

CHAPTER I

INTRODUCTION

1.1 Background of The Research

Corporate social responsibility has grown widely all over the world in the last decade, including in Indonesia where a larger number of companies than at any time previous are engaged in a serious effort to define and integrate corporate social responsibility into all aspects of their businesses. An increasing number of shareholders, analysts, regulators, activists, labor unions, employees, community organizations, and news media are asking companies to be accountable for an ever-changing set of corporate social responsibility issues. There is increasing demand for transparency and growing expectations that corporations measure, report, and continuously improve their social, environmental, and economic performance. Pronouncement

In line with these developments, the government Act No. 40 of 2007 on corporated companies issued and liability obliges the field business in the field or fields related to natural resources to implement social and environmental responsibility. Act (Article 66 paragraph 2c) requires all the company to report the implementation of social responsibility and environment in the Annual Report. Reporting is a reflection of the need for corporate accountability for the implementation

of social responsibility and environment, so that stakeholders can assess the implementation of these activities.

From a theoretical perspective, socially responsible corporate is definitely accepted, because it engaged companies brand image and reputation. Stakeholders are often drawn to brands and companies with good reputations in corporate social responsibility related issues. A company regarded as socially responsible can also benefit from its reputation within the business community by having increased ability to attract capital and trading partners. Reputation is hard to quantify and measure; it is even harder to measure how much it increases a company's value.

Measuring corporate social responsibility, besides all the benefits that offer – it also involves costs. These costs might be short term in nature or continuous outflows, for example: purchase of new environmentally friendly equipment, the change of management structures, or the implementation of good quality controls. Since being socially responsible involves costs, it should generate benefits as well in order to be a sustainable business practice. A corporation could not continue a policy that constantly generates negative cash flows.

While the number of academic studies in this area has also increased substantially in recent years, no clear consensus has yet emerged concerning whether corporate social responsibility is a driver of value creation to company's financial performance. More over, what is the best

disclosure for corporate social responsibility's policies, still remain to be analyzed.

Previous researchers have investigated the relationship between the firm's degree of corporate social responsibility and its reputation. Developed corporate social performance may lead to improved stock returns either directly through cost reductions and productivity improvements, or indirectly through an improvement in the firm's overall standing that makes analysts more willing to recommend the stock and investors more willing to hold it irrespective of the firm's cost and revenues (Brammer and Pavelin, 2005).

Developed corporate social responsibility includes different dimension, thus still possible to be examined whether it affects company financial performance. Several researchers whom have conducted the study evidence different results. Mahoney et al (2003), Suratno et al (2006) found a positive relationship between social and environmental performance to economic performance. Fauzi et al (2007), found there is no significance relationship between company social performances and company financial performances. Sayekti and Wondabio (2007), found a negative relationship between corporate social responsibility disclosure to earning response coefficient.

Brammer et al (2005) categorized corporate social responsibility practices into three practices; employees, environment, and community. The study found a negative relationship between environment and

employment parameters to stock return, while the community parameters found to be positively affect stock return. Following Brammer et al, Fiori et al (2007) found a positive relationship between employees parameters to stock prices and while the environment and community are not significant to stock return. Titisari (2010) examined the relation of corporate social responsibility to cumulative abnormal return. The study found that environment and community parameters correlated positive not significant with cumulative abnormal return, whereas employees parameter correlated negatively with cumulative abnormal return.

The difference results of previous studies and theories are then be the main trigger of this study by examining more information about the extensive disclosure of corporate social responsibility (environmental performance) related to corporate financial performance. Refer to the previous researches, corporate social responsibility will be measured using three paramates (employees, social, and environment); while financial performance will be measured by stock return. This paper will focus in Indoesian firms with two years time period.

1.2 Research Question

Based on the description above background, it can be seen that the Corporate Social Responsibility is an interesting problem of great concern throughout the economic world. This is due to the social impact that becomes very important issue in business administration. Adverse

social impacts will increase the risk of the company and also worsen the relationship between the company and its stakeholders. It will have a negative impact on the company's reputation, so it will lower the value the company can even lead to the end of the company itself.

Shared commitment to sustainable development and creating an investment climate for investors and for the public welfare can be achieved through the implementation of corporate social responsibility. Based on the above description then the research is carried out to prove in detail the main problems in this study are:

- Does the disclosure of corporate social responsibility affect stock return?

1.3 Objective of the Research

Research conducted by the author will study and give empirical evidence of the relation of corporate social responsibility to stock return in Indonesian listed companies from year 2008-2009.

1.4 Research Contribution

The results of this study is expected to provide benefits to various parties, namely:

a. For companies

As consideration for the company to make policy in conducting their social responsibility, as well as disclosing their social responsibility in corporate financial reporting.

b. For investors

As consideration for investors in valuing companies. If this study can successfully prove the relationship, the Investors will be able consider the variables involved in decision-making.

c. For academic affairs

Contribute to theory in academic and support earlier research regarding corporate social responsibility and its broad level of disclosure in corporate financial performance.

1.5 Systematic of Writing

Research was prepared by systematic as the following:

CHAPTER I : INTRODUCTION

Chapter I is an introduction in the preparation of the research, which consist of background, formulation of the problem, research objectives, research contribution, and systematics of writing

CHAPTER II CORPORATE SOCIAL RESPONSIBILITY AND HYPOTHESIS DEVELOPMENT

Chapter II contains literature review outlines the theoretical basis and previous research to be used as a reference for data analysis in this study. This chapter also include a conceptual framework for hypothesis development that is being proposed in this research.

CHAPTER III : RESEARCH METHODOLOGY

Chapter III includes an operational definition of each variable and how measurement, data collection methods, population and sample used in this research, as well as the sampling techniques criteria used, and data mehod analysis.

CHAPTER IV: DATA ANALYSIS AND DISCUSSION

Chapter IV contains the results of processing and data analysis, whether the result is able to meet and prove the proposed hyphothesis or not. Further discussion on the result of statistical analysis will be included as well.

CHAPTER V: CONCLUSION

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