CHAPTER I
INTRODUCTION

A. Background

Business operations of a company may have impacts on both the environment and society since the resources and workforces needed for company operations are operated in a society (Saha, 2019). Many companies are starting to be concerned about the impacts of their business operations and mitigate its impacts. However, the company's efforts can only contribute to minimizing the impacts of its operations. Therefore, the company needs to give back to society as a form of company responsibility by developing credible, ethical behavior, and contributing meaningfully to economic prosperity and the society where the company's business operations are operated (K. Singh & Misra, 2022).

To survive in the long term, companies need legitimacy from society so that the company's business operations can be operated. Consequently, companies need to pursue their goals in ways that are acceptable to society (Mohammadi et al., 2021). As a result, the company participates in implementing the programs of Corporate Social Responsibility (CSR) as a form of the company's responsibility for the impacts of its business operations.

CSR is a corporate strategy that is directly linked to society especially the negative impacts of a company's business operations on the environment and society (Mohammadi et al., 2021). It stands for the responsibilities and actions that go beyond the bounds of the relevant business, health and safety, human rights, consumer, and environmental protection and reporting laws and regulations (Katsoulakos & Katsoulacos, 2007).

Many companies are starting to be concerned about the effects of their business operations. For instance, ANTAM, a mining company in Indonesia which concerns about the effects of its mining operations. As reported in the sustainability report of ANTAM that was released on www.antam.com (2020), this company's operations produce greenhouse gas (GHG) emissions, NO2, SO2, and other particulates. As the company’s responsibility to society, ANTAM has been conducting emission control through GHG and conventional emission reduction policies, identifying emission sources, oxidation factors, emission factor activity data, emission load, and conversions in each business unit.

Not only ANTAM, ADNOC Drilling Company PJSC, a corporation of Uni Emirate Arab that operates in the energy industry also engages in Corporate Social Responsibility. This company drills more efficiently and minimizes its ecological footprint by utilizing record-breaking horizontal and directional drilling techniques. In addition, they also minimize their needs in using offshore jack-up rigs with their nine state-of-the-art island 'walking' rigs which allow them in lowering impact on their marine environment (adnocdrilling.ae, 2022). From the above examples, it can be concluded that many companies are starting to consider their responsibility to society in their business operations.

There are a lot of things in human life that are regulated by Islam, and one of them is responsibility. According to the Islamic perspective, for both individuals and groups, humans must be responsible for what has been done. It can be seen from Q.S. Al-Mudatstsir: 38 that is:

كُلُّ نَفْسٍ بِمَا كَسَبَتْ رَهِينَةٌ

"Each person is responsible for what he has done" (Q.S. Al-Mudatstsir: 38)

From the above ayah, it can be concluded that Islam places high importance on responsibilities. As explained above, a company's business operations are activities that have effects on both environment and society. Consequently, from an Islamic perspective, the company should be responsible for the impacts of its business operations on society. These responsibilities can be done through CSR Programs so CSR plays an important role. In addition, companies need to disclose CSR practices so that the company's contributions that have been made can be known to various interested parties. According to Singh & Mittal (2019), transparency and accountability are demanded by stakeholders more clearly. Therefore, it is important for the company to disclose its business operations to stakeholders.

The Islamic market is experiencing very rapid growth in the world, including Indonesia and Uni Emirate Arab. The Global Islamic Economy Indicator (GIEI), third edition, assesses the health of the Islamic economy over 73 nations in terms of supply and demand drivers, governance, social concerns, and awareness, Indonesia and Uni Emirate Arab are countries were ranked as the top 10 (salaamgateway, 2019). This is proved that both Indonesia and Uni Emirate Arab are a country that has a very rapid growth of Islamic economics.

As a consideration of Islamic rules towards responsibility, the Shariah compliance company is expected to pay more attention to responsibility. Therefore, shariah compliance companies are thought will pay more attention to CSR as well as CSR Disclosure, such as shariah compliance companies in Indonesia and Uni Emirate Arab since those countries have very rapid growth in the Islamic market.

There are many factors that may influence the disclosure of CSR, and one of them is the Board of Directors. Jizi (2017) reveals that social agenda, resource allocation, and developing strategies to maintain the sustainability of business are set by the Board of Directors. Consequently, the Board of Directors (BOD) plays an important role in CSR Disclosure as one of the strategies to maintain business sustainability. Therefore, boards' characteristics such as the size of the board, board nationality, and board educational level, are thought to have an influence on CSR Disclosure.

