

CHAPTER 1

INTRODUCTION

1.1 Background

Investors invest in companies that have a good business ethics, good employee practices, care about environmental impacts, and have a good corporate social responsibility disclosure (CSR) with stakeholders (Kurnianto, 2011). This statement is because companies selected has the above criteria and combine with good communication skills with stakeholders, visionary, and able to recognize warning signals.

Good communication means the company need for the progressive and harmonious interaction, survival, and development of humanity. To allow the company to flourish, the leaders of the company must have clear vision. Along with that, the ability to recognize the companies can be allows the company to detect and sensitive with any problems and threats that occur and take advantage of existing opportunities (Kurnianto, 2011).

Entering the ASEAN Economic Community (AEC) by the end of 2015 is a big challenge for AEC member countries, including Indonesia and Malaysia. The plantation sector, palm oil, has become a famous of investment in both countries, where 85% of the world's palm oil demand is produce in Indonesia and Malaysia. World palm oil production is dominated by Indonesia and Malaysia. Both countries account for about 85-90% of total world palm oil production. At present, Indonesia is the largest producer and exporter of palm oil in the world. In the long term, world demand for palm oil continues to increase in line

With the increasing world population and hence increase consumption of products with raw materials of palm oil (Indonesia-investment.com 2016).

Palm oil plantation activities often certainly influence the surrounding environment. There is positive impact, however not a few is classify as negative become social problem. Those problems can see from environment damage and human right.

In Indonesia, Institute for Policy Research and Advocacy Noted cases involving member of Roundtable on Sustainable Palm Oil (RSPO) in palm oil plantation companies which already signed in the RSPO complaints mechanism. PT Wiramas Permai Central Sulawesi, has seized the land of communities who have certificates, wages of workers under the minimum wage and the absent of maternity leave and maternity leave ignored. PT Bangun Nusa Mandiri (2009) without approved communities West Kalimantan when opening the plantation area, this company displace the ancestral cemetery, fields, and residential community with an area of about 600 hectares. In Bengkulu, PT. Sandabi Indah Lestari, intimidating people who complained about the RSPO mechanism, took over the land of trans migrants and committed criminalization. PT Agri Andalas which until now has not provided the garden for the community according to his promise. In Papua, PT Nabire Baru violated the customary territory of the sindigenous people of Yerisiam Gua for working on their territory without agreement. New PT Nabire has also destroyed the ecology of Nabire causing deforestation, and losing food and income of the people of Yerisiam Cave. The cases of fire occurred on PT. ASMR (2015), PT. KSI (2015), and PT. Rimba Harapan Sakti (2015) (mongabay.co.id 2016).

In the Malaysian state of Sarawak, there has been a debate over whether there is a suitable level of consultation with the community of Long Teran Kanan prior to the development of local land for palm oil plantations. Takeover of indigenous community lands has caused conflicts between plantations and local people in each country. Palm oil plantations are rapidly threatening biodiversity, endangering hundreds of thousands of animal species into extinction, emitting highly destructive

and cannot prevented carbon emissions into the atmosphere, violating human rights and many child of Seven-year-olds work very long in the heat to help their families (2017).

Malaysia as the second largest palm oil producer has pledged to conserve at least 50 percent of its total land area as a forest. In 2010, 58 percent of Malaysia became a forest. Oil palm cultivation has been criticized for: Greenhouse gas emissions, tropical deforestation account for about 10 percent of man-made CO₂ emissions and drivers to dangerous climate change. Reduce biodiversity, including damage to biodiversity. In the states of Sarawak and Kalimantan on the island of Borneo and the Malaysian state of Sabah (2017), Cultivation of crops on indigenous peoples land.

The corporate social responsibility disclosure (CSR) is an accounting concept that takes into the transparency of social disclosure on corporate social responsibility (CSR), including voluntary disclosures regarding the social and environmental impacts life caused by the activities of the company (Restuningdiah, 2010). Meanwhile, Ali et al. (2011) described the benefits of CSR activities as achievement of corporate goals and customer service, loyalty to the organization and overall organizational success.

The company has a social responsibility that should be based not only limited to the financial side only (single bottom line), however should be pay attention at the triple bottom line (3P). Elkington arguing, stated in Lako (2016), a company who wants to survive, then it must pay attention to 3P. In addition to the pursuit of profit (profit), the company must pay attention and be involved in the fulfillment of public welfare (people) and contribute actively to protect the environment (planet). Its aims for stakeholders to get more comprehensive information to assess the performance, risks and business prospects as well as the survival of a corporation. The idea underlying CSR is often considered the essence of business ethics is that the Company has economic and legal obligations to shareholders and stakeholders

whose reach includes customers, employees, communities, owners, investors, suppliers and even competitors.

