

# CHAPTER I

## INTRODUCTION

### 1.1 Research Background

The increasing public demand for transparency and accountability encourage companies to implement good corporate governance (GCG). One kind of GCG in the company is the implementation of corporate social responsibility (CSR). Today, CSR has grown widely all over the world. According to ISO 26000, CSR is defined as the responsibility of organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behavior that contributes to sustainable development, including health and the welfare of society, takes into account the expectations of stakeholders, in compliance with applicable law and consistent with international norms of behavior and integrated throughout the organization as well as practiced in its relationship. Therefore, companies tend to focus on sustainability compared to profitability (Urip, 2014).

The company has no longer stand on the single bottom line, which is economic aspect reflected in the financial condition, but also should be based on the triple bottom lines, which are financial, social and environmental. According to John Elkington (1997), CSR optimize the Triple Bottom Line or 3 P's, which are pursuing profit for the sake of shareholders (profit), concern of stakeholders'

interest and fulfill society welfare (people) as well as actively participated in maintaining environment preservation (planet).

In Indonesia, CSR regulated in Law No. 40 Year 2007 Article 74 of the Limited Liability Company. This law states that (1) the company conducting its business activities in the field and relating to natural resources required to implement social and environmental responsibility. (2) The social and environmental responsibility as referred in paragraph (1) is the obligation of the company that conducted by paying attention to decency and fairness. (3) The company did not execute the obligations referred to in paragraph (1) will be sanctioned according to the provisions of the legislation. (4) Further provisions regarding social and environmental responsibility stipulated by government regulations. This Act explicitly requires to execute a company committed to the principles of GCG should also concerned with the social and environmental interests in the company implementing the tasks and companies in the field natural resources.

Investment in CSR programs, such as contributing to national education, providing vocational training, supporting the development of infrastructure or managing waste water or the environment will not provide a direct and tangible impact for the company. In reverse, all these activities will help mitigate business risk, increase the value a brand, build support, improve efficiency, improve employees' morale and accelerate the micro economic growth to ensurae the establishment of a conducive environment for companies to operate and develop

(Urip, 2014). In the end, the overall the positive impact of CSR strategy will be able to improve financial performance company.

The importance of CSR both for companies and stakeholders driven many study that tries express the relationship between CSR with corporate performance. Many studies have documented positive relation between CSR and financial performance (e.g., Bragdon and Marlin, 1972; McGuire et al., 1988; Herremans et al., 1993; Pava and Krausz, 1996; Waddock and Graves, 1997; Dowell et al., 2000; King and Lenox, 2001; Tsoutsoura, 2004; Al-Tuwaijiri et al., 2004), other studies have showed negative relation (e.g., Vance, 1975; Brammer et al., 2005) or no relation (e.g., Alexander and Buchholz, 1978; Aupperle et al., 1985; Nelling and Webb, 2006). The study uses various proxy for measuring CSR and financial performance. The results obtained show also diverse results. Jang, Lee and Choi (2013) show that the CSR disclosure has positive influence on the corporate's financial performance as measured by accounting profitability (Return On Assets) and firm value (Tobin's Q). Margarita Tsfrousa and Berkkeley (2004) explain that CSR has also positive influence on ROA and ROS, but has no positive influence on ROE. Meanwhile, study by Fiori et al. (2007) reveals that there is no positive influence of CSR to the stock price.

In a study conducted by Candrayanti and Saputra (2012), which examines the inflence of CSR on company's financial performance concluded that CSR has positive influence on ROA and ROE, but has no positive influence on net profit margin (NPM). Study by Yaparto, Frisko and Eriandani (2013) that examines the effect of corporate social responsibility on the financial performance

concluded that CSR has no positive influence on ROA, ROE and earnings per share (EPS). Study by Husnan (2013) about the influence of corporate social responsibility (CSR Disclosure) to the financial performance concludes that CSR has positive influence on return on assets (ROA) and return on sales (ROS) but has no positive influence on return on equity (ROE) and current ratio.

