

CHAPTER 1

INTRODUCTION

A. Research Background

The company has several strategies that must comply with the new era, such as the exchange of worldwide perspectives, thoughts, products, and lifestyle that blend into one. This makes the founders of the company have to prepare new performance to face the new dynamics that occur due to increasing economic, political, business and social environmental activities. In this era of globalization, CSR strategies need to be carried out by every business so that the company can run according to what is supported by the community.

Corporate Social Responsibility (CSR) is an important thing that must be considered by the company, because CSR has a good impact and is beneficial for the company in the eyes of the public. Corporate social responsibility is an idea or method that emphasizes the company's dedication to act ethically and have a responsibility to public awareness and concern particularly on the impact of planning and implementation the company operations on the network. CSR in the company goals are to provide value to society, take part in environmental awareness, and enhance the welfare and productiveness of employees working in the company.

A good business cannot be separated from the implementation of CSR. CSR strategies are needed to be carried out by every business in order to allow the company to run in accordance with what the community supports. CSR is very helpful for companies not only to aim for profits, but also to care about the natural environment, society, and employees in the company. Through good CSR, the company can make a profit, the overall life of the community is improved, and the natural environment around will be well maintained. CSR also puts pressure on the company to achieve its

goals, mission, and vision so that the company can develop well, in the short and long term.

Indonesia companies have focused on social environmental responsibility. It is evidenced from the participation of Indonesia in being part of the International Standard Organization or familiar with the name of ISO. In Understanding ISO 26000, there are seven most important issues that have matured in CSR, namely: Community Development, Consumers, Healthy Institution Activities, Environment, Work, Human Rights, and Government Organizations. Meanwhile, as a tool to evaluate and control for CSR, many companies have published CSR reports, namely sustainability reporting based on a standard issued by the Global Reporting Initiative (GRI).

The Islamic religion has explained that men serving as a caliph who are obliged to be a representative or leader on earth. Thus, humans must have the ability to manage the universe according to the mandate carried out. As mentioned in QS. Fatir verse 39.

هُوَ الَّذِي جَعَلَكُمْ خَلَائِفَ فِي الْأَرْضِ فَمَنْ كَفَرَ فَعَلَيْهِ كُفْرُهُ وَلَا يَزِيدُ الْكَافِرِينَ

كُفْرَهُمْ عِنْدَ رَبِّهِمْ إِلَّا مَقْتًا وَلَا يَزِيدُ الْكَافِرِينَ كُفْرَهُمْ إِلَّا خَسَارًا

“It is He who made you the caliphs of the earth. Whoever is an infidel, then (the result of) his paganism will befall himself. The paganism of those pagans will only add wrath to the side of their Lord. Also, the paganism of those pagans will only add to their mere harm”.

In the verse, it can be concluded that men in worshiping God are not only limited to performing religious rituals (prayer, fasting, zakat, charity, etc.) but is also obliged to maintain the universe with all its components for the ultimate purpose of benefit for himself and others (Helfaya & Moussa, 2017). Likewise, a company must carry out the environmental responsibility activities carried out by the company. If in the context of awareness of environmental accountability activities in Indonesia, this awareness is

affected/ determined by laws and regulations. In accordance with Law number 40 of 2007 article 74, it covers all companies in the context of managing natural resources to implement CSR.

Corporate social responsibility leads to maintain attachment to the surroundings, in order to perform higher responsibility for the environment, along with pollutants management, natural resource conservation, reforestation programs, and other environmental programs that have differences (Najmuddin, Haryanto, & Hamdani , 2019). The community has the power to stop the company's operations if it does not longer carry out ethics that are accepted within the limits of values (Deegan, 2002). Therefore, organization searches for value to gain community legitimacy through CSR to make certain business continuity (Gray, Kouhy, & Lavers, 1995). Substance purpose of corporate social responsibility conveyed via stakeholders and legitimacy idea are similar as those found through (Arvidsson, 2014).

The role of the Board of Directors (BOD) and ownership structure in CSR disclosure is very important. The board of directors has a very important influence in terms of making decisions in the organization operational activities. This is because the board of directors plays an important role in guiding the strategic orientation and decision-making of the company (Walsh & Seward, 1990). In the aspect of corporate social responsibility, the board of directors is the main governance mechanism that can influence CSR decisions and disclosures. Furthermore, the ownership structure is important because it affects the managers decision, firm operation, and thereby the CSR. Companies generally carry out many CSR activities, because CSR programs will be useful for anyone, and will certainly raise the company's image in the eyes of the public.

This study refers to previous research. One of them is a study from Muhammad (2019) with the title “The Influence the Board of Directors Characteristics Toward Corporate Social Responsibilities: Study Non-Financial and Financial Firms in Indonesia”. The study examined BOD characteristics toward CSR in Indonesia Stock Exchange 2016-2019 period. The contribution of this research is the variable improvement, with add new variable namely ownership structure.

Moreover, there are also differences in the object of research. The ownership structure has influenced corporate social responsibility. Previous research from Rudyanto & Prasetyo (2020) examined ownership structure in Indonesia. Therefore, this research will examine the relationship between ownership structures, board of directors’ characteristics on Indonesian Stock Exchange and Bursa Kuwait. Therefore, a further researchers on this subject matter is crucially needed.

