CHAPTER I

INTRODUCTION

1.1. Background of Research

In the era that is completely open without the boundaries of space and time as it is today, brings extensive and various effects within the financial, legal, social, political and security creatures (Ahlborg et al., 2019). This circumstance has implications for increase and improvement network about meeting desires at the worldwide, local and country wide ranges in phrases of togetherness, sustainability and inclusiveness. The improvement of current society has also entered the area of financial interest widely together with strategic funding accomplished by numerous nations in the entire world.

Borrini-Feyerabend & Hill (2015) find that today organizations, companies, and humans as individuals have used natural assets much faster than nature's ability to regenerate its self. Almost all organizations and companies in carrying out their operational activities often only prioritize financial conditions and neglect the long-term sustainability of the organization, both for the natural environment and the social environment. This is of course contrary to the concept of good environmental sustainability in the Principles for Responsible Investment (PRI).

An investment is sometimes measured by how much profit an investor gets (Berk & Van Binsbergen, 2015). However, now a company must have a portfolio of projects that not only meet the demands of shareholders. Not only that, Doppelt & McDonough (2017) report that there are other things including the local community, civil society, to the government. All of this needs to be achieved while still paying attention to the risks in securing and ensuring the sustainability of the investment. So that the investment principle is not only fixated on one thing, but it covers many things including common interests.

Kotsantonis et al. (2016) states that the establishment of the Principles for Responsible Investment (PRI) aims to improve the application of the six principles of responsible investment. The six principles are prepared based on estimates that the company's Environmental, Social, Governance (ESG) activities can affect the performance of the portfolio owned by investors (Gillan, Koch, & Starks, 2021). Therefore, investors should make Environmental, Social, and Governance (ESG) as one of the considerations when investing

Widyawati (2020) states that Environmental Social Governance (ESG) is a company standard in its investment practices which consists of three concepts or criteria, namely Environmental, Social and Governance (Corporate Governance). Escrig-Olmedo et al. (2019) find that a company that applies ESG principles in its business and investment practices means that it will participate in integrating and implementing company policies, so that it is in line with the sustainability of these three concepts. ESG is an initiative originating from the private sector that responds to the urge to create sustainable economic development. ESG concepts, standards and criteria are increasingly popularly used by investors at the regional to global levels, as well as at the national level with the introduction of Sustainable Finance for the banking industry. Companies that carry out the concept and implementation of ESG criteria have become a basic consideration for investors in making decisions to invest (Van Duuren et al., 2016).

Of the three ESG elements, Hollenbeck & Jamieson (2015) argue that social is an interesting element to study because it is directly related to the humanitarian side and resources for the company to survive. The life of the company will always go hand in hand with the life of the people. In other words, without a society the company's survival will also not run because there are no service users or buyers of products provided by the company. The term social has always been associated with relations between people, however on the other hand there is an indirect relationship between the company and society in social terms (Gürlek et al., 2017). Therefore, it is very important for companies to pay attention to their social performance in order to build and increase trust in the community.

Every company that has been established for more than 10 years tends to have performed socially, both with excellent and not well performance. Taken from the Thomson Reuters database, here is the trend of average of social pillar score over the last 10 FY.

