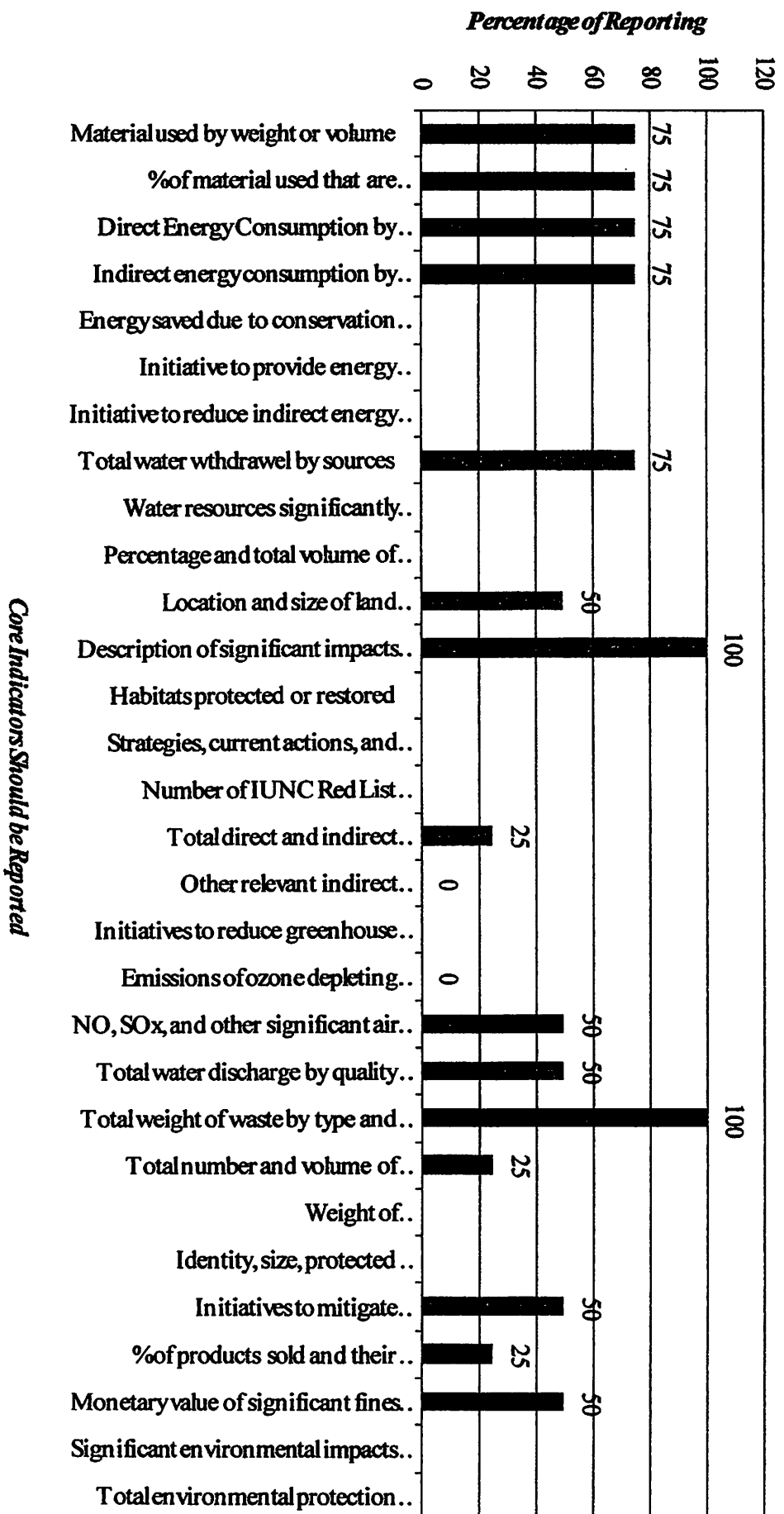
extinction risk, 7) Initiatives to reduce greenhouse gas emissions and reductions achieved, 8) NO_x, SO_x, and other significant air emissions by type and weight, 9) Total water discharge by quality and destination, 10) Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation, 11) Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforces, 12) Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.

Four indicators; 1) Total direct and indirect greenhouse gas emissions by weight, 2) Total number and volume of significant spills, 3) Percentage of products sold and their packaging materials that are reclaimed by category, 4) Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally, are reported partially in 25 %.

Remaining three indicators are not reported by any of the companies in mining industry (0 %). These three indicators are 1) Other relevant indirect greenhouse gas emissions by weight, 2) Emissions of ozone-depleting substances by weight, 3) Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.

