

CHAPTER I

INTRODUCTION

1.1 Research Background

In the current era of digitalization, economic development in Indonesia is growing very rapidly, especially those companies in industry sector that support the national economy. Companies are under growing pressure from investors, customers, and authorities to implement sustainable practices, research on corporate waste disclosure and profitability is essential. A company's financial performance can be improved by using transparent waste management techniques to lower operating costs, improve reputation, and demonstrate a commitment to sustainability. Businesses may better conform with legal requirements, draw in ethical investors, and gain a competitive edge by knowing how waste disclosure impacts financial results as the demand for Environmental, Social, and Governance (ESG) criteria increases.

This study offers crucial information for businesses hoping to prosper in a market that is becoming more environmentally sensitive while still achieving impressive financial outcomes. Companies are under more pressure to implement and disclose ecologically friendly practices, such as waste management, as a result of the growing emphasis on sustainability. Stakeholders like investors, consumers, and regulatory agencies are increasingly concerned about waste as a major component of business environmental impact. Waste disclosure is a component of Environmental, Social, and Governance (ESG) reporting, which allows businesses to show that their sustainability initiatives are transparent.

Financial performance may be directly impacted by how businesses handle waste reduction and disposal procedures, which can be shown through corporate waste

disclosure. Proactive waste management by businesses can frequently save expenses, increase operational effectiveness, and lessen the danger of environmental fines or penalties. However, ineffective waste management can result in increased operating expenses, legal ramifications, and harm to a company's brand. Waste disclosure gives businesses a means to demonstrate their dedication to sustainability in response to stakeholders' growing demands for greater transparency, which can improve their market position and, eventually, financial results.

Waste disclosure is becoming more and more important, yet scholarly research on the connection between these disclosures and financial success is still lacking. Although some research has concentrated on corporate sustainability or more general environmental policies, little is known about the precise relationship between corporate waste management and financial results. Knowing the financial effects of waste disclosures can help firms make more effective financial and corporate strategy choices as they continue to adopt sustainability programs. As more companies realize the financial benefits of integrating environmental stewardship into their core operations, which could result in long-term profitability and risk mitigation, this research is especially relevant. In Indonesia, corporate waste disclosure is a component of a larger movement toward increased corporate accountability and openness in environmental issues. Studying the connection between waste management procedures and financial performance will become more crucial as Indonesia keeps its focus on sustainable development.

The consumer goods industry is one of the most attractive sectors on the Indonesian stock exchange (IDX). Businesses in the consumer goods sector are those that manufacture things by converting raw materials into completed goods, which are then consumed by the general public (Asyara et al., 2023). Food and Beverages,

Cigarettes (Tobacco Manufacturers), Pharmaceuticals, Cosmetics, and Household and Houseware were the five subsectors into which stocks that joined the Consumer Goods sector in 2020 were separated (Fathinah & Setiawan, 2021).

According to Lasa and Mustafa (2023), the Food and Beverages Sub-Sector's Consumer Goods Sector is anticipated to be one of the industries that can serve as a pillar to support the expansion of manufacturing and the national economy. In addition to having strong corporate performance and great future prospects, the Consumer Goods Sector of the Food and Beverages Sub-Sector also tends to have generally steady stock prices, which attracts investors. A company's financial performance is crucial, particularly for public businesses (issuers), whose cash is used for operational operations that are financed by investors (Hartoyo et al., 2023). Positively performing businesses not only sustain their survival and expansion, but they may also serve as a point of interest for potential investors (Lasa & Mustafa, 2023).

The fact that there are more businesses in this sector each year suggests that the consumer products industry is becoming more competitive, therefore these businesses undoubtedly need to do well financially. In essence, financial performance is an assessment of the business that takes into account its costs, equity, liabilities, assets, and total profitability (Hermuningsih, 2018). "Financial performance is an analysis undertaken to see the extent to which the organization has applied financial rules appropriately and accurately," according to Mappadang et al. (2021). Therefore, it is possible to define financial performance as the accomplishment of a business's financial management goals over a specific time frame.

