

CHAPTER I

INTRODUCTION

1.1 Background of Study

Economic growth has led to an increase in the number of companies and become a magnet for population movements which has resulted in an increase of the amount of industrial Hazardous and Toxic Substances (B3). As a developing country, Indonesia continues to advance economic growth. Manufacturing sector is the biggest contributions towards Gross Domestic Product (GDP). In 2000, the Gross Domestic Product of manufacturing sector has generated 385.5 trillion and increased to 2,739.4 trillion in 2017. The increased amount has supported by a large number of populations and evolving of technology and science nowadays. Thus, the existence of companies have raised.



Figure 1.1 GDP at Current Price 2006-2017 and Manufacturer Company Share, 2017

Source: *Badan Pusat Statistik Indonesia* 2018

Because lack of awareness towards environment, the writer has found that the recently cases about environment pollution. For example: a sperm whale was found dead and rot in Wakatobi, Southeast Sulawesi on 19th November 2018. It had 9.5 meters length. The behind reason for the whale's death was found out 5.9 kilograms of plastic waste inside the whale's stomach. Generally, plastic waste could not be decomposed naturally by whales and eventually become poison and bring death. Those plastic waste are from manufacturer companies of food and beverages sector such as packaging, plastic cups and bottles. The evidence refers to **Appendix**. The another example was on 27th November 2018 which was found three hawksbill sea turtles' death in Kepulauan Seribu, Jakarta.

According to Ida Harwati as Head of Region III Conservation Section of DKI Jakarta Natural Resources Conservation Agency said that those turtles died because of plastic waste and oil spills around them. When their carcass floated, inside their mouth had plastic as well as their front legs too. Through these case, it shows that most people do not care about the destruction of environment and balance of life. They just know how to consume products and do not want to recycle the plastic waste. If there is, it is just a little.

Those cases could be raised into surface because as a large number of populations, it has led to an existence of diversity of companies in order to fulfill demand from consumption patterns and diverse lifestyle. The impact of companies' activities are increasing the amount of waste, varies consumption patterns affects the composition of waste so that it becomes more difficult to decompose naturally, pollutes the environment, and lastly endanger human health and animal life.

To solve the environment pollution, community and business actors must pay attention to the environment and work together to maintain the balance of environmental living. Thus, it is important to

conduct “*Corporate Social Responsibility*” whether it is mandatory or voluntary. Indeed, some businessmen must think that doing Corporate Social Responsibility (CSR) will spend a lot of money which can be used to increase production or other things. However, CSR must be mandated for business actors in order to maintain the sustainability companies in the future, avoid legal threats and the lives of surrounding community such as obliged to follow Wastewater Treatment Plant (WWTP) program for companies.

There are three reasons why companies conduct corporate social responsibility, namely: compliance, minimizing the risk and creating value. First, the compliance means the company is willing to do CSR activities due to regulatory demands like stated in Law No. 40 of 2007. This law mandates the company to carry out CSR programs. Second, it is to minimize risks. The company develops and implements procedures to minimize damages or losses that may result from company operations. Third, creating value means that the company creates social value involving the community in it like planting trees together.

According to Law No. 40 of 2007 (Article 74) about Limited Company that related to Corporate Social Responsibility and Environment:

1. The company that carries out its business activities in the field and / or related with natural resources must oblige to implement corporate social responsibility and environmental.
2. Corporate social responsibility and environmental as referred to article (1) are the company’s obligation that are budgeted and calculated as company’s costs which the implementation is carried out by observing propriety and fairness.
3. The company that does not carry out the obligations as referred to article (1) is subject to sanction based on the provisions of legislation.

4. Further provisions regarding corporate social responsibility and environmental are regulated by government regulations.

Besides, some companies are also encouraged to do voluntary of Corporate Social Responsibility with the aim of to achieve society and environment welfare and reach strong relationship between companies and society. For instance, PT Indofood Sukses Makmur Tbk. To protect the environment, this company is committed with some programs which are Pollution Control, Evaluation and Rating (PROPER). This program covers aspect related to documentation, environmental permits, hazardous waste management, water and air pollution control, and the monitoring of environment parameters.