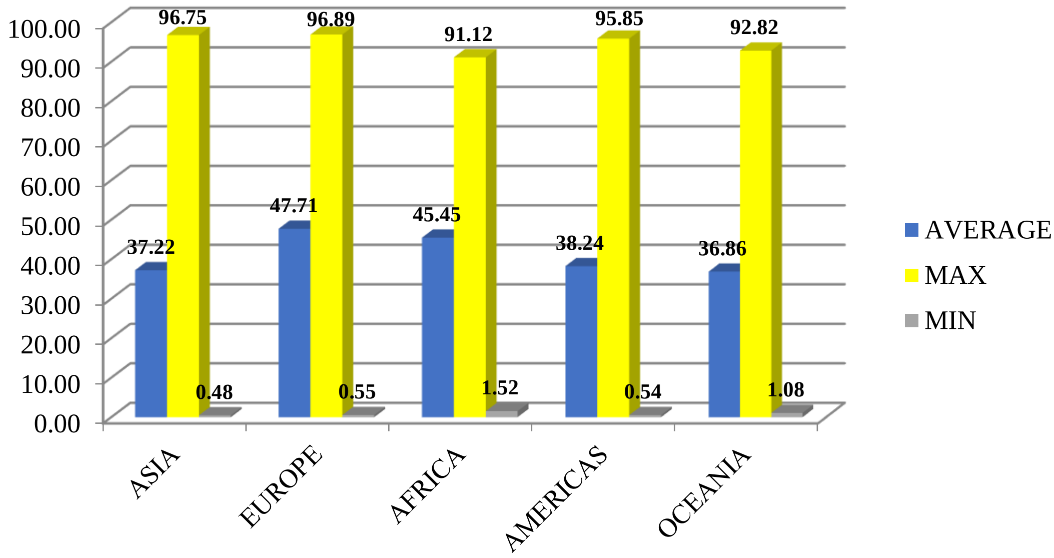

Figure 1.1 Trend of Average of Social Pillar Score over the Last 10 FY
Source: Processed by Researcher

As seen in the chart above, each continent has a different average trend of social performance. The data above is the average trend of social performance over the past 10 years. It can be seen that Asia with a total of 3602 companies has an average score of 37.22 with a maximum score owned by Nestle (Malaysia) Bhd (NESM.KL) with a score of 96.75 based in Malaysia and the smallest score owned by Equipment Holding Co KSCP (EQUI. KW) with a score of 0.48 based in Kuwait.

Europe with a total of 2583 companies has an average score of 47.71 with a maximum score owned by Nestle SA (NESN. S) with a score of 96.89 based in Switzerland and the smallest score owned by Edisun Power Europe (ESUN. S) with a score of 0.55 which is also based in Switzerland.

For Africa with a total of 164 companies have an average score of 45.45 with a maximum score owned by Nedbank Group Ltd (NEDJ. J) with a score of

91.12 based in South Africa and the smallest score owned by Madinet Nasr for Housing and Development SAE (MNHD.CA) with a score of 1.52 based in Egypt.

As for the Americas with a total of 4102 companies, it has an average score of 38.24 with a maximum score owned by International Business Machines Corp (IBM. N) with a score of 95.85 based in the United States of America and the smallest score owned by Longvie SA (LONG.BA) with a score of 0.54 based in Argentina.

Then for Oceania with a total of 449 companies have an average score of 36.86 with a maximum score owned by Dexus (DXS. AX) with a score of 92.82 based in Australia and the smallest score owned by Acrow Formwork and Construction Services Ltd (ACF. AX) with a score of 1.08 also based in Australia.

Platonova et al. (2018) report that this is related to the concept of Corporate Social Performance (CSP). CSP refers to the principles, practices, and outcomes of businesses' relationships with people, organizations, institutions, communities, societies, and the earth, in terms of the deliberate actions of businesses toward these stakeholders as well as the unintended externalities of business activity. Cillo et al. (2020) states that the development of the CSP concept, beginning in the 1950s and 1960s, is important for understanding how CSP is related to other core topics and concepts in business and society/business ethics. As the CSP concept was refined, an earlier term, corporate social responsibility (CSR), was incorporated as one element of CSP, in particular, the ethical and/or structural principles of social responsibility, or business engagement with others (Ashrafi, 2020).

Reporting from newsroomg20.id, social activities within the scope of the general public, in 2022 social performance were raised by the G20 forum related to labor issues raised by Indonesia which were supported by The G20 Employment Working Group (EWG). The Employment Working Group (EWG) has supported employment issues raised by Indonesia at the forum, including employment issues for persons with disabilities, according to an official from the Ministry of Manpower. Indonesia raised several issues in the EWG regarding employees with disabilities, human resource capacity building, social protection in new work environments, and efforts to develop sustainable employment opportunities.

In addition, reporting from the official website of Unilever (www.unilever.co.id), Unilever Indonesia, a consumer goods manufacturer, announced the steps that have been and will be taken to support national efforts to overcome the Corona virus (COVID-19) pandemic on March 26, 2020. The steps taken focus on helping the lives and livelihoods of various parties, such as customers and their communities, as well as all company employees. The support provided includes providing products such as hand sanitizers, soaps, and home hygiene care products as well as conducting comprehensive education on the importance of maintaining personal hygiene and the home environment.

