THESIS

ECONOMIC FACULTY
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THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE ON CORPORATE FINANCIAL PERFORMANCE: A STUDY ON FIVE SECTORS OF INDUSTRY IN INDONESIA STOCK EXCHANGE

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ABSTRACT

The Impact of Corporate Social Responsibility Disclosure on Corporate Financial Performance:
A Study on Five Sectors of Industry in Indonesia Stock Exchange

The objectives of this research are twofold. First, is to examine and prove that each industry classification on Indonesia Stock Exchange (IDX) has different impact and relationship between CSR disclosure and financial performance of a firm. Second, it also wants to describe why each industry classification on Indonesia Stock Exchange (IDX) has different impact of CSR disclosure. There are three variables in this research namely on Corporate Social Responsibility, Corporate Financial Performance, and Indonesia Stock Exchange (IDX) Industry Classification.

This research is a quantitative research that empirically test hypothesizes the relationship between corporate social responsibility performance and corporate financial performance based on industry classification on IDX by using ratio data that have been calculated before. The results of this research are each industry has different impact of CSR disclosure because of their characteristics are different.

Keywords: CSR Disclosure, Industry Classifications, Corporate Financial Performance

CHAPTER I
INTRODUCTION

1.1 Background

The World has changed and it has already given a new face for many sides of lives. This also happens to corporations in many countries all over the world. One of these impacts is the awareness from the company to create the firm value without sacrificing any element that close-related and/or un-related with the firm. They need to achieve good financial condition and create the ideal work field of the company. In achieving this condition they should not sacrifice the nature, environment, and the society anymore. Because there were many bad impacts which they had seen that happened to the nature and sacrificed the society prior to firm interest or needs. This condition had happened before and now it needs to be resolved and replaced with new ways.

This issue has brought us to new ways in achieving firm value. In beginning, before the changing, public society had its own perception about the company. Because of this situation corporate social responsibility rises up. This field has grown exponentially in the last decade. Meanwhile, there is an increasing number of shareholders, analysts, regulators, activists, labor unions, employees, community organizations, and news media are asking companies to be accountable for an ever-changing set of Corporate Social Responsibility (CSR) issues. This also brought the new paradigm of company priority in maximizing the value of the firm. In the beginning company focused in shareholders interest (shareholders-centrist) for determining the firm value, but now this paradigm was shifting into stakeholders' interest (stakeholders-centrist) as new focus. While the

increasing of related parties also increasing demand for transparency and growing expectations that corporations measure, report, and continuously improve their social, environmental, and economic performance, the company needs more preparation and anticipated it in order to cover this condition.

Meanwhile, more than half of the Fortune 1000 companies issue CSR reports, and then, the amount of company that disclose their social responsibility report, increase in recent year. Same with the increasing of CSR, the amount and the type of CSR information those disclose increasing too. (Sayekti, 2007).

Actually, the definition of corporate social responsibility is not abstruse. Generally refers to transparent business practices that are based on ethical values; compliance with legal requirements and a comprehensive set of policy; and respect for people, communities, and the environment. Thus, beyond making profits, companies are responsible for the totality of their impact on people and the planet. "People" constitute the company's stakeholders: its employees, customers, business partners, investors, suppliers and vendors, the government, and the community. Increasingly, stakeholders expect that companies should be more environmentally and socially responsible in conducting their business. This condition makes a larger number of companies than at any time previous are engaged in a serious effort to define and integrate CSR into all aspects of their businesses and have a high awareness of the importance of CSR for business strategy. Global survey that was done by The Economist Intelligence Unit shows that 85% of senior executive and investor use CSR as the first consideration in making decision (Warta Ekonomi, 2006; Basamalah dan Jermias 2005, in Sayekti,

CHAPTER V

CONCLUSION

5.1. Conclusion

This research is aimed to investigate the impact of Corporate Social Responsibility (CSR) on company financial performance, based on industry classification on Indonesia Stock Exchange (IDX). Since today CSR becomes a favorite and important tool for companies for maximizing their financial performance and many previous researches show that there were an impact, even positive impact, of CSR to company financial performance, it will be interesting if investigating more the impact of CSR on company financial performance based on industry classification on IDX that published by JASICA.

Through a statistical test, this study used Return on Equity (ROE) proxy for profitability and Market-to-Book Value (MBV) proxy for market value as dependent variable, CSR as independent variable, and some control variables. This study found that generally, from all company statistical tests or each industry statistical test, CSR has no significant influence on both ROE and MBV. Mean while CSR with research control variables have significant influence to ROE and MBV only in all company statistical test and for agriculture industry sector test CSR with research control variable has influence on ROE only, but for others industry sector has no influence.

In some industry classification, there is another control variable influence company financial performance, such as in Mining industry, leverage has influence on MBV and then for basic industry sector, company size has influence

on both MBV and ROE. From those findings, it could be summarized that: (1) each industry got different impact of CSR disclosure because of their characteristic differentiate; (2) because CSR still a new issue in Indonesia and most of investors have low impression of that, such as CSR has middle and long term performance impact where investors have sort-term orientation and some of investors think that CSR only on the cover not as what they should be done, the CSR impact to company financial performance still low, even there is no significant impact on each industry classification; (3) CSR disclosure quality was difficult to measure, because most of companies that disclose their CSR performance as an entertainment and disclose some standard information, not a relevant information based on company characteristic.

5.2 Implication

The implications of this study can give contribution to all business entity. For investor, especially on IDX, are used in making decision of their investment. Or for Government, BAPEPAM, IAI in making some regulation and standard in CSR, especially for each industry sector because each industry, in Indonesia And for the company, to improve the quality and quantity of their CSR report, because it's still low and does not follow GRI standards.

5.3 Limitation and Areas for Further Research

This research has some limitation and since this research is done to try to be perfect to find the maximum results, here by some point to expand:

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