

# CHAPTER I

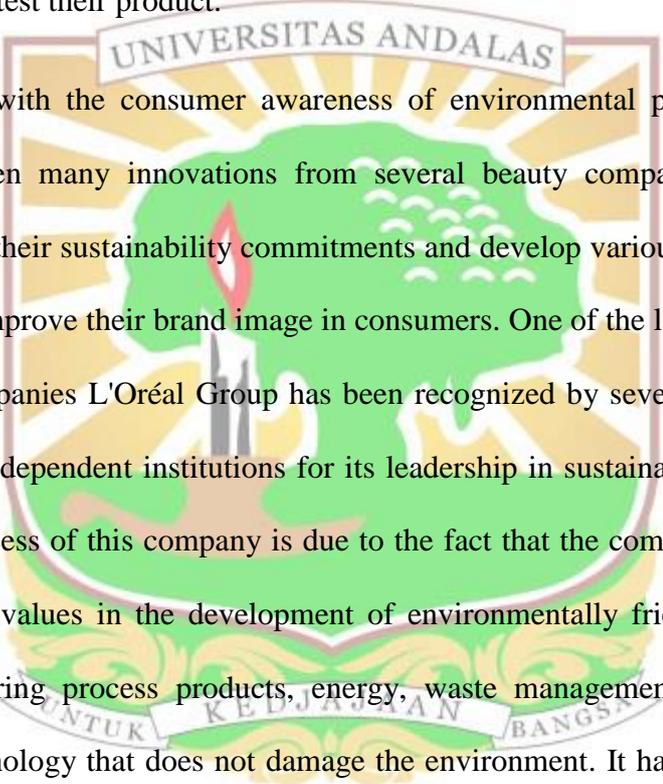
## INTRODUCTION

### 1.1 Background of the Research

Beauty products have become essential need for the society in all ages and genders. These products are not only use for face treatment but also for personal care such as healthy body and skin treatment. Furthermore, the attention of society to their hygiene and skin health has created a habit of using beauty products in their daily routine activities. As the use of beauty products continues to grow, the need for beauty and personal care is also increasing, especially in ASEAN countries. Supported by the Euromonitor International's report, Southeast Asia has been recognized as the fastest growing beauty market for beauty in terms of Compound Annual Growth Rate (CAGR). The revenue of the Beauty and Cosmetics segment in Indonesia was US \$ 7,095 billion in 2020, Malaysia US \$ 2,421 billion, and Singapore US \$ 1.04 billion. Thus, the future market in the cosmetic and beauty industry is expected to grow annually by 5.3% (CAGR 2020-2023) (einbn.org, 2019). Based on the data above, it is believed that the demand for beauty products will continue to grow and survive in the future.

Apart from the bright future of the beauty industry market, suspicion often arises from the media and NGOs about the product testing. Beauty companies have historically tested ingredients of their products on animals (usually rabbits and mice) to check for safety (Sahota, 2013). This has drawn a lot of negative

responses from the public, especially from animal lovers because of violating ethics and it making them hesitate to buy the product. Based on a survey conducted in March 2018 by the beauty application platform Perfect365, it was found that more than a third of women prefer to buy beauty products with the crueltyfree brand (Small & Raab, 2020). It follows that, if beauty companies want to survive, they have to be carefully about the implementation and the method that they choose to test their product.



Along with the consumer awareness of environmental problems today, there have been many innovations from several beauty companies that have started to take their sustainability commitments and develop various sustainability initiatives to improve their brand image in consumers. One of the large beauty and cosmetics companies L'Oréal Group has been recognized by several well-known international independent institutions for its leadership in sustainability efforts in 2017. The success of this company is due to the fact that the company prioritizes environmental values in the development of environmentally friendly products, the manufacturing process products, energy, waste management, and uses of advanced technology that does not damage the environment. It has made L'Oréal grow and present in 130 countries spread out all over the world (L'Oreal.com, 2019). The innovation on green and sustainability product can improve the company's reputation and attract a lot of public attention because the company has a high responsibility for social and environmental problems.

