

CHAPTER I

INTRODUCTION

1.1 Background

In recent times, the spotlight has been focused on a firm's corporate responsibility. With how prevalent globalization is becoming and how aware people are becoming, the demand for a firm's action and social responsibility is unsurprising. An article by Forbes (2019) details how CSR has become integrated into business practices now as firms need CSR if they want to keep up with the competition around them. In an analysis by the Governance & Accountability Institute (2019), it was found that 86% of the companies in the S&P 500 index has a sustainability or corporate responsibility report published for the public to read. The Forbes (2019) article continues to explain how CSR doesn't just benefit the target of the policies and activities, but also the firms that carry out the CSR as well. The implementation of CSR policies could then be argued to be a give-and-take act, where firms need to give something to society around them if they wanted to be able to take the benefits that are associated with them.

A post on a blog called Smart Recruiters once highlighted some of the notable CSR initiatives in the year 2017, most of them being initiatives from larger and more well-known companies. Some of them include Ben & Jerry's and their yearly monetary awards to fund communities and societal change as well as Starbucks' initiative to hire 10,000 refugees across multiple countries in the following years. Actions such as these would likely implant a positive image of these companies in the mind of people who would read about them, giving them

an edge in terms of brand image. On the other hand, even if a company did not publicize their CSR initiatives and stuck to their own private activities to improve the livelihoods of their employees or local communities, it would still leave a positive impact and would often be disclosed in their reports. This would reassure stakeholders that the company is actively making an effort to improve the livelihoods of those around them or those who support them. Having the faith of the stakeholders is key for a company, as the stakeholders having a long-term relationship and supporting the company can make or break the company.

However, society doesn't just include the people in it. Another rising issue that can be observed in recent times is the declination of the environment. Issues on global warming have been prevalent in recent times, where scientists have pressured society to realize how our actions have been affecting the ecosystem around us. Firms are the ones suffering the brunt of the attacks, as their methods become exposed and questioned. An article by Sciencing (2018) has noted how factories are one of the major polluters in the world, polluting everything from the air, to water, and even the land. With how the earth has taken the brunt of the damage from all the pollution and damage, it is understandable how firms would be pressured by their stakeholders to be more environmentally-friendly. Firms themselves have also realized how a declining environment will affect them negatively as well. In another article by Forbes (2020), the accounting firm Deloitte explains how out of the 2,000 global executives they had surveyed, almost 90% of them had agreed that the impact of climate change was going to have negative implications on their firms. The article further notes that 6 out of 10 executives had

sustainability measures in place to try and decrease their impact on the environment. It is not a stretch to say that Corporate Environmental Responsibility (CER) is another key activity that must be carried out by companies.

One of the factors that could be considered a major influence on the degree of investment that firms need to take up for their CSR and CER is the level of attention that gets put on the company. As previously mentioned, the CSR and CER activities that firms need are generally due to the demands of the public around them. It can be said that all firms need to work on their CSR and CER, but it is also a fact that the attention put on firms are different according to the size of the firm. A study done by Youn et al. (2015) found that larger firms are more likely to have the media and government focus on them than smaller firms, which means that the expectations on larger firms are expected to be much larger than smaller firms. Arguably, that would entail that a firm's size has a crucial effect on how much CSR and CER a firm needs to invest in as the payoff for the firms differ according to their size.

When looking at the country of Indonesia, it is obvious to see that the concept of CSR and CER are still relatively new and not embraced. The existence of CSR reports is difficult to find and companies don't often publicize their CSR and CER initiatives, if any. Therefore, the writer would like to conduct a study on foreign companies to extrapolate and show how important CSR and CER activities are and what effects its reporting has on a company's performance. To pursue this study, the writer decided to use S&P 500 firms and focus specifically on the customer staples sector, which is one of Indonesia's strategic sectors and a

significant contributor to the nation's GDP. When determining the sample, it is crucial to exclude any firms that are nonperforming as well as those that are newly formed. This is because they harbor the factor of uncertainty and instability which will be detrimental to the study and data. The firms will be checked to see if they fulfill either of those criteria before being selected for use within this study.

