

# CHAPTER I

## INTRODUCTION

### 1.1 Research Background

This research is about the influence of corporate social responsibility (CSR) on firm's value years after the disclosure. At a time a company is more developed, the inevitable effect may occurs. The stockholder with profit oriented will directly influence the company to uncontrollably exploit its resources, be it is the natural or human resources. It will invite disaster that will damage company environment surrounding and causing social distinction. This will also leads to bad publication of the company image itself, hence it will affect the company performance. At this rate, the awareness to overcome of this issue begin to increase. The attempt to reduce this issue is what we called as corporate social responsibility (CSR).

CSR strategies encourage the company to make a positive impact. The firm's responsibility not only to shareholders, but also to the environment and stakeholders including consumers, employees, investors, communities, and others (Castelo and Lima, 2006). Corporate social responsibility is intended to encourage businesses more ethically in carrying out its activities in order not to negatively affect the society and its environment. The concept of CSR is known since the early 1970s, which is generally defined as a set of policies and practice-related to stakeholders, values, compliance with the provisions law, respect people and the environment, as well as the commitment of the business world to contribute to sustainable development.

In Indonesia, the practical of CSR itself was mostly voluntarily. The tragedy of PT. Lapindo in Indonesia on 2006, triggered the issuance of regulation that CSR is no longer

voluntarily and forcing the company to implement the CSR. This regulation stated in Undang Undang Perseroan Terbatas (UUPT) No. 40/2007 as:

Pasal 74:

(1) Perusahaan yang menjalankan kegiatan usahanya di bidang dan/atau berkaitan dengan sumber daya alam wajib melaksanakan tanggung jawab sosial dan lingkungan.

(2) Tanggung jawab sosial dan lingkungan sebagaimana dimaksud pada ayat (1) merupakan kewajiban Perseroan yang dianggarkan dan diperhitungkan sebagai biaya Perseroan yang pelaksanaannya dilakukan dengan memperhatikan kepatutan dan kewajaran.

(3) Perseroan yang tidak melaksanakan kewajiban sebagaimana dimaksud pada ayat (1) dikenai sanksi sesuai dengan ketentuan perundangundangan.

(4) Ketentuan lebih lanjut mengenai Tanggung Jawab Sosial dan Lingkungan diatur dengan Peraturan Pemerintah.

Translation:

(1) Companies that run their business activities in the field and / or related to the natural resources required to implement the social and environmental responsibility.

(2) Social and environmental responsibility as referred in paragraph (1) is an obligation of the Company's budgeted and accounted for as an expense of the company which are carried out with due regard to decency and fairness.

(3) The company that did not carry out the obligations referred in paragraph (1) be sanctioned in accordance with the provisions of law.

(4) Further provisions on the social responsibility and environmental regulated by government's regulation.



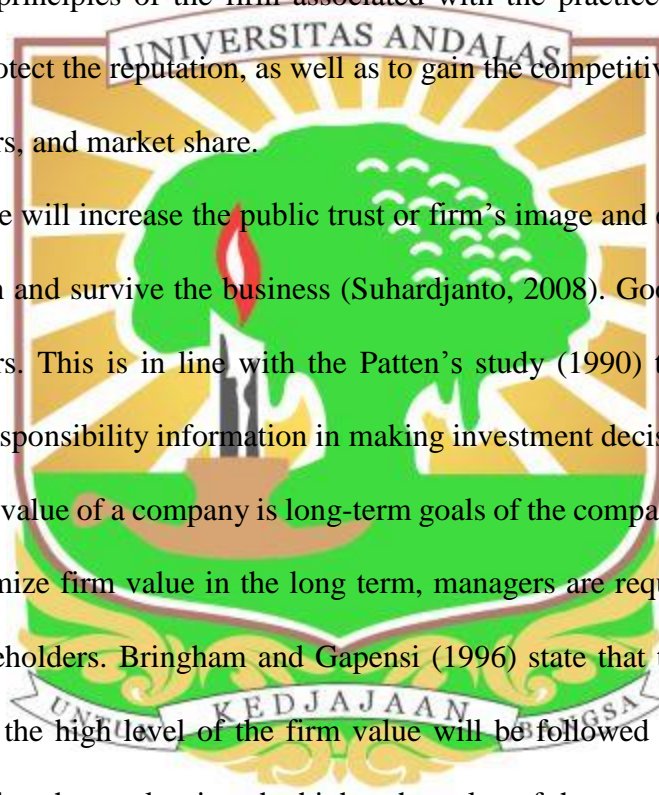
Pros and cons arise from this regulation. Some state that CSR should be voluntarily, not forced and this is their strategy to implement it voluntarily. Some agree that the company should be more concerned and aware to its surrounding (Rawi and Muchlish, 2010).

