CHAPTER 1

INTRODUCTION

Chapter 1 will contain a research background of the chosen topic, research problem, research questions, research limitations, research formulation, research objectives, and research contributions. This study will analyse various factors that affect corporate social responsibility disclosure through environmental performance as an intervening variable in manufacturing companies listed on the Indonesia Stock Exchange in the 2019-2021 period.

The research background will discuss the situation or condition that caused the emergence of research questions, concepts and main theories that support the research, besides that the research background also contains research gaps. The research problem will contain a description in the form of questions related to the study. Research questions are criteria or policies for narrowing down previously identified problems. Research limitations will contain quantitative criteria or policies used to realize the research. In the research formulation, the core of the problem is present that will be further studied in the form of a question sentence. Research objectives are things to be achieved from the implementation of this research. While the contributions of research are a description of the benefits of this research for various parties concerned with research.

A. Research Background

The occurrence of the industrial revolution in Indonesia has brought a massive impact on the environment as well as on the society. The industrial revolution resulted in an increase in the residents’ standard of living. However, the industrial revolution also caused numerous social and environmental damage such as air pollution, factory waste and excessive exploitation of the nature in Indonesia. This is proven by many cases concerning some companies in Indonesia that ignored Corporate Social Responsibility Disclosure (CSRD). For instance, on May 29, 2006, there was a case involving natural harm brought on by the company's operations in PT. Lapindo Brantas located in Sidoarjo, East Java. The company was closed at the end of 2015 due to excessive damage that led to causing massive public discomfort. In addition, there were also negative impacts observed from mining activities in the Papua region, namely erosion of waste rocks which resulted into several accidents. These impacts were the results of mining operations carried out by PT Freeport in Papua.

To define corporate self-regulation incorporated into a business model that includes the many dimensions of corporate activities, the term "Corporate Social Responsibility" (CSR) was created (Perrini and Tencati, 2006). Various meanings of CSR have been put forth in the literature. These vary from conceptualizations that are very constrained to conceptualizations that are more thorough. In any event, the idea is still vague at best and imprecise at worst. According to Matten and Crane (2005), CSR accepts the obligations to be financially successful, to follow the law, to be charitable, and to uphold one's moral obligations to society.

According to the United Nations Industrial Development Organization,

"CSR is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives ("Triple-Bottom-Line- Approach"), while at the same time addressing the expectations of shareholders and stakeholders."

CSR can give the company a variety of competitive benefits, including higher profits, easier access to capital and markets, improved firm reputation and brand image, and greater customer loyalty, and so much more. Some sceptics contend that a substantial redefinition of businesses' functions could be harmful to the firm's financial stability (Walley and Whitehead, 1994).

In reference to Djajadikerta (2012), there are some literature that focuses mainly on the extent to which businesses disclose their social and environmental impact, but most of the researches are conducted in developed countries and there is still a lack of studies conducted in developing countries. The company’s awareness of social and environmental disclosures for its business activities as a form of accountability are still highly undervalued in Indonesia. This is based on the results concluded from the research conducted by Djajadikerta in 2012 with a sample of companies from the IDX showing that the Corporate Social Responsibility Disclosure index is only 15%. Sari’s research in 2008-2010 on manufacturing companies listed on the IDX showed a CSRD index of 21%. Aniktia and Khafid (2015) on companies listed on the IDX showed that only 11.4% carried out CSRD through the firm’s sustainability reports.

Stakeholders require information related to Corporate Social Responsibility because with this valuable piece of information, stakeholders can use the information disclosed to determine whether the company is worthy to work with these said stakeholders. Similar to how customers can completely satisfy their preferences when engaging with a business, such as when they buy a product or accept a job offer, social disclosure can help with the efficient allocation of resources.

Increased corporate transparency on social issues can help the public hold businesses responsible on a larger scale. People frequently have expectations of the company that go beyond purely financial objectives, but without additional information that is probably only accessible from the company itself, it may be difficult for them to determine whether the company lives up to these expectations. Social disclosure is thus a tool for public scrutiny of corporate behavior and a guarantee of public confidence in the company.

The majority of companies are profit-oriented and profit-oriented companies only aims for a certain main goal, which is to maximize profits for the company. The company will therefore try to avoid factors that will result in reduced profits for the company. Furthermore, a company will eliminate all factors having no relationship to earning profit for the company. These factors include public welfare, the environmental damage caused by the companies' activities, labour, global warming, and much more.

