CHAPTER I
INTRODUCTION

A. Research Background

Currently, companies in carrying out their operational activities must also consider the emergence of social issues. The company is oriented to efforts to improve financial performance in fulfilling responsibilities to shareholders and the government, employees, the surrounding community, and the wider community (stakeholders) (Hadi, 2014). Various problems encountered, such as; Social, economic and environmental conditions require companies to integrate all systems to comply with applicable laws and focus on the good of stakeholders and society, especially around the company's operations.

If viewed closely, the current existence of mining companies can provide economic value to the community, such as: creating jobs, making donations, increasing government revenue in paying taxes and so on. On the other hand, the existence of these companies also causes many social and environmental problems, such as; environmental pollution, production waste, air pollution, noise, arbitrariness, discrimination, coercion (Harahap, 2001). For this reason, companies must implement Corporate Social Responsibility (CSR) as a real step to change the image of the business world that is environmentally friendly. The company's paradigm shift, which was originally only oriented to profit, must pay more attention to social responsibility.

CSR disclosure is the process of informing special interest groups and the general public about the social and environmental consequences of a company's economic activity (Sembiring, 2005). CSR disclosure is beneficial for the sustainability of the company in attracting investors and increasing creditor confidence in reducing the capital constraints experienced by the company. CSR information disclosure is predicted to increase the value relevance of accounting information and this is because CSR disclosure can add information needed by investors in assessing the company (Agusti and Rahman, 2011). Therefore, CSR disclosure impact on the company's operational activities, which can directly resulting changes in financial performance.

CSR disclosure for originally voluntary companies has become mandatory with the enactment of Law Number 40 of 2007 concerning Limited Liability Companies (PT), as of August 16, 2007. Article 74 explains that companies that carry out their business activities in the field and/or related to natural resources nature are obliged to carry out social and environmental responsibilities if it does not carry out these obligations, it will be subject to sanctions following the provisions of the legislation.

CSR disclosure has been developed based on the TBL (Triple Bottom Line) approach, the most relevant reference developed by Elkington (1997). Companies who want to be sustainable, according to TBL, must pay attention to the "3P." Companies must pay attention to and be involved in fulfilling the welfare of the community (people) as well as actively contribute to environmental (planet) preservation in addition to chasing revenue (profit).

In Islamic perspective, the concept of CSR is not new as written in QS. An-Nisa Verse 85:

مَنْ يَّشْفَعْ شَفَاعَةً حَسَنَةً يَّكُنْ لَّهٗ نَصِيْبٌ مِّنْهَا ۚ وَمَنْ يَّشْفَعْ
شَفَاعَةً سَيِّئَةً يَّكُنْ لَّهٗ كِفْلٌ مِّنْهَا ۗ وَكَانَ اللّٰهُ عَلٰى كُلِّ شَيْءٍ
مُّقِيْتًا

85. Whoever gives help with good help, they will get a share of (reward). And whoever gives help with bad help, they will surely bear part of it (sin). God is Almighty over all things.

The Qur'an sura An-Nisa verse 85 above explains Islam encourages us to be fair to fellow human beings. Humans who give kindness to others will one day get good, and vice versa, humans who cause evil, then surely one day will receive the harmfull consequences of their actions. God is fair.

Like a company that has a positive impact in the eyes of the community, the company will have a good image. Otherwise, companies that have a negative impact will certaintly, of course, have a bad image. Here it clearly illustrates that Islam pays attention to business through moral aspects to achieve goals. This is refer that Islam is related to economics and morality, both of which cannot be separated.

Islam also considers environmental sustainability as one of its social responsibilities. All business efforts must ensure environmental sustainability, as stated in the QS. Ar-Rum Verse 41:

ظَهَرَ الْفَسَادُ فِى الْبَرِّ وَالْبَحْرِ بِمَا كَسَبَتْ اَيْدِى النَّاسِ لِيُذِيْقَهُمْ
بَعْضَ الَّذِيْ عَمِلُوْا لَعَلَّهُمْ يَرْجِعُوْنَ

41. Corruption has appeared on land and sea because of what the hands of men have done; Allah desires that they taste a part of what they have earned, that they may return (to the right path).

The verse above describes that the environment and its preservation is one of the core teachings of Islam. The nature of interdependence between living things is the nature of Allah SWT. From this principle, the result is that if humans damage or ignore one part of God's creation, then nature as a whole will experience suffering, which in the end will also harm people.

The two verses above have relevance in this study, where the operations of mining companies cause little environmental damage. The company is required to participate in the process of environmental preservation. The company is also required to maintain good social relations as a form of social responsibility, especially to the community around the company's operating environment and other stakeholders who both have an interest in the company.

According to Fadhilla (2016), financial performance in published financial reports is information for investors to make choices on good companies to invest in. Guthrie and Parker (1990), disclosure of CSR information in annual reports is one way for companies to build, maintain, and legitimize the company's contribution from the economic and political side. This shows that companies that implement CSR expect a positive response from market participants.

In measuring financial performance, the level of profitability is used as a basis for estimating the company's financial performance. This is done considering that business attractiveness is one of the crucial indicators in business competition. Indicators of business attractiveness can be measured from the company's profitability, including Return on Assets (ROA) and Return on Equity (ROE) in the annual report (Fraser and Ormiston, 2012). With ROA, the company can manage its assets, while with ROE, it can be seen how the company manages its equity.

