CHAPTER I

INTRODUCTION

1.1 Background

Investment is a company activity that is expected to provide benefits in the future. The company’s investors have to be done appropriately to achieve their efficiency level. Investment efficiency is concerned with directing capital flows to the most valued use.[1] Efficient investment is an investment that avoids overinvestment (invest more than the optimal level) and underinvestment (invest less than the optimal level) situation. An overinvestment condition is a condition, in which a company invests in a project with a low negative NPV (Biddle et al., 2009). Meanwhile, underinvestment is a condition where the firm misses an investment opportunity that will result in a positive NPV (Biddle et al., 2009). Information asymmetries and agency problems are persistent concerns about investment efficiency. According to Zamir (2020), investment efficiency is contributing to market development which it is a particular concern in emerging economies. Some papers emphasize that nonfinancial disclosures have the potential benefit to reduce information asymmetry which is one of the problematic things in an emerging market.[2]

The previous research by Zamir (2020) who researched do corporate social responsibility disclosures influence investment efficiency in the emerging markets of Asia, found that CSR disclosures reduce underinvestment for large firms but do not constrain overinvestment. These results are consistent with the propositions that, by increasing transparency or reducing information asymmetry, CSR disclosures can improve firm access to external finance needed to invest in profitable projects but cannot constrain entrenched managers who are not reliant on external finance. Previous research shows that

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[1] Farah Zamir, Greg Shailer, and Abubakr Saeed, ‘Do Corporate Social Responsibility Disclosures Influence Investment Efficiency in the Emerging Markets of Asia?’, *International Journal of Managerial Finance*, 2020 <https://doi.org/10.1108/IJMF-02-2020-0084>.
[2] Zamir, Shailer, and Saeed.

information asymmetry and agency problems are the main factors that affect a firm's investment efficiency.[3] The key to improving investment efficiency is increasing information transparency, lowering information asymmetry, and reducing agency costs.

Corporate social responsibility (CSR) often referred to as sustainability reports have started to be known as a company's nonfinancial disclosures or voluntary disclosures. Nonfinancial disclosure is considered by stakeholders and it is important to identify sustainability risks and increase investor and consumer trust.[4] Zhong and Gao (2017) indicate that CSR disclosures can play an important complementary role in reducing information asymmetry and promoting investment efficiency.[5] Elberry and Husainey (2020) conclude that corporate disclosure leads to an improvement in corporate investment efficiency.[6] CSR disclosures can influence investment efficiency because they can decrease information asymmetry by conveying more extensive information.

Zhong and Gao (2017) examine do the presence or absence of CSR disclosures in China improves firm investment efficiency, while Zamir (2020) examines whether, in nine emerging Asian markets, CSR disclosures influence corporate capital investment efficiency. This research extends knowledge of the influence of CSR disclosures in disciplining investment behavior in emerging markets by examining how the levels of disclosure affect investment efficiency for the company that won ASRA 2020. Based on the description above, so this researcher takes the title "THE INFLUENCE OF CORPORATE SOCIAL

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[3] Kung-Cheng Ho, Hui-Min Li, and Yujing Gong, 'How Does Corporate Social Performance Affect Investment Inefficiency? An Empirical Study of China Market', *Borsa Istanbul Review*, 2021 <https://doi.org/10.1016/j.bir.2021.06.016>.
[4] Lara Tarquinio and Stefanía Carolina Posadas, 'Exploring the Term "Non-Financial Information": An Academics' View', *Meditari Accountancy Research*, 28.5 (2020), 727–49 <https://doi.org/10.1108/MEDAR-11-2019-0602>.
[5] Guy Dinesh Fernando, 'Review of Accounting and Finance Article Information ':, *Review of Accounting and Finance*, 15.1 (2016), 65–84 <https://doi.org/10.1108/RAF-05-2014-0054>.
[6] Noha Elberry and Khaled Hussainey, 'Does Corporate Investment Efficiency Affect Corporate Disclosure Practices?', *Journal of Applied Accounting Research*, 21.2 (2020), 309–27 <https://doi.org/10.1108/JAAR-03-2019-0045>.

RESPONSIBILITY DISCLOSURES ON INVESTMENT EFFICIENCY IN THE ASIA EMERGING MARKETS"

1.2 Scope of The Research

The scope of this research is to examine the influence of corporate social responsibility disclosures on investment efficiency in the Asia emerging markets towards the companies that won the Asia Sustainability Reporting Awards (ASRA) 2020 from 2018 to 2020. More specifically, this study is based on a sample of 36 companies. The companies are from Taiwan, South Korea, Thailand, Singapore, Malaysia, India, Philippines, Vietnam, Hongkong, Turkey, Israel, Japan, and Indonesia. Given the importance of the persistent concerns about investment efficiency for market development which is information asymmetry and agency problems, better understanding of particular policy relevance in a place where information asymmetries are problematic such as in emerging markets. The relationships between non-financial disclosures and investment inefficiency are important to reduce information asymmetries.

1.3 Objective and Significance of The Study

1.3.1 Objective of The Study

1. To find out whether there is any effect between CSR disclosures towards company investment efficiency.
2. To find out whether there is any effect between CSR disclosures towards company investment efficiency with scenario overinvestment and underinvestment.

1.3.2 Significance of The study

Each research is expected to provide benefits for certain parties. This research is expected to provide benefits for :

1. **Practical**

   The results of this study are expected to provide additional understanding and as a basis for decision-making for the investors.

2. **Theoretical**

   The results of this study are expected to give more knowledge to students, especially economics students.

   The results of this study contribute to the literature on the economic consequences of CSR disclosure.

   The results of this research are also expected to contribute to the study of the impact of the 2020 CSR disclosure mandate in The Asia Emerging Markets.

1.4 Formulation of The Problem

Based on the background above, the following problems arise are:

1. Is there any effect between CSR disclosures toward company investment efficiency?
2. Is there any effect between CSR disclosures toward company investment efficiency with scenario overinvestment?

1.5 Systematic of Writing

Systematics of writing is made to get an overview and facilitate understanding of this report. The systematics of writing in this report can be divided into five chapters with the following systematics:

CHAPTER I INTRODUCTION

This chapter has described the background, the scope of the research, formulation of the problem, objective and significance of the study, and systematics of writing.

CHAPTER II THEORETICAL FRAMEWORK

This chapter contains a theoretical framework which is the basis of the research that is arranged into the framework and then states the hypothesis to be tested.

CHAPTER III RESEARCH METHODOLOGY

This chapter contains approach methods for solving problems that have been stated in the formulation of the problem.

CHAPTER IV RESULT AND DISCUSSION

In this chapter, the author demonstrates his academic knowledge as well as his analytical and critical nature in analyzing the issues discussed. The theory and literature in Chapter II are used as a guide. The author is expected to be able to express ideas/models/theories to solve problems by the research objectives.

CHAPTER V CONCLUSION AND IMPLICATIONS

This chapter contains a conclusion from the analysis result and discussion on the previous chapter as well as suggestions for further researchers.