

CHAPTER I

INTRODUCTION

A. Research Background

The era of globalization presents many opportunities and advantages in every aspect of life, but it is undeniable that more risks must be faced. One of the bodies most affected by globalization is companies. Companies are required to have a quality strategy to deal with an open era where there is an exchange of world views, thoughts, products, and culture that blend into one. This makes the foundation for the company in preparing for performance to face the new dynamics caused by economic, political, business, and social and environmental activities will be increasing.

Nowadays, companies in Indonesia have focused on social and environmental responsibility. This is supported by the fact that Indonesia has become a member of an international standard organization or familiar with the name, ISO. This organization has approved ISO 26000 on Guidance Standards on Social Responsibility, which was decided in September 2004. ISO 26000 is based on CSR standards as a guideline for every form of organization be it private or public. In understanding ISO 26000, there are seven main issues that have matured in CSR, namely: a) Community Development; b) Consumers; c) Healthy Institution Activities; d) Environment; e) Work; f) Human Rights; g) Government Organizations. This took the government's attention by stipulating Law No.40 article 66 paragraph 2 of 2007 concerning disclosure of social responsibility that must be published in the annual report.

In this regard, CSR has become a major concern for business performance throughout the world in the 21st century. The seriousness of this issue was also followed by the government's contribution. This is known through State owned Enterprises or also called with BUMN that has regulations to required and carry out social activities and also care for the environment as stipulated in Article 88 paragraph (1) BUMN can set aside a portion of its net profit for the purposes of fostering small businesses/cooperatives as well as fostering communities around BUMN. This social responsibility obligation is due to one of the objectives of the BUMN itself, which is to contribute in providing guidance and knowledge to the economically weak business groups, cooperatives, and the community. Therefore, state-owned companies set aside 1% -5% of funds from a portion of their net income as a sign of participation in social responsibility programs.

The Islamic religion, it has been explained the argument about the damage done to the heavens and the earth is human activity. Before humans existed, there was no damage on earth. However after humans appeared, they started to do damage. One verse that implies man to be responsible for his actions and preserve the environment is explained in Q.S Ar-Rum verse 41

مِذْوَاعَ الَّذِي بَعْضَ لِيُذِيقَهُمُ النَّاسَ أَيُّدِي كَسَبَتْ بِمَا وَالْبَحْرِ الْبَرِّ فِي الْفَسَادُ ظَهَرَ
يَرْجِعُونَ لَعَلَّهُمْ

Artinya: Corruption has appeared throughout the land and sea by [reason of] what the hands of people have earned so He may let them taste part of [the consequence of] what they have done that perhaps they will return [to righteousness].

From this verse, it can be concluded that the damage on land and oceans that occur on earth is caused by human hands themselves. Interpreters described land as

villages on land, including the desert, while the ocean is a village or town on the seafront. To address this, the argument above goes down to warn humans as caliphs on earth who are tasked with protecting and preserving the universe. Of course, humans are given an intelligent mind to create various technologies, build buildings, highways that cause much damage, one of that is the waste generated in each process. This encourages social action, which is the responsibility of the perpetrators.

One of the success evaluations of corporate performance can be assessed through its finances. Many long-term benefits received by a company when implementing CSR disclosure, Can be seen from the turnover ratio. CSR is considered able to improve overall company finances and its implementation to build an environmental relationship between shareholders and stakeholders (Siddiq and Javed, 2014). The financial performance contained in the company's financial statements every year and even quarterly is the result of various decisions of each stakeholder in every operation that has been carried out by the company. Performance shows clearly whether the company is able to manage and allocate the resources in it properly.

The implementation of corporate social responsibility is closely related to the company's goals. The company has three main objectives related to its formation (Kawuri et al., 2018). The main goal is to achieve maximum profitability. The second goal is to prosper the company's shareholders, and the third goal of the company is the value of the company itself. In response to this goal, it is certainly important for companies to pay attention to their performance. Company performance that is usually measured by profitability is an important assessment of the sustainability of a company. In short, performance describes the company's operations. In order to

achieve its objectives, improving the quality and performance of the company must be continued.

