

## CHAPTER I

### INTRODUCTION

#### 1.1 Background

The increasing number of company is followed by the coming up of environmental problems. Environmental crisis because of high level waste which is resulted by production or exploration process and product remains. This environmental problem is neither local nor national issue, but it is an international issue. Environmental management is the emerging study and practices during the last two decades to overcome those problems. It was born in 1970s and developed since 1990s by the spreading of its importance for company sustainability.

Several studies mentioned that some companies have a set of reputational problem because of the irresponsibility in environmental problems, especially companies which exploit and get the resources from the nature. The example is explained by Eljayash (2012) that oil and gas company has high demand to be more aware to the environmental problems such as pollution which is resulted. Another case is mining company that often makes a damage in the environment because of the exploration activity (Foncesa et al, 2012). In other hand, both of these companies product are the inseparable needs of the human in the world. Therefore, the oil, gas, and mining company now is increasing the trend of environmental issues involvement to maintain the society trust and their sustainability.

Hadi (2011:37) stated that environment side of the company closely related to local community, issue community, employee, and customer, which the relation

is in the form of sustainable development, waste management, emission, energy usage, and product life cycle. Information about this activity is what the stakeholders need, considering the environment impacts of the activity non-performance endangers the environment, such as contamination, air pollution, etc. Burnett et al (2011) states that eco-effective management increases firm value and it is sustained beyond the current period. Also because of realizing this fact, afterward, the stakeholders demand towards this kind of information is being relatively high.

Since financial statement is not sufficient for investment decision making, non-financial disclosure has become stakeholder's needs, which one of the element is environmental management disclosure itself. The fulfillment of information demand by the company points out the awareness of management that sustainability is inseparable with society acceptance. Business and society can be most fully understood in relationship to the broader natural environment which they interact each other (Lawrence & Weber, 2014:212).

Given the importance of both financial and non-financial disclosure from the stakeholders, to meet the company interest with society expectation, company also develops their information in annual report, aside from the financial statement. To see this necessity of comprehensive reporting, Global Reporting Initiatives, a non-profit organization, since 2000 issued a guideline for preparing annual report. GRI (2013:5) stated that they support company sustainability by setting a reporting guidelines, including reporting principles, standard disclosures, and implementation manual.

GRI guideline is a standard to combine information which contains economic, environmental, social, and governance aspects which the most important part of company continuity determinants, then it is called as integrated and sustainability report. On the development, this report improves the performance of company and impacts to the increasing of outstanding share. Previous study by Schadewitz and Niskala (2010) resulted information that GRI reporting is an important explanatory factors for a firm market value. This reporting helps firm to achieve higher number of investor and increased stock price indirectly.

GRI guideline later coincides with the existence of OECD Principles of Corporate Governance that company used to assess the level of corporate governance. This principle also contains requirements of disclosure which then can be used to decide whether a company is in good corporate governance or not. This matter motivates the author to also examine the association between corporate governance score and environmental management disclosure in which the corporate governance score may be the one of environmental management disclosure determinant.

Several studies about environmental disclosure have been held, especially in measuring the extent of disclosure. Ullah et al (2014) investigates the environmental disclosure practices in annual report in Bangladesh. The result suggests that the extent of environmental disclosure is still low. Other sampled research is by Salama (2012) resulted that for company in United Kingdom, the extent of disclosure is positively affected by the size and industry type. While

Mukherjee et al research (2010) suggests that in India, the influencing factors of disclosure are effective tax rate, liquidity, and leverage.

As the part of sustainability accounting, environmental management disclosure becomes a mandatory disclosure for several countries. This is to perform that company does not only engage with profit but also accounts for the environment. Sustainability reporting itself is the key to emphasize the transparency of company activity in all aspects for the multi-stakeholder, including the environmental aspect (GRI, 2013:5). Regarding to some cases in environmental problems, most of them is because of the product and activity waste, such as air pollution and water security. The reporting is directed to denote the company policy in solving those environmental problems.

ASEAN is one of associated countries in the world besides European Union. This association is covering economic, political, and social cultural. This policy, especially in economic side, is implemented through the ASEAN Economic Community 2015. International Labor Organization (2014:1) mentioned that ASEAN in economic side is growing a commitment to foster sustained economic growth through the integrated and competitive single market in ASEAN countries. As the consequence, each country takes a harder effort to face the disparities over the member countries. Besides a country improves its economy, all of the countries are seeking to equate to each other.