In this study, the level of profitability used as the basis for measuring the corporate financial performance. This is done considering attractiveness of the business is an important indicator of business competition. Attractiveness indicators of the business can be measured from profitability, return on assets (ROA), return on equity (ROE) and price to book value (PBV). Therefore, the financial performance indicators used in this study is the ROA, ROE and PBV.

This research will also use SRI KEHATI Index. KEHATI has made a close relationship with business sector and in cooperation with the Indonesia Stock Exchange (BEI) has launched SRI KEHATI Index, following the standard and regulation of sustainable and responsible investment (SRI). SRI KEHATI has picked 25 selected companies considered eligible to meet SRI KEHATI Index criteria so that they can be used as guidance for investors. The presence of those companies will be evaluated twice a year, in April and October, and the result will be publicized by BEI.

This research use SRI KEHATI Index because the objective of the index establishment is to materialize biodiversity conservation programs by raising awareness and consciousness toward biodiversity, among the public, business

sector and capital market as well as provide an open information to the public in identifying the selected companies rated by the index. The selected companies are considered to have various kinds of consideration in running their business in relation to environmental concern, business management, community involvement, human resources, human rights, their business behavior and way of operation with internationally accepted business ethics.

Based on the background of the problem, previous studies and also to the differences in the results of previous study, it is very interesting if the topic is reviewed. The title selected by researcher is **"THE INFLUENCE OF CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE TO CORPORATE FINANCIAL PERFORMANCE: Empirical Study of the Companies that always Listed on SRI KEHATI Index during the Period 2010-2014."** This study use sample of companies that are published in SRI KEHATI Index during 2010-2014 and the data used comes from the annual reports that have been published with the time span 2010-2014.

## **1.2 Research Problem**

Does CSR affect the financial performance proxied with ROA, ROE and PBV partially on companies that always listed in SRI KEHATI Index during the period 2010-2014?

### **1.3 Research Objectives**

The objective of this research was to determine the effect of corporate social responsibility disclosure that measured by corporate social responsibility disclosure index (CSRDI) and corporate financial performance (CFP) measured by ROA, ROE and PBV with SIZE and LEV as control variables on companies that always listed in SRI KEHATI Index during the period 2010-2014.

### **1.4 Benefits of Research**

The researcher hopes that this research will give positive advantages and contribution to academic and managerial level:

1. Academic

The academic contribution of this research is to give better understanding about the correlation of CSR and CFP in Indonesian firms.

2. Managerial

This research help companies who held CSR to improve the current CSR programs in order to give contribution to society, environment as well as the value of the firm. The practice of CSR will contribute to the marketing strategy and the firm value which help company to gain competitive advantage.

### 3. Investors

This research's finding can be used as a guidance for investors. It happens because the result of this research will inline with 25 companies selected by KEHATI considered eligible to meet SRI KEHATI Index criteria. The selected companies must be able to manage its sustainable development.

### 4. Society

This research will provide information on the application of CSR by companies, in which the CSR strategy of the company is not merely as marketing strategy, but has become the company's strategy in creating conditions of mutual benefit between the company, the environment and surrounding communities.

## 1.5 Thesis Structure

### CHAPTER I : INTRODUCTION

This chapter is an introduction in preparation of the research. It consists of background of the research, problem statement of the research, objectives of the research, contribution of the research and thesis writing systematic.

## **CHAPTER II : THEORETICAL BACKGROUND AND PREVIOUS RESEARCH**

This chapter explains the theories used as a basis for solving the problems encountered, previous research and development of hypotheses. The theories cover the definition of CSR, basic concept of CSR, the developments of CSR, the indicators of CSR, the company's goals perform CSR, the explanation of financial performance, financial performance measurement, and so on.

## **CHAPTER III : RESEARCH METHODOLOGY**

This chapter explains data related to the research such as models, measurement, data collection methods, population of the research, the criteria of the sample and data analysis method. The definition of each variable also will be stated in this chapter.

## **CHAPTER IV : DATA ANALYSIS**

This chapter will discuss data analysis. It covers description of the object and the influence of CSR disclosure on the corporate financial performance.



## **CHAPTER V : CONCLUSION**

This chapter contains the final conclusion to answer research questions. Disclosing the limitations of the research as well as suggestions given for further research will be included also.