In connection with the statement above, the second goal of companies is to prosper shareholders, indeed something worth fighting for. CSR disclosure is considered very imperative for every company because it can minimize information asymmetry and strengthen the relationship between the company and shareholders. The ownership structure is considered to be able to affect company operations, especially affecting the company's financial performance (Santoso & Santasyacitta, 2019). Corporate ownership plays an important role in controlling company activities and company policy.

Foreign ownership is considered to have a positive impact on various parties. One of the strongest examples is the European countries and the United States. They are known as a country that is very concerned about social issues such as violations of human rights, education, labor, and environmental issues. The presence of foreigners as one of the strong influences of a company improves its performance and reveals social responsibility. Foreign parties are considered to have dominant ownership in terms of the company's financial performance (Adhiwardana et al., in Gunawan et al., 2017).

Besides the impact of foreign ownership, government ownership has half of the total share in BUMN companies. This is because government ownership is the largest ownership in BUMN, which have controls 51% of the company's shares (Susetyo et al., 2019). At the optimal point of ownership, the relationship between government share ownership and performance will have a positive influence due to

clear ownership and control rights for a large portion. This is also supported by the existence of government ownership as one of the Good Corporate Governance mechanisms that can affect company performance.

This research refers to previous research. There is a research from Hasanah et al., (2020) with the title *“Pengaruh Pengungkapan Corporate Social Responsibility, Kepemilikan Manajerial, dan Kepemilikan Institusional Terhadap Return on Assets Perusahaan Manufaktur Sektor Industri Dasar dan Kimia yang terdaftar di Bursa Efek Indonesia periode 2014-2018”*. Their study examines CSR, Managerial and Institutional towards ROA. The contribution of this study is the development of variables, researcher changed Managerial dan Institutional Ownership become Government and Foreign Ownership. Besides, this study add *Return On Equity* for another regression model.

In addition, there are also differences in the object of research. The company examined is not the manufacturing sector but state-owned enterprises that have influence in controlling the Indonesian economy. Based on the data, research that focuses on government ownership and foreign ownership with the state owned enterprises as object companies is still limited. Therefore, researchers feel the need to conduct further research on this topic.

Based on the background described above, researchers are interested in conducting a research with the title *“The Influence of Corporate Social Responsibility Disclosure, Government Ownership and Foreign Ownership to the Firm Performance (A study of State-Owned Enterprises Listed on the Indonesia Stock Exchange 2015-2018 Period).”*

B. Research Questions

From the background that has been outlined above, the problem of the research are:

1. Does CSR disclosure have a positive influence on Operational Performance?
2. Does Government ownership have a positive influence on Operational Performance?
3. Does Foreign ownership have a positive influence on Operational Performance?
4. Does CSR disclosure have a positive influence on Financial Performance?
5. Does Government ownership have a positive influence on Financial Performance?
6. Does Foreign ownership have a positive influence on Financial Performance?

C. Research Purposes

Related to the formulation of the above problems, the objectives of this research are to have empirical evidence of:

1. CSR disclosure has a positive influence on Operational Performance
2. Government ownership has a positive influence on Operational Performance
3. Foreign ownership has a positive influence on Operational Performance
4. CSR disclosure has a positive influence on Financial Performance
5. Government ownership has a positive influence on Financial Performance

6. Foreign ownership has a positive influence on Financial Performance

D. Research Benefits

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

1. Theoretical Benefits

This research is expected to provide a fairly comprehensive and significant source of new thinking as a source of scientific knowledge or literature that can be used as a study for academics and business people who study CSR disclosure, ownership structure, and company performance.

2. Practical Benefits

This research hopefully has a practical benefit for the company, government, and for the researchers. Below are explanation about it for more detail:

a. Company

This research is expected to provide an overview of the influence of disclosure of corporate social responsibility, government ownership or foreign ownership on company performance.

b. Government

This study is expected to provide an overview for the government to find out how the CSR Disclosure regulations affect companies so that the government can decide or renew these regulations. In addition, it is to know clearly how government ownership affects company performance.

c. Academics

This research hoped can be used as a brainstorm, provide new insights, broaden knowledge, and become a consideration for further research for those who will research similar topics