One of the factors that influences financial performance is Corporate Waste Disclosure. Because companies that have problems with the environment will also related to waste disposal which then will have an impact on financial performance, a

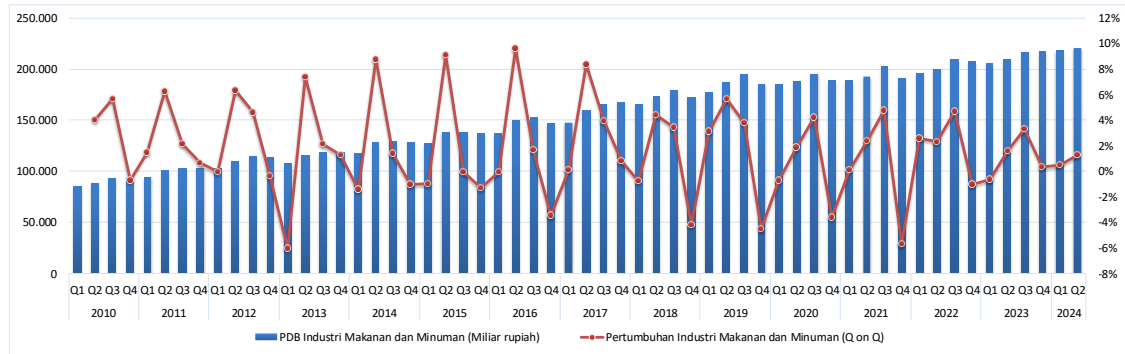
problem such as reduction the number of investors due to the signals shown by the company indicating problems with waste and the environment. Waste and environmental problems make companies exposed to issues of environmental damage.

The activity of companies especially in manufacturing or industry sector lead to the increase of waste production. From the total waste piles, 85,000 tons per year are plastic waste. The waste pile will increase along with the projected increase in population and industrial growth (Hidayat et.al 2019). Indonesia itself is in 2nd position among the 5 countries that contribute to the world's highest marine pollution in 2015 (Mediaindonesia.com, 2017). At that time, the Director General of Waste Management Rosa Vivien Ratnawati, Waste and Hazardous Toxic Materials (B3), Ministry of Environment and Forestry (KLHK) stated that Manufacturing, Retail and Food and Beverages were obliged to change the packaging of these products. Product packaging must meet standards that can be recycled or composted (Hisnudita Hagiworo, 2020). The problem of waste and rubbish is an important focus for every country in the world.

Garbage or waste itself has a negative impact on the environment and causes many problems, including water, air and soil pollution. Several regulations have been made by Indonesian government to reduce waste, including involving companies to take a role in reducing waste accumulation and improving waste management (Wulansari & Adhariani, 2022). Therefore, a company as a business entity within the community is required to always pay attention to the environment and the surrounding community regarding the impacts arising from the company's activities, especially problems related to waste. The hope here is to minimize negative impacts and maximize positive operational impacts.

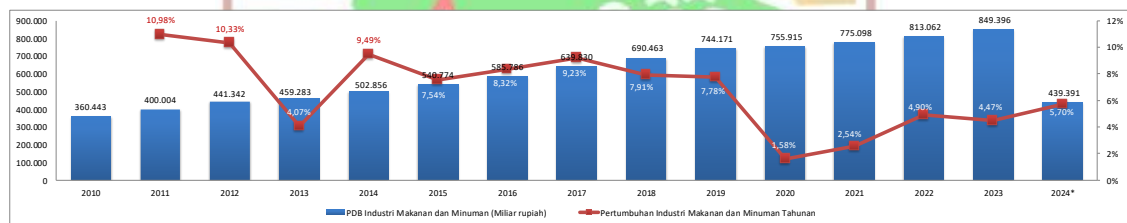
Companies are no longer entities that only care about themselves (selfish) and/or exclusivity from the community (Ardila, 2019). There is a need for control in companies, especially public companies, regarding social and environmental responsibility through the disclosure process in the company's financial reports which are uploaded every year on the Indonesia Stock Exchange (IDX) website. This disclosure is one part of the information provided by financial reports in a company other than financial information. Company reports should present information about business elements that have relationships with society and environment, because this information is important input for stakeholders to make economic decisions (Sianipar, 2019). One of the important disclosures that must be present in a company that goes public is environmental and social disclosure. One of them is related to waste disclosure which is the focus of this research.

