

# **CHAPTER I**

## **INTRODUCTION**

### **1.1. Background of the Study**

As people all across the world are becoming increasingly concerned about different environmental and social elements and its effects on their habits in term of consumptions, resulted in the increase of awareness on human activities and its impact on the environment over the last 20 years (Hsu, 2018). Companies whose focus is set on producing prioritizes the enhancement of production to minimize cost, enabling them to maintain consumers' acceptance towards their goods in the market. However, alongside with time consumers started to place importance on quality as a result of their awareness on their safety, therefore requiring companies to improve corporate image to ensure position in the market.

Nowadays, in order to achieve a profit that is sustainable is no longer an easy task considering the significant competition within the markets and businesses constant fluctuations. In order to generate a sustainable profit, companies have to first complete their basic obligations which is obligations towards the stakeholders. This is because generating sustainable profit is only possible when a good corporate image is built.

As these are continuously discussed in an article by Financier Worldwide Magazine (2015), it was stated that back in the days, by carrying out philanthropic actions such as donating and other social activities, company can easily obtain a good corporate image. On the contrary, companies nowadays are required not only to conduct activities in a righteous manner but they have to make a contribution to the community, thus named as Corporate Social Responsibility (CSR).

The article further discussed the concept of CSR meanwhile mentioning that aside from being operated by most corporates and are crucial, usually an annual report are produced for companies to analyze

their level of contribution towards the society. International activities conducted by corporations implement CSR in different ways as challenges faced also vary greatly based on the nations in relation thus CSR has become an indispensable factor as it provide efficiency towards company n operating and in engendering images that will benefit them.

Guidelines surrounding the matter of CSR have also gone through a tremendous change. As it is better developed now, it is common to see giant businesses implementing CSR as a part of their marketing operations, followed by a series assessment meant to be analyzed and improved for the country of destination. To conclude, CSR help provide different standards adjusted to the country which a company would like to operate on.

Majority of companies, view CSR as an important element that helps complete their identity as a corporation. Giant businesses such as Hickory Springs developed its own CSR activities known as Earth-care Challenge and Starbucks Coffee developed their own CSR Program encouraging the availability of clean water in communities stricken by poverty. Their actions are executed in order to achieve a successful integration between the company's CSR on their corporate image (Lee, 2013).

Regardless of everything, there are times where implementing CSR does not generate profit but instead, it helps deal with other issues such as social pressures and shaping a better image (Mochalov, 2017). It was later explained in the research that implementation of CSR will not generate direct profit rather one that will be sustainable.

In the midst of the acclaims, some researches disagree regarding the benefit brought by CSR. One of it being Geethamani (2017) who said that corporate's main objective is to make profit, the implementation of CSR will only add up to extraneous bureaucracy and causing complication, therefore it is not the suitable strategy in building a better corporate image. The complication will further cause an increase in cost to the company resulting in greater expenses and decreasing the value later obtained by the

company's stakeholders. This thinking that contradicted the many benefits previously mentioning the benefit of CSR is the reason behind the writer of this research paper in conducting a study at PT Salim Ivomas Pratama Tbk.

PT Salim Ivomas Pratama Tbk, known also as SIMP Group is regarded as giant in agriculture business in Indonesia. Equipped with not only diversity but also integrated business activities spanning from its logistic such as supply chain, its dominance in term of research and development that can be seen from the company's ability in operating their palm mill into producing various products such as cooking oil to shortening (SIMP, 2019).

As one of the most thriving company within the agriculture business, several CSR program has been put into action by PT Salim Ivomas Pratama Tbk forming not only different involvements and contributions while targeting different fields. The activities are meant to ensure not only the well-being of the society such as health but also environmental preservation and overall infrastructure, including response in case of disasters.

A persisting problem however occurs due to the company being not too vocal in term of their CSR's existence. Moreover, the writer got the information from the upper level management that the company does not have a proper management about their CSR as well as they did not realize the existence of CSR will affect their corporate image which indirectly influence their sustainable profit.

With the reasons mentioned, the author is interested to hold a further in-depth research able to be analyzed and draw a conclusion on, and the research being titled as **“The Impact of CSR (Corporate Social Responsibility) towards CI (Corporate Image) at PT Salim Ivomas Pratama Tbk (SIMP).”**

## **1.2. Problem Limitation**

Every research has its own limitation and so does this research. This research has to face limitation of money as well as time.

The measurement of CSR will be utilized as the dependent variable (Y) dimension using the CSR pyramid. The pyramid consist of different responsibilities from Economy Responsibility as the foundation, followed by Legal, Ethical and Philanthropic Responsibility. Meanwhile the “Personality”, “Reputation”, “Value”, and “Corporate Identity” are the independent variables’ indicators.

## **1.3. Problem Limitation**

Previously mentioned, the writer’s objective lies in identifying the impact of CSR on CI. In order to do so, several questions to assist answering the questions can be generated as follows:

- a. How is the implementation of CSR by SIMP?
- b. How is the generated corporate image of SIMP?
- c. Do the CSR programs applied by SIMP have any effect towards Corporate Image?

## **1.4. Objective of the Research**

Aside from proving and analyzing the impact CSR has on CI, this study’s objective is to gain a deeper and more comprehensive understanding in regard of CSR’s relationship on CI. To be more specific, the objectives of this study can be stated as follows:

- a. To explain different types of CSR activities applied by SIMP
- b. To conduct an assessment on the corporate image of SIMP
- c. To do investigation about the effect of CSR towards Corporate Image at SIMP

## **1.5. Benefits of the Research**

There are 2 types of benefit of this research.

### **1.5.1. Theoretical Benefit**

Viewed academically, the completion of this research is meant to produce a comprehensive understanding regarding the impact of Corporate Social Responsibility (CSR) on Corporate Image (CI). Aside from enriching the writers' knowledge it will also be mutually beneficial towards academic discussions on the topic in the future.

### **1.5.2. Practical Benefit**

This research is hoped to come up with the benefits that will be stated below upon the completion of the study:

- a. For the writer, conducted in hope to expand one's knowledge as well as gain a first-hand experience that will help further understand the relationship between CSR on CI in reality.
- b. For the company, to become a platform that will enable the development of CSR program that benefit not only the society and the company but also make achieving sustainable profit possible
- c. For other researches, as a reference or base to which could be utilized as a reference when conducting research of the same scope.

## **1.6. Systems of Writing**

### **Chapter I: Introduction**

The focus of this part, lie on stating the study's scope limitation as well as between as other elements relating to the study. Such as, the reason of the relationship of CSR's effect on Corporate Image. Problems expected to be faced by the research will be identified alongside with statin the study's objective. Furthermore, research benefits both in theory and practice will be stated.

## Chapter II: Literature Review and Hypothesis Development

Theories as well as academic studies in relation to the research study which are CSR and CI will be explained in this study. Mentioning not only outcomes of researches conducted by others as well as an outline of this research study as a whole – the hypothesis development and framework of thinking.

## Chapter III: Research Methodology

Elements that are integral to the study are elaborated in this chapter. Explaining not only research's design but also the method for data collection, its samples, population as well as the definitions to the variables and how it is measured. Within this chapter, it will be ended by stating methods implemented for analysing data.

## Chapter IV: Data Analysis and Discussion

In this chapter, the purpose is to view the research object generally as well as discussing analysed data, which will be done in a comprehensive manner. The focus lies in the discussion of data to determine its quality and gaining an answer to the hypothesis testing.

## Chapter V: Conclusion

Within this chapter, a conclusion will be derived from the overall research before being followed by recommendations that could be of assistance to different parties as well as to the paper's initial problems of research.