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CSR Committee and Attributes in Indonesia and South Korea Does is matter to ESG Performance?

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ABSTRACT
A company's sustainability or corporate social responsibility (CSR) or Environment, Social, and Governance (ESG) has now become important in reflecting how well the company manages its business. Several studies show that the board of directors plays an important role in corporate governance. The independence and strength of the board of directors determine the quality of information, reduce asymmetric information between stakeholders and protect stakeholders. Therefore, the specification of the formation of directors on the CSR committee is essential to be made to focus on formulating, establishing, monitoring, and strategically implementing the CSR program or ESG implementation that will be implemented. This study will further analyze the relationship between the factors that affect the company's ESG performance, especially during the pandemic crisis. This study compares ESG performance in countries with high ESG scores and low ESG score categories in developed and developing countries. There are three important contributions from this study. First, this research enriches the literature by adding to the understanding of the factors that shape a company's ESG performance. Second, this research enriches the literature by adding to the understanding of research in this area in the context of developed and developing countries in times of crisis. Third, the variables used in the research can be a factor in policy analysis in framing decision-making.

KEYWORDS: CSR Committee, CSR Attributes, ESG Performance.

INTRODUCTION

Changes in the order of the business world after the covid 19 pandemic have made companies not only required to make investments that generate returns for shareholders but are also forced to increase activities in the aspects of Environmental, Social, and Governance (ESG). This increase in ESG activity is not only a form of management accountability and transparency but it is also expected to increase the company's value in the long term (Atan et al., 2016; Giovannoni & Fabietti, 2014; Kazakakou Powaski et al., 2021; Lavin & Montecinos-Pearce, 2021a), and social-wellbeing (Singhania & Saini, 2022).

According to a study by Henisz et al., (2019), increased ESG activity can increase company value for several reasons: first, ESG plays an essential role in improving company profit growth. This is because ESG can increase consumer loyalty and open new companies markets. Second, by increasing ESG activities, management can reduce costs due to savings in energy consumption. Furthermore, ESG can also increase employee productivity and return on investment issued by the company.

This decade the need for ESG disclosure is not only considered an effort by management to improve the company's reputation, but it has become an essential indicator of the company's strength(Zahroh & Hersugondo, 2021). Based on a survey conducted by Globescan and the Global Reporting Initiative (GRI), the level of public trust in transparency regarding sustainability reports shows a significant increase to 51% compared to a survey conducted in 2003, which averaged only 31%. Of the 27 countries surveyed around the world, the highest level of trust was achieved by Indonesia, with a score of 81%. This proves that the public responds positively to the need for disclosure of ESG and can improve company performance in the future due to increased loyalty and trust from existing consumers.

Research conducted by Zahroh & Hersugondo, (2021) evealed that increased ESG activity positively correlates with the company's Return on Asset (ROA) performance. In addition, value and performance with Return on Equity (ROE) indicators were found to be better in companies with higher ESG performance under normal conditions and during a crisis caused by the covid 19 pandemic (Ademi &

Klungseth, 2022). Furthermore, studies conducted by Dahlberg & Wiklund (2018) and Yawika & Handayani (2019) indicate that there is resource efficiency, capital, and increased profitability in companies with high ESG ratings (Koundouri et al., 2022).

In a study conducted in Nordic countries (Denmark, Norway, Finland, and Sweden), investors use the ESG rating as the basis for allocating their investment funds because, with a good ESG rating, investors can benefit from companies that have good sustainability policies (Dahlberg & Wiklund, 2018). In Australia, investors adhere to moral commitments and respond to the formation of ESG in the companies where they invest (Galbreath, 2013). According to Hansen & Tranter (2006), investors tend to reduce the proportion of ownership or sell their shares if management has social and environmental problems.

Several previous studies have shown the important role of the board of directors in ESG activities (Baraibar-Diez & Odriozola, 2019; Lavin & Montecinos-Pearce, 2021). Board independence largely determines the quality of the information produced to reduce information asymmetry and increase protection for stakeholders (Aceituno, Ariza, & Sanchez, 2019; Galbreath, 2013; Jensen & Meckling, 1976). The competence and performance of CSR committee members are very dependent on the role of the board of commissioners in selecting and monitoring the performance of the CSR committee, in practice the CSR committee is the leader of ESG activities, and they have the main task of setting goals, designing strategies, and overseeing the implementation of ESG activities (Arielis & Mundy, 2013; Baraibar-Diez & Odriozola, 2019).

