

## CHAPTER I

### INTRODUCTION

#### 1.1 Backgrounds

Environmental issue is lately being discussed in almost everywhere. It is started when there is a “*Conference on Human and Environment*” held by United Nations in 1972. After that some international organizations which are concern about environmental issue such as United Nation on Environment Program (UNEP) and World Commission on Environment and Development (WCED) are established. In 1992, in Rio de Janeiro have been held “*United Nation Conference on Environmental and Development (UNCED)*” which is also known as *KTT Bumi* and we may say that conference has become the point where everybody start concerning about environmental issue.

Now a day environmental issue is not only become the concern of ecologist, but also become the concern of environment economy specialist. This condition happens along with the increasing on economics and business sector. Business and environment condition has a negative relationship. The more business being developed, the more it will consumed natural resources and the more it will pollute the soil, air and water means that there are degradations of environment condition if organization does not treat the waste properly. Field (1997) in Idris (2012) explained that environment has three main functions: environment as a provider of the resources in term of raw materials, environment as an assimilator of waste water or residual, and environment as a source of amenity and recreation.

There will be a conflict of interest between economist and ecologist (Idris, 2012). Ecologist sees that the usage of natural resources should be done for the sake of sustainability. While economist sees that it is the consequences of production where the availability of natural resources is return back to the 'market' mechanism of environment itself. Here the role of accounting is needed to bond between it. Accounting is responsible as tools to control organization's activity include activities related to the environment; in this case it's closely to social environmental accounting or socioeconomic accounting. According to Belkaoui (1980), social environmental accounting obliges organization to report their social and economic interaction between the organization and its environment.

With the increase in global competitiveness, organizations are facing severe societal pressure for more environmental accountability in terms of both environmental performance and its public disclosure (Sen, 2011). Further it can be construed that organization is obliged to maintain their environment condition to create *sustainable development* by implementing *Environmental Management Systems*. The concept of sustainable development according to World Commission on Environment and Development's refers to development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Thus objective can be achieved by implementing environmental management systems.

ISO 14001:2004 defines *Environmental Management Systems* as a part of organization's management that is used to develop and implement its

environmental policy and to manage its environmental aspects. Environmental Management Systems according to UU no 23/1997 is an integrated effort to preserve the environmental function including policy to manage, utilize, develop, maintain, restore, monitor and control the environment.

Beside that people awareness about environmental issue has drive a new social phenomenon called *green consumerism*. According to Susilo (1994) in Idris (2012), *green consumerism* is a social phenomenon where the costumer in buying products also considering about ecology, ethics and justice besides concerning about quality, packaging, price, guarantee and after sales services. This phenomenon occurs mostly in developed countries like U.S, Germany, England, etc. Moreover green consumerism has also become prestige that show someone social status in the society. Once the customer realized that consuming some products is not as simple as they can buy it then consume it but they also think about the effect of consuming that product to the environment, organization need to concern about the impact of their product to the environment. It's needed if organization wants their business going concern. The thing is when organization ignores environment issue while their targeted market influence by green consumerism, they will just lost their market because none is willing to buy their products.

Lately, some public companies have done an environmental report and disclosed environmental liabilities in their financial statements. These companies have disseminated information about their environmental performance and risk factors in their annual reports as well as non-financial reports relating to their

social and environmental performance. Holland and Foo (2003) also said that the qualitative and non-financial information provided by an organization is also related to disclosure and consequently to the notion of accountability. Stakeholders have long argued that environmental regulation is required to prompt better environmental practices and most large companies now devote considerable time and resources to climate change issues and voluntary environmental disclosure (Kolk, 2008).

Communicating organization environmental report to the stakeholder is just as important as making it. Environmental reporting is an essential element of the process of satisfying society's need for information to determine firm's environmental legitimacy (Herremans, 1999). When the organization failed to communicate their environmental report to the stakeholder, it may caused wrong perspective about organization's from the society and surely it will not give advantage to the organization. Further, Herremans also explain that *communication problems* happens when the company defines its disclosure priorities (identifies what and how environmental performance should be communicated) differently from its stakeholders.

A research conduct by Suhardjanto (2011) found that 78,20% of elite based stakeholders demand for environmental disclosure especially on energy saved due to conversion and efficiency improvement. But in fact only 43,75% from the sample used has disclosed their environmental report. It means that there is an information gap between the demand to disclose environmental report and the supply of environmental report disclosure itself. This condition happens

because there are no regulations that require management of organization to make and disclose their environmental report. Statement of Financial Accounting Standards (SFAS) No. 1 about Presentation of Financial Report does not require public companies in Indonesia to disclose environmental information. Company may disclose their environmental report voluntary.

