CHAPTER I

INTRODUCTION

1.1 Research Background

Corporate Social Responsibility (CSR) has become a global issue that received wide attention from market players, heads of state joined in the United Nations (UN), international financial and business institutions, and others. The emergence of Global Compection, Global Reporting Initiatives (GRI), and ISO 26000 About CSR shows that CSR is a crucial issue and a global business agenda that should receive serious attention from business and the business world Lako (2007).

In addition to profit-making, the company is also responsible for maintaining corporate relationships with the public, shareholders, and also other communities. Companies may lose their investment if they are working on CSR, since companies can not invest in areas not allowed. CSR is not pushy, but it is needed by the company because CSR can bring prosperity to the surrounding community Putri (2014).

Social responsibility is defined as the responsibility of an organization for the impacts of the impacts of its decisions and activities on society and the environment embodied in the form of transparent and ethical behavior that is consistent with sustainable development and the welfare of the community, considering the expectations of stakeholders in line with the law in the set and norm of international behavior norms and integrated with the organization as a whole "according to ISO (International Organization for Standardization 26000).

In Indonesia, the Regulation of Corporate Social Responsibility (CSR), known as the Corporate Social Responsibility and Environment (TJSLP), is regulated in Article 74 of Law no. 40 Year 2007 regarding Limited Liability Company (UUPT), but also regulated in Law no. 25 Year 2007 regarding Investment (UUPM) with the term Corporate Social Responsibility (CSR). In Article 74 UUPT concerning TJSLP. As well as CSR disclosure in Indonesia is by using the standard Global Reporting Initiative (GRI). The Global Reporting Initiative is a reporting framework for creating sustainability reports comprising reporting principles, reporting guidelines and disclosure standards (including performance indicators). These elements are considered to have the same importance and weight for their assessment (GRI Report 2006).

Performance appraisal is the periodic determination of operational effectiveness of an organization, organization and its employees based on predetermined targets, standards and criteria. Given that organizations are essentially run by humans, performance appraisals are in fact an assessment of human behavior in performing the roles they play in the organization. In contrast to the notion of performance in general, then the definition of financial performance is the determination of certain measures that can measure the success of a company in generating profit. according to Mulyadi 1997 (as cited in Bambang Sudiyatno 2010).

Company performance is the result of a long process, Company performance can be positive or negative, depending on how the company is managed. Information on company performance is contained in the company's financial statements. Company performance is measured periodically to form the basis of decision-making by stakeholders. This is because the company is not an entity that only operates for its own sake, but must provide benefits for its stakeholders Chariri and Ghozali (as cited in Rosalinawati 2015).

Empirically it turns out the company is making a great blessing or a significant economic advantage for investing and implementing csr sincerely and consistently. The greater the company's investment on CSR issues the greater the economic benefits it generates. CSR, Although in the short term it drains cash and lowers profits, in the long jangaka turns out to bring many benefits of the company's economy. The economic benefits are: (1) As a social investment that becomes a source of competitive finance for the company in the long term (2) strengthening profitability and financial performance of the company (3) increased accountability and positive appreciation of the communities of investors, creditors, suppliers, and consumers (4) increasing work ethic, efficiency and employee productivity (5) improving the image and reputation of the company (6) decreasing the vulnerability of social upheaval and resistance from the surrounding community because it is noticed and respected by the company and (7) improved reputation, goodwill, and firm value in the long term Lako (2007).

Empirical studies on private companies like PT Sidomuncul (SM) increasingly size and powernya because it is very concerned CSR. Culture "Free Lebaran homecoming" which SM developed since 1989 so that now for employees and marketers of SM herbs, turned out to bring a lot of profits for the company. According to Irwan Hidayat (Chief Executive Office of SM herbal Medicine) the strategy is very effective in improving work ethic, efficiency, productivity, market share and sales as well as SM's reputation. Other Companies who are very concerned about CSR care, Such as Holy Needle PT also give the same testimony Lako (2007).

Several other empirical studies also proved that CSR has a positive effect on the financial performance of public companies listed on the Indonesia Stock Exchange.

Nistantya (2010) found that corporate social responsibility has a significant effect on the profitability of the company.Wijayanti et al. (2011) They found that CSR has no significant effect on Return on Assets (ROA) and Earning per Share (EPS) but has a significant positive effect on Return on Equity (ROE).

Another study was conducted by Saleh et all. (2008) studying the relationship between CSR and the company's financial performance at Kuala Lumpur Stock Exchange (KLSE), where their results show that CSR is positively significant with the company's financial performance. The study also found that in long-term relationships, CSR tends not to affect the financial performance of the company.

while on the other hand CSR is considered to be the cause of the declining financial performance of a company because it leads to agency costs that wasted the company's resources (Barnea and Rubin, 2010).

Based on the background that has been stated before, the research wanted to prove empirically the influence of CSR on the financial performance of the company. This study uses the dependent variable of company's financial performance that is activity performance and profitability performance. Which is proxyed by Asset Turnover (ATO) and Return on Asset (ROA). while the independent variables used are CSR with four categories of CSR dimensions according to the Clarkson stakeholder framework of CSR employee dimension, CSR community dimension, product dimension CSR, and environmental dimension CSR.

1.2 Problame Statement

1. Whether Corporate Social Responsibility (CSR) Disclosure positively affects the performance of company activities in proxy with Asset Turnover (ATO)
2. Whether Corporate Social Responsibility (CSR) Disclosure positively affects the company's profitability performance in proxy with Return on Assets (ROA)

1.3 Research Objectives

The purpose of this research is to prove empirically influence disclosure CSR disclosure to the financial performance of manufacturing companies listed on the Indonesia Stock Exchange during the period from 2014 to 2016

1.4 Research Benefits

This research is expected to provide additional knowledge and insight to researchers about Corporate Social Responsibility Disclosure. For the company can be used as reference material and consideration to take policy about the disclosure of corporate social responsibility. And for future researchers will be expected to make a significant contribution in the development of economics and insight especially in the field of accounting and can be made reference materials and comparisons of other research related to the disclosure of corporate social responsibility.