

# CHAPTER I

## INTRODUCTION

### 1.1 Research Background

The textile industry is one of the most influential business industries in the world. It is estimated that around 20 million to 60 million people are employed in the textile industry worldwide. This industry accounts for around 2% of global gross domestic product (GDP) and garment producers and exporters (Hanichak, 2017). The textile industry provides a great impact on the state economy. This is strengthened by many of the several countries utilizing textile industry to develop export opportunities and increase large revenues to the country. As in Taiwan, the textile industry has become the fourth largest foreign exchange earner. The total gross value of exports and imports of textile products Taiwan amounted to the US \$ 10.8 billion and the US \$ 3.5 billion in 2015. In the same year, the textile industry in Taiwan recorded a surplus of US\$ 7.3 billion, making the textile industry as the third largest trade surplus in Taiwan (textiles.org.tw, 2015). Similar to Taiwan, Indonesia is the 12th largest exporter of textiles and apparels with major export destinations, including the United States, the EU, and the Middle East. However, the country's exports were relatively stagnant during the four year period of 2012-2016 (mordorintelligence, 2018).

Behind the remarkable effects provided by the textile industry, currently the textile industry needs to produce environmentally friendly and socially responsible ones (Joseph Judd, 2018). Same as companies in other industries, the textile industry is aware of industry responsibility for various parties and the environment (fibre2fashion, 2014). In Taiwan, it has implemented CSR practices in accordance with international practice. The Taiwanese Financial Supervisory Commission (FSC) has gradually revised the scope of CSR disclosure, and instructed the Taiwan Stock Exchange (TWSE) and Taipei Exchange (TPEX) to launch "Corporate Social Responsibility Best Practice Principles for TWSE/TPEX-Listed Companies" and "Ethical Corporate Management Best Practice Principles for TWSE/TPEX-Listed Companies" in 2010. The objective of guiding these principles are to guide Taiwan textile companies to practice CSR and implement integrity management measures. (TWSE, 2018). As the results, many of textile companies in Taiwan have established policies and practices about CSR and paid special attention to CSR.

In Indonesia, there were dramatic tensions and demands by the society that companies should play a more responsible role in tackling social and economic issues such as poverty, lack of educational access, public healthy environment, and others. At the same time, the government also realized that they could not solve societal issues alone without support from both private sectors and civil society organizations (Phuong & Rachman, 2017). In addition, in December 2015, the Indonesian Government launched a voluntary sustainability standard for its textile industry called "Green Industry Standard (GIS)" or the Green Industry. It means, in theory, the Indonesian textile industry has to put special attention to CSR as occurred to Taiwanese Textile Industry.

CSR has become one of the most important priorities for companies because through CSR, companies can improve public image, increase media coverage, boost employee engagement, attract and retain investors (Double the Donation, 2016). CSR can also engage customers by building a positive relationship with them and their communities. In the end, it can lead to increased sales and rising profits (Murphy, 2018). To achieve this goal, the company disclosed CSR report for investors to find out how the company carries out CSR activities, this make CSR disclosures through CSR reports a very important communication tool for investors (Moravcikova et. al, 2015). CSR reports should present company policies with environment, sustainability or standards of company obligations towards social obligations (Franc, 2006).

There are several CSR disclosure standards issued by several independent. The Global Reporting Initiative (GRI) standards are in demand by many companies. Components of CSR disclosure by GRI standards cover economic dimension, environment, social, workers, and product responsibilities to customers. GRI claims they not only help companies wheter large or small in social responsibility towards the environment or society but also help companies in developing in economics area by improving governance and relationship to enhance reputation and building trust with stakeholders through their standards (GRI, 2019)

The main aim of this study is to identify the influence of CSR on financial performances on Textile Companies in Indonesia and Taiwan. This study uses the company's financial performance proxied by Asset Turnover (ATO) and Return on Asset (ROA) as an outcome. As the caused, CSR is represented by four categories of CSR dimensions according to Global Reporting Standard (GRI) which are: CSR Employee Dimension, CSR Community Dimension, CSR Product Dimension, and CSR Environmental Dimension.

## **1.2 Research Questions**

1. How is the implementation of CSR disclosure in Indonesia and Taiwan?

2. Does CSR Disclosure positively affect the performance of company activities in Asset TurnOver (ATO) in Indonesia and Taiwan?
3. Does CSR disclosure positively affect the performance of company activities in Return on Asset (ROA) in Indonesia and Taiwan?

### **1.3 Research Objective**

The objective of this study is to investigate the influence of CSR Disclosure on the financial performances of textile companies that listed on the Taiwan Stock Exchange and Indonesia Stock Exchange for the periods 2015 to 2017.

### **1.4 Scope of the research**

1. The object of this research are textile companies listed in Taiwan Stock Exchange and Indonesia Stock Exchange.
2. The data of this research is taken between the periods of 2015-2017.

### **1.5 Significance of the research**

This research is expected to provide additional knowledge and insight to researchers about the impact of CSR Disclosure on financial performances in textile industries. For companies, the research results can be used as reference and consideration in performing future policies and practices about the CSR disclosure. For future researchers, this research is expected to make a significant contribution as a reference material related to the influence of CSR Disclosure on financial performance.