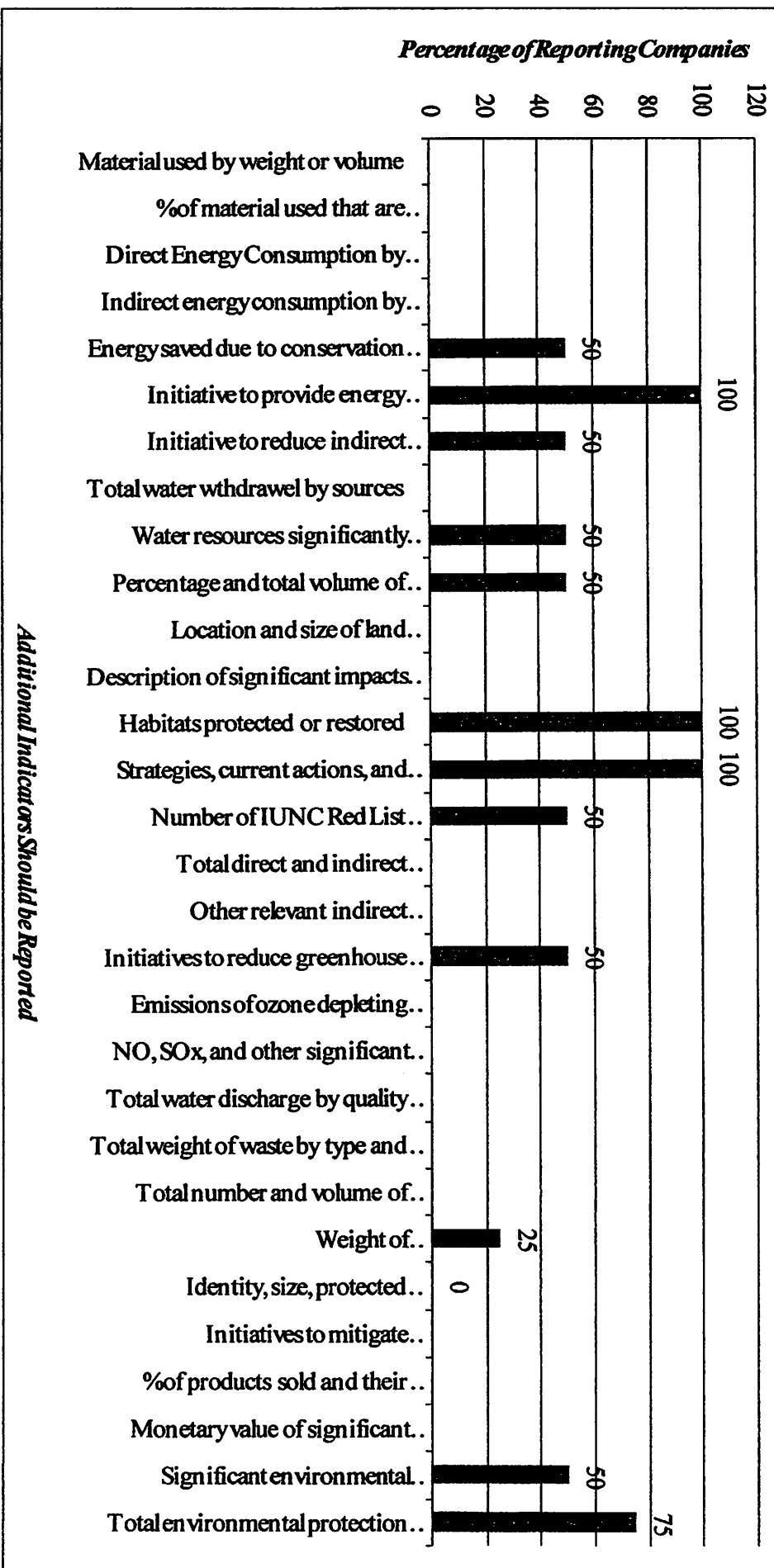
In order to ensure the disclosure of environmental aspect, here Author present the disclosure for core and additional indicator differentiation, the figure can be see as follow:

Figure 4.2
Disclosure level for Core Indicators



Sources: Own Calculation

Figure 4.3
Disclosure level for Additional Indicators



Sources: Own Calculation

Based on the explanation above, the Author can conclude that most of mining companies in Indonesia are still not really aware with implementation of guideline published by Global Reporting Initiative. It can be seen from the spread of disclosure 30 Environmental Performance Indicators (figure 4.1). There are still significant gap among the indicators reported. The spread of indicators can be viewed in table 4.4 below:

Table 4.4
The spread of 30 indicators

Percentage Reported by Companies	Number of Indicator	Total	Percentage
100 %	6, 12, 13, 14, 22	5 Indicators	16 %
75 %	1, 2, 3, 4, 8, 30	6 Indicators	20 %
50 %	5, 7, 9,10, 11, 15, 18, 20, 21, 26, 28, 29	12 Indicators	40 %
25 %	16, 23, 24, 27	4 Indicators	14 %
0 %	17, 19, 25	3 Indicators	10 %
Total		30 Indicators	100 %

Sources : Own Calculation

To sum up the discussions above, the Author can draw a conclusion that in general most of mining companies in Indonesia are still not concern and aware with the importance of guideline as guidance in doing their operation/ activities. Beside the practices of environmental disclosure in Indonesia is still far from what

GRI Guideline G3 required. The author found that there are still lower attentions from companies in order to disclose each of the 30 indicators that should be reported..