The purpose of disclosing environmental information is to determine the extent to which business operations generate emissions, liquid waste, and trash, all of which can have a major negative influence on the environment. Given that investors expect the company to pay enough dividends, the disclosure of waste information will improve financial performance because it will demonstrate the company's environmental responsibility and concern. Eventually, this will improve the company's reputation among investors, making them more willing to make investments and facilitating better decision-making. Businesses that reveal their waste reporting obligations or disclosures encourage customers to repurchase the goods and services they offer because they give the impression that the business is concerned about the state of the environment or the region in which they operate.



Source : Central Bureau of Statistics (BPS), 2024

**Figure 1. 1: Food and Beverage Industry Growth in Q2 2010 - Q2 2024
(Quarterly)**



Source : Central Bureau of Statistics (BPS), 2024

Figure 1. 2: Food and Beverage Industry Growth in 2011-2024 (Annually)

From figure 1.1 and figure 1.2 we can conclude that the growth of food and beverage industry continues to increase every quarter and annually. Data on Indonesia's economic growth in the second quarter of 2020 was released by the Central Bureau of Statistics (BPS) on August 5, 2020. Year-over-year, the country's economy grew by 5.32% less in the second quarter of 2020 than it did in the second quarter of 2019. Growth declined in almost every corporate area. Additionally, the top processing industry saw a 6.19% decline in growth. One of the consequences of COVID-19 is the potential to reduce the stock price of the Jakarta Composite Index (JCI) in general and

of all capital market sectors in particular. The first reaction of Islamic stock issuers during the March 2020 observation period was that on March 17, 2020, stock prices simultaneously fell across all stock exchange sectors. When it comes to fighting the COVID-19 pandemic, the consumer products sector is the most successful (Asyara et al., 2021).

Tabel 1. 1: Food and Beverage Industry Growth in 2018-2022 (Annually)

Description	2018	2019	2020	2021	2022
GDP of Food and Beverage Industry (IDR Billion)	690.463	744.171	755.915	775.098	813.062
Annual Growth of Food and Beverage Industry Percentage	7,91%	7,78%	1,58%	2,54%	4,90%

Source : Central Bureau of Statistics (BPS), 2024

The subsector of the food and beverage industry is frequently the cornerstone and contributes most to the expansion of both the industrial sector and Indonesia's economy. Due to the enormous demand for food and drink in daily life, the food and beverage business is thought to have promising future prospects (Asyara et al., 2021). In addition, samples of businesses in the consumer goods sector or the food and beverage subsectors are included because these industries are strongly linked to the environment and use natural resources for administration and operations. This industry includes businesses that directly affect the local community's social and environmental well-being (Lalo et al., 2021).

Another justification for employing consumer goods businesses is that, as demand in this sector increases, packaged food consumption would eventually climb quickly.

At a 2.4% growth rate, the Indonesian packaging market is expected to reach 159.2 billion units by 2024, with food goods accounting for 44% of the overall market (Tseng et al., 2021). Businesses in the food and beverage subsectors listed on the IDX operate by taking into account the management of hazardous waste and/or environmental contamination, and they also try to carry out the activities they engage in. According to PT (Perseroan Terbatas) rules and regulations, businesses in this industry must so inform their stakeholders about the nature of their social obligation. It will be expected that businesses who participate appropriately will benefit from their environmental disclosure activities.

Furthermore, research in advanced countries has shown that revealing information regarding waste has become standard practice and is required in the creation of goods and services. Businesses that take waste reporting thoroughly will not run the danger of harming their reputation with the public and government. ensuring that the business can keep on producing and running. There has never been any prior research on waste disclosure in consumption companies listed on the IDX, and it is also connected to the financial performance of the company.