In Indonesia, natural resources are still a priority in meeting the living needs of its community members, so in this case arrangements related to natural resource management are a priority in an effort to meet the needs of life. Good Governance, in the context of Indonesia is very necessary, because not all people residing in Indonesia live from agriculture practices and the service industry. Most of them still rely heavily on the existence of natural resources for the sustainability of people's lives (Rudito and Famiola, 2019).

Society receives both positive and negative impacts from a company. The positive impact include providing goods and services that are needed and desired by society such as food and clothing but on the contrary, there is a downside to the production of these goods and services, which is the amount of waste generated from those productions leading to global warming. The negative impacts list goes on such as companies treating workers unfairly based on their gender, as well as gross exploitation of the environment.

In traditional accounting, a company's attention is focused purely on shareholders who contribute directly to the company, and the other party is often overlooked. Various criticisms of traditional accounting have been raised because they are considered not to serve the interests of the wider community. This prompted the emergence of a new accounting concept called Corporate Social Responsibility.

The concept of CSR was born in 1930 because there were enormous public protests against the activities carried out by companies that paid no mind regarding their surrounding community. All information is only disclosed to the companies and in addition to that, there had been a huge global recession which caused many companies to go bankrupt resulting to unemployment numbers jumping through the roofs. In this era, companies around the world were facing a shortage of capital for their production inputs. Many workers were forced to stop working, causing widespread unemployment. Public anger was evident when companies were irresponsible and showed not even the slightest bit of moral responsibility for their workers.

Many companies in the U.S. then developed their modern strategies throughout 1980 to 1990 and began communicating their contributions driven in part by President George H.W. Bush to shine the spotlight on various points in increasing the transparency of corporate information regarding their positive and negative impacts on the environment. CSR was later adopted by Johnson & Johnson’s founder, Robert Wood Johnson. He founded the creed in 1943 which required companies to prioritize their customer’s needs first on top of everything else. In addition to that, The Hershey Company that Milton Hershey founded wanted to establish more than just a company. Hershey built a city with a community that has a variety of facilities, cultural institutions, and a centre of citizen activity that continued to blossom until this day.

According to Untung (2008), corporate social responsibility (CSR) refers to a company's or the business world's commitment to promoting sustainable economic growth by focusing on CSR and striking a balance between attention to economic, social, and environmental aspects. In Indonesia itself, the term CSR was known in 1980 but has gained popularity since 1990. Likewise, with the story of the birth of CSR into this world, the term CSR appeared when CSR activities had actually occurred in the company. Actually, Indonesian companies have been involved in these CSR activities for many years. However, at that time, CSR activities in Indonesia were referred to as CSA (Corporate Social Activity) or “Corporate Social Activities”. CSA activities can be equated with CSR because the concepts used and the way of thinking are significantly similar. As with CSR, CSA also aims to demonstrate the company’s “commitment” and “concern” towards social and environmental aspects. Nowadays, the obligation of social disclosure is essential even for profit and due to the addition of experts in this field on a daily basis, the importance of looking back at how social disclosure obligations have evolved and who those early contributors were is prominent.

The term "corporate social responsibility" alludes to the openness of social disclosures made by businesses regarding their involvement in charitable endeavors. A business is expected to disclose information about the social and environmental effects of their operations as part of the transparency of disclosure requirement, in addition to financial information disclosures. According to Said (2018) corporate social responsibility refers to a company's efforts to improve its reputation in the public view by developing both external and internal charitable programs.

In general, the method used to measure CSR performance is content analysis. The method functions to convert qualitative to quantitative information so that it can be processed using statistical tests. In this measurement, information guidelines are needed from the Sustainability Reporting Guidelines published by the Global Reporting Initiative (GRI). The GRI Index is one of the most popular CSR measurements and has been widely used by 73% of the 250 largest companies in the world. GRI version 1 or

GRI G1 appeared in 2000 and began to be adopted by various countries including Indonesia.

