

CHAPTER I

INTRODUCTION

1.1 Research Background

Business and academic researchers have shown increasing levels of interest in corporate social responsibility (CSR) during recent years. Environmental and social responsibility issues appear in a number of political and legal documents that gain greater importance at the national and international level. Survey of PriceWaterhouseCoopers (Pwc) of 750 Chief Executive Officers showed the increasing pressure to implement CSR was in the second rank for business challenges in 2000 (Suharto, 2008:1).

The companies are no longer focused on financial performance only but also on environmental performance and social performance in conducting their business. The Company began to realize that only concern on financial condition is not only sufficient to ensure companies sustainable growth. Corporate sustainability is defined as "a business approach to create long-term shareholder value by embracing opportunities and managing risks derived from economic, environmental and social development" (Mardikanto, 2014: 62).

There are some real cases in the field both at national and international scale about the negative impact of company activities that significantly affect the problem of social environment and physical environment, which can cause long-term social cost and borne by society (Hadi, 2011), such as:

Table 1.1
Sample Cases of Environmental and Social Issues

No.	Cases	Environmental and Social Issues
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1.	PT. Freeport Indonesia	<ol style="list-style-type: none"> 1. Employees demanded labor's welfare and wages improvement. 2. Communities around the company demanded to be given job opportunities. 3. Get protest from local communities and public and international concern regarding the problems about the waste of industry and
2.	PT. Lapindo	Lapindo mudflow in Sidoarjo caused by human error. Made people became homeless and lost their income sources.
3.	Nike	Had ignored business ethics, such as employed under-aged workers in developing countries (employment of underage children)
4.	In the World	Global Warming can also be triggered by the release of product of carbon from industrialization. It can cause a degradation of environment caused by waste pollution in rivers and air pollution from factory emissions of gases that are uncontrollable.

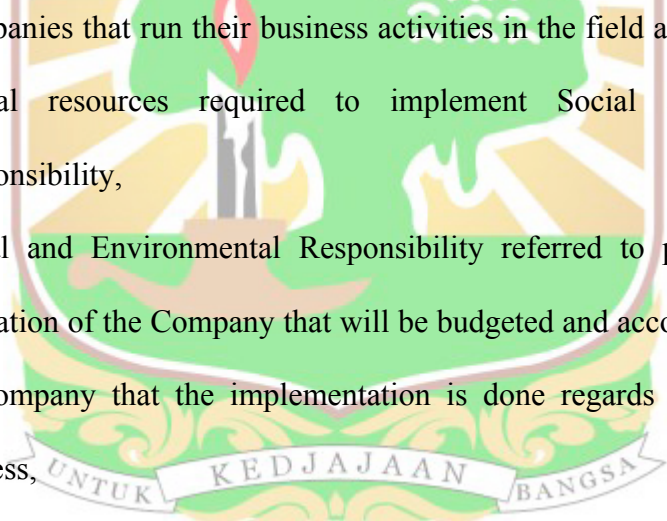
Source: Bachtiar and Siregar (2010) and Hadi (2011)

The occurrence of the various cases as described above is a reflection of the lack of corporate responsibility essence towards the environment in the vicinity. So in the midst of society gave birth to a critique of the corporate existence of the company's activities should be expected to have the feedback, both socially and economically (Hadi, 2011:20).

Many companies still consider the performance of corporate social responsibility (CSR) as a not huge responsibility, but interpreted as an obligation to do. Company only focus on how the funds can be distributed without knowing the effectiveness and the principle benefits to society. The only important aspect is that the fund has been distributed in the form of a program whether the program is going well or not has is not a serious concern of the corporates (Rudito & Famiola, 2013: 16-17). Although some companies consider such things, but most companies do not make corporate social responsibility becomes a liability to be incurred by the company but as investment for the company to be able to add company's profitability and would be an increment in the company's sustainability for the future indirectly.

This is increasingly lead to the development of corporate social responsibility (CSR) in both international and national scale which emphasizes every management efforts undertaken by the business entity to achieve sustainable development based on the balance of the pillars of economic, social and environmental, to minimize and compensate for negative impacts and maximize the positive impact on each pillar (Elkington (1987) cited in Hadi (2011:55).

