

# CHAPTER I

## INTRODUCTION

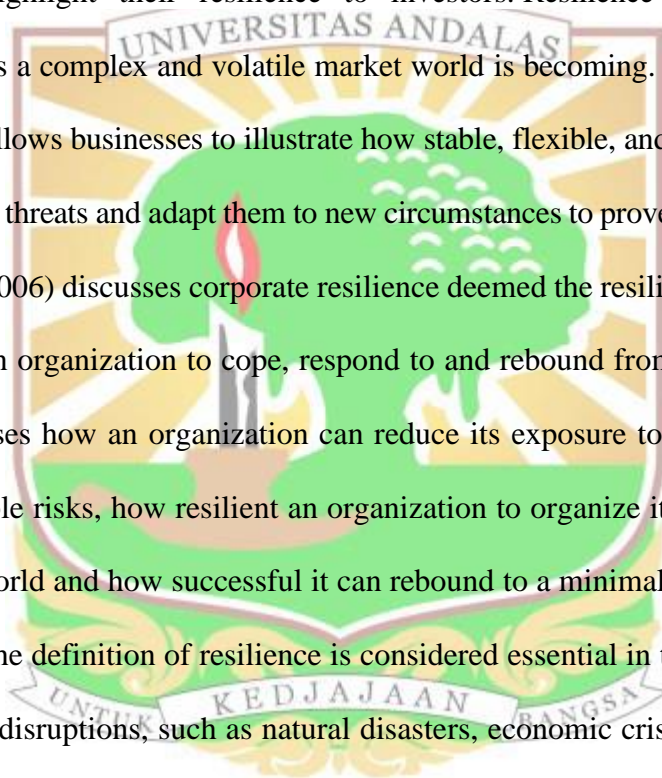
### 1.1 Background

Coronavirus Disease 2019 (COVID-19) has become a pandemic that spreads across continents. On January 30, 2020, WHO has designated it as a Public Health Emergency of International Concern. The COVID-19 pandemic has shown that it places pressure on the world's economic and social conditions, including Indonesia. The COVID-19 global financial crisis varies by its origin, scale, and severity from previous problems. Several governments mandated social distancing to avoid or at least limit the spread of COVID-19 instituted with quarantines, severe travel restrictions, and other various restrictions in a country that impact economic activity. These rules immediately affected labor force, supply chains, and product and services sales and led to stock price declines because of fear of uncertainty (Cheema-fox et al., 2020).

The Indonesian Investment Coordinating Board revealed that the pandemic's impact was not only in one area but also almost all existing activities, including the inevitable stock market crash due to COVID-19. As of March 5, 2020, three days after the coronavirus's first case was announced in Indonesia, until the announcement of COVID-19 as a global pandemic, the JCI had dropped 30% in just 14 trading days to its lowest point. This year's fall is even more severe than the 1997-1998 crisis, which at that time fell 30% in 20 days. As a result, the actions of people who flock to sell their shares make economic activity

hugely damaged, and extended global supply chains have broken, ending with less trust for the company's performance. Control of this unexpected event is lost but can be the reason for the importance of building corporate resilience and boosting a corporate immune system that helps withstand changes and heal from the crisis immediately.

COVID-19 pressured businesses to rapidly adapt to the pandemic and showing highlight their resilience to investors. Resilience is increasingly important as a complex and volatile market world is becoming. The coronavirus pandemic allows businesses to illustrate how stable, flexible, and able they are to handle their threats and adapt them to new circumstances to prove their resilience. Gallopín (2006) discusses corporate resilience deemed the resilient capacity and ability of an organization to cope, respond to and rebound from disruption. He also discusses how an organization can reduce its exposure to anticipated and unpredictable risks, how resilient an organization to organize itself through the evolving world and how successful it can rebound to a minimal amount of time and cost. The definition of resilience is considered essential in the management of external disruptions, such as natural disasters, economic crises and common diseases (DesJardine et al., 2019). Resilience is capable of adapting and healing from sudden environmental shocks. A resilient business is more ready for unpredictable events and suffers less severe damage, and will likely rebound from the losses more easily (Wilson et al., 2010). In this study, the researcher follows the method by DesJardine et al. (2019) to capture the manifestation of corporate resilience which reflecting two dimensions: (1) the dimension of