Experience and competence, as well as the composition of CSR committee members, are important in decision-making related to CSR activities (Baraibar-Diez & Odriozola, 2019; Eberhardt-Toth, 2017). CSR committee members with long experience and relevant competencies are found to have more roles in setting goals and strategies and monitoring the implementation of the company's CSR. In addition, the results of an investigation conducted by Diez & Odriozola (2019) prove that companies with more experienced CSR committee members and relevant competencies have better ESG performance (Baraibar-Diez & Odriozola, 2019).

Management transparency and accountability in managing the company can be reflected in the disclosure of sustainability reporting. The report will be used as a basis for decision-making for interested stakeholders. For this reason, the report's credibility must also be maintained by management. Independent audits have an important role in maintaining the completeness and credibility of CSR disclosures. CSR audits can not only improve the quality of existing CSR reporting, but CSR auditors also have a role in improving internal control within companies related to ESG activities (Koldovskyi, 2015).

This study will further analyze the relationship between the factors that influence the ESG score, especially on the CSR committee, the role of external audit on ESG reports, and strategy as a governance mechanism. By comparing countries with high ESG scores and low ESG score categories in Australia, South Korea, and Indonesia.

There are three important contributions to this study. First, this research enriches the literature by increasing the understanding of research in this area in the context of developed and developing countries. Second, this study documents empirical findings on CSR and ESG in normal, post-shock, and crisis conditions due to the Covid-19 pandemic. Finally, the variables used in research can be a factor in policy analysis in framing decision-making.

In section 2, the study will discuss the study of the ESG approach in several countries and the framework for the relationship between research variables and hypotheses; section 3 will discuss the research method, and section 4 will discuss the results.

THEORITICAL FRAMEWORK & HYPOTHESIS DEVELOPMENT

Stakeholders Theory

Stakeholder theory by Freeman (1984: 49) states that "stakeholders are a number of individuals or groups that can influence the performance of a company in achieving company goals." In theory, accountability and information are two important elements that an organization's management can report to stakeholders (Fernando & Lawrence, 2014). In his assumption, Freeman states that seven scopes describe stakeholder theory, one of which is that an organization has social, environmental, and financial responsibilities towards stakeholders.

ESG in Developed and Developing Countries

Several studies show that countries that are members of the European Union (Seker & Şengür, 2022) have the highest ESG disclosure values among countries in the world, while countries in the eastern part are in the lowest ranking category. An analysis by Singhania & Saini (2022) states that Finland is included in the Countries with Well-Developed ESG Frameworks or high ESG scores. Australia, the USA, Brazil, and Korea are included in the medium to high ESG scores or Rapidly improving ESG framework. And Indonesia is a country with an ESG rating or countries with an early-stage framework due to low ESG scores. However, complex ESG implementation has a negative impact on stakeholders in developing countries, and this is because developing countries do not consider the complexity of ESG implementation compared to developed countries.

CSR Sustainable Committee Score, Sustainability External Audit Score, Strategy Score

The existence of companies with sustainability committees in several studies shows a significant influence on CSR performances and CSR strategy (Elmaghrabi, 2021). The study results of Baraibar-Diez & Odriozola (2019)(Baraibar-Diez & Odriozola, 2019b) show that 90% of the research sample is in France, Spain, Germany, and The UK has a CSR committee and have a significantly higher ESG score than companies that do not have a CSR committee. In addition, the existence of a CSR committee also increases the non-financial performance of companies in these countries.

H1: Companies with sustainable committee are more sustainable and positively associate with ESG score

An audit is a form of management accountability to stakeholders in carrying out their company duties. By conducting an independent audit, management will provide adequate assurance on reports prepared as a basis for decision-making for stakeholders. In addition, audits have an important role in correcting errors and other illegal actions, such as fraud, that occur within the company. In another function, the audit is also a social control for the company. By conducting an audit of CSR activities, management can assure stakeholders that their efforts related to CSR are in accordance with applicable regulations (Koldovskyi, 2015; *What Is a Sustainability Audit*, n.d.; *What Is an ESG Audit?*, n.d.).

