

CHAPTER I

INTRODUCTION

1.1. Background

Great depression in 1929 caused business interest was increase rapidly, many business arises after the crisis. Now, it known as Industry Revolution. This Industry Revolution led the representatives of the New York Stock Exchange (NYSE) and the American Institutes of Accountants (AIA) to have a series meetings. The purpose of this meeting was to discuss problems to the interest of investors. And until right now, investors still be the main purpose of doing accounting, where the financial reports are prepared well in order to satisfy information needed by investors in decision making.

Investor oriented caused manager only focus on how to attract investors by increasing profits. But sometimes, in order to make more profit, they exploit natural resources and human resources uncontrollable. Exploitation of natural resources in large scale which ultimately resulted in the destruction of nature interfere with human life. Exploitation of labor occurs because companies only focus on high profit without regard to the welfare of employees. It can be seen from the low labor costs, lack of labor welfare facilities, and the lack of allowances for labor. They thinks that by exploit natural resources on a large scale and reducing labor costs will minimize expenditures and directly impact to increase profits.

Since the increasing of public worries concerning the natural environment, the respect of human rights, the ethical aspects of business and other social issues, corporations have increased their efforts to deal with their responsibilities to community. Furthermore, this responsibilities known as Corporate Social

Responsibility (CSR). Actually, CSR has been introduced by Howard Robert Bowen in 1955, but it didn't get respect and attention from public. Bowen underline the need of a company to give more attention to society around that company. And now with the passage of time, social responsibility become modern debate. Management objectives had been shifted from producing and distributing goods and services as efficiently as possible in order to maximizing profit become to promoting a variety of social purposes in addition of existing objectives (Shukla, 2013). A main rationale for this phenomenon is the demand of society because of negative externalities and social inequalities occurs. Therefore, the responsibility of company that originally measured only limited to economic indicators, now must be shifted in taking concern of social factors to stakeholders of company, both internal and external.

Many private companies are now developing Corporate Social Responsibility (CSR). It is clear that all industries have been placing emphasis on CSR, and that more businesses have realized that CSR not only enhances the image of corporations but may also create profits for them. When more businesses implement CSR, it becomes not only a popular trend but also an important part of the core competitiveness of businesses (Wang, 2014). When the company can compete with the competitors, it can be a competitive advantage for company itself. CSR program will be grouped as investment and could be a business strategic for a company (Fahmi, 2013).

Corporate Social Responsibility today is no longer to be Voluntary or commitments undertaken within the company to account for its activities, but rather mandatory or be a liability for some companies to do or apply. In Indonesia, it is regulated in Undang-Undang No 40 Year 2007 About Limited Company (Company

Law), which was passed on July 20, 2007. Article 74 Limited Liability Company Act states: (1) Company conducting its business activities in the field and / or associated with the resource nature shall undertake Social and Environmental Responsibility (TJSL). (2) TJSL is the obligation of the Company's budgeted and accounted for as the cost of the Company's implementation is done by paying attention decency and fairness. (3) the Company did not carry out obligations sanctioned in accordance with the provisions of the legislation. So, the company, especially the limited liability company which engaged in or related to natural resources should carry out its social responsibility to the community. CSR can involve a range of activities such as working in partnership with local communities, socially sensitive investment, developing relationships with employees, customers and their families, and involving in activities for environmental conservation and sustainability (Ismail, 2009). Some example of CSR programs are scholarship, employee healthcare, food assistance for poor people, etc.

Developing Corporate Social Responsibility was not cheap. Sometimes it costly. However, company should report it to maintain stakeholder interest to the company. The question is, by develop Corporate Social Responsibility will improve financial performance? Whether it is viewed from financial performance side or market value of company side

Studies in Corporate Social Responsibility (CSR) and financial performance have been subject to debates due to various results between these variables. In several cases, the effect of CSR and financial performance varies across industries and countries, which convey further scrutiny. For example, research done by Hermawan &

Mulyawan (2014) has result that not all profitability ratios are significantly correlated to CSR disclosure. Same result was got by Liouii & Sharma (2012) in their research Environmental Corporate Social Responsibility and Financial Performance. This study use firms' environmental corporate social responsibility ratings as independent variable and financial performance that measures by ROA and Tobins Q as dependent variable. Contrast with reserach done by Mahbuba & Farzana (2013) and reserach done by Mallin & Ow-Yong (2016) that both shows positive relationship between expression of Corporate Social Responsibility and financial performance of company.

