

CHAPTER I

INTRODUCTION

A. Research Background

Corporate Social Responsibility (CSR) is important for companies and business organizations in emphasizing the company's commitment to act ethically and have a responsibility towards public awareness and concern for the impact of planning and implementing the company's operations on the environment and society. CSR within the company aims to provide value to society, participate in environmental awareness and improve the welfare and productivity of employees working in the company. The implementation of CSR can reduce or even avoid social disturbances due to environmental pollution, so that companies get support from the local community. Companies that are responsible for the environment will indirectly minimize the occurrence of environmental conflicts around the company. According to Utama in Iskandar (2016), the development of CSR is also related to the increasingly severe environmental damage that is occurring in Indonesia and in the world, ranging from deforestation, air and water pollution to climate change.

The concept of CSR involves an active and dynamic partnership between companies, government and local communities (Marnelly, 2012). According to Wibisono (2007), CSR can be defined as a company's responsibility to stakeholders to behave ethically, minimize negative impacts

and maximize positive impacts which include economic, social and environmental aspects in order to achieve sustainable development goals. Currently, the survival of the company in the long term does not only depend on financial factors but also on social and environmental factors. Most companies have realized the importance of implementing CSR as part of their business strategy and companies are trying to get involved in CSR related to the corporate governance system. Public awareness regarding the company's role in the community that has a negative impact on society and the environment fosters a sense of corporate responsibility for the impact of its business activities on society.

Increasingly fierce global competition makes companies compete with each other to attract investors to invest in their companies by increasing competitiveness in various sectors and also increasing company value. Every company certainly has a goal to maximize the profits obtained, but in the process it requires a responsibility and an increase in the welfare of the community. CSR has now become a global phenomenon. This global phenomenon also hit Indonesia along with the emergence of CSR programs in Indonesia.

The implementation of CSR in Indonesia has been implemented by many companies, both in the form of charity and empowerment. The development of CSR in Indonesia can be seen from the various efforts of the government to issue laws and regulations related to the implementation of CSR in the area concerned. The implementation of Corporate Social Responsibility

is explicitly stated in Article 74 of Law Number 40 of 2007 concerning Limited Liability Companies which regulates social and environmental responsibility. Companies whose businesses are directly related to natural resources are required to carry out these social and environmental responsibilities.

However, there are still companies and business people who do not support CSR programs. An example is the case of PT. Freeport in Papua which causes forest destruction, environmental pollution due to organic and metal waste pollution, and many other cases. PT. Freeport is a mining company operating in the highlands of the Mimika Regency at an altitude of 4,270 meters with the lowest temperature of two degrees Celsius. With such natural conditions, the area under the mining area of PT. Freeport has a high level of vulnerability to landslides. According to Wu in Astuti (2018), Landslide disaster in the mining area of PT. Freeport has occurred several times throughout 2004-2017. PT. Freeport should be aware of the risks of operating in areas with high rainfall and seismic activity, but this does not prevent the company from increasing production capacity to increase profits (Astuti, 2018). In addition, the environmental impact on public health has been a persistent problem in the mining area of PT. Freeport. All of these things have to do with business activities that do not care about the social and natural environment. The delay in the implementation of CSR does not only occur in Indonesia, but also occur in almost all countries, including developed countries.

In Islam, arguments have been explained about the prohibition of every business relationship that contains injustice and requires the fulfillment of

justice in business relationships and business agreements. Every human being must be responsible for his actions which are described in Q.S Hud verse 85

وَيَقُومِ أَوْفُوا الْمِكْيَالَ وَالْمِيزَانَ بِالْقِسْطِ وَلَا تَبْخَسُوا النَّاسَ أَشْيَاءَهُمْ وَلَا تَعْنُوا فِي الْأَرْضِ مُفْسِدِينَ

It means: And O my people! Fill the measure and the scales with justice, and do not harm people against their rights and do not do evil in the earth by doing mischief.

From this verse it can be concluded that Islam requires us to do justice to others, social rights, environmental rights, and the rights of the universe. So, social balance and environmental sustainability must be maintained along with business operations.

The company's concern for society and the environment needs to be expressed to interested parties. The social disclosure is part of the implementation and realization of corporate accountability. Corporate governance is one of the keys in increasing economic efficiency which includes the relationship between the board of commissioners, company management, and other stakeholders. According to Effendi (2009), corporate governance is a set of systems that regulate and control companies to create added value for stakeholders.

According to Qa'dan & Suwaidan (2019), the board is an important component of corporate governance in monitoring and ensuring that managers and boards run the company well. The board of directors is in charge of determining the company's strategy and policies for the company, including the CSR approach. This makes the various characteristics of the board of directors

have an important role for the company. The research of Kirana et al. (2021) shows that the board gender has a positive effect on corporate social responsibility. Qa'dan & Suwaidan (2019) also found that the size of the board of directors in the company has a positive effect on CSR disclosure.

Not only the board of directors has an important role in CSR, but the audit committee also plays an important role in realizing good corporate governance because the audit committee is also part of the board of commissioners in overseeing the running of the company. According to Pakistan Code of Corporate Governance (PCCG) in Musallam's research (2018), the board formed an audit committee to ensure transparency within the company and provide advice to shareholders and stakeholders regarding the level of risk faced by the company. With the existence of an audit committee, it is expected that the social responsibility report will provide relevant, reliable, understandable, and complete information. The frequency of audit meetings is expected to lead to better performance monitoring. Musallam (2018) found that audit committee meetings have a significant positive effect between audit committee meetings and CSR disclosure. Research conducted by Madi et al. (2014) show different results that the number of audit committee meetings is not significantly related to CSR disclosure.

