

# CHAPTER I

## INTRODUCTION

### 1.1 Background

The idea of Corporate Social Responsibility (CSR) has acquired attention from stakeholders, investors, researchers and professionals across the globe. Sustainability brings about the minimization of negative impact and maximization of positive impact in terms of environmental, social, and governance related with economic repercussion. Sustainability issues become a challenge for every business since it requires them to not harming the environment and to give social well-being while maintaining the financial performance. Traditional business that allows whatever solution to create profit must shift into more socially responsible corporation, becomes a problem solver for social and environmental issues. Therefore, it could be said if a company must be responsible inside and outside of the company (Griffiths, 2019).

In Indonesia, the government becomes more aware with sustainability practice. At 1993, government established an organization called Yayasan Keanekaragaman Hayati Indonesia (KEHATI). KEHATI creates green investment as well as Kehati Mutual Fund (RDKL), ETF SRI-KEHATI, and Sustainable and Responsible Investment Index (SRI)KEHATI. SRI KEHATI Index launched June 8, 2009, referred to United Nations' Principles for Responsible Investment (PRI) and in corporation with Indonesia Stock

Exchange. The fundamental aspects of SRI KEHATI Index are corporate management, environment, community involvement, business manners, human resources, and human rights. There are 25 companies listed on SRI KEHATI Index. Other than that, at December 2020, Indonesia Stock Exchange launched new index, IDX ESG Leaders. The index consists of 30 stocks that meet with environmental, social, and governance criteria.

CSR practices in Indonesia is regulated by Government Regulation No 40 of 2007 about Limited Liability Company and its responsibility of environmental and social impact. Furthermore, Government Regulation No 47 of 2012 concerns about environmental and social responsibility of Limited Liability Company, in accordance with CSR issue in Indonesia. GR 47/2012 explains that Limited Liability Company should be adapted CSR inside and outside the company. Moreover, the company must make a work plan consist of CSR budget, and it should be reported and published on the annual report.

The importance of conducting CSR has brought many researchers to develop a research related with the relationship between CSR and financial performance. Some research found that CSR influence financial performance of company Suteja, Jaja; Gunardi, Ardi; Mirawati, Annisa (2016), Afiff & Anantadjaya (2013), and Oeyono, Samy, & Bampton (2011). Research by Kurniawan (2016) of the relationship between CSR disclosure and financial performance of company listed on SRI KEHATI INDEX during 2010-2014 found that there is a positive relationship between CSR and Return on Asset

(ROA) and Return on Equity (ROE) with company size as control variable. Menre (2017) also found that there is a strong relationship between CSR and financial performance measured by ROA and ROE on the Islamic Financial Institution in Indonesia. Study by Nyeadi, Ibrahim, & Sare (2018) that examines the relationship between CSR and financial performance of listed firms in South Africa also found that CSR positively impact company financial performance, and the positive impact is greater on the bigger company. However, the result of those research is not in line with the research of Aras, Aybars, & Furtuna (2010) and Fabac & Peric (2016) that found no relationship between CSR and financial performance of corporation in developing countries.

Based on the background of the problem and the previous study related with this topic, thus, the researcher is interested in conducting a research about the relationship between CSR and profitability measured by ROE and ROA. The researcher wants to employ the companies in the consumer goods industry because consumer goods industry is the leading subsector that give big contribution to the national GDP over many years. The researcher wants to observe the performance of the companies in the consumer goods industry during 2011 to 2019 because the economic growth of Indonesia started to accelerate after the global financial crisis 2008. Because of the above explanation, the researcher would conduct a research with the title **“THE INFLUENCE OF CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE TOWARDS ROE AND ROA OF CONSUMER GOODS**

## **COMPANIES THAT ARE LISTED ON THE INDONESIA STOCK EXCHANGE FROM 2011 TO 2019.”**

### **1.2 Problem Statement**

Company that discloses CSR on the annual report tends to have higher ROA in the following year, since CSR disclosure could build a trust from the external parties (Husnan & Pamudji, 2013). Furthermore, CSR disclosure tend to bring ROE to increase, it shows that ethical behavior of companies in the form of CSR could bring a long term benefit for the company, it could be implemented as an integral part with business strategies. However, the research by Taskin (2015) found that company with higher ROA and ROE has a lower CSR score, it means that company that is more profitable implements less CSR activities.

In this situation, there are inconsistent results of the influence of CSR disclosure towards company profitability explained by ROE and ROA, therefore, it is essential for the researcher to conduct a research related with this topic, employing consumer goods company that is listed on the Indonesia Stock Exchange during 2011 to 2019.

### **1.3 Research Question**

Based on the background of the research, the research question of this study are:

1. Does CSR disclosure influence ROE of consumer goods companies that are listed on the Indonesia Stock Exchange from 2011 to 2019?

2. Does CSR disclosure influence ROA of consumer goods companies that are listed on the Indonesia Stock Exchange from 2011 to 2019?

#### **1.4 Objective of the Research**

The objectives of the research are explained as follow:

1. To observe the influence of CSR disclosure towards Return on Equity (ROE) of consumer goods companies that are listed on the Indonesia Stock Exchange during 2011 to 2019.
2. To observe the influence of CSR disclosure towards Return on Asset (ROA) of consumer goods companies that are listed on the Indonesia Stock Exchange during 2011 to 2019.

#### **1.5 The Scope of the Research**

Scope of the research is needed to be identify to make the problem become clearer, the scope of this research covers:

1. This research employ all company data from consumer goods subsector that are listed on the Indonesia Stock Exchange from 2011 to 2019.
2. This research employ all company data from consumer goods subsector that publish annual report from 2011 to 2019 either in the IDX website or in the company website.

## 1.6 Benefit of the Research

1. For researcher, this research is expected to give contribution as a literature to give an understanding about the influence of CSR towards ROE and ROA of a company.
2. For academic, this research is expected to give and improve knowledge of the reader, also, this research is expected to be the reference in the future research.

## 1.7 Research Systematic

To give an overview of the research, the researcher divides the thesis into five parts as follow:

### Chapter I : Introduction

This chapter consist of background, problem statement, research question, objective of the research, the scope of the research, benefit of the research and research systematic.

### Chapter II : Critical Literature Review

This chapter consist of critical literature review as theoretical review of the relationship between CSR and financial performance from the previous study, theoretical framework and hypothesis of the research.

### Chapter III : Research Methodology

This chapter consist of research location, data collection method, research variable, measuring instrument, and analysis tool.

Chapter IV : Data Analysis

This chapter consist of descriptive statistics, regression analysis and discussion of the statistical result.

Chapter V : Conclusion

This chapter consist of the conclusion of the research, limitation of the research and the suggestion for future research.