Attention to social performance is not only exercised by Unilever. Reporting from the official website of Grab (www.grab.com) together with the Ministry of Social Affairs of the Republic of Indonesia through cooperation with PT. Pos Indonesia, Grab deployed thousands of GrabExpress fleets spread throughout Indonesia so that people can receive assistance and ease their burden. Social assistance in the form of basic food packages for 1.2 million families in DKI Jakarta and 600,000 families in Bogor, Depok, and Bekasi.

Until now, social performance towards the community has become an important part for a company to increase investor attractiveness and public trust. Quoted from the www.investor.id website, as many as 144 issuers have implemented environmental, social, and governance (ESG) principles, in line with the increasing demands from global investors. Members of the Principles for Responsible Investment (PRI) continue to grow, with a world-managed fund of US$ 100 trillion in 2020. On this site, it can also be concluded that in this ESG, there are 17 Sustainable Development Goals that are elaborated. Of all these goals, the social aspect received the most attention, namely: End poverty in all forms everywhere; Ending hunger; Achieving better food and nutrition security, and supporting sustainable agriculture; Ensuring a healthy life and supporting well-being for all ages; Ensuring inclusive and equal quality education, and supporting lifelong learning opportunities for all; Achieving gender equality and empowering all women and girls; Support inclusive and sustainable economic growth, a full and productive workforce, and decent work for all; Reducing inequality within and between countries; as well as Building inclusive, safe, resilient and sustainable cities and settlements.

To achieve and monitor these goals, good corporate governance is required. Flammer et al. (2019) argue that good and correct governance in a company will have an impact on the company's social performance, especially related to employment which is the main factor in the running of a company. Although often forgotten compared to environmental and social factors, governance factors are equally important factors for investment in the long term. Compliance with corporate governance practices is indispensable in modern business management structures supported by capital and money markets because it can enhance public trust in these companies (Zulfikar et al., 2020). Lukviarman (2006) in Sandy & Lukviarman (2015) explains that CG is a mechanism for doing things right in the right way (doing the right things right). Good corporate governance or commonly called good governance is an important component of a company's lasting success. A well-regulated business can usually demonstrate strong management that guides their decision-making and long-term focus. Simply put, they are usually a better company than a company with poor governance standards.

Quoted from the Indonesia Stock Exchange (IDX) (www.idx.co.id) page, Corporate Governance (CG) is a system designed to direct the management of companies professionally based on the principles of transparency, accountability, responsibility, independence, fairness, and equality. The existence of corporate governance is useful for directing and controlling the company to comply with statutory regulations, in accordance with the expectations of stakeholders, and comply with applicable business norms and ethics. That way, it can be concluded that corporate governance is a principle to increase business success and accountability in order to realize company value in the long term.

The main purpose of good company management is to provide adequate protection and treat shareholders and other interested parties fairly. The following are the objectives and benefits of corporate governance quoted from the Effect of

Corporate Governance on the Extent of Voluntary Disclosure by Setyahadi & Narsa (2020): Creating the achievement of corporate sustainability through management based on the principles of transparency, accountability, responsibility, independence, and equality, as well as fairness; Assisting the empowerment of the functions and independence of each organ of the company, namely the Board of Commissioners, the Board of Directors, and the General Meeting of Shareholders; Encourage shareholders, members of the board of commissioners, and members of the board of directors so that when making decisions and carrying out their actions are based on high moral values and compliance with laws and regulations; Creating awareness and corporate social responsibility towards society and environmental sustainability, especially around the company; Optimizing the company's value for shareholders while still paying attention to other stakeholders; and Increase the competitiveness of companies nationally and internationally, thereby increasing market confidence that can encourage investment flows and sustainable national economic growth.

According to Refinitiv (2021) and Thomson Reuters Eikon (2017), there are three categories in the assessment of governance principles in this study which at the same time are also independent variables, namely Management, Shareholders, and CSR Strategy.

In a company, Management is an important component that must be owned by the company to realize the vision and mission to be achieved, including social issues (Epstein et al., 2018). With good management, the company will certainly be able to plan for existing social issues and implement them so that the company's image becomes better in the eyes of the community. Katzenbach & Smith (2015) argue that without good management or a clear organizational structure, the company's goals will be difficult to achieve and actually cause unclear work and responsibilities of each member or team. Management in a company is a different process consisting of planning, organizing, actuating, and controlling which is carried out to achieve the main goals of the company by involving humans and other resources (Krisnawati et al., 2018). Therefore, it takes a series of actions and efforts of company members to achieve the business goals or targets that the company oversees where the process is achieved through systematic activities.