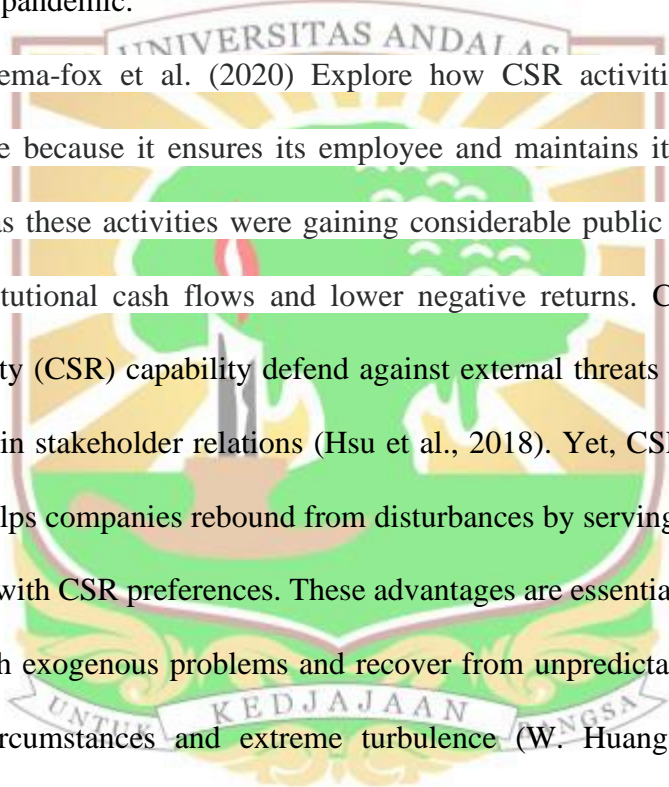


stability that indicates loss severity; and (2) the dimension of flexibility that records recovery time.

The company's stock return performance can capture these dimensions because investors must predict how big the market reaction will be due to the COVID-19 pandemic. Stock return is the level of profit enjoyed by investors on a stock investment they do (Ang, 1997). It is logical investors who will invest in the capital market will first see which company is profitable by giving a larger stock return. Companies with satisfactory performance will be more attractive to investors and shareholders, expecting that the stock price will increase. If the stock price increases, the return received will also increase (Sudarsono and Sudiyatno, 2020). The severity of the loss proxy by the stock return from the initial price shows how long it can recover. The result can then evaluate how CSR fulfillment and past GCG implementation can help companies maintain stability, adapt to and react to the crisis with flexibility, so that business can become resilient due to the COVID-19 crisis.

In combination with the organizational resilience framework that consists of dimensions of stability and flexibility as Gunderson and Pritchard (2002) propose that CSR will strengthen the company's capacity (to sustain stability) to resist the crisis and to rebound to initial conditions (fostering flexibility). Setya (2011) define CSR as non-economic information about corporate social responsibility disclosure in its annual report as a form of its business commitment to contribute positively to environmental, social, and community activities. Companies that disclose CSR will get greater attention

from the public because CSR reports show the company's quality and the attitude of company responsibility from its production processes (Angelia and Suryaningsih, 2015). The public will assess consumers' safety and health in using products from these companies to increase their products' confidence and level of sales. These competitive advantages of companies that disclose their CSR activities can be a reference for investors to keep investing even during the COVID-19 pandemic.

The image contains a large, semi-transparent watermark of the Universitas Andalas logo. The logo features a central green tree with a white trunk, set against a yellow background with a sunburst at the top. The text 'UNIVERSITAS ANDALAS' is written in a banner above the tree, and 'UNTUK KEDJAJAAN BANGSA' is written in a banner below it. The watermark is centered behind the text of the second paragraph.

