CHAPTER II
LITERATURE REVIEW

2.0 Literature Review

This chapter provides an empirical review of prior research on the effects of adopting the social responsibility standard on the financial performance, using data from the Indonesian Stock Exchange (IDX). This chapter explains the application of theories and how the independent variable affects the dependent variable. It also discusses the suggested conceptual framework that was used to carry out this investigation and the hypotheses that were developed throughout the research.

2.0.1 Background of Financial Performance

The topic of corporate social responsibility has garnered significant attention and has been the focus of numerous scholarly publications. Actually, businesses owe it to all interested parties to provide them with more information regarding their true performance and the effects of their operations (Chakroun et al., 2020).

An important indicator of a business's general health and success is its financial performance. It includes a range of financial measures and indicators that assist stakeholders in determining how successfully a business is allocating its resources, turning a profit, and adding value for its investors. Financial performance is influenced by a number of factors, including revenue, profitability, return on investment, cost control, and liquidity. For investors, managers, and policymakers, comprehending and evaluating financial performance is essential since it offers insights into the viability and growth potential of a company.

The International Organization for Standardization (ISO), on the other hand, created ISO 26000, a global standard that offers recommendations for social responsibility. It addresses a broad range of social responsibility-related behaviors and ideas, such as upholding human rights, the environment, and ethics.

2.0.2 Background of Human Rights

In the field of business finance, human rights refer to the values and procedures that ensure companies respect and safeguard human rights in all aspects of their operations, including financial and investment choices. To do this, we need to uphold and respect the basic rights of every person, which include freedom from discrimination in the workplace, the right to an honest and compassionate workplace, the ability to reject unethical behavior, and the right not to exploitation. Furthermore, investors and customers favor continuing business relationships with organizations that uphold human rights. This can maintain their durability and increase their financial profitability(Chakroun et al., 2020a)

2.0.3 Background of Labor and Conditions

The creation of enriching and productive jobs, and the wages paid for the work done, is one of the most important social and economic contributions of any business.(Kim et al., 2010). Many studies have focused on the relationship between good working conditions and the financial performance of employees and businesses(Chakroun et al., 2020b). In the study a large sample of 15 Indonesian companies on the IDX. Found a positive relationship between training and economic performance.

2.0.4 Background of Enviroment

Negative effects of its operations on the environment create thorough environmental regulations, Businesses are urged to take proactive measures to foster greater environmental responsibility and to apply a strategic approach to environmental problems (such as pollution, resource shortages, and climate change).(Koe Hwee Nga, 2009)

2.1 Underpinning Theory

Theory Stakeholders

This study aims to improve the company's environmental performance which should have a positive impact on the company's financial performance and improve the company's image and valuation.

Theory agency

The goal of agency theory is to maximize the partnership between principals and agents in order to improve financial performance. Companies can enhance their financial results and shareholder value by creating governance frameworks, incentives, and monitoring systems that motivate agents to act in the best interests of shareholders. On the other hand, if they are not appropriately managed, conflicts of interest and agency fees may negatively impact financial performance.(Chakroun et al., 2020a)

2.6 Conseptual Framework

This study aims investigate the relationship between Corporate governance, Human rights, and Labor relations and condition meeting toward on firm performance the Indonesia Stock Exchange. The suggested research model is shown in the following figure:

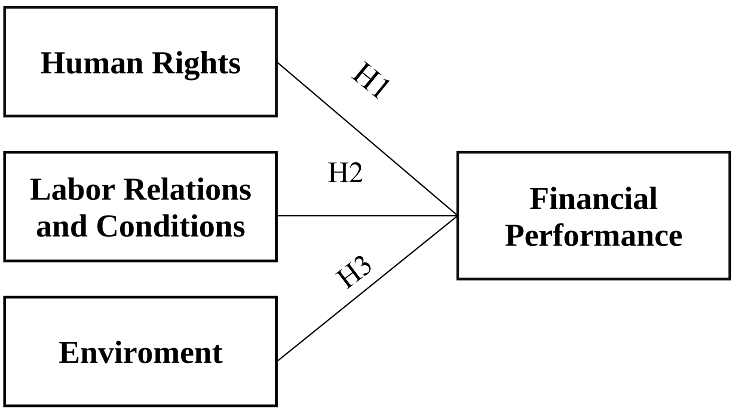

Figure 2.1 Conceptual Framework of the Relationship Between the IV & DV

The relevant research on the topic’s independent and dependent variables is reviewe in this section. The current study’s research model combines the relationship between two variables, firm performance (DV) and Human rights, Labor relations and condition and Enviroment (IV).

2.3 Hypotheses Development

This research develops three hypotheses that are in line with what will be researched. The hypothesis below is formulated with the aim of measuring whether factors such as Corporate governance, Human rights, Labor relations and conditions (Chakroun et al., 2020a)

2.3.2 Human rights

Relationship between financial performance and human rights Human rights are given a lot of weight in ISO 26000's corporate social responsibility guidelines.

This standard requires businesses to refrain from infringing human rights during their operations. It is incumbent upon them to take proactive measures to ascertain the potential effects of their present and future actions on human rights. Furthermore, they must avoid discrimination in their interactions with different stakeholders, particularly with respect to vulnerable groups (Chakroun et al., 2020a)

H1. Firms with a higher level of human rights have a higher financial performance.

2.3.2 Labor relations and conditions

Labor relations and conditions have a strong relationship with corporate social responsibility. In fact, the creation of enriching and Firm financial performance productive jobs as well as salaries paid for a performed work make up one of the most important economic and social contributions of a company (Chakroun et al., 2020).

H2. Firms with a higher level of labor relations and conditions have a higher financial performance.

2.3.3 Enviroment

According to this theory, satisfying stakeholders' demands for environmental preservation can increase competitive advantages and corporate value. Most studies with encouraging results indicate that an organization's environmental performance is a reflection of its organizational capabilities and that it improves its environmental reputation and legitimacy. Twenty-one of the thirty-two studies that Molina-Azorin et al. (2009) looked at showed a positive correlation between successful financial management and environmental management.

H3. Firms with a higher level of environmental management have a higher financial performance.