

CHAPTER I

INTRODUCTION

1.1 Background

The economic development of Indonesia currently can be seen by the development of its science and technology, good stability of bank interest rate and inflation, better infrastructure quality especially in the city area and many of Indonesian businesses that have optimized their creativity and innovations. The good and potential business prospect of Indonesia makes many of local and even foreign investors interested to invest their capital on Indonesian companies. As a developing country, the existence of corporation in Indonesia has an important role. This triggers many business doers from go public companies to improve their performance with the main purpose of profit maximization by reporting their stocks or listing them to stock exchange to attract potential investors towards annual reports that will represent the condition of the corporate financial performance and its capability.

Corporation is not only important for economic but also society. As it brings profit for the state and the surrounding community, it also brings some impacts for the environment as well as society. When it comes to impact, some problems often rising due to the existence of the corporation, for example; environmental pollution, unfair treatment to the workers, minorities and women, abuse of authority, problem of safety and product quality, and massive exploitation of energy and natural resources that cause damage to nature.

Corporate social responsibility is represented by the contributions undertaken by companies to society through its core business activities, its social investment and

philanthropy programs and its engagement in public policy. In recent years CSR has become a fundamental business practice and has gained a lot of attention from chief executives, chairmen, boards of directors and executive management teams of larger international companies. They understand that a strong CSR program is an essential element in achieving good business practices and effective leadership. Companies have determined that their impact on the economic, social and environmental landscape directly affects their relationships with stakeholders, in particular investors, employees, customers, business partners, governments and communities. CSR is still perceived as a cost likely to burden companies, instead of being perceived as an investment which could potentially lead to increased economic competitiveness and to a fairer and more inclusive economic growth.

One of the most potential business that can be run in Indonesia is property, real estate and building construction sector because since 2008 till 2014 because the investment in property, real estate and building construction business sector is very booming. It is supported by the factor of economic development of Indonesia that relatively high in economic development globally. This sector will not really influenced by the inflation and has low influence on its bank interest rate so it become attractive also because its value can never be withdrawn. According to property expert in Indonesia, Simanungkalit, property investment price in Indonesia recently is the lowest one that can give high return compared to the other Asian countries. In addition, since Indonesia is the 4th largest population in the world which approximately has 245.000.000 people live in, the needs on housing estate become high because one of the factor that the price of land that keeps increasing every year. There is still a shortage of housing of 14 million units,

the office occupancy rate above 90% and apartment sales more than 80% in 2014. These reflect real prospects for adding a very large supply into the real estate markets until the following years. Nowadays, green property that focuses on environmental housing become popular because of the negative impacts caused by the declining of environment quality. Many efforts are done to help to stop the global warming, extreme climate change and environment quality degradation. This makes the development of real estate has to be low energy and widely gives positive impact on society, environmental friendly and supports global go green action. (www.kompas.com)

The disclosure of social responsibility is very important for a business entity which is required to execute a cultural adaptation with its social environment. Indonesia makes an obligation for all corporations to do Corporate Social Responsibility based on corporation or limited liability company regulations number 74 about Corporate Social and Environmental Responsibility. This regulation is also found in article number 66, section 2c, that obligate all corporations report the implementation of Corporate Social and Environmental Responsibility in their annual reports (Nike, 2011:2). In 2007, Indonesia promulgated the Law No. 40 on Limited Liability Companies, whose Art. 74 obliges companies carrying out activities in the natural resources sector and in related sectors to participate in environmental social responsibility. In 2012 the provisions of Art. 74 were implemented with the Government Regulation No. 47/2012 on Social and Environmental Responsibility of Limited Liability Companies, which states that the companies' Boards of Directors are responsible for the preparation of a social responsibility plan and budget. Corporate Social Responsibility becomes mandatory for companies not only oriented to the owners of capital (investors and creditors), but also an

obligation to the other interested parties, such as customers, employees, communities, government, suppliers or even competitors. This means that CSR reporting is a reflection of the company's need for accountability for the implementation of social and environmental responsibility so that stakeholders or investors can assess the implementation of these activities.