Concern with corporate social responsibility (CSR) in Indonesia has been increasing and continuously growing since the government (Indonesia's House of Representatives) issued Limited Liability Company Law No. 40 year 2007. In Act No. 40 of 2007 Article 74 states that:

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1. Companies that run their business activities in the field and / or related to the natural resources required to implement Social and Environmental Responsibility,
 2. Social and Environmental Responsibility referred to paragraph (1) is an obligation of the Company that will be budgeted and accounted as an expense of Company that the implementation is done regards to the decency and fairness,
 3. Company which does not carry out the obligations referred to in paragraph (1) sanction in accordance with the provisions of the legislation,
 4. Further provisions regarding Social Responsibility and Environmental regulated by Government Regulation

The researcher chooses mining company because referred to this law and the environment issue that happened in some mining companies. Mining company is a company whose main operations have a significant environment social impact to the natural resources that the activities are very likely harm the environment if the objective is only concerned on

profit. The example of environmental impact is from PT. Timah Tbk. There is the environmental damage in tin in conventional mining location at the beach in Bangka Belitung islands which caused water contamination on sea surface and public waters that the land becomes barren, coastal erosion and sea damage occurred. These things happened because of mining activity by unlicensed artisanal miners whom likely to pursuing deposit for PT. Timah Tbk (Ambadar cited in Santoso & Rita, 2012). Then, that problem caused a bad reputation for PT. Timah Tbk because the company got critics and bad perspectives from society. This is the proof that society is more aware on the environmental and social issues.

CSR disclosure has been a research subject of many academicians since over two decades. Two major issues of those studies are factors that determine the level of CSR reporting and whether CSR reporting affects a firm's future performance or not (Haniffa and Cooke, 2005) cited in (Bachtiar and Siregar, 2010:242).

Corporate profitability is one of corporation's characteristic influencing CSR disclosures (Lucynda and Siagian, 2012). Profitability is one factor enabling management to disclosure CSR activity in high level of flexibility. An assessment of financial performance, among others, can be seen from the company's ability to generate profit. Ang (1997) in Wahidahwati (2002) revealed that profitability ratio indicates the successful of company in generating profits. The higher the level of profitability, the greater CSR disclosed. High profit margins will encourage managers to provide more detailed information to convince investors. Thus, the profitability becomes an important consideration for investors in their investment decisions.

Leverage is an aspect to measure how much companies depend to the lender within finance the company's assets. Companies which have high degree of leverage are very rely on external borrowings to finance their assets. Meanwhile, a company which has lower leverage levels is financing their assets more with their own capital. Thus, leverage

level of the company describes the company's financial risk. Agency theory predicts that companies with higher leverage ratios will reveal a lot of information because the agency costs in companies with a capital structure like that is also higher (Jensen & Meckling, 1976). The additional information is needed to eliminate doubts of bondholders towards the fulfillment of their rights as creditors (Schipper, 1981 in Marwata, 2001 and Meek, et al, 1995 in Fitriany, 2001).

The liquidity ratio is a ratio that measures a company's ability to generate cash in the short term to meet its obligations. According to Kashmir (2008: 110), another function of liquidity is to measure the company's ability to fulfill their mature liability, also from the Outsider Company (the company's liquidity). High liquidity levels would indicate strong company's financial condition.

This study concerns with factors that determine the level of CSR reporting (CSR disclosure). Many empirical studies about factors that determine the level of CSR reporting had been done by previous researchers both nationally and internationally such as Al-Haj et al. (2011), Candrayanthi & Saputra (2013), Bachtiar and Siregar (2010), Darwis (2009), Gao and Joshi (2009), Janggu et al. (2007), Khasanah (2014), Putri dan Christiawan (2014), Rahman (2008), Reverte (2009), Siregar and Sitepu (2009), Viryananda (2014), and others.

Their studies have found that various factors which determine the extent of CSR disclosure are company size, liquidity, earning per share, profitability, leverage, board size (board of commissioner and board of director), Good Corporate Governance implementation, and others. In addition, their study also has found different result of their empirical study.