Currently, to find out the information about a company's environmental responsibility, the government has issued a regulation that supports companies to

be more concerned about the environment. This encourages companies to measure and report environmental performance and environmental disclosures (Walden, 2003). Environmental performance is a measurable result of the environmental management system, which is related to the control of aspects of its environment. In Addition, environmental performance measurement for each institution and country are different. For example, in Indonesia, environmental performance measurement is carried out by the Ministry of Environment by referring the PROPER (Company Performance Rating Program in Environmental Management) (Ginting, 2017). Meanwhile, Malaysia and Singapore use ISO 14001 which is one of the most successful management standards used by companies worldwide to improve environmental performance measure, evaluate and improve their environmental performance (Perry et al, 2001).

Definition of PROPER define as a program organized by the Ministry of Environment Indonesia to measure the level of compliance of companies in environmental management. The environmental management system is a part of the overall management system that has standards for making policies and objectives in accordance with legal requirements and significant environmental impacts, and then controlling the negative impact of the company on the environment. PROPER determines a ranking to measure the environmental performance by using colors, ranging from the best gold, green, blue, red, to the worst black, which is announced periodically to the public by media so the public can find out the level of environmental management in the company just by looking at the available colors (Fitriani, 2013). The difference between PROPER

and ISO 14001 is that PROPER tends to be only an environmental performance audit, where ISO 14001 is not only an environmental performance audit but includes an audit of an environmental management system. ISO 14001 does not have a rating as in PROPER, but companies are assessed based on the certificates they get if they comply with the standard (Aprilasani, 2017).

Apart from the environmental performance, companies must also disclose environmental information. Environmental disclosure is an accounting concept regarding the transparency of social disclosures on social activities or activities carried out by the company. Therefore, accounting and information about environmental activities will help companies clearly understand the relationship between business activities and the environment (Rakhiemah, 2009). The method that can be used in disclosing environmental information is the Global Reporting Initiative (GRI), an indicator that is widely applied by organizations in various countries. GRI is an independent international organization that helps businesses, governments, and other organizations in terms of reporting economic, environmental and social impacts to the public. (Milne&Gray, 2012).

Specifically, each country has also different regulations and bases for environmental disclosure. In Indonesia, based on PSAK No.1 states that environmental disclosure in Indonesia is still voluntary (voluntary disclosure) (Marisa, 2017). Malaysia in MASB (Malaysia Accounting Standard Board) 1 and 20, has not stated specifically about the types of company obligations to make environmental disclosures, so in practice, environmental disclosure in Malaysia is still voluntary (voluntary disclosure) (Ambali, 2011). In contrast to Indonesia and

Malaysia, Singapore Stock Exchange stated that environmental disclosure is mandatory (mandatory disclosure) (Perry, 2001). This is because Singapore is adherent to the common law system, which is a company with strong laws. This shows that Singapore has a high concern for disclosing environmental information and reducing environmental impacts that occur due to company operations.

According to Deegan & Unerman (2011), when the company have a positive impact on the environment, then the company's existence will be responded positively by the community. The existence of a positive assessment from the community can certainly increase the value of the company. It also related with the popular theory in relation of the market signal with the information available. In addition, signal theory states that when company's managers have better information, they will certainly provide this information to potential investors with the hope of increasing the company's stock price.

Meanwhile Nguyen (2017) explains that the disclosure of environmental information is a way for companies to enhance their image and reputation, not only for the internal stakeholder but also the external stakeholders, especially in terms of integration, when developed countries are very interested in green environmental growth and sustainable development. Additionally, an organization can increase its investment potential because environmental disclosures can reduce a company's risk perception and funding costs.

The environmental performance, environmental disclosure, and media exposure in beauty industry stock performances companies listed on the ASEAN

Stock Exchange, especially in Indonesia, Malaysia, and Singapore are interesting to observe and explore. The main reason is because these three countries were share for the beauty products. Each cosmetic product from that country is also traded in the other country so that there is a sharing of the cosmetic product. Then, related to this research, investors can come from any other countries to examine the stock performance between these three countries.