Research related to CSRD has been done previously by Nurkhin (2009), and Suhardjanto-Afni (2009) on the level of CSRD by using agency theory, and disclosure standards made by global Reporting Initiative (GRI) 2006. Both identify that the extent of Social disclosure in Indonesia shows 21% and 22.3% in 2007. Both of them identified that the extent of social disclosure in Indonesia showing 21% and 22.3% in 2007. These findings indicate that the level of social disclosure by companies in Southeast Asia is low while the percentage of companies that do social disclosure than those who do not do social disclosure is high.

Research on CSRD practices is done by Setyawanti (2010) and Supriyono (2013). In the research Setyawanti (2010) research results show that; 1) there is influence of firm size to social disclosure in Indonesia and Malaysia 2) there are not influence of leverage, profitability, company scope and type of industry to social disclosure in Indonesia and Malaysia 3) from t-test show that no differences in social disclosure in Indonesia and Malaysia. Whereas in research Supriyono (2013), showed the results that there are differences in corporate social disclosure practice in Indonesia, Malaysia and Thailand. Disclosure rate in Indonesia is more than average of 40.14%; 58.52% in Malaysia and 54.12% in Thailand. This is due to differences in corporate governance practices in these countries.

This study replicates the research that has been done by Setyawanti (2010). In the research of Setyawanti (2010) there are some limitations such as research period only 1 year. Short study period causes the influence of CSRD is not visible because basically CSRD aims for long term. According to Setyawanti (2010) Social disclosure is the disclosure of information about corporate activities related to the social environment of the company. CSRD expressed in a report called Sustainability Reporting. Sustainability Reporting is the reporting of economic, environmental and social policies, the influence and performance of the organization and its products in the context of sustainable development. This continuous practice of CSRD enables

the impact not only on company size, profitability, corporate scope and industry type to raise many other variables in the financial statements.

This study uses samples from palm oil plantation companies in Indonesia and Malaysia because the existing research has never been distinguished the type of plantation companies. In addition, after the issuance of limited liability company law 40 articles 74 of 2007 by the government not all types of companies can be used as research samples. According to Law no. 40 articles 74 of 2007 companies engaged in business activities and or related to natural resources shall be obliged to carry out corporate social responsibility (Lako, 2016). This issue prompt a question, "How is the practice of corporate social responsibility disclosure (CSR) conducted by oil palm plantation companies Go Public in Indonesia and Malaysia, is there any difference if compared with each other?"

Based from the background problem, the author intends to start a study entitled "PRACTICE CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE : STUDY COMPARATIVE ON OIL PALM PLANTATION COMPANY GO PUBLIC IN INDONESIA AND MALAYSIA"

1.2 Problem Statement

Problem statement in this research is:

How to analyze practice of Corporate Social Responsibility (CSR) disclosure in Palm Oil Plantation Companies Go Public in Indonesia and Malaysia using GRI 2006 for period 2013-2016.

1.3 Research Questions

Based on background, several problems in this study can be described:

1. How is the implementation of CSR Disclosure in Indonesia and Malaysia?
2. Is there any influence of total assets in implementation CSR Disclosure in Indonesia and Malaysia?
3. Is there any influence of profitability in implementation CSR Disclosure in Indonesia and Malaysia?
4. Is there any influence of leverage in implementation CSR Disclosure in Indonesia and Malaysia?
5. Is there any influence of the proportion of Independent commissioners in implementation CSR Disclosure in Indonesia and Malaysia?
6. Is there any influence of the proportion of Independent audit committee in implementation CSR Disclosure in Indonesia and Malaysia?

1.4 Research Objectives

The Objects in this research are:

1. To analyze the differences of implementation of CSR Disclosure in Indonesia and Malaysia.
2. To analyze the influence of total assets in CSR Disclosure in Indonesia and Malaysia.
3. To analyze the influence of profitability in CSR Disclosure in Indonesia and Malaysia.
4. To analyze the influence of leverage in CSR Disclosure in Indonesia and Malaysia.

5. To analyze the influence of the proportion of Independent commissioners in CSR Disclosure in Indonesia and Malaysia.
6. To analyze the influence of the proportion of Independent audit committee in CSR Disclosure in Indonesia and Malaysia.

1.5 Scope and Limitations

The limitations in this research are:

1. The object of research that will used is palm oil plantation companies go Public In Indonesia and Malaysia.
2. The period used in this study were four periods: from 2013 to 2016.

1.6 Significance of the Study

This research expected as a consideration for the company in applying this research variables to help improve stakeholder trust and consideration of issuers to test, improve and improve management performance; to give a good consideration in investing; and to be a reference for further research in the financial sector about Corporate Social Responsibility (CSR) disclosure.