CSR is a form of accountability reports which can be important information to investors and prospective investors in investing. Anwar et al. (2010) said that CSR disclosure in annual report reinforces the image of the company and become as one of the considerations that note investors and prospective investors choose a location for investment because it considers that the company is providing the image to the public that the company is no longer just the pursuit of profit only but also attention to the environment and society. In addition to the use of financial information, investors can also use non-financial information, one of which is CSR information itself. Besides being used as additional information in investing, CSR report is also used as a tool of communicating the company's performance to its stakeholders. Although the company have to pay the implementation of CSR, but a sustainable CSR can give companies competitive advantage by attracting many investors. The more investors are interested to invest to the firm; the company value is expected to increase as reflected in increase of its stock price.

Some previous studies indicated that investors assess CSR information in the annual reports for their investment decision. In this case, to measure the performance of companies or investors usually look financial performance as reflected in the ratio of the company. Stakeholders tend to increase price per share in order to increase their

investments. Companies expect to have higher price to earnings ratio to attain strong growth prospects by informing their Corporate Social Responsibility.

Supported by the issues of the importance of Corporate Social Responsibility disclosure and its effect on the corporate market value in companies in property, real estate and building construction as one of the sector that has a strong relation with it, researcher analyzes the effects of the Corporate Social Responsibility Disclosure (CSR) on corporate market value in companies in property, real estate and building construction sector by analyzing some items of CSR related to environmental, social and financial relevant with corporate market value shown in company's annual reports in property, real estate and building construction sector listed in Indonesia Stock Exchange at the period of 2012-2014.

Based on description above, researcher is interested in making the thesis with the title, **“The Effect of Corporate Social Responsibility (CSR) Disclosure on Corporate Market Value at Property, Real Estate and Building Construction Sector Listed in Indonesia Stock Exchange (Year 2012-2014)”**.

1.2 Problem Statements

Based on the background of the thesis above, author identified the following problems:

1. How is Corporate Social Responsibility Disclosure (CSR) in property, real estate and building construction sector in Indonesia for period 2012-2014?
2. How is Corporate Market Value in property, real estate and building construction sector in 2012-2014 in Indonesia?
3. How is the effect of CSR Disclosure towards corporate market value in property, real estate and building construction sector in Indonesia for period of 2012-2014?

1.3 Research Objectives

The objectives of this research is to investigate

1. Corporate Social Responsibility Disclosure (CSR) in property, real estate and building construction sector in Indonesia for period 2012-2014.
2. The condition of corporate Market Value in property, real estate and building construction sector in 2012-2014 in Indonesia.
3. The effect of Corporate Social Responsibility Disclosure (CSR) towards corporate market value in property, real estate and building construction sector in Indonesia for period of 2012-2014.

1.4 Research Benefits

1.4.1 Practical Benefits

1. Benefit for the author

This research is expected to increase and expand the knowledge of how CSR disclosure can affect the corporate market value of go public company especially property and real estate companies listed in Indonesia Stock Exchange (IDX).

2. Benefit for corporate management

This research is expected to give additional relevant information about the importance of CSR disclosure and its effect on corporate market value especially property and real estate companies. So, this can be used to help in decision making process of the management to increase the awareness about social environment.

3. Benefit for potential investor and investor

This research can be used for decision making in evaluating CSR implementation and its effect on corporate market value in property and real estate companies in Indonesia.

4. Benefit for further research

This research can be used as additional knowledge, references and consideration also comparison for further research that concern on the similar area of topic.

1.4.2 Academic Benefits

This research is expected to contribute for giving some ideas and insights to improve and develop the knowledge in the area of Corporate Social Responsibility analysis in annual report, especially the object that analyzed by the author about the effect of its disclosure on corporate market value.

1.5 Systematic Writing

There are five groupings of chapters in the thesis of this study:

Chapter I: Introduction

This is the introduction chapter that will give descriptions about the background, problem statements, research objectives and benefit, and also scope of the research.

Chapter II: Literature Review

This chapter describes the basic theory or theoretical framework and previous research review related to problem definition.

Chapter III: Research Methodology

Discusses the research methodology used in the research includes the types of research, types and source of data, data collection procedures, variables identification and measurement and any information needed.

Chapter IV: Research Analysis and Discussion

This chapter consists of a description of the data that contains the descriptive statistics, data collection methods, data testing, and data analysis methods

Chapter V: Conclusion

This chapter describes the overall conclusions of the analysis and discussion, limitations and suggestions that can be used for further research.