Indofood also works together with other companies in order to form Packaging and Recycle Alliance for Indonesia Sustainable Environment (PRAISE). This program is about the solutions for urban waste management or creating recycled packaging. While, the voluntary part should be carried out by the community so that they can aware more about the environment even it is a little or big damaged.

In addition, there are some factors that influence business actors to do Corporate Social Responsibility which are profitability, firm size, and public ownership. Firstly, to measure profitability, the writer will analyze financial statements which focus on Return on Assets (ROA). Because of assets, the business actors can get much profit so that the writer can see the influence of profitability towards Corporate Social Responsibility. Secondly, firm size also has a relation with Corporate Social Responsibility. The biggest of a company is, the more activities are carried out, so that it has a greater impact on the society. Because of more activities, the business actors will keep aware the social welfare around the companies. Moreover, the largest companies also have the ability to recruit skillful employees. With those employees, the companies can keep surviving and increasing the firm size. Thus, large

companies have initiatives to make wider disclosures compared to small companies.

Lastly, public ownership has a relation to Corporate Social Responsibility. All companies that has already go public and listed in Indonesia Stock Exchange (IDX) must report all activities and conditions of companies in order to be known by the public as one of the shareholders. The greater share ownership that held by public, more extensive of CSR disclosure will be.

Although the writer does research on profitability (return on assets), firm size, and public ownership, but still, there are some factors that probability explained the corporate social responsibility such as leverage and management ownership based on previous research.

To show the increase and decrease of corporate social responsibility activities, the writer will show the table phenomenon in which there are net income and corporate social responsibility disclosure. The table phenomenon refers to **Table 1.1**.

Table 1.1 Table Phenomenon of CSR

Company	Year	CSR D
SKBM	2015	0,2564
	2016	0,2692
	2017	0,2692
SKLT	2015	0,2692
	2016	0,2949
	2017	0,2949

Source: Prepared by the writer (2019)

According to the table phenomenon of corporate social responsibility, there are two companies of food and beverages which are PT Sekar Bumi and PT Sekar Laut did the lowest of corporate social responsibility activities for period 2015-2017. For PT Sekar Bumi, it could be seen through 2015-2017, the increase of corporate social

responsibility activities was still relatively small and constant. It means that the company still does the same activities every year. It can be seen through corporate social responsibility disclosure which is only doing 20 or 21 items from 78 items. For PT Sekar Laut in the year of 2015, the increase of corporate social responsibility was still relatively small. But, in 2016-2017, there was an increase of corporate social responsibility activities due to additional cost for the programs. In 2015, the company spent one billion rupiah and in 2016, the company spent two billion rupiah. The reason is to fulfill the vision and mission of the company so that the company party are committed to do those programs.

Therefore, based on several researches that were conducted by previous research, there are inconsistency results or research gap towards Corporate Social Responsibility. Here are some of previous research results: the first is Gusti Ayu Dyah Indraswari and Ida Bagus Putra Astikas' research in 2015. It showed that profitability and firm size have positive significant on corporate social responsibility. The public ownership has negative significant on corporate social responsibility. The second is Rina Fatkhiyatur Rifqiyah's research in 2016. It showed that profitability and firm size have not significantly affected on corporate social responsibility. While, public ownerships have significant effect on corporate social responsibility. The third is Agus Dwi Santoso, Supri Wahyudi Utomo and Elly Astutis' research in 2017. It showed that public ownership and firm size have not significant on corporate social responsibility. The profitability has a positive significant on corporate social responsibility. Therefore, the writer is attracted to research deeply about Corporate Social Responsibility. The writer is interested on title: **“Factors Influencing the Practice of Corporate Social Responsibility in Indonesia”**.