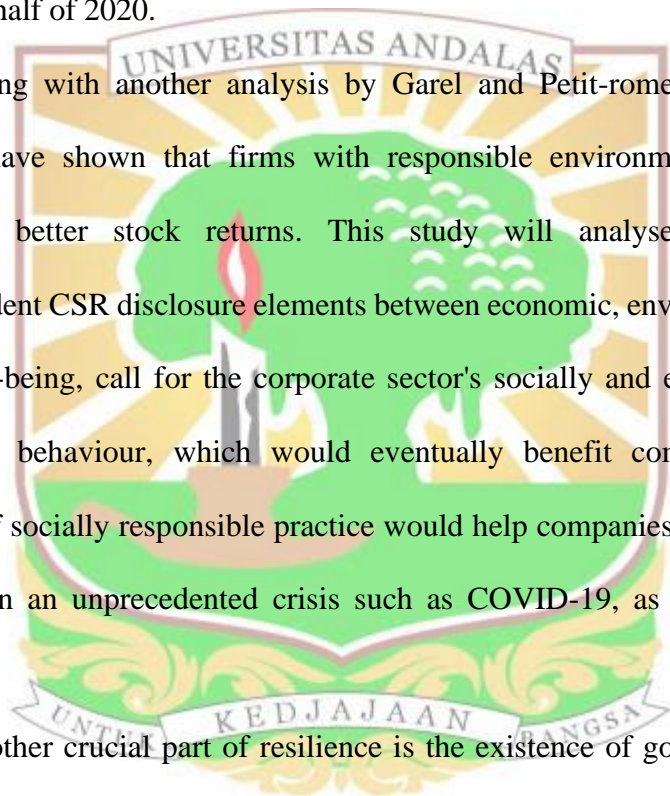
Cheema-fox et al. (2020) Explore how CSR activities affect stock performance because it ensures its employee and maintains its supply chain, especially as these activities were gaining considerable public indignation the higher institutional cash flows and lower negative returns. Corporate social responsibility (CSR) capability defend against external threats is an intangible investment in stakeholder relations (Hsu et al., 2018). Yet, CSR investment is costly. It helps companies rebound from disturbances by serving customers and employees with CSR preferences. These advantages are essential for companies to cope with exogenous problems and recover from unpredictable crisis under unstable circumstances and extreme turbulence (W. Huang et al., 2020). Therefore, good CSR performance could have a positive effect on the dimensions of stability and flexibility of a firm, since it makes healthy and sustainable relations between a firm and its stakeholders.

Higher CSR performance companies will suffer fewer losses before the shock and need a shorter time to recover from the shock (W. Huang et al., 2020). Ding et al. (2020) stated Companies with higher CSR performance before shock

suffer less loss and will take longer to recover from shock (W. Huang et al., 2020). Ding et al. (2020) said companies involved in more CSR activities had improved their stock price performance before the pandemic. Albuquerque et al. (2020) have demonstrated that CSR activities have shown that the stock prices of firms with high ES values are significantly higher than other firms' costs, a slightly higher rate of return, lower volatility of returns and higher profit margins in the first half of 2020.

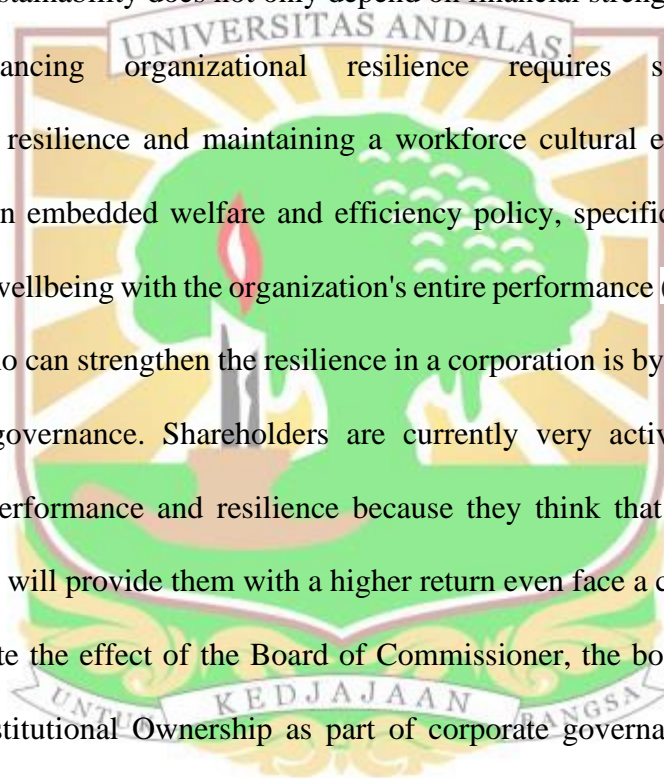
Along with another analysis by Garel and Petit-romez (2020), CSR activities have shown that firms with responsible environmental strategies experience better stock returns. This study will analyse each of the interdependent CSR disclosure elements between economic, environmental, and social well-being, call for the corporate sector's socially and environmentally responsible behaviour, which would eventually benefit companies. These elements of socially responsible practice would help companies to sustain their resilience in an unprecedented crisis such as COVID-19, as well as a CSR activity.