According to [www.asean.org](http://www.asean.org) (2015), ASEAN continues to be actively engaged in addressing global environmental issues in accordance with the principle of common but differentiated responsibilities. This means that environmental

aspect is one of emphasis in the cooperation. Each country government encourages the all of the society and company to play a role in the realization. Environmental disclosure should be a way for company in the ASEAN countries to perform their synergy to this objective.

Besides that, cooperation in economic aspect is developed to be some policies, including the free flow of product, human resources, and investment. Regarding to the AEC policy, companies all over ASEAN countries seek to provide information not only to attract domestic investor but also the foreign. Because of that, the companies are emphasizing to the quantity and quality of the information, both in financial statement and annual report. This study analyzes especially in the ASEAN countries annual report information disclosure.

This study main purpose is to investigate the extent of oil, gas, and mining company environmental management disclosure in ASEAN countries. The using of oil and gas company is driven by the fact mentioned by Rainforest Foundation US ([rainforestfoundation.org](http://rainforestfoundation.org), 2015) that oil and gas drilling to produce ready-to-use oil has harmful ecological and environmental impact, such as water pollution which causes many kinds of diseases. As well as mining company, it causes some damages and imbalance on the environment. Generally, oil, gas, and mining company gives has higher responsibility towards the environment because its activity which explores more natural resources.

Besides measuring and comparing the extent of environmental disclosure, this study also to meet the correlation between this variable with corporate governance score. There also a qualitative approach to further explore the item causes of the

existence of difference in environmental management disclosure among the countries. The result of this study is addressed to provide information about environmental management disclosure in ASEAN, particularly to know the trend of company attention to environment. Given the necessity of the disclosure, this study also proposes to interpret what factor underlying the result.

According to the explanation above, this author proposes title “Comparative Analysis of Environmental Management Disclosure in ASEAN Countries (Study on Oil, Gas, and Mining Companies)”. This is especially to identify the awareness of oil, gas, and mining company in ASEAN towards environmental issues.

### **1.2 Problem of the Research**

This study seeks to investigate the following questions :

1. Is the difference in environmental management disclosure extent of oil, gas, and mining company among ASEAN countries significant?
2. Is corporate governance score associated with environmental management disclosure in oil, gas, and mining company of ASEAN countries?
3. What is the cause of difference in environmental management disclosure extent of oil, gas, and mining company among ASEAN countries?

### **1.3 Research Objective**

Based on the problem formulation above, this study objectives are :

1. To compare and examine the difference significance in environmental management disclosure extent of oil, gas, and mining company among ASEAN countries.

2. To examine the association between corporate governance score and environmental management disclosure in oil, gas, and mining company of ASEAN countries.
3. To identify the cause of difference in environmental management disclosure extent of oil, gas, and mining company among ASEAN countries.

#### **1.4 Research Benefit**

This research are going to provide benefits for :

1. Shareholder
  - a. Provide information about the extent of ASEAN countries oil, gas, and mining company environmental management disclosure.
  - b. Provide additional information as the reference to be considered in investment decision making in oil, gas, and mining company.
2. Author

For the author, this study provides information about comparison of oil, gas, and mining company environmental management disclosure among ASEAN countries, particularly in term of extent. Besides that, this study also gives result of empirical analysis in association between corporate governance score, and environmental management disclosed by ASEAN countries oil, gas, and mining company.

3. Future Researcher

For the future researcher, this study provides information about environmental management disclosure prepared by oil, gas, and mining company in ASEAN countries, including the extent, and its relation with

corporate governance score. The result should inspire the future researcher for further study.

### **1.5 Systematic of Writing**

This research proposal was written according to the systematic which consists of three chapters and explained as follows :

#### **CHAPTER I : INTRODUCTION**

This chapter describes the current issues which underlying the study, problem formulation, research objective and benefit, and systematic of proposal writing.

#### **CHAPTER II : LITERATURE REVIEW**

This chapter describes previous study, basis theory, research framework, and hypothesis.

#### **CHAPTER III : RESEARCH METHOD**

This chapter describes data design of the study, study limitation, identification of variables, operational definition and measurement of variable, population, sample and sampling technique, data and data collection method, and data analysis technique.

#### **CHAPTER IV : DESCRIPTION OF RESEARCH SUBJECT AND DATA ANALYSIS**

This chapter describes the result of the research and discusses the result by correlating with previous study and related theory.



## CHAPTER V : CONCLUSION

This chapter concludes the result of study, informs the study limitation, and gives recommendation based on the result