In addition, the concept of CSR disclosure is generally guided by the Global Reporting Initiative (GRI), which is a sustainability report concept that arises as a result of sustainability development. In the Sustainability report, a triple bottom line is used in the annual report, which is measured based on the company's business commitment to contribute positively to environmental, social and community activities. Several previous studies have found that CSR disclosure is an important phenomenon, especially for companies whose business activities are in direct contact with the natural environment. Therefore, CSR disclosure is information that investors must consider in making business decisions.

The company's operational activities have the main goal of maximizing the value of the company by considering profit as one of the factors. However, the company's activities also have an impact on the environmental, social and economic conditions of the community, especially those around the company (Harahap, 2007). Therefore, the company has an obligation to contribute to the community as a whole which is called Corporate Social Responsibility (CSR) as a real step in contributing to the community (Hadi, 2014). According to Jalal (2012), companies that were already concerned with CSR activities in 2010 experienced an increase of 40% compared to 2001. This shows that companies and investors today do not only look at companies in terms of financial performance, but also see how companies maintain business continuity with the environment and society in the future (Gunawan, 2011).

In strengthening capital operations, the company offers investment to the public in the capital market. The capital market is a place where various parties, especially companies, sell shares to use the proceeds from the sale to strengthen the company's capital (Fahmi, 2015). Shares are evidence of capital investment in company ownership (Sapto, 2006). Actual, accurate, and transparent information on the capital market regarding their investment is very important for investors in making capital market decisions. Junaedi (2005) indicated that the level of the information disclosure provided by the company's management will have an impact on share price movements which in turn will also have an impact on the volume of shares traded and returns.

According to Reny and Retno (2012), investors are more interested in companies that have a good image in the community, because the better the company's image, the higher consumer loyalty, so that within a certain time the company's profitability improves and later causes the company's stock value to increase. However, based on previous studies, the relationship between CSR and Corporate Financial Performance (CFP) still has not found a common ground, whether CSR can increase value, decrease value, or even not at all (Jo and Harjoto, 2012). Based on the explanation above, there is a relationship between CSR, CFP, and share prices.

In this study, the researchers used several previous studies as a reference source or reference material to compare this study with previous studies. Several previous studies related to this topic include the results of Hamdani's research (2014), which states that CSR disclosure is significantly associated with financial performance and share prices. In contrast to the research result by Krisnamurti and Adiwibowo (2016), which states that CSR disclosure has no effect on share prices. Hidayansyah et al. (2015) research proves that CSR disclosure has a significant effect on financial performance, and CSR has no effect on share prices while financial performance has no effect on sshare prices. The same study results, Hendrayani et al. (2017), show that CSR disclosure has no effect on share prices, while profitability significantly affects share prices. Budi (2012) indicates that CSR disclosure has a significant effect on stock returns.

Several other researchers have also explained the effect of CSR disclosure on financial performance and share prices, such as: The impact of CSR disclosure on financial performance was investigated by Aryani and Amanah (2014). According to the findings of this study, CSR disclosure has a negative and considerable impact on ROE. Chandrayanti and Saputra (2013) examined the effect of CSR disclosure on the company's financial performance (empirical study of mining companies on the Indonesia Stock Exchange). The results show that CSR has a positive and significant effect on ROA and ROE, and negatively affect on Net Profit Margin (NPM).

This research was conducted because there were inconsistencies in the results of several previous studies with different proxies between researchers, so in this study, the authors focused on two proxies of financial performance, namely ROA and ROE.

In addition, the one-year research selection ranging from 2018 to 2019 is based on the issuance consideration of the GRI standard on June 8, 2017. The research period was also chosen to describe the current situation regarding the impact of CSR disclosure on financial performance and share prices. In contrast to previous studies, the research object is limited by taking mining companies listed on the Indonesia Stock Exchange (IDX).

Based on the background and differences from the results of previous studies, the authors are interested in conducting research with the title **"THE EFFECT OF DISCLOSURE OF CORPORATE SOCIAL RESPONSIBILITY (CSR) ON FINANCIAL PERFORMANCE AND SHARE PRICES (EMPIRICAL STUDY ON MINING COMPANIES IN INDONESIA STOCK EXCHANGE 2018-2019)."**

B. Research Questions

Based on the description on the background, the problem formulation in this study is as follows:

1. Does the disclosure of corporate social responsibility (CSR) positively affects on financial performance?
2. Does the disclosure of corporate social responsibility (CSR) positively affects on Share Prices?

C. Research Purposes

Based on the formulation of the problem, the objectives of this study are as follows:

1. To analyze the positive effect of corporate social responsibility (CSR) disclosure on financial performance.

2. To analyze the positive effect of corporate social responsibility (CSR) disclosure on the share price.

D. Research Benefits

The following are the expected benefits of the research carried out:

1. Theoretical Benefits

   This research is expected to contribute thinking in developing science and literature sources on CSR disclosure, financial performance and share prices, especially for companies and academics.

2. Practical Benefits

   This research is expected to be an input to the company's management on the importance of CSR disclosure for the company's progress as well as identifying factors that affect financial performance as well as share prices.

3. Decision Making

   This research is expected to be taken into consideration by the company's management when making CSR disclosure decisions or policies to improve the company's performance.