Based on the background defined above, the researchers are interested by undertaking research with the title “The Influence of the Ownership Structure and Board of Directors Characteristics Toward Corporate Social Responsibility: An Empirical Study on Indonesia Stock Exchange and Bursa Kuwait Stock”. The choice of Indonesia and Kuwait is because these two countries have rapidly growing numbers of shariah compliance and therefore, it is expected in the world, particularly about CSR disclosure.

This study aims at shariah compliance companies Indonesia and Kuwait have a development of interest. Based on a report from The Royal Islamic Strategic Studies Center (RISSC) or MABDA entitled The Muslim 500 (2022 edition), there are 231.06 million out of 275.77 milion of total human populations in Indonesia who are Muslims. This indicates that many Indonesians use sharia products to support financial activities. The total population in the country of Kuwait is about 2.8 million. The major religion

in Kuwait is Islam while there are only a few hundreds who hold Christianity in the population of Kuwait.

Boursa Kuwait, formerly known as the Kuwait Stock Exchange made a formal commitment to encourage the sustainability of the company in financial markets by becoming a member of the UN-led Sustainable Stock Exchange (SSE) initiative at the end of 2017. Such measures can help to increase transparency among companies and improve performance in environmental, social, and governance efforts as well as encouraging sustainable investment. Boursa Kuwait implements CSR to commit responsibility to society and its employees. Boursa Kuwait is committed to aligning its business values and strategies with its social and economic needs, while providing the necessary support for society to achieve business and social benefits in the long term and to ensuring the sustainability of its operations in a way that minimizes the harm of effects on society and the environment.

In the 21st century, the main concern for the company's overall business performance is corporate social responsibility. The seriousness of this problem can also be seen from the contribution of Boursa Kuwait. This is appeared through its commitment in the Kuwait National Development Plan, or New Kuwait 2035, to align the Long-term business strategy with the vision and mission. The Company has aligned its CSR strategy objectives with its mission, vision, and core values in an effort to ensure that its operations and business practices are not only sustainable but can contribute to the society in which it operates, maximized its values to various stakeholders in Boursa Kuwait, and minimize its harmful effects on society and the environment.

As multinational companies in Kuwait grow, the oversight of their business activities also increases. This means that organizations that adopt CSR policies have a

greater chance of survival. The implementation of corporate social responsibility supports business objectives to result in increased compliance, reputation, and relationships which in turn increases shareholder value and company profitability. Another reason to promote CSR is the tax breaks provided by the government.

Kuwait's CSR conference is held annually, to promote the incorporation of CSR in business and also discuss the performance improvements that CSR offers. Both the conference and the awards encouraged the organization to adopt a CSR policy in Kuwait. A report by International Business Mechanism (IBM) stated that 68% of the companies surveyed have an interest in generating revenue through CSR-based activities. Customer concerns are considered as a key of CSR actions yet 76% of companies state they do not fully understand the customer's CSR issues. On the other hand, 16% of organizations claim that they can engage with customers regarding CSR activities.

The three major domains which have received contributions from organizations are health care, education and financing aid and charitable trust. Within the health care domain, organizations sponsor construction of hospitals, medical centers as well as purchasing equipment. The Kuwaiti Projects Company (KIPCO) initiated a dyslexia campaign. The goal of the campaign was to increase awareness of dyslexia among students and professionals alike. For this deed, KIPCO was honored with CSR award. In addition, the petrochemical company in Kuwait. Equate sponsors educational programs, research programs and awards for higher education. Equate also practiced a pollution-free Kuwait campaign to reduce pollution levels in Kuwait and create awareness of the impact of pollution on society (KMPG, 2010).

B. Research Problem

From the background mentioned above, the research questions of this research are:

1. Does the size of Board of Directors have a positive influence on CSR disclosure?
2. Does gender proportion of Board of Directors have a positive influence on CSR disclosure?
3. Does the education of Board of Directors' education have a positive influence on CSR disclosure?
4. Does the Managerial ownership have a positive influence on CSR disclosure?
5. Does the Institutional ownership have a positive influence on CSR disclosure?
6. Does the Foreign ownership have a positive influence on CSR disclosure?

C. Research Purposes

Regarding the formulation of the research questions, the research objectives must have the empirical evidence to prove that:

1. The size of Board of Directors has a positive influence on CSR disclosure
2. The gender proportion of Board of Directors has a positive influence on CSR disclosure
3. The education of Board of Directors has a positive influence on CSR disclosure
4. The Managerial ownership has a positive influence on CSR disclosure
5. The Institutional ownership has a positive influence on CSR disclosure
6. The Foreign ownership has a positive influence on CSR disclosure

D. Benefits of Research

The results are expected to provide the following benefits:

1. Theoretical Benefits

This research is expected to be able to provide a source of new concepts that are comprehensive and significant enough to contribute to the development of science

as study material for academics and businesspeople who study the disclosure of corporate social responsibility, ownership structure, and the board of directors.

2. Practical Advantages

This research is expected to have practical advantages for companies and for researchers. The followings are discussing the advantages particularly for :

a. Company

This research is expected to provide an overview of the impact of disclosure of corporate social responsibility, board of directors' characteristics, and ownership structure. As a proposal to improve ability of company to carry out corporate social responsibility, in particular to improve the quality of corporate social responsibility.

b. Academics

This research is expected to be used as a reference, offer new insight, broaden expertise, and become an attention for future research for those who will study similar topics.

c. Government

This research is anticipated to offer a top-level view for the government to discover how the CSR disclosure regulations influence organizations so that the government can decide or replace the regulation. In addition, it is also expected to understand more clearly how authorities' possession impacts the overall performance of the company.