Based on the description above, the researcher is motivated to conduct this research to know the practice of corporate social responsibility reporting (CSR disclosure) of

companies in Indonesia as a manifestation of social responsibility that made by the company especially mining companies because as a sector that has the most extensive range of stakeholders including employees, communities, investors, creditors, government, customers, suppliers and also related to natural resources (planet) where the implementation and disclosure is also influenced by several factors owned by the company like profitability, liquidity and leverage. The level of profitability, liquidity, and leverage are used as the basis for measuring the financial performance of the company. This is used because business attractiveness is one of the important indicators of a business competition. The indicator of attractiveness of the business can be measured from profitability, liquidity and leverage. Therefore, researcher is interested to take the title of thesis: **“Influence of Profitability, Liquidity, and Leverage toward Corporate Social Responsibility (CSR) Disclosure in Mining Companies (Listed in Indonesia Stock Exchange 2012-2014).”**

1.2. Research Question

From the background and motivation that stated before, this study has the research question as follows:

1. How does Return on Assets (ROA) affect to Corporate Social Responsibility disclosure in mining companies listed on the Indonesia Stock Exchange period 2012-2014?
2. How does Net Profit Margin (NPM) affect to Corporate Social Responsibility disclosure in mining companies listed on the Indonesia Stock Exchange period 2012-2014?
3. How does Current Ratio (CR) affect to Corporate Social Responsibility disclosure in mining companies listed on the Indonesia Stock Exchange period 2012-2014?

4. How does Debt to Equity Ratio (DER) affect to Corporate Social Responsibility disclosure in mining companies listed on the Indonesia Stock Exchange period 2012-2014?
5. Do Return on Assets (ROA), Net Profit Margin (NPM), the Current Ratio (CR) and Debt to Equity Ratio (DER) have relationship on the Corporate Social Responsibility disclosure in mining companies listed on the Indonesia Stock Exchange period 2012-2014?

1.3. Research Objectives

The purpose of research according to the background and the formulation of a problem, the purpose of the author of doing this research are:

1. To know and analyze the effect of Return on Assets (ROA) on Corporate Social Responsibility disclosure in mining companies listed on the Indonesia Stock Exchange period 2012-2014.
2. To know and analyze the effect of Net Profit Margin (NPM) on Corporate Social Responsibility disclosure in mining companies listed on the Indonesia Stock Exchange period 2012-2014.
3. To know and analyze the effect of Current Ratio (CR) on Corporate Social Responsibility disclosure in mining companies listed on the Indonesia Stock Exchange period 2012-2014.
4. To know and analyze the effect of Debt to Equity Ratio (DER) on Corporate Social Responsibility disclosure in mining companies listed on the Indonesia Stock Exchange period 2012-2014.
5. To know and analyze the relationships between all variables used, the variable Return on Assets (ROA), Net Profit Margin (NPM), Current Ratio (CR), and Debt to Equity Ratio (DER) on Corporate Social

Responsibility disclosure in mining companies listed on the Indonesia Stock Exchange period 2012-2014.

1.4. Research Benefits

After knowing the background, problem identification, research scope and purpose of this study, the authors have several benefits including:

a. For companies

To raise awareness of all activities undertaken by the company, in particular from the results of this study can be used as a reference to the progress of company's efforts in the implementation of social responsibility called *Corporate Social Responsibility*.

b. For the development of science

To add the literature on research about the importance of social responsibility undertaken by the company.

c. For academics

It can provide information as input to add insight and guidance in order to conduct further research.

1.5. Writing Systematics

CHAPTER I INTRODUCTION

This chapter outlines the background issues that pushed for this study, formulation of the problem, objectives and benefits of the research, scope of the study, a summary of the research methodology, a review of previous research studies and systematic writing.

CHAPTER II LITERATURE REVIEW

This chapter provides the theoretical basis which contains theories which are used as a research platform, framework, and the formulation of hypotheses.

CHAPTER III RESEARCH METHODS

This chapter contains a description of the research variables, population and sample, the types and sources of data, techniques for data collection, and data analysis techniques used in this study. In this case the author uses quantitative research methods.

CHAPTER IV DISCUSSION

This chapter contains the general description of the object of research, data analysis and hypothesis testing that is the core of the writing and discussion of this thesis.

CHAPTER V CONCLUSIONS AND RECOMMENDATIONS

This chapter contains the conclusions of the research, limitations and suggestions.