Based on the description above, this study intends to explore more about the environmental performance, environmental disclosure, and media exposure in influencing the stock performance on beauty companies listed in ASEAN Stock Exchange especially in Indonesia, Malaysia, and Singapore with the title "*Environmental Performances, Environmental Disclosure and Media Exposure in Beauty Industry Stock Performances*".

## **1.2 Research Problem**

Based on the background above, the problems to be studied are:

1. Does environmental performance affected stock performance in the beauty industry?
2. Does environmental disclosure affected stock performance in the beauty industry?
3. Does media exposure affected stock performance in the beauty industry?

### 1.3 Research Objective

Based on the problem statement above, the objectives of this research are:

1. To examine the effect of environmental performance on the stock performance in the beauty industry
2. To examine the effect of environmental disclosure on the stock performance in the beauty industry
3. To examine the effect of media exposure on the stock performance in the beauty industry

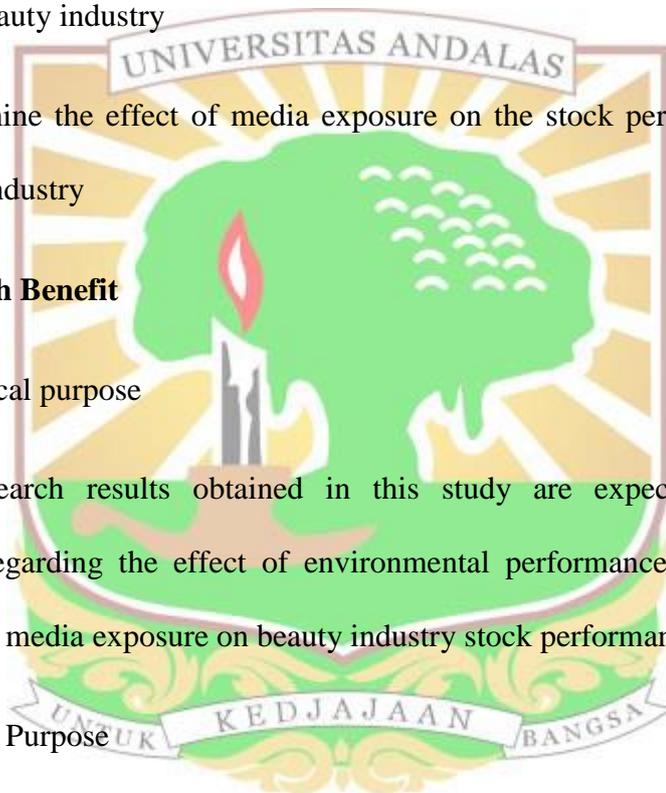
### 1.4 Research Benefit

1. Theoretical purpose

The research results obtained in this study are expected to provide information regarding the effect of environmental performance, environmental disclosure and media exposure on beauty industry stock performances.

2. Practical Purpose

This study can be as a reading that is expected to increase knowledge and can be used as a comparison material for further research. Then, for company management this is can be reference material in decision making for company management, stakeholders, and potential investors, especially for consideration in making decisions regarding environmental performance and environmental disclosures in the company's annual report. In additional, this study can be



consideration by investors and external parties in making investment decisions to the company.

## 1.5 Writing Systematics

This research is arranged systematically as follows:

- 1 CHAPTER I: Introduction. This chapter contains a description of the background of the problem, the research problems, the research objectives, the research purposes and writing systematic.
- 2 CHAPTER II: Literature Review and Prior Research. This chapter contains theoretical frameworks to give the insight of the research conducted and also the review of previous research.
- 3 CHAPTER III: Research Methodology. This chapter contains a description of the types of data, population, sample selection methods, data collection methods, variables and data analysis techniques.
- 4 CHAPTER IV: Research result and discussion. This chapter contains the identities and characteristics of respondents, description of research variables, testing of models and discussion.
- 5 CHAPTER V: Conclusion. This chapter contains conclusions, implications, and limitation.