1.2 Problem Formulation

Based on the researcher's explanation of the background above, it can be formulated the following research problems:

1. Does Corporate Waste Disclosure affect Financial Performance on consumer goods industry sector companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022?

1.3 Research Objectives

Following the existing problem formulation, the goal to be achieved in this study is to prove and analyze:

1. To determine the influence of Corporate Waste Disclosure on Financial Performance on consumer goods industry sector companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022.

1.4 Research Benefits

Based on the above research objectives, this research is expected to provide benefits for interested parties. The benefits of this research are as follows:

1. Theoretical Benefits

- a. As a references to accounting science about Financial Performance and Corporate Waste Disclosure. Hopefully, accounting science is not only focused on profitability but also on the impact of activities caused by waste disclosure formation.
- b. As a study material and contribute conceptually, especially regarding corporate waste disclosure and financial performance.

2. Practical Benefits

- a. This research is expected to be a reference for Public Companies Sub Sector consumption in considering Financial Performance supported by the influence of Waste Disclosure or even be improved.
- b. This research is expected to help a company or government leader in determining waste disclosure policy.

1.5 Systematic Discussion

In order to understand the undergraduate thesis clearly, the researcher divided the materials into several sub-chapters with systematic writing as follows:

Chapter I: Introduction

This chapter describes the general information that the research background, limitation of the study, problem formulation of the study, purpose of the study, and benefit of the study

Chapter II: Literature Review

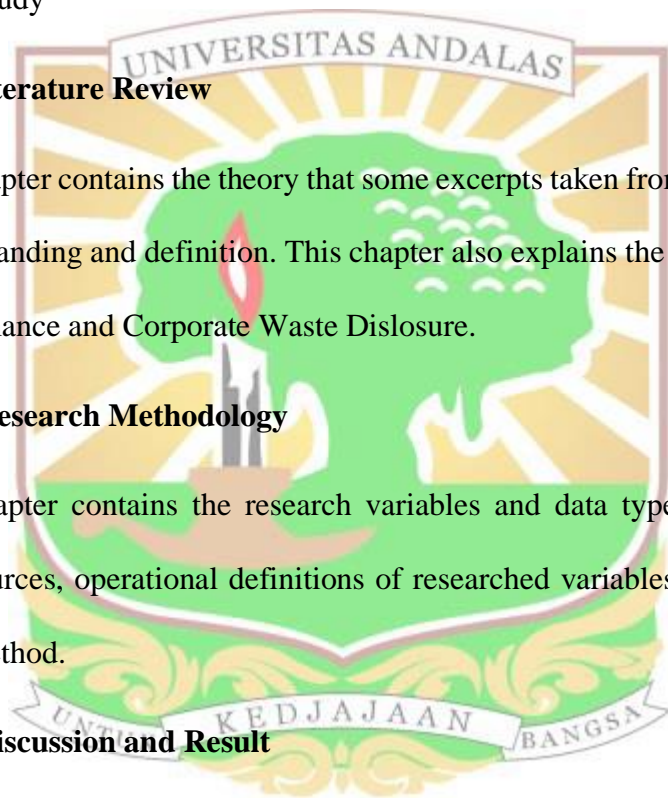
This chapter contains the theory that some excerpts taken from the book, in the form of understanding and definition. This chapter also explains the basic concepts of finance performance and Corporate Waste Disclosure.

Chapter III: Research Methodology

This chapter contains the research variables and data type, data collecting method and sources, operational definitions of researched variables, research model and analysis method.

Chapter IV: Discussion and Result

This chapter describes The Influence of Corporate Waste Disclosure on Financial Performance on consumer goods industry sector companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022. It also contains the result from the analysis of regression test, the result table and diagram, the analysis of empirical result with the theoretical framework and previous study.



Chapter V: Conclusions

This chapter contains of conclusion from the research and suggestion for the next research.