In addition to Management, related to Kiliç et al. (2015) research, Shareholders also play an important role in the governance of a company. The management and shareholders collaborate in running the company. Shareholders are as employers and management is as workers. All actions taken by the management must be reported to the shareholders (Cho et al., 2015). The agency relationship that occurs between the two is a form of business governance. The status of shareholders in the company is as the owner of capital who has rights and obligations to the company given capital (Muttakin et al., 2018). The regulation of the rights and obligations of the company must be in accordance with the company's articles of association and applicable laws and regulations. Purbawangsa et al. (2019) states that the wealth of a shareholder in a company is proportional to the price of the shares he owns as well as the value of the company and the profit of the company. From this, quoted from Agudo-Valiente et al. (2015), it can be said that shareholders can be one of the factors supporting the success of a company's social performance. If shareholders do not want activities related to social issues because considering the importance of the returns obtained on the profits generated by the company, then social performance will only be an issue that will not be carried out.

CSR Strategy is also one of the supports for corporate governance related to its relationship with social performance. CSR is a concept or action carried out by a company as a sense of corporate responsibility to the community or the environment around the company (Safwat, 2015). This activity is expected to improve the welfare of the surrounding community. Gursoy et al. (2019) states that companies can run CSR programs directly by organizing their own CSR programs by distributing assistance directly to the community. And in running a CSR program with this direct involvement model, the company usually assigns one of its officials. Therefore, seeing how a company's governance can affect its social performance makes this research interesting to do.

Grayson & Hodges (2017) argue that the concept of social responsibility suggests that companies personally hold responsibility for the social environment given beyond profit creation. To manage the company well, a company must fulfill its responsibilities. Rodriguez-Fernandez (2016) find that every company has responsibilities that must be fulfilled and one of the responsibilities that must be fulfilled by a company is social responsibility. To fulfill social responsibility, an enterprise must first fulfill economic and legal responsibilities.

When these two responsibilities have been fulfilled, the new corporate social responsibility can be fulfilled. By fulfilling social responsibility, there are many advantages that can be obtained by the company, one of which is to create a good reputation for investors (Liu & Zhang, 2017). An investor who wants to make a long-term investment is of course very concerned about the reputation of a company. If the company's reputation is good, then the investor will trust the company more to invest in the company. So the Company is obliged to allocate Social Responsibility funds in its business planning and is not part of the profit, because business activities produce an impact on stakeholders so that the company is required to account for the consequences of its business activities in accordance with the principles of Good Corporate Governance, namely: transparency, independence, accountability, accountability, and fairness.

Indonesia is one of the developing countries that apply the concept of corporate governance. Based on www.ecgi.global.com site, Indonesia is a civil law jurisdiction, and as such does not have a doctrine of precedents similar to a common law system, which means Indonesian courts are not bound by previous court decisions.

Law No. 40 of 2007 on Limited Liability Companies (Company Law) governs limited liability companies in Indonesia. The Company Law provides the general roles of shareholders, boards of directors, boards of commissioners and stakeholders of a company such as employees, business partners and the public. Further, a company's articles of association are the general governance document of the company, for example, limitation on the authority of the board of directors and the mechanism on how decisions are made at board of directors meetings, board of commissioners meetings and general meetings of shareholders. In addition, in practice, normally companies also prepare their own good corporate governance manual as a reference for the companies' ethics and business practices.

A different concept is applied by one of the developed countries, namely Singapore. Based on the www.ecgi.global.com site, the Singapore corporate governance regulatory framework is contained in certain mandatory rules, comprising mainly of the Companies Act (CA), the Securities and Futures Act (SFA) and, in respect of companies listed on the Singapore Exchange (SGX), the Listing Manual, and best practice recommendations as primarily set out in the form of the Code of Corporate Governance (Code) and the accompanying Practice Guidance issued by the Monetary Authority of Singapore (MAS). The CA is the principal piece of legislation that applies to all companies (both private and public) incorporated in Singapore and, in some limited instances, to foreign corporations with business operations in Singapore.

Entities listed on the SGX are also subject to continuing obligations in the form of listing rules in the Listing Manual. Such rules include requirements on the manner in which securities are to be offered, regulate transactions with interested persons and prescribe the disclosure obligations of listed issuers. The principal function of these rules is to provide a fair, orderly and transparent market for the trading of securities.