Indonesia and Uni Emirate Arab are the countries that place high importance on the implementation of CSR. Uni Emirates Arab places high importance on the implementation of CSR which can be seen by the CSR Law issued by the UEA Government which came into force on February 1st, 2018 (mondaq.com, 2018). The company– big or small – that contributes to the culture of ethical business conduct will be rewarded by the UEA Government (thecsrjournal.in, 2021). The UEA Government through the CSR UEA Fund will give a reward to the company which implements the CSR program. This is also a driving force for relevant authorities to improve and regulate social responsibility practices within companies and business entities (u.ae, 2022).

In addition, Indonesia Government regulate the implementation of CSR by the Undang-Undang No. 22 year 2001 about Oil and Gas Emission, Undang-Undang No. 19 year 2003 about State-Owned Enterprise (Badan Usaha Milik Negara/BUMN), Undang-Undang No.40-year 2007 about Limited Company, and so on. It proves that Indonesia places high importance on the implementation of CSR (mediacsrindonesia.com, 2018).

There is much research that has investigated the relationship between boards' characteristics on CSR Disclosure. Katmon et al. (2019) investigated the board diversity on CSR Disclosure quality in 200 listed firms in Bursa Malaysia during 2009–2013. Their research found a positive association between boards' education towards the level of CSR Disclosure. In addition, their research also found a negative association between boards' nationality towards the level of CSR Disclosure. In contrast, Khan et al. (2019) found that the educational level of boards has a positive correlation while board nationality is positively related to the quality of CSR Disclosure. Furthermore, Abu Qa'dan & Suwaidan (2019) found a positive relationship between the size of the board and CSR Disclosure in Jordanian manufacturing companies listed on the Amman Stock Exchange (ASE) during the period from 2013 to 2015. Rouf & Hossan (2021) found there is no significant effect of board size on CSR Disclosure on Listed banks enlisted in the Dhaka Stock Exchange for the period of 2013 to 2016.

Besides BOD, Audit Committee (AC) is also thought of as one of the factors that influence the disclosure of CSR. (Bédard et al., 2008) reveal that the level of financial and non-financial disclosure including CSR disclosure will be affected by an effective audit committee. It is because the Audit Committee as a representative of BOD has responsible for overseeing both financial and non-financial reporting to reduce information asymmetry between management and stakeholders (Karamanou & Vafeas, 2005). Consequently, Audit Committee is thought to play an important role in CSR Disclosure as an intermediary and an executor to ensure management policies on CSR performance (Buallay & Al-Ajmi, 2020). Therefore, the audit committee's characteristics size of the audit committee, financial expertise of the audit committee, and the frequency meeting of the audit committee are thought to have influence on CSR Disclosure.

Appuhami & Tashakor (2017) have investigated the effect of audit committee characteristics on CSR Disclosure in Australian companies listed on the ASX for financial year-ends between July 2012 and June 2013. Their research found the size of the audit committee and the meeting frequency of the audit committee have a positive influence on CSR Disclosure while the financial expertise of the audit committee does not have an influence. The research of Biçer & Feneir (2019) has different results. Their research found that there is no significant influence of audit committee size, meeting frequency, and financial expertise of audit committee on environmental and social disclosure.

Because of the inconsistent result from previous research about how the board diversity of board and audit committee characteristics influence CSR Disclosure; the researcher is interested to investigate **"The Influence of Board of Directors and Audit Committee on CSR Disclosure: An Evidence of Shariah Compliance Companies in Indonesia and Uni Emirate Arab"**.

This research is a compilation research of Katmon et al. (2019) which investigated the influence of board diversity on CSR Disclosure quality on 200 listed firms in Bursa Malaysia during 2009–2013 and Abu Qa'dan & Suwaidan (2019) which investigated the association between board composition with the level of CSR Disclosure on Jordanian manufacturing companies listed on the Amman Stock Exchange (ASE) during the period (2013-2015). In addition, this research also uses the research of Appuhami & Tashakor (2017) who have investigated the effect of audit committee characteristics towards CSR Disclosure in Australian companies listed on the ASX for financial year-ends between July 2012 and June 2013.