On the other hand, CSR audits can improve the quality of existing reporting, and CSR auditors also have a role in improving internal control within companies related to ESG activities (Koldovskyi, 2015). ESG performance is very dependent on the goals and strategies developed by management within a company. Companies that tend to be new and fall into the small category will have a non-aggressive strategy in CSR activities. CSR activities will be an additional cost for them, so CSR activities will not maximize the profit generated. In contrast, relatively large companies with adequate resources will tend to have an aggressive strategy in CSR activities. This is because they want to maintain a good reputation and have connectivity with stakeholders (Galbreath, 2006). For this reason, an aggressive CSR strategy indicates an increase in ESG performance in a company.

H2: Companies with sustainable external auditor are more sustainable and positively associate with ESG score

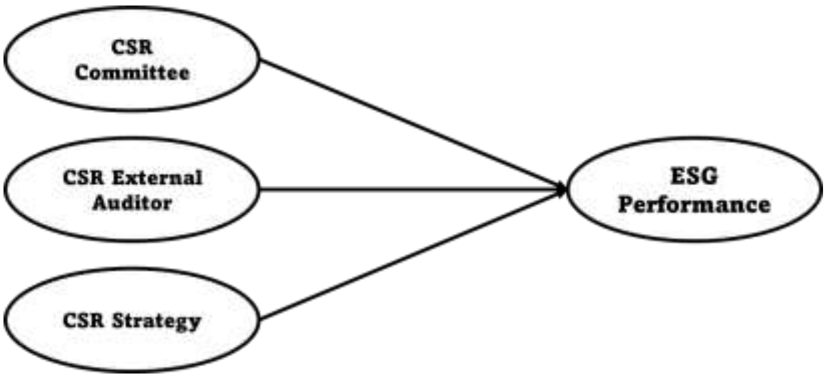
H3: Companies with good strategy score are more sustainable and positively associate with ESG score

METHOD

Research on the influence of the company's CSR Committee and CSR Strategy on the company's Environment, Social, and Governance (ESG) performance uses research objects from companies listed on the Indonesia Stock Exchange and South Korea. These countries represent different group in the ESG Index, they're also represent developing and developed market. Data was obtained from Revinitiv Eikon Datasets and each country's Stock Exchange website.

Data Analysis Technique

This study uses a regression data analysis technique on the influence of the CSR Committee & Strategy on the ESG Performance Score in each country. The results of the regression analysis will be used for hypothesis testing. The following is the framework of the regression analysis of this study.

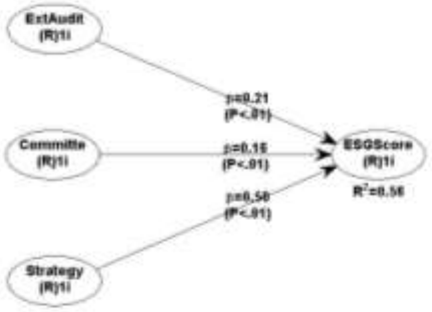
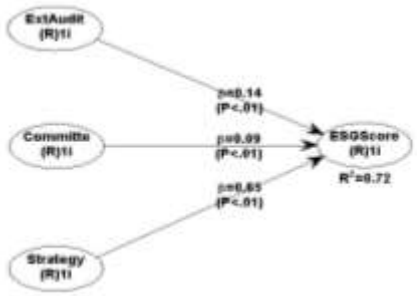


Picture 1. CSR Committee & Strategy Regression Analysis on ESG Performance Score

RESULT AND DISCUSSION

This study uses regression analysis to conclude the hypothesis of the influence of CSR Committees and Strategies on ESG performance. Following are the regression analysis results in the two countries for overall ESG Performance, Indonesia and South Korea (Table 1).

