

CHAPTER I

INTRODUCTION

1.1 Background of the Research

In the era of globalization, companies are no longer able to conduct destructive and unethical practices without attracting negative feedback from the general public. With increased media attentions, pressures from non-governmental organizations, and rapid global information sharing, there is a surging demand from civil society, consumers, governments, and others for corporations to conduct sustainable business practices. Manufacturing industry is one of the most concerning business that have taken place in issues regard to pollution, natural resources diminishing, waste management, product quality and safety, employee right and status, and work safeties (Dewi, 2010). In the production process of manufacturing companies, it uses natural sources which are likely to disturb the natural environment, and bring up the issue of pollution and other wastes. It is also related to the treatment toward its labor which is related to civil right and job safeties. Concerning also with the product of the manufacture that will be used by the consumers, the quality and product safety will be another issue that make manufacturing companies gain high intention on its corporate social responsibility and sustainable development.

The concern on corporate social responsibility and sustainable development results in the creation of international standards to be used as guidelines in such framework, namely ISO 26000:2010 Guidance on Social Responsibility, IFC Performance Standards, Global Reporting Initiative, Triple Bottom, The Natural Step, and Isis-Compass of Sustainability (CSR Indonesia, 2011). The sustainable development practices are then internationally issued to be a part of the company's responsibility for social sustainable development. In ISO 26000:2010 Guidance on Social Responsibility, corporate social responsibility is

defined as the responsibility of an organization for the impact of its decisions and activities on society and the environment, through transparent and ethical behavior that contributes to sustainable development, health and the welfare of society takes into account the expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behavior; and is integrated throughout the organization and practiced in its relationships (CSR Indonesia, 2012). It comprises six-dimensions of corporate responsibility covering community development, human right, labor practices, fair operating practices, consumer issues, and environment. Beside as a guideline for companies in conducting its sustainable development, researcher as well used such framework to assess the CSR conducted by companies in Indonesia (Kartadjudena et al., 2011).

Despite the fact that CSR has already been a concern in the global world since years ago, CSR in Indonesia is officially mandatory since 2007 through the Undang-Undang Nomor 40 Tahun 2007 Tentang Perseroan Terbatas. The article mainly regulates the corporate social and environment responsibility for limited liability companies with business in or related with natural resources. However, the regulation was not effective enough until the release of strict environmental law launched in late 2009 in the Undang-Undang Nomor 32 Tahun 2009. Onward, many limited liability companies started to disclose CSR through annual, sustainable and prospective reports.

The information related to CSR is one of the most important information that needs to be disclosed within the companies' reports (Sembiring, 2005). The CSR can be viewed from the availability of financial and non-financial information related to the organizations interaction with the physical and social environment, which can be made into an annual company report or a separated social report (Guthrie and Mathews, 1985 in Sembiring, 2005). Although it is not mandatory to disclose the CSR activities, almost all companies listed on the Indonesia Capital Market has to reveal information about CSR in its annual report (Kartadjudena et al., 2011). The annual report then strengthen its goal to be a media to present the companies economic performance to investors, creditors, and

government, as well as to present the societal performance of the company to related parties, namely the shareholders, employee, consumer, and other groups or individuals related and influenced by the company.

Related to the companies efforts to disclose its CSR publicly, many previous researches have attempted to study the relation between the companies CSR disclosure with variables representing a company. The social impact of CSR disclosure differs across companies, even for companies in same industry. The factors that makes the difference are called as the company descriptives (Veronica, 2008). Company descriptives can be recognized from the company size, liquidity, company profitability, financial leverage, social constraints, company's age, companies profile, board of commissioner structure, company's origin, company's owner origin are some to mention. The stronger the characteristic of a company in contributing an impact to the society, the stonger the fulfilment of its CSR to public.

Previous researches have found the relation of CSR disclosure and company's descriptives using company size, board of commissioner, profibability, and financial leverage as the independent variable. Veronica (2008) found that company size does not have a significant effect to the company's CSR disclosure. This is in contrast with the findings of Sembiring (2005) that company size have a significant effect on the company's CSR disclosure. The size of Board of commissioner was proved to be highly related with the company's CSR disclosure from the study of Sari & Kholisoh (2009). The founding affirmed with the duties of commissioner as regulated in the National Committee of Governance Policy (2006).