Another crucial part of resilience is the existence of good governance. Bedi et al. (2014) found that resiliency almost always appears with good governance because it has a relation to a group of stakeholders, which is practically ever with an enormous and equitable opportunity for growth in all aspects of a market. Corporate governance issues began in Indonesia in 1998, particularly when the economic crisis in Indonesia was prolonged. Many parties argue that Indonesia's length of crisis recovery is due to lack of corporate



governance in Indonesian companies (Wardhani, 2007). Since then, both government and investors have been paying considerable attention to the practice of corporate governance. The economic crisis is happening again, and it is different from the crisis that have happened before. The COVID-19 pandemic is a health crisis that contains uncertainty about how long it will end. Learning from the past crisis, now the business world realizes that long-term business sustainability does not only depend on financial strength.

Enhancing organizational resilience requires strengthening the employee's resilience and maintaining a workforce cultural environment that builds on an embedded welfare and efficiency policy, specifically connecting individual wellbeing with the organization's entire performance (Partners, 2020). The one who can strengthen the resilience in a corporation is by the role of good corporate governance. Shareholders are currently very active in reviewing company performance and resilience because they think that good corporate governance will provide them with a higher return even face a crisis. This study will evaluate the effect of the Board of Commissioner, the board of directors, and the Institutional Ownership as part of corporate governance, which will affect corporate resiliency. Xiaonian (2000) said that Good Corporate Governance (GCG) would make investors feel safe on their investment because they tend to get returns per their expectations (Nuswandari, 2009). The existence of GCG can increase its stock price because it can restore investor confidence in the company, and managers will work more to achieve company goals. That confidence is the most necessary thing to help the company get up and recover



immediately through the COVID-19 crisis, among other companies that less attention to its governance.

Increasing company resilience calls for management to take the problems seriously (Partners, 2020). To build effective, resilient organizations, leaders must see the way management competing desires of stakeholders as a critical priority that can cause innovation. The leader referred here is the board of commissioner and board of directors used in this study to regulate strategies that can boost the corporation's immune system. As a supervisory body that provides strategic guidance, the board of directors is the center of corporate governance practices' internal mechanism (Brown and Caylor, 2006). The board of management and managers will gain expertise to help the firm overcome long-term challenges and its crisis due to internal and external shocks. Directors who feel the warmth of shareholder activists, litigators, or regulators will need to ensure that management has a future strategy that not only revives the past but also has the right system allowing resilience.

Firms in Indonesia are mandated to employ a dual board structure: the board of commissioners (BOC) and the board of directors (BOD). The BOD determines and manages the company's short and long-term strategic decisions while the BOC supervises and advises the company's management. The responsibility of the BOC is very important in reducing the problem of the agency in order to maximize share capital. The company's CG structure determines its value and the health level of the company significantly and mostly measurable if there is a crisis.

