

CHAPTER I

INTRODUCTION

1.1 Introduction

Companies directly have relationship with society and environment since their operational activities resulted into some impacts. However, the impacts can damage society and environment such as waste and pollution and it will create demand for companies' responsibility to manage their operational activities and reduce damage from the impacts. Companies have to take the demand seriously because their responsibility toward society and environment may affect companies' value, reputation, and profitability.

Usually, companies ignore the social and environmental responsibility and replace cost with social cost in order to maximize profit. However, in recent years there has been great development of social and environmental responsibility awareness among companies and stakeholders. Corporate social responsibility (CSR) is an effort by companies to perform their awareness on social and environmental responsibility in order to create better life quality of stakeholders. Companies with greater impact to society and environment are obligated to commitment with CSR.

CSR performance by companies can be into some activities that are beneficial to stakeholders such as invest in environmentally friendly sector, waste management, employing local labors, increase social cost to maintain balance of existence between companies and social environment, and positive contribution for society development.

However, the expectation of stakeholders to CSR may be different, so companies must best match CSR performance with stakeholders' interest (Wuttichindanon, 2017).

To evaluate social and environmental responsibility, companies will prepare CSR report and make it available in annual report or separate report. CSR report contains financial and non financial information disclosure which consist of benefit and cost associated from CSR performance. Companies that perform and disclose CSR in the report will get better response and gain more support and approval from stakeholders (Oeyono et al., 2011; Angelia and Suryaningsih, 2015). CSR disclosures can help companies to create long term benefit by maintaining relationship and welfare of society and environment.

There have been many research conducted regarding to effect of CSR disclosures on profitability. Research done by Aras et al. (2010) aimed to investigate effect of CSR and profitability of Istanbul Stock Exchange (ISE) 100 index companies. This research expected significant effect between CSR and profitability according to stakeholder theory. However, researchers were not able to find any significant effect between CSR and profitability.

Oeyono et al. (2011) tried to investigate relationship between CSR and profitability on top 50 Indonesian listed companies. The research found the human rights indicator is the one that has been least fulfilled by companies in Indonesia, along with UK and Australia. The research also revealed there is positive relationship between CSR and profitability.

In 2012, Luethge and Guohong Han examined published financial information and social disclosure information in annual reports on Chinese companies listed on the

Hong Kong Stock Exchange. Researchers failed to find significant effect between financial performance which proxied by ROA and ROE to companies social disclosure.

Waworuntu et al. (2014) tried to investigate commitment of companies to stakeholders by CSR disclosures has relationship with financial performance on top ASEAN listed companies. The result of research is there is positive relationship between all CSR disclosures and financial performance variables.

Usman and Amran in 2015 examined the relationship between each aspect of CSR disclosures and corporate financial performance among Nigerian listed companies. This research relied on stakeholder theory and legitimacy theory to test the relationship between CSR disclosures and financial performance. However, there was evidence of no significant relationship between CSR disclosures and financial performance.

It is possible to find the effect of CSR disclosures and profitability according to stakeholder theory. Based on the theory, success and survival of companies largely depend on how well companies can balance economic (profit maximization) and non-economic (social and environmental performance) objectives to stakeholders. Another theory is legitimacy theory which assumes that companies have 'contract' with society and by meeting content of contracts will legitimize companies. These theories suggest companies' commitment to stakeholders will help companies to achieve their business objectives (Usman and Amran, 2015).

Based on previous research, CSR disclosures has no significant effect on profitability and it does not support stakeholder theory and legitimacy theory while other researchers found there is significant effect of CSR disclosures on profitability.

However, the research above only involved companies' sector in general without specific type of sector or companies in a country in general. Waworuntu et al. (2014) stated there is still small amount of research on CSR disclosures and profitability by individual sectors. They also recommended further research should involve industries. CSR disclosures research also commonly involve financial, mining, oil, and gas sectors of companies. Other sectors are often excluded due to their nature of activities.

This research tried to analyze effect of CSR disclosures on profitability by specific reference on agricultural sector. It is also expected that the research will give benefit to several parties, such as for academicians and practitioners in order to understanding the effect of CSR disclosures on profitability in agricultural companies. It will give more information about CSR disclosures implementation that will be beneficial to stakeholders as their evaluation of CSR disclosures performed. And the last, it is expected to be used as reference or comparison for further research with similar topic.

1.2 Problem Statements

Based on the background explained above, the problem statements for the research are:

1. How is the effect of CSR disclosures on ROA of agricultural companies listed in Indonesia Stock Exchange?
2. How is the effect of CSR disclosures on ROE of agricultural companies listed in Indonesia Stock Exchange?
3. How is the effect of CSR disclosures on EPS of agricultural companies listed in Indonesia Stock Exchange?

1.3 Research Objectives

Based on problem statements, the objectives of this research are:

1. To analyze the effect of CSR disclosures on ROA of agricultural companies listed in Indonesia Stock Exchange.
2. To analyze the effect of CSR disclosures on ROE of agricultural companies listed in Indonesia Stock Exchange.
3. To analyze the effect of CSR disclosures on EPS of agricultural companies listed in Indonesia Stock Exchange.

1.4 Writing Systematic

This research consists of five chapters which are as follow:

Chapter I: Introduction

This chapter consists of background, problem formulation, research purposes and benefits, and writing systematic.

Chapter II: Literature Review

This chapter tries to explain basic theories and knowledge regarding to research from various research such as articles and previous journals.

Chapter III: Research Methodology

This chapter explains about research design, population, sampling methods, final samples, data collection methods, variables used in research, and methods used to analyze data and hypothesis test.



Chapter IV: Result and Discussion

This chapter explains analysis of result in research and discussion regarding to the result.

Chapter V: Conclusion

This chapter describes conclusion of data analysis, research limitation, and research suggestion.