From the phenomena that occur and from the results of previous studies, there are several variables that affect CSR disclosure which still show different results, even contradicting the results of one study with another. Therefore, further research is needed to prove the difference in these results.

This study refers to previous research, namely research from Kirana & Prasetyo (2021) with the title *"Analyzing Board Characteristics, Ownership Structure and Company Characteristics to Corporate Social Responsibility Disclosure"*. Their study contributes to the literature on the effect of board of directors characteristics, ownership structure and firm characteristics on CSR. The study also aims to analyze differences in the levels of corporate social responsibility disclosure in Indonesia. This study contributes to proving that the characteristics of the board of directors affect CSR disclosure. This is evidenced by the variable gender diversity of the board of directors has a positive effect on CSR disclosure. The presence of a female board of directors can encourage company activities, especially information about corporate social responsibility (Qa'dan & Suwaidan, 2019).

This research also refers to research from Ghina et al., (2022) with the title *"Pengaruh Komite Audit Terhadap Corporate Social Responsibility Melalui Keberadaan Manajemen Risiko"*. Their research examines the audit committee on CSR disclosure in non-financial companies listed on the Indonesian Stock Exchange. The study also aims to examine the effect of the audit committee on the disclosure of corporate social responsibility with risk management as a mediating variable. This study contributes to proving that the audit committee has an effect on CSR disclosure. This is evidenced by the audit committee expertise variable that has a positive effect on CSR disclosure. CSR disclosure as measured by the expertise of audit committee members will

improve CSR and the company's social and environmental performance (Shaukat et al., 2016).

The contribution of this research is to add new variables, namely board meeting, board gender, board size, audit committee size, audit committee meeting, and audit committee expertise. In addition, there are also additions to the object of research. Previous research took evidence from non-financial companies on the Indonesian Stock Exchange, while this study not only took evidence from non-financial companies listed on the Indonesian Stock Exchange but also added evidence from non-financial companies listed on the Saudi Exchange.

Similar to Indonesia, the implementation of CSR in Saudi Arabia is also a trending phenomenon that has influenced government policies, business strategy management, and social relations. The government of Saudi Arabia has also emphasized on companies to demonstrate greater commitment to social, environmental, and corporate governance performance for the benefit of stakeholders. In 2017, the Saudi Arabian government issued and enforced a corporate governance code that aims to align Saudi Arabia with international corporate governance standards, including the implementation of CSR principles. This shows that currently the implementation of CSR in companies is very important in the progress of the people of Saudi Arabia. Saudi Aramco, the largest organization in Saudi Arabia, defines CSR as “sustainable and stakeholder-driven transparent and ethical behavior”. Therefore, researchers feel the need to conduct further research on this topic in Indonesia and Saudi

Arabia. The reason for choosing Indonesia and Saudi Arabia is because in these two countries CSR disclosure is still relatively low, according to Murya Habbash (2018) CSR disclosure in companies in Saudi Arabia, especially non-financial companies, is only around 24%, experiencing an increase as a result of the implementation of corporate governance. Whereas in Indonesia it is only around 30% in 2017.

Based on the background described above, researchers are interested in conducting research with the title *“The Effect of The Board of Directors and The Audit Committee on Corporate Social Responsibility Disclosure (A Study of Non-Financial Companies Listed on the Indonesian Stock Exchange and Saudi Exchange Period 2017-2021)”*.

B. Research Questions

From the background that has been outlined above, the problem of the research are:

1. Does board size has a positive effect on corporate social responsibility disclosure?
2. Does board meeting frequency has a positive effect on corporate social responsibility disclosure?
3. Does board gender diversity has a positive effect on corporate social responsibility disclosure?
4. Does audit committee size has a positive effect on corporate social responsibility disclosure?

5. Does audit committee meeting frequency has a positive effect on corporate social responsibility disclosure?
6. Does audit committee expertise has a positive effect on corporate social responsibility disclosure?

C. Research Purposes

Related to the formulation of the above problems, the objectives of this research are to examine and have empirical evidence that:

1. Board size has a positive effect on corporate social responsibility disclosure
2. Board meeting frequency has a positive effect on corporate social responsibility disclosure
3. Board gender diversity has a positive effect on corporate social responsibility disclosure
4. Audit committee size has a positive effect on corporate social responsibility disclosure
5. Audit committee meeting frequency has a positive effect on corporate social responsibility disclosure
6. Audit committee expertise has a positive effect on corporate social responsibility disclosure

D. Research Benefits

The following are the expected benefits of the research carried out:

1. Theoretical Benefits

This research is expected to expand and become a source of insight and knowledge that can be used as study material for business people regarding the effect of the board of directors and audit committee on the CSR approach, especially in non-financial companies.

2. Practical Benefits

This research is expected to be useful for regulator, company, investor and stakeholder. The following is an explanation regarding this:

a. Regulator

This research is expected to be useful for regulators in providing important information and insights related to the implementation of CSR and is expected to encourage regulators to continue to improve existing regulations regarding the implementation of CSR mechanisms.

b. Company

This research is expected to be useful for companies in providing an overview of the effect of the board of directors and audit committee on the CSR approach in companies, especially non-financial companies.

c. Investor

This research is expected to be useful for investors to add insight and can be used as one of the considerations for making the right investment decisions so that they are not harmed as a result of wrong decision making.

d. Stakeholder

This research is expected to be useful for stakeholders in understanding the mechanism for implementing CSR which is expected to be used as a consideration for decision making to optimize the achievement of company goals.