1.2 Problem Limitation

On this research, the writer will limit the problem in order to be more focused on the topic. The writer will focus on profitability (return on assets), firm size, and public ownership and corporate social responsibility which the data are be taken from manufacturer companies especially food and beverages in 2015-2017.

1.3 Problem Formulation

1. Does Profitability have significant effect on Corporate Social Responsibility of manufacturer companies (food and beverages)?
2. Does Firm Size have significant effect on Corporate Social Responsibility of manufacturer companies (food and beverages)?
3. Does Public Ownership have significant effect on Corporate Social Responsibility of manufacturer companies (food and beverages)?

1.4 Objective of Research

1. To understand the significant effect of Profitability on Corporate Social Responsibility towards manufacturer companies of food and beverages.
2. To understand the significant effect of Firm Size on Corporate Social Responsibility towards manufacturer companies of food and beverages.
3. To understand the significant effect of Public Ownership on Corporate Social Responsibility towards manufacturer companies of food and beverages.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

As an implication material that helps readers to understand the factors influencing the practice of corporate social responsibility, recognize the disclosure concept and how to measure corporate social responsibility is.

1.5.2 Practical Benefit

Mostly practical benefit will directly impact to companies. Hence, it is as a reference which will be considerate in making a good decision related to the importance of corporate social responsibility.

1.6 Systems of Writing

On the Chapter I (Introduction), explains about the background of corporate social responsibility which comes from the environment problems and inconsistency result by previous research. It consists of: Background of Study- the reasons of conducting corporate social responsibility. Problem Limitation- the writer only focus on factors influencing the practice of corporate social responsibility. Problem Formulation- contains factors' questions towards corporate social responsibility. Objective of Research- the goal of doing this research by understanding the factors. Benefit of the Research- the advantages as a material for the writer and readers so that can make a good decision. Systematic of Writing- briefly explain the way how the writer think from beginning until ending.

On the Chapter II (Literature Review and Hypothesis), explains about the definition of profitability, firm size, public ownership and corporate social responsibility. It consists of: Grand Theory- stakeholder

theory and signaling theory. Stakeholder theory relates with investors, customers, employees, and others. Signaling theory gives good signal to investors. Theoretical Background- the definition of each factors and corporate social responsibility which are taken from books or journals. Previous Research- the similarities and differences between the writer's research and previous' research on corporate social responsibility. Hypothesis Development- the hypothesis of profitability, firm size and public ownership towards corporate social responsibility. Research Model- briefly frame of independent variable (profitability, firm size and public ownership) and dependent variable (corporate social responsibility) on this research, hence, it is understandable. Framework of Thinking- the environment problems or other phenomena happened, to know the effect of profitability, firm size and public ownership along this research.

On Chapter III (Research Methodology), explains about the writer collects manufacturer companies' annual report for a specific period and measurement of profitability, firm size, public ownership and corporate social responsibility. It consists of: Research Design- this research is using quantitative method. Population and Sample- population of manufacturer companies especially food and beverages which define the sample by purposive sampling. Data collection method- return on assets, total assets, total ownership of public shares, and corporate social responsibility or sustainability report. Operational Variable Definition and Variable Measurement- definition briefly of profitability, firm size, public ownership and corporate social responsibility and also the formula of each variables. Data Analysis Method- the writer is choosing quantitative method and using Statistical Package for Social Science (SPSS) to analysis the data.

On Chapter IV (Data Analysis and Discussions), consists of: Research Object- manufacturer companies specifically food and beverages. Data Analysis- this research will use classic assumption test

which are normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test. Besides, it uses multiple linear regression to see the relationship between independent variable towards dependent variable. Descriptive test is to describe the result of profitability, firm size, public ownership and corporate social responsibility.

On Chapter V (Conclusion) consists of: Conclusion- the final result of profitability, firm size, and public ownership whether it is a positive or negative significant towards corporate social responsibility. Implication- the impact of positive or negative significant towards dependent variable. Recommendation- the solution for this research if there is any factor that does not in line with the theory.

