CHAPTER I

INTRODUCTION

1.1 Background

Corporate Social Responsibility (CSR) has gained significant attention in recent years as businesses recognize the importance of addressing social and environmental concerns alongside their economic objectives. A firm can expect to experience sustainable growth through the trust placed in it by society. Accordingly, if a firm performs trust-based entrepreneurial activities, it can maintain good relationships with various stakeholders, and ultimately expect improvement in economic performance (Aupperle ; Carroll ; Hatfield, 1985). CSR refers to a company's voluntary initiatives and activities aiming to contribute positively to society and minimize its negative impacts. While CSR is primarily associated with ethical and societal considerations, there is growing evidence suggesting that it can also have a significant influence on a company's financial performance.

A company will die if it does not pay attention to all the elements that surround it, such as employees, consumers, the environment, and natural resources, as a system that supports each other. Damage and disruption originating from these external sources can disrupt or even stop business operations. Companies will be better in the eyes of society if they can show their concern for the environment. The shift in focus in the business world is caused by the above phenomenon. To maintain a healthy company relationship with the environment, companies must have social responsibility. Company reports must also contain this information, based on the objectives of the financial statements.

The implementation of corporate social responsibility is believed to improve company performance, where investors tend to invest capital in companies that carry out CSR activities. Therefore, companies that have social awareness can use some informations from CSR activities as one of the company's competitive advantages (Yuliana et al., 2008). Investor are interested in social information reported in annual reports, so that company management today is not only limited to managing the funds provided, but also covers the impact that the company has on the natural and social environment.

Several previous studies have tried to reveal that CSR activities in corporate social disclosure have a positive effect on company performance. This research was conducted by which showed that CSR disclosures made by companies listed on the London Stock Exchange were positively correlated with overall profitability. (Chapple & Moon, 2005) shows a positive relationship between corporate social responsibility and company performance as measured using ROE and CAR. Apart from that, Indonesian research shows a positive relationship, research shows that environmental performance has a positive effect on environmental disclosure and environmental performance has a positive effect on economic performance. Various pressures coming from society and also the government to urge continuity between business orientation and concern for social and environmental conditions continue to occur today. Of course, the pressure that arises is related to the diversity of interests behind it. However, there is one fundamental similarity between these interests, namely the company's responsibility for all its business activities towards society and the environment. In general, CSR is the comprehensive contribution of the business world to sustainable development, taking into account the economic, social and environmental impacts of its activities. Various studies regarding the influence caused by the implementation of Corporate Social Responsibility (CSR) activities have been widely studied both in Indonesia and in other countries in this part of the world. A number of writers, including students, activists and lecturers, seem to be competing to write articles and journals about corporate social responsibility, which is currently a relatively new issue. The previous research had almost the same title as this research but with a different research object.

However, there is also research that proves empirically that CSR disclosure has a negative effect on market performance, which is based on research by (Chapple & Moon, 2005) which states that "ethical investors" in the capital market tend to be uninterested in CSR activities. (Sukari, 2017) found that there was a negative relationship between social disclosure and financial leverage. This means that the higher the debt/capital ratio, the lower the social disclosure. The motivation for companies to carry out CSR is to communicate management performance in achieving long-term company goals to stakeholders, such as maximizing profits, increasing competitive advantage, and creating a good image.

CSR activities influence several company performances, one of which is financial performance. The company's financial performance is an important factor for assessing the overall performance of the company itself. For example, if the company's financial performance is good, so the company has funds to create new projects to generate more profits. And of course, creating new projects requires social, environmental and economic support. There are many indicators that can be used to analyze a company's financial performance, starting from assessing assets, debt, liquidity, cash flow per transaction, profitability, financial structure and investment or shareholder ratio. (Nurhudha & Suwarti, 2013), states that a company's financial performance is condition of a company which is analyzed using financial analysis tools, so that it can be seen whether the financial condition and work performance of a company are good or bad at a certain time.

The primary objective of this research is to examine the influence of CSR activities on the financial performance of companies. Specifically, the study aims to determine the influence of CSR activity to Financial Performance

1.2 Research Objective

To achieve the research objective, the study will address the following research questions: Is CSR influence the Financial Performance of the Company?

1.3 Significance of the Study

This research holds several implications for various stakeholders. For companies, understanding the link between CSR activities and financial performance can help in strategic decision-making, resource allocation, and reputation management. It can guide firms in identifying which CSR activities are more likely to yield positive financial outcomes. Investors and financial analysts can benefit from the study by gaining insights into the financial implications of CSR activities when evaluating investment opportunities. Policymakers and regulators can utilize the findings to shape regulations and incentivize responsible business practices.