Qiu, Shaukat,& Tharyan (2016) find that it is the social disclosures that matter to investors. They find that firms that make higher social disclosures have higher market values. In contrast, Indrawan (2011) find in his research that there is no relationship between CSR and market performance.

Almost all of the research limited by scope of research which are only focus on one subsector in one country, and sugest to compare it with another sector in another country. Because of difference results had by previous researchers and it still debate wether expression of Corporate Social Responsibility possitively affect financial performance or not, and wether expression of Corporate Social Responsibility possitively affect market performance or not, researcher choose to doing research about these topics to prove wheter CSR will afet the Fiancial and Market Performance of company

In this research, author is try to combine research method use by Hermawan & Mulyawan (2014), Kiran, Kakakhel, & Shaheen (2015) and Qiu, Shaukat,& Tharyan (2016). Both of research done by Hermawan & Mulyawan and Kiran, Kakakhel, &

Shaheen (2015), they use some measurements to measure profitability, which is in that research profitability ratio used to determine financial performance. In Hermawan & Mulyawan reserach entitled Profitability and Corporate Social Responsibility : An Analysis of Indonesia's Listed Company use three measurements of profitability ratios to measures profitability; ROE, ROA, and net profit margin. and Qiu, Shaukat,& Tharyan (2016) in their research entitled Environmental and Social Disclosures: Link With Corporate Financial Performance conduct the research which linked corporate social responsibility with both financial and market performance.

Author choose manufacturing company in Indonesia as subject of the reasearch. We know that manufacturing process start with choosing materials, producing process, and for the last is distributing goods to costumers. Each of these procesess will have direct impact to environment, such as impact on location and biodiversity where the materials was taken, energy adsorbs in production process, emissions, and waste, whether its hazardous or not as resulted by manufacturing process itself. Not only for environment, manufacturing company allso can't be separated from labor. Its absorb more labor to do the process of manufacturing than other sectors. Therefore, researcher tittled this study with "The effect of Corporate Social Responsibility Disclosure to Financial and Market Performance.

1.2.Problem Formulation

Based on the description that has been describe above in this study, the problems that will be formulated were as followed:

1. How is the impact of disclosing of corporate social responsibility to financial performance of manufacturing company listed in Indonesian Stock Exchange (2012-2015)?
2. How is the impact of disclosing Corporate Social Responsibility to market performance of manufacturing company listed in Indonesian Stock Exchange (2012-2015)?

1.3. Research Objectives

Based on the formulation of the problem above, the objectives of this research are as follows :

1. To know whether there is any significant impact the disclosing of Corporate Social Responsibility to financial performance of manufacturing company listed in the Indonesian Stock Exchange (2012-2015)
2. To know whether there is any significant impact the disclosing of Corporate Social Responsibility to market performance of manufacturing company listed in the Indonesian Stock Exchange (2012-2015)

1.4. Research Benefit

This research is expected to be beneficial to :

1. For the author, this research will give knowledge and understanding related the affect of expressing Corporate Social Responsibility (CSR) to financial performance in both in accounting and finance insight. Also build the competence of scientific thinking.

2. For the investor/ creditor, this research will give the consideration regarding in doing some investments or credits activity to the company.
3. For the accountant, this research will give other perspective related the affect of expressing Corporate Social Responsibility (CSR) to financial performance.
4. For accounting knowledge and subsequent researchers, as a researcher hopes this research will provide the information needed regarding the the affect of expressing Corporate Social Responsibility (CSR) to financial performance matters. Also as a reference for the subsequent researchers.
5. For the company, this reserach will assess company's data in mnaufacturing industry. The result will help manager in decision making.

1.5 Writing Systematic

Writing systematics used in this research is :

Chapter I : This chapter is an introduction part which is discussed the background, problem formulation, research objectives, research benefits and writing systematic.

Chapter II : This chapter is literature review which is discussed about the theory used in this research, such as stakeholder theory, signaling theory, corporate social responsibility, financial performance, profitability analysis, and market value analysis, previous research and theoretical framework.

Chapter III : This chapter is research methods which is discussed about research design, population and sample, type and source of data, data collection method, analysis method and classic assumption testing.

Chapter IV : This chapter is data analysis which is discussed about the impact of corporate social responsibility disclosure to financial and market performance of manufacturing company listed in Indonesian Stock Exchange (IDX) from 2012-2015 using multiple regression analysis

Chapter V : This chapter is closing which is provided the conclusion, limitation of research and suggestion.