Tabel 1. Hasil Analisis Regresi CSR Committee dan Strategy CSR perusahaan pada kinerja ESG

Stage 1 Analysis	**Hypothesis Analysis**			
Indonesia		**ESG**	**p-value**	**Hypothesis**
	CSR Committee	0.16**	0.00	accepted
	CSR External Auditor	0.21**	0.00	accepted
	CSR Strategy	0.59**	0.00	accepted
South Korea		**ESG**	**p-value**	**Hypothesis**
	CSR Committee	0.14**	0.00	accepted
	CSR External Auditor	0.09**	0.00	accepted
	CSR Strategy	0.65**	0.00	accepted
** Correlation is significant at the 0.01 level * Correlation is significant at the 0.05 level				

The results show a positive and significant relationship between the CSR committee, CSR external auditor, and ESG performance, which can be interpreted as a component of the CSR committee that is not solely used for management's image development but fundamentally contributes to improving the company's ESG performance.

Has This study's results align with research conducted by Elmaghrabi (2021), which shows that a CSR committee encourages companies to have better CSR performance. The regression analysis results show that the CSR Committee has a significant positive influence on ESG performance in both countries. It is estimated that there is a CSR Committee. This commitment is shown through the role of the CSR committee in formulating efficient policies and strategies to ensure that CSR implementation can be carried out properly and will increase corporate value(Mackenzie, 2007; Shaukat et al., 2016). With a CSR committee, companies will be able to do better in making decisions related to CSR activities that they want to carry out, sorting out which strategies are most effective so that CSR implementation can be carried out properly.

CSR External Auditor has proven to affect the company's ESG performance positively. The existence of an auditor in the implementation of social, environmental, and corporate governance activities becomes the company's control to maintain company transparency. This is in line with what was stated by Shaukat et al., (2016) in their research that the presence of auditors who have expertise in the social and environmental fields will be able to improve the company's CSR performance. The existence of a CSR auditor will also overcome two company problems concerning the completeness and credibility of company CSR disclosures (Koldovskyi, 2015). So we can conclude that having a CSR auditor will improve corporate social, environmental, and governance performance.

The third attribute analyzed in this study is CSR strategy. The results of the analysis show that there is a strategy to improve the company's ESG performance. A good strategy will be able to design the best implementation of ESG activities so that it can be projected to improve overall company performance. Preparing company policies and strategies related to CSR is made to ensure that CSR activities are carried out effectively and adequately (Baraibar-Diez & Odriozola, 2019). A CSR strategy allows companies to create specific designs in social, environmental, and governance activities that are carried out according to the intended stakeholder goals (Galbreath, 2006). For example, when activities are aimed at customers, the implementation strategy can focus on customers as the primary target. Thus companies with a CSR strategy will be able to carry out social, environmental, and governance activities that are more efficient and proper.

A comparison of the results of the two countries can be seen in the Adjusted R2 value, which shows that the Adj.R2 value in the South Korean regression equation is higher than in Indonesia. Here, there is little difference in the ESG performance of developed and developing countries. In South Korea, social responsibility, environmental, and governance activities have long been the concern of both companies and the government. The South Korean government prepared various policies and strategies from 2003-2007 period as an effort to increase company sustainability (Laskar & Maji, 2018). The results of this study indicate that CSR activities in South Korea are more mature and structured, so the CSR committee's role is closely related to social, environmental, and corporate governance performance compared to Indonesia. This is also in line with the fact that South Korea is at a higher ESG ranking than Indonesia.

The results of this study may have implications for practitioners considering implementing committees and CSR strategies to improve a company's ESG performance. The CSR committee and attributes can also form a tangible commitment from the board-level human resources and organizational structure, which enables effective planning and oversight in this area, thereby contributing to better CSR performance.

CONCLUSION

This research contributes to adding scientific literature related to ESG performance that is currently being held by companies. The analysis results in this study indicate that the components of the CSR committee and the strategy carried out by the company significantly affect the company's ESG performance. This suggests that the existence of the CSR committee is not only a development of the company's image but is an aspect that has been proven to play a role in achieving company performance. The existence of a CSR committee makes the company's control of ESG performance better, thereby increasing the overall ESG score. Hal ini mengindikasikan bahwa adanya CSR Committeee bisa dikatakan menggambarkan komitmen perusahaan dalam upayanya menjaga dan meningkatkan kinerja lingkungan, sosial, dan tatakelola.

Many previous studies have found that ESG performance still has no effect on company performance, contrary to the claims of ESG activists. Further research can conduct research related to the role of the CSR committee in strengthening the relationship between ESG performance and company performance.

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