In the early 2000s the world was shocked by the collapse of leading giants in various developed industrial countries including the United States, United Kingdom, Italy, Australia, Singapore, and Hong Kong (di Mauro, 2020). The government regulators of each country and the management expertise concluded that the main cause of the collapse of these large companies was due to the weak application of the principles of their good corporate governance.

Scherer & Voegtlin (2020) argue that the weaknesses of corporate governance are what provide opportunities for management of companies who have bad business morals and ethics to manage the company for personal or class interests, not for the sake of company interest. In carrying out the misuse of this position, not a few company managements collude with top professional institutions such as advisors, consulting companies, and public accounting firms. Therefore, on this basis, Stuebs & Sun (2015) states that good governance is needed to support the social performance of a company considering that the company will not move without the help of the manpower and resources of its employees and the support of the community.

Phillips et al. (2017) find differences in World Governance Index (WGI) scores in developed and developing countries in 2015. The average score on the WGI percentile ranking in developing countries is 20.3, while the average WGI percentile ranking score in developed countries is 76.8. This research shows that the application of good country governance practices in developing countries is worse and is still far from being said to be good compared to developed countries.

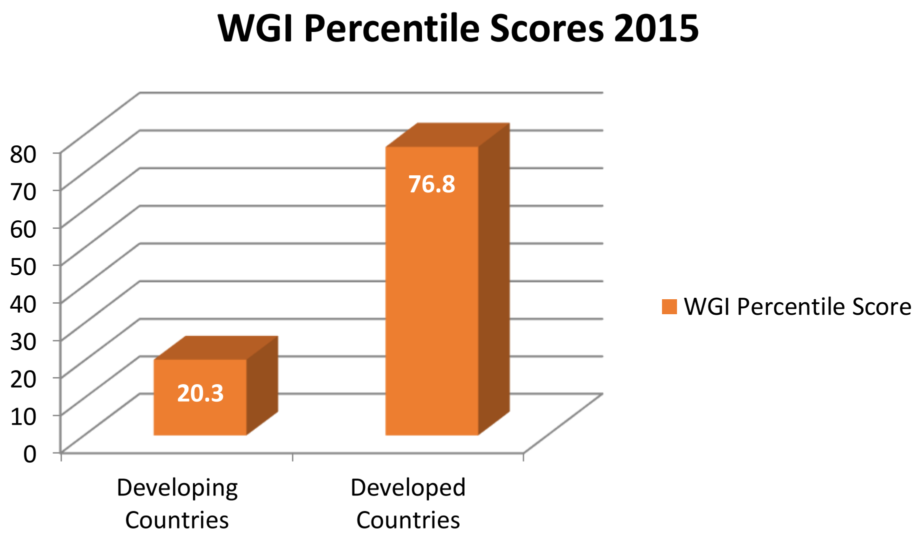

Figure 1.2 World Governance Index (WGI) Scores in 2015
Source: Processed by Researcher

Quoted from the website of the G20 (www.g20.org), there is a main forum for international economic cooperation consisting of countries with major economies in the world which consists of 19 world's major economies and 1 European Union institution called the G20 or Group of Twenty. The G20 represents more than 60% of the earth's population, 75% of global trade, and 80% of the world's GDP. G20 members consist of South Africa, the United States, Saudi Arabia, Argentina, Australia, Brazil, India, Indonesia, the United Kingdom, Italy, Japan, Germany, Canada, Mexico, the Republic of Korea, Russia, France, China, Turkey and the European Union.

The site of kompas.com issued a ranking order of G20 Countries by the size of GDP, while the order ranging from highest to lowest is as follows: the United States with a GDP of 20.95 trillion US dollars; The European Union with a GDP of 15.29 trillion US dollars; China with a GDP of 14.72 trillion US dollars; Japan with a GDP of 5.05 trillion US dollars; Germany with a GDP of 3.84 trillion US dollars;

the United Kingdom with a GDP of 2.75 trillion US dollars; India with a GDP of 2.66 trillion US dollars; France with a GDP of 2.63 trillion US dollars; Italy with a GDP of 1.88 trillion US dollars; Canada with a GDP of 1.64 trillion US dollars; The Republic of Korea with a GDP of 1.63 trillion US dollars; The Russian Federation with a GDP of 1.48 trillion US dollars; Brazil with a GDP of 1.44 trillion US dollars; Australia with a GDP of 1.32 trillion US dollars; Mexico with a GDP of 1.07 trillion US dollars; Indonesia with a GDP of 1.05 trillion US dollars; Turkey with a GDP of 719.95 billion US dollars; Saudi Arabia with a GDP of 700.11 billion US dollars; Argentina with a GDP of 389.2 billion US dollars; and South Africa with a GDP of 335.4 billion US dollars. Therefore, this research will focus on the performance of categories in governance towards social performance by using the object of the list of countries in the G20 forum.