There has been a thorough evaluation of the research on different social and environmental responsibility disclosures. Good corporate governance is one of many elements that affects a company's transparency. Sutedi (2009) claims that GCG (Good Corporate Governance) is a concept that businesses use to maximize company value, enhance company performance and contribution, and uphold the company's long-term sustainability. GCG (Good Corporate Governance) includes managerial ownership, institutional ownership, public ownership, ownership structures that include foreign ownership, company characteristics like profitability, leverage, age of the company, type of industry, and size, the size of the board of directors and the percentage of independent commissioners, media exposure, environmental performance, and additional costs incurred by the company. Based on the factors disclosed above, researcher chose four variables that affect Corporate Social Responsibility Disclosure, namely managerial ownership, institutional ownership, independent board of commissioners, social costs, and environmental performance to be used as research variables.

Managerial ownership according to Pasaribu (2016), is the company's management owning shares of the company they work for who actively plays a role in the company's decision-making. According to Sutedi (2009), the purpose of separating management from company ownership is to allow maximum possible profit to be earned by said company's owner but by minimizing all costs incurred. Managerial ownership has a significant positive effect on Corporate Social Responsibility Disclosure. This founding is supported by Agashi (2017) which states that managerial ownership has a positive and significant effect on CSR disclosure, indicating that the higher the number of managerial ownership, the higher the company's motivation in making Corporate Social Responsibility Disclosure. However, research conducted by Nurkhin (2010) shows that managerial ownership has no influence on Corporate Social Responsibility Disclosure. The results of Ningrum (2015) also show that managerial ownership does not affect Corporate Social Responsibility Disclosure in manufacturing companies listed on the Indonesia Stock Exchange between the period of 2011-2013.

Another ownership structure is institutional ownership, which usually acts as the company's oversight party. Institutional ownership is the shares of a company owned by an institution (insurance company, pension fund, or other company). Institutional ownership as an oversight party uses the debt of the capital structure to minimize agency costs. Agency costs are the costs associated with overseeing management to ensure that it acts consistently in accordance with the company's contractual arrangements with creditors and shareholders (Horne dan Wachowicz, 2004:460). Sofyaningsih and Hardiningsih (2011) argue that corporate institutional investors will distribute their shares more widely and, as a result, will better monitor the performance of management to maximize corporate value. Companies with large institutional investors (5% or more) demonstrate the ability to oversee management. Higher institutional ownership is expected to lead to more efficient use of company assets and to act as a deterrent to management overspending (Arif, in Nurleni 2018). This means that institutional ownership can drive companies to implement corporate social responsibility disclosures.

An independent commissioner is obligated to encourage and create a more objective climate for public companies. The results of Trie (2021) show that independent commissioners have an influence on company value and Corporate Social Responsibility Disclosure.

Social costs indirectly causes a positive effect on a company's financial performance through Corporate Social Responsibility Disclosure. This statement is supported by the results of Indah (2014) which reveals that social costs have an indirect influence on Corporate Social Responsibility Disclosure.

The performance of a business cannot be separated from its disclosure, so one of the most important elements that must be revealed is its environmental performance. Owners are required to provide transparent and impartial reports on the social impact of their business. Using 28 businesses in the non-financial sector as a sample of the study, Artamelia (2021) found that environmental performance had a favourable and significant effect on Corporate Social Responsibility Disclosure.

Corporate Social Responsibility Disclosure can provide positive signal information stating that the company is better than other companies because of their level of concern regarding the economic, environmental and social impacts of the company's operations. Until now, the government has not issued standardization regarding Corporate Social Responsibility Disclosures in the company's annual report, so the factors that can affect the completeness of Corporate Social Responsibility Disclosure still vary.

The best financial performers are represented by the businesses listed on the LQ45 Index IDX. What about the disclosure part of corporate social responsibility, though? This research aims to investigate how corporate characteristics affect the disclosure of corporate social responsibility in companies that are listed on the LQ45 index IDX. In this study, researcher predicted that factors such as managerial ownership, independent board of commissioners, social costs, and environmental performance could influence a company's Corporate Social Responsibility Disclosure.

B. Research Problems

Based on the explanation that the author has described above, several problems were identified, including

1. Does managerial ownership have a positive effect on a company's environmental performance?
2. Does institutional ownership have a positive effect on a company's environmental performance?
3. Does independent board of commissioners have a positive effect on a company's environmental performance?
4. Do social costs have a positive effect on a company's environmental performance?
5. Does managerial ownership have a positive effect on corporate social responsibility disclosure?
6. Does institutional ownership have a positive effect on corporate social responsibility disclosure?
7. Does independent board of commissioners have a positive effect on corporate social responsibility disclosure?
8. Do social costs have a positive effect on corporate social responsibility disclosure?
9. Does environmental performance have a positive effect on corporate social responsibility disclosure?
10. Does managerial ownership have a positive effect on corporate social responsibility disclosure through a company's environmental performance acting as an intervening variable?
11. Does institutional ownership have a positive effect on corporate social responsibility disclosure through a company's environmental performance acting as an intervening variable?