Company profitability as another indicator of company descriptives used in Kartadjumena et al., (2011) proved to have a significant effect toward company's CSR disclosure. Meanwhile, Sembiring (2005) confirms that financial leverage does not have significant effect toward company's CSR disclosure. The founding of Sembiring (2005) coincide the legitimacy theory by Donovan and Gibson in Sembiring (2005) that the relationship between profitability and level of CSR disclosures is when company has a high rate of profit, company assumes

will not report something that can disturb information about financial companies success. Conversely, when company profitability is low, CSR disclosure will arise; company hopes that the users will read reporting performance of the company as a good news and thus investors will still invest in the company.

According to Belkaoui and Karpik (1989) in Sembiring (2005), the decision to disclose social information will be followed by an expense that will decrease the income. Based on the agency theory, thus the company's management with high financial leverage will decrease its CSR disclosure in order to not to be highlighted or spotted by the debtholders. This theory was confirmed by the finding of Veronica (2008) and Sembiring (2005) confirming that financial leverage does not have significant effect with the companies CSR disclosure.

Based on the background presented, the researcher is determined to conduct a study entitled **“The Relationship of Company Descriptives and CSR Disclosure of Publicly-Listed Manufacturing Companies in Indonesia”**.

1.2 Research Problems

Based on the elaborated background, the problems for this research are:

1. To what extent do the publicly-listed manufacturing companies disclose CSR information?
2. What is the pattern of CSR disclosure of publicly-listed manufacturing companies in three consecutive years of 2008, 2009, and 2010?
3. Do company descriptives (company size, board of commissioner, company profitability, and financial leverage) affect CSR disclosure?

1.3 Research Objectives

Based on the mentioned research problems, the objectives of this research are:

1. To make a descriptive profile of CSR disclosures of publicly-listed manufacturing companies in Indonesia;
2. To analyze the pattern of CSR disclosure of publicly-listed manufacturing companies in the year of 2008, 2009, and 2010; and
3. To examine the relationship of companies' descriptives (company size, board of commissioner, company profitability, and financial leverage) on CSR disclosure.

1.4 Research Contributions

This research is expected to give contributions toward:

1. Companies in Indonesia
This research might give an idea about the importance of CSR disclosure reporting and also might be a consideration for the company's policy makers to enhance the company's concern toward social environment.
2. Management Study
This research can be useful for the development of management theories related to CSR disclosure, agency problem, and financial aspects of certain industry in Indonesia.
3. Researcher
This research can be used as a substance of information and consideration for academicians and researcher in the assessment of manufacturing companies and its CSR disclosure in Indonesia.

1.5 Research Limitations

The research scope is limited to the manufacturing companies in Indonesia that are publicly-listed in the Indonesia Stock Exchange (IDX). The research analyzed company descriptives based on company size, board of commissioner,

company profitability, and financial leverage. The CSR disclosure is measured using indicators in ISO 26000:2010 Guidance on Social Responsibility. This research evaluated the difference in CSR disclosure of manufacturing companies in Indonesia for three consecutive years of 2008, 2009, and 2010. Thirty-four out of 131 publicly-listed manufacturing companies in Indonesia consistently disclosed CSR activities for the years 2008, 2009, and 2010

1.6 Research Outline

The systematic writing for this research is as follows:

CHAPTER I

This chapter sets up the research problems related to company descriptives and CSR disclosure of publicly-listed manufacturing companies in Indonesia for the reader. It also provides the background information defining the issue and important terms. It specifies the objective to analyze the relationship of company descriptives and CSR disclosure explored in greater detail to contribute to understanding of the effect of company descriptives on CSR disclosure of publicly-listed manufacturing companies

CHAPTER II

This chapter summarizes the major studies and findings that have been published on the research about company descriptives and CSR disclosure and how this study contributes or adds to what has already been studied. This chapter also states a clear description of the theory applied to the research on the effect of company descriptives on CSR disclosure of publicly-listed manufacturing companies, an explanation of which it is relevant, and how the regression modeling address the hypothesis to be tested.

CHAPTER III

This chapter explains the detailed technical and scientific activities which include the quantitative research design, purposive sampling plan, content analysis measurement, multiple regression analysis, and treatment of data.

CHAPTER IV

This chapter organizes a logical presentation of the findings that address to what extent do the publicly-listed manufacturing companies in Indonesia report CSR disclosure in 2008, 2009, and 2010; and whether company descriptives of the publicly-listed manufacturing companies affect CSR disclosure, and focus on how these key findings relate back to the theory and prior researches presented at the beginning of the study.

CHAPTER V

This chapter outlines the summary, conclusions, and recommendations supposed to advance the study of the relationship of company descriptives on CSR disclosure of publicly-listed manufacturing companies in Indonesia by its theoretical, methodological, or substantive contributions.