The groups of critical stakeholders, whose well-being and satisfaction contribute sustainably to the company's resilience by supporting its health, are crucial in sustainable development for the business (W. Huang et al., 2020). As supports by (Bedi et al., 2014), a broader ownership level is critical for building resilience. In many circumstances, people have insufficient resources or power to deal independently with problems (Frankenberger et al., 2013). Hence, the institutions needed as the most vulnerable party can strengthen resilience with more power and resources (Turner and Matthew, 2012). As supported by Sakawa and Watanabel (2020) implied that institutional shareholders contribute to enhancing sustainable firm performance, therefore, will support the development of corporate resilience. Hence, this study also analyze institutional ownership as a part of corporate governance to help the company fight the COVID-19 crisis.

CG and CSR are complementary sides to each other (Bhiamani and Soonawalla, 2005). These two emphasize the responsibility and the duties of companies towards the stakeholders and are extremely important in determining the development of the resilience of the company (Jamali et al., 2008). This study will use the population and sample from the company listed in the IDX80 index in February 2020. IDX80 Index is the price performance of 80 stocks with high liquidity and large market capitalization. IDX80 index use in this study is because investors who see good company fundamentals will be the first choice to invest their money. Based on the explanation of the problem's background, the researcher is interested in carrying out the research entitled "**The Effect of**



# **Corporate Social Responsibility (CSR) and Corporate Governance on Corporate Resilience due to the COVID-19 in Indonesia".**

## **1.2 Problem Formulation**

Based on the description above, the problem to be studied are:

1. Does corporate social responsibility significantly affect corporate resilience due to the COVID-19 pandemic?
2. Does corporate governance significantly affect corporate resilience due to the COVID-19 pandemic?

## **1.3 Research Objective**

The purpose of this research is to:

1. Analyzing corporate social responsibility's effect in terms of its every interdependency of economic, environmental, and social disclosure on corporate resilience due to COVID -19 pandemic
2. Analyzing corporate governance's effect on board of commissioner, the board of directors, and institutional ownership on corporate resilience due to COVID -19 pandemic.

## **1.4 Research Benefit**

This research is expected to provide benefits in the form of:

- A. Practical

1. For companies

It can contribute thoughts about the importance of corporate social responsibility disclosure and the implementation of good corporate governance in managing a company that will affect company stock prices to maintain the company's survival due to crisis.

2. For investors/creditors

It will provide insights into considering aspects that need to be considered in investment, and financial measures could also consider an investment or credits activity to the company.

3. For regulatory or standard-setting institutions

It can be used as input in improving the quality of existing standards and regulations.

4. For other stakeholders

It can be used as a means to gain insight so that it can help make decisions.

5. For the subsequent researchers

This research could reference further research on corporate social responsibility (CSR) and corporate governance (CG).

## B. Theoretical

To increase knowledge and insight related to the importance of corporate social responsibility and Corporate Governance for companies to be resilient in facing the COVID-19 crisis by seeing the movement stock returns to give a beneficial insight to society.

## **1.5 The Scope of Research**

This research is to analyze the effect of corporate social responsibility (CSR) and corporate governance (CG) towards corporate resiliency by observing the stock return in the company listed in the Indonesian Stock Exchange (IDX) in 2020 due to the COVID-19 pandemic. This study focuses on non-financial factors that comprise corporate social responsibility and corporate governance as factors that affect corporate resiliency due to the COVID-19 pandemic. Study on all of companies listing in IDX80 index. The time range of the research during one semester from march to august 2020.

## **1.6 Writing Systematic**

The structure of this research paper is divided into five chapters and presented as follows:

### **CHAPTER I INTRODUCTION**

This section contains background problems, problem formulation, research objectives, research benefits, research scope, and writing systematics.

### **CHAPTER II LITERATURE REVIEW**

This section describes the theories related to research problems, previous studies' results, and directions regarding developing the hypothesis.

### **CHAPTER III RESEARCH METHODS**

This section consists of research design, population and research sample, data collection methods and sources, operational definitions and measurements of research variables, data analysis methods, and hypothesis testing procedures.

### **CHAPTER IV RESEARCH RESULTS AND DISCUSSION**

This section discusses the results of hypothesis testing and the interpretation of the results obtained

### **CHAPTER V CONCLUSION**

This section contains the conclusions of the research done, implications of research, limitations of the study, and suggestions useful for future research.