12. Does independent board of commissioners have a positive effect on corporate social responsibility disclosure through a company's environmental performance acting as an intervening variable?
13. Do social costs have a positive effect on corporate social responsibility disclosure through a company's environmental performance acting as an intervening variable?

C. Research Questions

Based on the research problems outlined above, the authors limited the problems as follows

1. Does managerial ownership have a positive effect on a company's environmental performance?
2. Does independent board of commissioners have a positive effect on a company's environmental performance?
3. Do social costs have a positive effect on a company's environmental performance?
4. Does managerial ownership have a positive effect on corporate social responsibility disclosure?
5. Does independent board of commissioners have a positive effect on corporate social responsibility disclosure?
6. Do social costs have a positive effect on corporate social responsibility disclosure?
7. Does environmental performance have a positive effect on corporate social responsibility disclosure?
8. Does managerial ownership have a positive effect on corporate social responsibility disclosure through a company's environmental performance acting as an intervening variable?

9. Does independent board of commissioners have a positive effect on corporate social responsibility disclosure through a company’s environmental performance acting as an intervening variable?
10. Do social costs have a positive effect on corporate social responsibility disclosure through a company’s environmental performance acting as an intervening variable?

D. Research Limitations

Based on the research questions stated above, the author made the following research limitations

1. Object : Manufacturing companies listed on the Indonesia Stock Exchange
2. Research Period : 2019, 2020 and 2021
3. Subject : Financial and Annual Report 2019, 2020 and 2021

E. Research Formulation

Based on the research limitations above, the author formulates the problem in the study as follows "Whether managerial ownership has a positive effect on the company's environmental performance, Whether independent board of commissioners has a positive influence on the company's environmental performance, Whether social costs have a positive effect on the company's environmental performance, Whether managerial ownership has a positive effect on corporate social responsibility disclosure, Whether independent board of commissioners has a positive effect on corporate social responsibility disclosure, Whether social costs have a positive effect on corporate social responsibility disclosure, Whether environmental performance has a positive effect on corporate social responsibility disclosure, Whether managerial ownership has a positive effect on corporate social responsibility disclosure through the company's environmental performance acting as an intervening variable, Whether independent board of commissioners has a positive effect on corporate social responsibility disclosure through the company's environmental performance acting as an intervening variable, and Whether social costs have a positive effect on corporate social responsibility disclosure through the company's environmental performance acting as an intervening variable?"

F. Research Objectives

The goal of this research is to test and gather evidence regarding the issues raised above by

1. The positive effect of managerial ownership on the company's environmental performance.
2. The positive effect of independent board of commissioners on the company's environmental performance.
3. The positive effect of social costs on the company's environmental performance.
4. The positive effect of managerial ownership on corporate social responsibility disclosure.
5. The positive effect of independent board of commissioners on corporate social responsibility disclosure.
6. The positive effect of social costs on corporate social responsibility disclosure.
7. The positive effect of a company's environmental performance on corporate social responsibility disclosure.
8. The positive effect of managerial ownership on corporate social responsibility disclosure through environmental performance acting as an intervening variable.

9. The positive effect of independent board of commissioners on corporate social responsibility disclosure through environmental performance acting as an intervening variable.
10. The positive effect of social costs on corporate social responsibility disclosure through environmental performance acting as an intervening variable.

G. Research Contribution

1. Theoretical Contribution

This research is expected to add scientific insight for both authors and readers on the topic of factors affecting the corporate social responsibility disclosure. In addition, the findings of this study should be helpful for developing theories in the field of management accounting, especially those that correlate with organizational behavior affecting corporate social responsibility disclosures.

2. Policy Contribution

a. For Writers

This research can be used by future researchers as a means of comparison for further research and can also be used to add a deeper understanding from both theoretical and practical aspects to other researchers.

b. For Potential Investors

Potential investors can also gain from this research because it is anticipated to be used as a factor in determining whether a company is worthwhile to invest in when looking at its environmental impact and choosing a company that has a guaranteed level of sustainability over those that have not yet adopted disclosure practices.