According to Darwin (2004) in Rakhimah and Agustia (2009) companies can gain many benefits from CSR disclosure practices, i.e: strengthen communication with stakeholders, align the vision, mission, and principles of the firm associated with the practice and the firm's internal business activities, protect the reputation, as well as to gain the competitive advantage in terms of capital, labor, suppliers, and market share.

CSR disclosure will increase the public trust or firm's image and enhance the opportunity of company to sustain and survive the business (Suhardjanto, 2008). Good corporate image will influence the investors. This is in line with the Patten's study (1990) that finds evidence that investors use social responsibility information in making investment decisions.

Increasing the value of a company is long-term goals of the company. Jensen (2001) stated that in order to maximize firm value in the long term, managers are required to make decisions that consider all stakeholders. Bringham and Gapensi (1996) state that the firm's value is very important because of the high level of the firm value will be followed by a high prosperity of shareholders. The higher the stock price, the higher the value of the company. The high level of firm value is what company wants, due to the high level value indicates the high level of shareholder's prosperity.

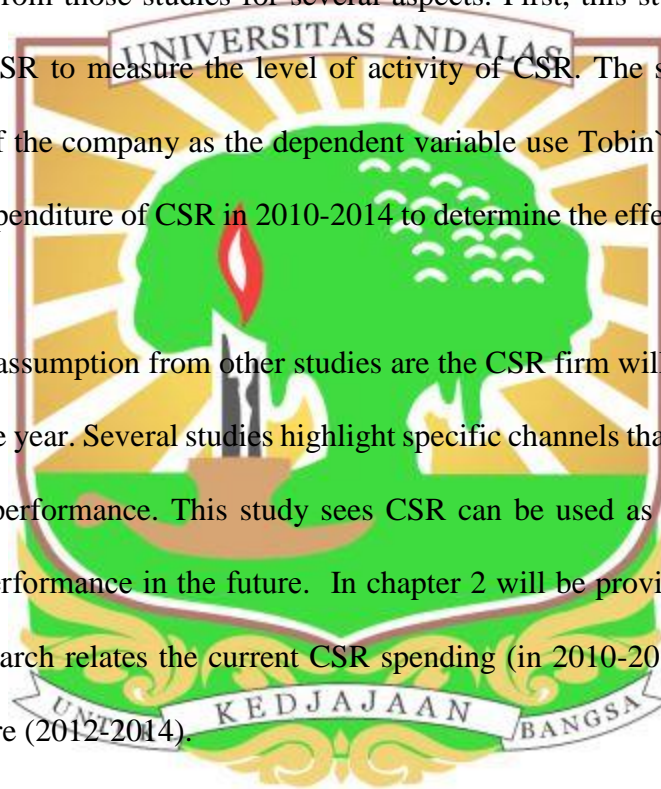
Implementation of corporate social responsibility is one of the factors that can attract the interest of shareholders to invest. Pfeifer et al. (2005) show that environmental conservation efforts by the company will bring several advantages, including the interests of shareholders and



stakeholders of corporate profits as a result of responsible environmental management. The explanation above shows that the CSR activities has a high influence on the sustainability of the company.