Djajadikerta et.al. (2012) also found that the practice of corporate social and environmental disclosure (CSED) in Indonesia, especially which is done by Indonesian listed company, is still at an early stage. Only few company from sensitive and non-sensitive industry that disclosed their non-financial report on their website, in fact web site is the easiest way to disclose it. Besides that, according to Djajadikerta (2012) the main reason why companies are willing to disclose their environmental report is because they want to gain social recognition of the adequacy of their social behaviour. So that is why most of the report in Indonesia is talking about social instead of concerning in the environmental issue as you can see from their CSED that they are allocating the fund mostly on donation and not in some kind of activity related to environment management.

PT Unilever Indonesia, Tbk offered its share to public firstly in 1981 and listed in Indonesia Stock Exchange (BEI) at 11th January 1982. This company has grown to be a leading company of home and personal care products in Indonesia as well as its food and ice cream products. PT Unilever Indonesia, Tbk owned or licensed and marketed several well known products such as Pepsodent, Pond's, Lux, Lifebuoy, Dove, Sunsilk, Wall's, Clear, Rexona, Vaseline, Rinso, Molto, Sunlight, Blue Band, Bango, Royco, etc. As a multinational company who need to

compete with its competitor, Unilever seeks to manage and grow the business in a responsible and sustainable manner. Their objectives are to create a better future every day; help people feel good, look good and get more out of life with brands and services that are good for them and good for others; inspire people to take small everyday actions that can add up to make a big difference for the world; and develop new ways of doing business that will allow Unilever to grow while reducing company's environmental impact. Realizing that business should be done in a sustainable manner, PT Unilever Indonesia, Tbk has disclosed their environmental performance on their annual report which established on their website.

In this research, researcher is going to focus on the evaluation of corporate social-environmental report and disclosure implement by PT Unilever Indonesia, Tbk. Thus implementation will be compared with stakeholder desires to be seen or disclosed on PT Unilever Indonesia, Tbk. From the comparison, researcher is going to analyzed wether there are different perception among management and stakeholder.

## **1.2 Problems Formulation**

Based on the background that have been explained above, researcher here can define the problem as bellow:

1. How is the implementation of environmental reporting and disclosure in PT Unilever Indonesia, Tbk?

2. Does the implementation meet with stakeholders' desire and organization communicate adequately its environment performance to the society?

### **1.3 Objectives of Research**

There are at least two main objectives of conducting this research. First is to evaluate the implementation of environmental reporting done by PT Unilever Indonesia, Tbk include examining its scoop, quality, trend and nature. Second researcher also wants to compare the implementation of environmental reporting and the disclosure with stakeholders' desire. It's not impossible that after doing the research we may discover new phenomenon in implementation of environmental reporting in Indonesia.

### **1.4 Research Contribution**

After knowing the implementation of making environmental report in PT Unilever Indonesia, Tbk and compare thus practice done by company with stakeholder desires, it allows to understand whether there is a different perspective among them or not. Management may improve their environmental report and disclosure to meet with stakeholder desires. By doing so, company can increase company's value among their stakeholder.

This also can be a stimulant for other company who has not make and/or disclose their environmental report to start making and disclosing their environmental report because in fact by doing that activities company will get benefits such as possibility to improve their value. Hopefully in the future although environmental report is not a mandatory disclosure but each company

have disclose it. Along with increasing of people awareness in environmental issue, it creates a sustainable development in business and better environmental condition is achieved.

## **1.5 Writing Systematic**

### **CHAPTER I : INTRODUCTION**

This chapter will give ideas for the reader about corporate social and environmental report in general including the background why this topic is important, what's the problem formulation in this research, the objective and contribution of this research, last is about the research framework itself.

### **CHAPTER II : THEORITICAL REVIEW**

This chapter explain about the theory used as the basis to analyse the problems being discussed in this research, that's why the theories should be match with the problems. Among those theories are political economy theory from classical perspective and bourgeois perspective including stakeholder theory and legitimacy theory.

### **CHAPTER III: RESEARCH METHODOLOGY**

This chapter explain about the research method being used as well as the data used and how researcher gathers those data. In this chapter will also explain about what techniques needed that to be used to analyze those gathered data.



#### CHAPTER IV: DISCUSSION OF THE RESULTS

In this chapter researcher is going to explain how is the implementation of organization's environmental report in the last five years. Discussion of the comparison between the implementation of environmental report done by company and stakeholders' desires about that environmental reporting will also included in this chapter.

#### CHAPTER V : CONCLUSION AND SUGGESTION

This last chapter consist of conclusion from current research findings and also suggestion both for management of the company and for future researcher.