



**ECONOMIC FACULTY
ANDALAS UNIVERSITY**

Thesis

**IMPACTS OF CORPORATE SOCIAL AND ENVIRONMENTAL
RESPONSIBILITY (CSER) PERFORMANCE ON COST OF CAPITAL**

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ABSTRACT

This study fills a gap in the empirical literature on corporate social and environmental responsibility by examining its link to the cost of capital (cost of debt and cost of equity) in mining and mining service industry and banking industry listed at Jakarta Stock Exchange. Mining and mining service industry is classified as high profile industry, which its core operation, is highly related to CSER issues. In the other hand, banking is classified as low profile industry, which its core operation is not significantly related to CSER issues. This research will compare that relationship in both industries. Using an assumption that risk is a major factor affecting cost of capital, and variables of Beta as a measure of risk in equity financing and interest rate as a measure of risk in debt financing, this study conclude that in general there is no relationship between CSER performance and cost of capital in both industry. An exception just occurs to the relationship between CSER performance and cost of debt in mining and mining service industry. This result means that investors and creditors have not concerned yet to CSER performance of a company before investing their fund.

Keywords: Corporate Social and Environmental Responsibility, Cost of Capital, Cost of Debt, Cost of Equity

CHAPTER I

INTRODUCTION

1.1 Background

Corporate Social and Environmental Responsibility has become the interesting issue around the world in the last decades. Actually, this issue has been raised since the industrial revolution in western countries at 1990 (Hilman, 2007). In this era, the developments of industrial technology were growing rapidly. The technique of massive production was introduced at this time. This production technique brought both the positive and negative effects into the world. One of the negative impacts of this development is towards the environment and social. However, at this time, the effects of this revolution were still happened in the western countries.

The industrial developments did not just stopped at that time. Now, industrialization is spreading around the world. Many industries have been established in many countries since the revolution. In line with this condition, the impacts of it also becomes globally. The effects are not just happen in western countries anymore, but also to the global community and environment. For example, global warming issue and human right issue that spread around the world.

The globalizations of industry are followed by the increasing awareness of community toward environment and social issues. People are more concern about the place where they live and the life itself. One focus of their concerns is toward corporate actions regarding to community and environment issues. They tend to appreciate the companies that are also concern with these issues. This appreciation can be in form of tendency to work in that company, buy their products, or invest in those companies.

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Besides that, the information technologies also improve around the world. The events in one country can be known by the people in other countries in a second. The events here include the corporate social responsibility issues conducted by corporations. So that, information about CSER performance of a company can be accessed by everyone in the world. The people will react positively or negatively depend on the CSER performance of the company itself.

All phenomena above lead CSER become hot topic in the world. Today, people are more concerned to this issue. It can be proven by the increasing numbers of CSER cases faced by the companies have been successfully disclosed. The cases themselves are both in positive and negative terms. This fact made the companies have to revise their goals that not just achieving the targeted financial profit, but also achieving the sustainability development of their business. The sustainability development here consists of achieving targeted financial profit; developing community; and making a good relation with customers, employees, and suppliers.

Fail to accomplish these goals will bring negative consequences to the company. The example of this case is Nike underpaid workers in overseas factories and employed child in the rug industry in several developing countries as stated in Baron (2003). It was a source of controversy and discord, with attempts to organize boycotts of firms alleged to be paying unreasonably low wages to employees in poor countries. Nike was one of the first major corporations to face such a boycott, and it undoubtedly damaged its brand image.

The case of Nike also occurred at Levi Strauss of the US and Charles Veillon of Switzerland (Heal, 2004). But, these companies handled it more proactively than Nike did. Levi moved before it became the target of criticism to ensure that working conditions and wages were reasonable all through its supply chain, and Veillon

CHAPTER V

CONCLUSIONS

5.1 Conclusions

Based on the hypothesis testing in the Chapter 4, the researcher can draw the conclusion of this research. The conclusions of this research are:

1. There is no relationship between corporate social and environmental responsibility performance and cost of equity in Mining and Mining Industry and Banking Industry.

This condition exists because the investors of both industries still focus their attentions to financial performances of the companies before investing their funds. It can be proven by all of t values are above 1.96 for DFL and Leverage. DFL and Leverage are ones of financial risks indicators.

2. There is no relationship between corporate social and environmental responsibility performance and cost of debt in Banking Industry.

The reason for this condition is same with the previous one. The creditors in this industry still focus on the financial performances. It can be seen from the result of multivariate regression that says there is significant relationship between Capital Structure (Financial related risk) and Interest Rate (risk in debt financing).

3. There is negative relationship between corporate social and environmental responsibility performance and cost of debt in Mining and Mining Industry.

This relationship exists may be because the creditors in this industry has more risks than the creditors in Banking Industry. This premium risks are related to the core operations of Mining and Mining Firms, which are

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