It is of the writer's interest to study the topic of the effects of CSR and CER policies on a firm's performance. With how increasingly important CSR and CER are to the stakeholders in general, the writer feels that it is important to study the effects to ensure that Indonesian companies will be able to perform well in the coming times and whether it is important for firms to be more socially and environmentally aware in the coming times. Therefore, this study will be conducted and titled as

" The Effect of a Firm's Corporate Social Responsibility (CSR) and Corporate Environmental Responsibility (CER) on Firm Performance on the Customers Staples Sector "

1.2 Research Problems

Based on the background that was discussed in the previous section, it could be argued that the role of CSR policies is key in a firm's financial performance. To conduct this research, the data that is required will be obtained through data on a firm's CSR policy disclosure, specifically relating to social and environmental policies, firm size, as well as the firm's financial performance

measures. To achieve the goal set out, the writer will set out the following as the core research problems:

- 1) Does disclosing the firm's CSR policies affect the firm's financial performance?
- 2) Does disclosing the firm's CER policies affect the firm's financial performance?

1.3 Research Objectives

In formulating the following objectives, the writer holds to the research problems listed above. Therefore, the research objectives that have been composed are the following:

- 1) Prove empirically that disclosing and promoting the firm's social CSR policies affect the firm's financial performance positively.
- 2) Prove empirically that disclosing and promoting the firm's environmental CSR policies affect the firm's financial performance positively.

1.4 Significance of the Study

Based on the research objectives, the results of this study are expected to be useful for the following parties:

- 1) Firms

The writer hopes that the research done will be able to help firms make decisions in regard to their CSR and CER policies and their disclosure and improve their financial performance through it.

- 2) Future Researchers

The writer hopes that the research done will be able to assist future researchers in their pursuits within the field of CSR and CER as well as its effects on a firm's financial performance. The writer also hopes that the research done will be able to provide suitable recommendations for future studies.

3) Writer

The writer hopes that the research done for this study will be able to expand their knowledge on the topic of CSR and CER and how it affects a firm's financial performance. The writer also hopes that they will be able to use this knowledge in the future, whether it be in their field of work or for general knowledge.

4) Pelita Harapan University

The writer hopes that the research done will be able to give more insight to the theories and topic that is mentioned for further studies and use by the university. The writer also hopes that the study may present a newer outlook on the subject for students who may be interested in the topic.

1.5 Scope of the Study

This research will be focusing on the frequency of disclosure of a company's CSR and CER activities in their annual reports, focusing specifically on data from the years 2016-2019 from firms that operate within the food and beverages sector.

The main independent variables used in the study will be CSR scores provided by the website CSRHub as well as the number of CER-related key words

found in a company's Corporate Responsibility Report which falls under a selected list of GRI Components. The CSR scores provided will be on a scale of 0-100. The CER-related information will follow a set of 27 selected components which will be elaborated further in future sections.

The dependent variable used in the study will be firm performance, which will be measured in the form of net profit margins, earnings per share, and price to earnings ratio. The study will also include a control variable in the form of firm size and age.

1.6 Systematic Discussion

The research paper will be divided into 5 chapters as follows:

CHAPTER I: INTRODUCTION

This chapter will discuss subchapters including the background, research problems, research objectives, significance of the study, scope of the study, as well as the systematic discussion.

CHAPTER II: THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

This chapter will discuss the literature review for the paper as well as the conceptual framework, prior research, and hypothesis development.

CHAPTER III: METHODOLOGY

This chapter will discuss the details relating to the methods used to quantify the results. This will include the population and sample, the empirical model, the operational variable definition, and the method of data analysis.

CHAPTER IV: DISCUSSION

This chapter will discuss the outcome of the findings of the research, especially in relation to the impact of CSR policies on firm performance.

CHAPTER V: CONCLUSION

This chapter will discuss the conclusion of the study. It will also include suggestions for improvement for the current research as well as recommendations for future research.