The differences between the research of Katmon et al., (2019), Abu Qa'dan & Suwaidan (2019), and Appuhami & Tashakor (2017) towards this research are (1) this research compiles the research of Katmon et al., (2019), Abu Qa'dan & Suwaidan (2019), and Appuhami & Tashakor (2017); (2) the samples of this research is using sample from two countries, those are companies listed in IDX (Indonesia Stock Exchange) from Indonesia, ADX (Abu Dhabi Securities Exchange) and DFM (Dubai Financial Market) which exchange from Uni Emirate Arab while the research of Katmon et al., (2019), Abu Qa'dan & Suwaidan (2019), and Appuhami & Tashakor (2017) have used samples from one country; (3) the period that is used in this research is using sample period from 2017-2021; and (4) this research is focus on shariah compliance companies.

Indonesia and Uni Emirate are countries that are thought to place high importance on CSR. Therefore, this research takes samples from these countries. In addition, this research uses samples from non-financial sectors since it is rare for research to use samples from non-financial companies. Furthermore, to add updated literature regarding CSR disclosure, the period used in this research is from 2017 until 2021.

Shariah compliance companies in both Indonesia and Uni Emirate are thought of as companies that will pay more attention to CSR disclosure since Islam places high importance on responsibilities, including CSR. Consequently, this research is using samples from shariah compliance companies.

B. Research Question

Based on the background, the characteristics of Board of Directors and Audit Committee are expected to have positive impact on the disclosure of CSR. Therefore, the research questions of this study are as follows:

RQ1. Does the board size of directors have positive influence on the disclosure of Corporate Social Responsibility in Indonesia and Uni Emirate Arab?

RQ2. Does the level of board education have positive influence on the disclosure of Corporate Social Responsibility in Indonesia and Uni Emirate Arab?

RQ3. Does the board nationality of directors have positive influence on the disclosure of Corporate Social Responsibility in Indonesia and Uni Emirate Arab?

RQ4. Does the committee size of Audit Committee have positive influence on the disclosure of Corporate Social Responsibility in Indonesia and Uni Emirate Arab?

RQ5. Does the expertise of Audit Committee have positive influence on the disclosure of Corporate Social Responsibility in Indonesia and Uni Emirate Arab?

RQ6. Does the meeting frequency of Audit Committee have positive influence on the disclosure of Corporate Social Responsibility in Indonesia and Uni Emirate Arab?

C. Research Objective

Based on the research question above, the research objectives of this study are as follows:

1. To examine and find empirical evidence that the board size of directors has positive influence on the disclosure of Corporate Social Responsibility in Indonesia and Uni Emirate Arab.
2. To examine and find empirical evidence that the level of board education has positive influence on the disclosure of Corporate Social Responsibility in Indonesia and Uni Emirate Arab.
3. To examine and find empirical evidence that the board nationality has positive influence on the disclosure of Corporate Social Responsibility in Indonesia and Uni Emirate Arab.
4. To examine and find empirical evidence that the committee size of Audit Committee has positive influence on the disclosure of Corporate Social Responsibility in Indonesia and Uni Emirate Arab.

5. To examine and find empirical evidence that the expertise of Audit Committee has positive influence on the disclosure of Corporate Social Responsibility in Indonesia and Uni Emirate Arab.
6. To examine and find empirical evidence that the meeting frequency of Audit Committee has positive influence on the disclosure of Corporate Social Responsibility in Indonesia and Uni Emirate Arab.

D. Research Benefit

1. Benefits in the theoretical fields

   This research is expected to be useful for the following theoretical fields:

   a. This research is expected to increase knowledge about the factors that influence CSR disclosure, particularly board size, board gender, board education of directors, board age of directors, Audit Committee expertise, Audit Committee size, Audit Committee independence, and Audit Committee meeting frequency.

   b. This research is designed to serve as a reference for future research on the disclosure of Corporate Social Responsibility (CSR).

2. Benefits in the field of practice

   This research is expected to be useful for the following parties:

   a. Investor: Being one of the non-financial aspects of the company that is considered in investment decisions

   b. Society: Become a means of controlling the company's business operations so that the company runs the company's business operations in ways that are acceptable to society if the company wants to survive in the long-term

c. Company: Become a tool to help the company in determining the relevant characteristics of the Board of Directors and Audit Committee that allows the company in support its strategic decisions making.

d. Regulator: Become one of the considerations in preparing regulations related to CSR disclosure.