In connection with the dependent variable in this study, namely social performance, the company object to be used is a company engaged in Consumer Non-Cyclicals (Staples), more specifically, namely those engaged in Food and Beverages contained in the Thomson Reuters Eikon database. As the name implies, these companies were chosen as objects of research due to the existence of a direct relationship between the company and society. The community as one of the drivers of the economy and also supports the sustainability of the company's survival plays an important role in increasing the company's wealth because the company provides products that are certainly things that will be consumed daily (Bocken & Short, 2016). Therefore, it is important for the company to provide reciprocity to society, including its employees’ profitable things that will make people's interest greater in the company.

Based on the explanation above, the researcher will conduct research on social performance by company with the title **GOVERNANCE COMPONENTS AND SOCIAL PERFORMANCE: ANALYSIS OF G20 COUNTRY COMPANIES.**

1.2. Formulation of the Problem

According to the problems, the following research questions can be formulated as follows:

1. What is the influence of Management on Social Performance?
2. What is the influence of Shareholders on Social Performance?
3. What is the influence of CSR Strategy on Social Performance?

1.3. Research Objectives

The objective of this study is to investigate or examine the impact of management, shareholders, and CSR strategy on social performance. Based on the formulation of the problem, the objectives of this study are as follows:

1. To examine the influence of Management on Social Performance.
2. To examine the influence of Shareholders on Social Performance.
3. To examine the influence of CSR Strategy on Social Performance.

1.4. Contributions of the Research

Based on the background, formulation of the problem, and research objectives, the expected benefits of this research are as follows:

1. Theoretical Benefits

The results of this research are expected to contribute theory in the form of empirical evidence related to the impact of management, shareholders, and CSR strategy on social performance.

2. Practical Benefits

The results of this research are expected to provide benefits for investors as a material consideration before investing in a company. For companies, this research is also expected to increase knowledge about the impact of management, shareholders, and CSR strategy on social performance. The results of this research are also expected to be a good reference for further researchers regarding the impact of management, shareholders, and CSR strategy on social performance.

1.5.Scope of Research

This study is limited by certain samples and variables that aim to avoid confusion in the discussion of research results. Based on the title of the study, namely "Governance Components and Social Performance: Comparative Analysis of Companies in Developed and Developing Countries" there are several variables used in this study. The independent variables (X) used in this study are Management, Shareholders, and CSR Strategy. While the independent variable (Y) used for this study is Social Performance. In addition, this study also used Firm Size, Firm Age, Firm Leverage, and Firm Profit as control variables. The object used in this study is a company engaged in the field of Consumer Non-Cyclicals (Staples) in 2012-2021.

1.6.Writing Systematic

Systematic of writing arranged regularly and in detail in order to provide a clear and comprehensive picture of the discussion of the problem so that it is easy to understand. The systematic of writing is divided into five chapters:

CHAPTER 1: INTORUCTION

This chapter provides an overview of the problems that will be discussed in this research, including the background, formulation of the problem, research objectives, research benefits, scope of research, and writing systematic.

CHAPTER 2: LITERATURE REVIEW

This chapter contains a literature review that is used as a basis for research taken from various sources such as textbooks, journals, and previous research. Based on the description of the theory, a hypothesis will be developed for this research.

CHAPTER 3: RESEARCH METHOD

This chapter describes the research method which consists of selecting the research object, data collection techniques, and data processing, analysis, and testing techniques.

CHAPTER 4: RESEARCH RESULTS AND DISCUSSION

This chapter contains an overview of the research object, the results of hypothesis testing by describing statistical testing, as well as analysis and discussion of the test results.

CHAPTER 5: CONCLUSION

This chapter is the last chapter which contains the conclusions from the research results of the previous chapter as well as the suggestions given in connection with the results of the research conducted. This chapter also contains the implications and limitations of this research.