

## CHAPTER I

### INTRODUCTION

#### 1.1. Research Background

Along with the globalization and increasing in social awareness, Corporate Social Responsibility (CSR) is getting people's attention. CSR is a concept about company's responsibility to its stakeholder which includes consumer, employees, shareholders, communities, and environment. 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), and actively participated in maintaining environment preservation (planet). The balance of those 3P's activities can be achieved through sustainability development which makes company consider not only the economic benefit of a company's action but also the social and environment; in a short as well as a long term. Even if CSR was introduced by another country, the concept of CSR itself is being familiar nowadays for Indonesian. The implementation of CSR in Indonesia reveals positive indications, makes it potential to be conducted continuously by entities. Some positive indication revealed such as the implementation of *Program Penilaian Peringkat Kinerja Perusahaan* (PROPER), CSR awards, State Owned Enterprise forum on community development, also establishment of division or department that handle CSR in many corporations.

Indonesian's PROPER also can be called Public Disclosure Program for Environmental Compliance. It is a way developed by Indonesian Ministry of Environment to implement Act No. 23 of 1997 about Environment Management. Four of its main activities are: 1) control over corporate structuring; 2) open-implementation of environment management or public right to know; 3) involvement of society in environment management; and 4) mandatory implementation of disclosing environment management-related information. Even if it wasn't a mandatory requirement, it indirectly forces the company to make corporate social responsibility related information and publish it since one of the activities is mandating the disclosure. Government is now initiating PROPER as a tool to measure CSR implementation.

There are so many definitions regarding Corporate Social Responsibility. The World Business Council for Sustainable Development (WBCSD) defines CSR as a continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large. Another definition proposed by Kotler and Lee (2005:3) said that CSR is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources. That definition has a similarity with what already mentioned on Act of Limited Liability Companies chapter 1. It defines CSR as a commitment of a company to take part in sustainability economic development in order to improve life and environment quality that eventually will give the benefit not only for the company itself but to anything around it.

The validity of Act No. 40 of 2007 of Republic of Indonesia about *Perseroan Terbatas* (further will be referred as Act of Limited Liability Companies) as the replacement of Act No.1 of 1995 about *Perseroan Terbatas* became a sign of a need of CSR in society. The Act No.1 of 1995 considered no longer meets the law and society development due to the economic condition and science progress, technology and information grew rapidly particularly on globalization era. While the disclosure of corporate social responsibility activity is not listed as items that should be disclosed in annual report in Act No. 1 of 1995 chapter 56, Act No. 40 of 2007 chapter 66 does the opposite way. The Act No. 40 of 2007 also followed by Government Regulation of Republic of Indonesia No.47 of 2012 about Social and Environmental Responsibility of Limited Liability Companies which regulates further about the implementation as well as the reporting and disclosure. The chapter 6 of the Government Regulation requires the corporate social responsibility and environment implementation to be presented in annual report and accounted to General Shareholders Meeting.

Act No. 40 of 2007 article IV chapter 66 requires companies to issue annual report that include a report of corporate social responsibility activities. Companies are also required to implement the corporate social responsibility that is budgeted and accounted as an expense of the companies itself. The form and contents of annual report also already set by Indonesia Capital Market Supervisory Agency (BAPEPAMLK<sup>1</sup>) through *Keputusan Ketua Badan Pengawas Pasar Modal dan Lembaga Keuangan Nomor: KEP-431/BL/2012*

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<sup>1</sup> BAPEPAMLK is *Badan Pengawas Pasar Modal dan Lembaga Keuangan*

about The Submission of Annual Report by Listed Companies. Point 2.a discussed about general provision about what to be included in annual report, one of the items is about the disclosure of corporate social responsibility. The details of the CSR disclosure then explained on point 2.h which should covers the policy, type of program and the cost of activity related to environment, employment practices, social and community development, and product responsibility.

Companies can disclose its CSR activities in a form of stand-alone CSR report as well as annual report. Dhaliwal et al. (2012) examined the relationship between disclosure of nonfinancial information through stand-alone CSR reports as a proxy and analyst forecast accuracy using firm-level data from 31 countries. Indonesian companies mostly use sustainability report in annual report to disclose CSR activities. There are only few Indonesian companies issued a stand-alone CSR report. The main difference between a stand-alone CSR report and annual report is about the amount of information disclosed. The stand-alone CSR report presents a slight more information than those which presented in annual report.

Investors who are willing to invest their money need a forecast; whether it will be proven right or wrong is another case as long as it gives them a little bit of assurance. Consensus earnings estimates are getting investor attention since it plays an important role in measuring the appropriate valuation for a stock. There are some independent entities compile the estimates or forecasts and compute the average or consensus. The independency of these companies gives more assurance to the investors. The reason why this estimates are needed by investor is because most investors do not have the resources to track hundreds of publicly-listed

companies in detail. In order to make earnings forecasts, analysts will consider factors such as growth rates, currencies and other factors that influence corporate growth.

The issuance of some acts has a mandatory role to make the company to disclose its CSR activities. The need of stakeholders to know company's CSR activities also lead to the increasing amount of CSR disclosure. In contrast to the increasing of CSR reporting, there is still a little academic evidence regarding the value of the reporting to stakeholders in general and shareholders in particular; moreover in the making of earnings forecast. This research is aimed to examine whether the disclosure of CSR-related information helps to improve the accuracy of earnings forecast of financial analysts or not since financial analysts on the sell-side represent investors or significantly influence investors' judgment and beliefs (Nichols, 1989).

## **1.2. Research Problem**

Based on the background aforementioned, the objective of this research is to know the value of disclosing CSR-related information to the company itself. The value refers to the financial indicator which is earning forecast made by independent parties. Hence, the research question for this research is:

- Does the disclosure of corporate social responsibility affect earnings forecast accuracy?

### **1.3. Research Objectives**

The objective of this study is to examine and give empirical evidence of the relation of the relation of corporate social responsibility disclosure to earnings forecast accuracy in Indonesian listed companies from year 2009-2011.

### **1.4. Research Contribution**

The result of this research hopefully can benefit some various parties:

1. Practitioners

This research can give suggestion to companies whether to disclose its CSR activities or not. This research also hopefully will be able to help investor to decide whether to use or not to use CSR disclosure in order to make an investing decision.

2. Theoretical development

This research becomes the media to develop the knowledge about the importance of making a CSR disclosure. Since there are only few researches on this area, this result hopefully will give more information for other researchers who want to do similar research.

### **1.5. Data Analysis**

Data analysis in this research done gradually as follow:

1. Gather the list of companies listed in Indonesia Stock Exchange prior to 2008
2. The election of the companies based on the sample criteria established

3. Calculate the forecast error by using FERROR formula
4. Calculate the disclosure item of CSR report using the check list method with criteria referring to the BAPEPAM standard
5. Calculate the financial opaqueness as a control variable
6. Do the classical assumption tests
7. Do the hypothesis testing through the regression model
8. Interpret and analyze the result

## **1.6. 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, PREVIOUS RESEARCH, AND HYPOTHESIS DEVELOPMENT**

This chapter consists of relevant concepts, theories, and/or literatures about corporate social responsibility, disclosures, and Earnings Forecast. It also presents previous related research that can be used as a reference for data analysis of this study.

### 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 AND DISCUSSION

This chapter presents the result and discussion of the research through a data processing and analysis. Whether the result is met the criteria and proved the hypothesis also can be seen in this chapter.

### CHAPTER V : CONCLUSION

This final chapter contains conclusions and suggestions stated separately. The research limitations also will be disclosed in this chapter.