In Indonesia, the research of corporate social responsibility and its relationship to the firm's value, that is reflected by the stock price, has been conducted among others by Nurlela and Islahuddin (2008), Yuniasih and Wirakusuma (2009), Anita (2009) and Shinta (2010). This research is different from those studies for several aspects. First, this study uses the amount of company spend on CSR to measure the level of activity of CSR. The second difference is the measurement value of the company as the dependent variable use Tobin's Q. Third difference is this study used the expenditure of CSR in 2010-2014 to determine the effect of CSR on firm value in 2012-2014.

The common assumption from other studies are the CSR firm will only directly affect the firm value on the same year. Several studies highlight specific channels that link CSR expenditures and future financial performance. This study sees CSR can be used as an investment that will enhance the firm's performance in the future. In chapter 2 will be provided background on this hypotheses. This research relates the current CSR spending (in 2010-2014) and its effect to the firm value in the future (2012-2014).



## 1.2 Problem Definition

The purpose of this study is to provide empirical findings about the influence of corporate social responsibility (CSR) on firm value on manufacturing companies listed on Indonesia Stock Exchange. The common assumption is that the relationship is only direct the on the same year after the activities.

Based on the formulation of the problems outlined above, the purpose of this study are as follows:

1. Does the CSR activities influence the firm value?
2. Does the CSR activities influence the firm value years after it spent?

## 1.3 Research Objective and Benefits

The objective of this research is to investigate whether the CSR activities is influence the company or not. And investigate whether it is influence the firm value in the future, years after it spent.

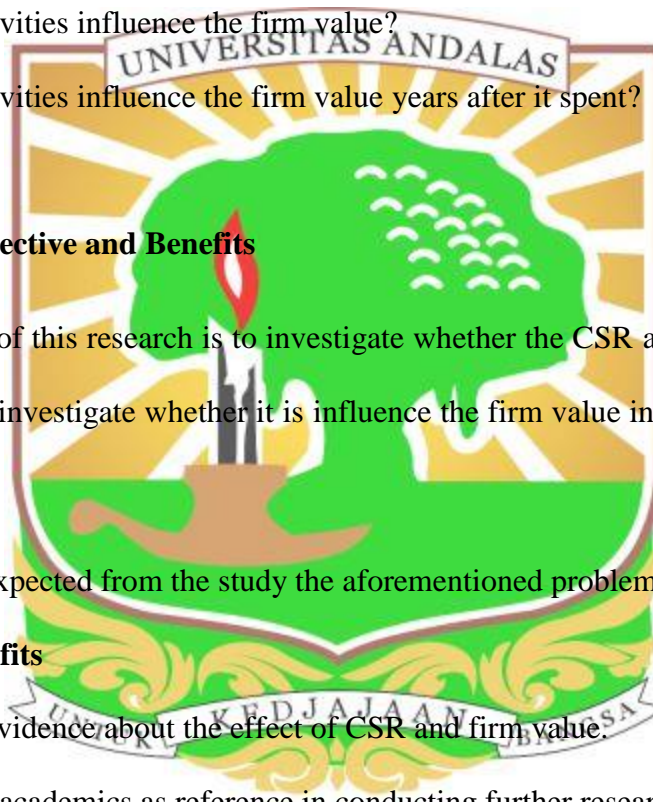
The benefits expected from the study the aforementioned problems are as follows:

### 1.3.1 Empirical Benefits

- a. Provide empirical evidence about the effect of CSR and firm value.
- b. Contributing to the academics as reference in conducting further research in the future regarding CSR influence on firm's value.

### 1.3.2 Practical Benefits

- a. For the firm, the results of this study are expected to convince them that CSR will impact the firm value.



b. For the investor, it is expected as a consideration before investing in the company to see is there any influence of CSR on firm value, and since how long did they do the activities.

#### 1.4 Writing Systematic

This research is organized as follows. Chapter one explains the research background, problem definition, research objective and benefit, and writing systematic. Chapter two summarizes the theoretical framework, literature review on CSR and firm value and hypothesis development. The research methods, which contain sample selection, data collection method, variable definition, research model, and data analysis method, are described in chapter three. Chapter four discusses the research analysis, and discussion. The research conclusions, limitations, and suggestions are presented in chapter five.