The distinction also can be found in core and additional indicators. For core indicator, there are still 2 indicators (12%) were not disclose by companies sample which are 1) Other relevant indirect green houses gas emission by weight and 2) Initiative to reduces green houses gas emission and reduction achieved. As we know these two indicators are important to be disclose, since natural science researcher prove that the green houses gas emission is actively contribute to ozone damaged nowadays, at the end this damaged will caused global warming. But based on table 4.5 below we know that, there are still less initiative from mining company to disclose this important indicator.

Table 4.5
The spread of Core Indicators

Percentage Reported by Companies	Number of Indicator	Total	Percentage
100 %	12, 22	2 Indicators	12 %
75 %	1, 2, 3, 4, 8	5 Indicators	30 %
50 %	11, 20, 21, 26, 28	5 Indicators	30 %
25 %	16, 23, 27	3 Indicators	16 %
0 %	17, 19	2 Indicators	12 %
Total		17 Indicators	100 %

Sources: Own Calculation

For additional indicator as we can see in table 4.6 below, 22 % of sample company is concern to energy and biodiversity indicators. Indicator number six, thirteen and fourteen are completely reported 100 %. Most of sample company have their own ways relate to this issues such as environmental/ energy policies and any program like tree planting program, the protected flora and fauna program. But they still miss to disclose the indicator number twenty five.

Table 4.6
The spread of Additional Indicators

Percentage Reported by Companies	Number of Indicator	Total	Percentage
100 %	6, 13, 14	3 Indicators	22 %
75 %	30	1 Indicators	8 %
50 %	5, 7, 9, 10, 15, 18, 29	7 Indicators	54 %
25 %	24	1 Indicators	8 %
0 %	25	1 Indicators	8 %
Total		13 Indicators	100 %

Sources: Own Calculation

CHAPTER V

CONCLUSION

5.1 Conclusion

Based on the discussion in previous chapters, the Author took some conclusions which are:

1. The Global Reporting Initiative (GRI) guideline is intended to serve as a generally accepted framework for reporting on an organization's environmental performance, but also for economic and social performance. It is designed for being used by organizations of any size, sector, or location. It takes into account the practical considerations faced by a diverse range of organizations – from small enterprises to those with extensive and geographically dispersed operations.
2. The GRI Reporting guideline contains general and sector-specific content that has been agreed by a wide range of stakeholders around the world to be generally applicable for reporting an organization's sustainability performance. It also consists of principles for defining report content and ensuring the quality of reported information. It also includes Standard Disclosures made up of Performance Indicators and other disclosure items, as well as guidance on specific technical topics in reporting.
3. The research found that the applications of guideline for reporting on environmental performance within Indonesian companies in mining

industry is still far from what the Global Reporting Initiative (GRI) G3 required to be presented by Samples Company. So the results indicate that management of companies is still not concerned fully yet to CER disclosure.

4. The issue of Corporate Environmental Responsibility in Indonesia is still relatively new. That is why the quantity and the quality of the reported indicators presenting are still varies among the samples, it is depending on the environmental relevance factors that influences the company. However companies should express their initiative and commitment to apply the guideline required by GRI in order to save and preserve the environment while operating its core business.

5.2 Limitation and Advice for Further Research

There are some limitations of this research and some advices to be considered in further research, they are as follows:

1. This research only uses one year period of research. There is a possibility that the CER activities observed do not represent the real condition of a company. That is why it is important to add period of year for further research.
2. The samples used in this research are only Mining Industry. It needs to add more samples in future research in order to increase the generalization of the result needed.

3. This research uses small numbers of sample (only 5 companies) because not all sample companies publish their Sustainability Reports. In the future Author may enlarge the sample, for example by using companies listed in Indonesian Stock Exchange from all sectors which publish Annual Report.

5.3. Implications

The results of this research have an implication toward the practice of Corporate Environmental Responsibility disclosure in Indonesia. The results show us that most of Indonesian companies in mining industry have not fully concerned yet to corporate environmental responsibility. This condition indicates that the companies do not conduct CER activities/ program in their best effort. For those companies which have not disclosed CER activities on their Sustainability Report/ Annual Report, they have to consider to starting to initiate and commit to these environmental programs in order to save and preserve our environment.

Since Corporate Environmental Responsibility disclosure is still voluntarily in Indonesia. It needs further regulation/ policy from Government, which compulsorily regulate company to be more focus and aware to operate their operation more friendly to nature. And for consumer, they must be selective to choose product from green company. That is why it needs more cooperation and attentions from all parties to keep watching on operation/ activities conducted by companies.

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