

1. Introduction

This chapter will provide the insight of this study, mainly talks about the motivation background of why this research is conducted and then continued by the recent news and facts concerning the topic which are collected through the literatures. Furthermore, it comes to the objective of this research and the questions in order to meet the objective. At last, it explains the how this research is structured.

1.1 Problem Description: Motivation, Observation and Justification

The collapse of Enron in 2001 was a big thing that produced the famous Sarbanes-Oxley act which regulates more about accounting policy and corporate governance (Solomon, 2010). In the early of 2000, they surprised investors by their boosted performance and succeed in achieving 7th position of best performing company on the Fortune 500 list with €81.7 per share at that time (CNN, 2015). Not so long after that, Enron began to disclose their loss in 2001 and they filed protection of bankruptcy at the end of that year (CNN, 2015). In 2002, United States Department of Justice started an investigation towards Enron's activity. Then, it came up that the executives of Enron did illegal transactions and they cooperated with Arthur Andersen, one of the big five accounting firms (CNN, 2015). Due to this case, the Sarbanes-Oxley act was formed in order to regulate better accounting policy and prevents this kind of event to be happened again in the future (Solomon, 2010).

This Enron's case triggered economist and policy makers to develop a set of rules which regulate better company practice thus corporate governance got more attention because of it (Solomon, 2010). Even until now, OECD is still doing the development for better corporate governance practice. According to OECD (2015), there are some principles of corporate governance which are transparency, fairness, accountability, responsibility and independency. Good corporate governance will be achieved when company applies all of those principles (Murwaningsari, 2010). Cooperation and commitment from the whole level of the entity are needed in order to achieve good corporate governance implementation (Murwaningsari, 2010).

According to stakeholder theory, a manager should have a network of relationships to serve which includes suppliers, employees, business partners and environment (Abdullah & Valentine, 2009). This means if a company wants to implement good corporate governance practices, they should be responsible to those stakeholders as well. That is why corporate social

responsibility is also a part of corporate governance. On the other hand, company needs to be accountable to their shareholders as well (OECD, 2015). One way to measure this accountability is through business performance itself. There are a lot of factors that influence business performance, one of them is the strategic decisions which made by the executives. Strategic decision also includes how the company will take actions regarding their corporate social responsibility.

According to Papadakis and Barwise (2002), strategic decision making is also influenced by the characteristics of the CEO himself, both personally and demographically. Hogan and Kaiser (2005) stated that personality predicts leadership, they believed that who we are is how we lead. Leadership can also influence business performance, good leadership will build effective teams and deliver good outcomes (Hogan & Kaiser, 2005). According to transformational leadership theory, transformational leaders need to be visionary and enthusiastic so that they can inspire and motivate their followers (Ogbonna & Harris, 2000). Kenneth Lay of Enron is an example of short-term and result-oriented CEO. He and the board of Enron chose to manipulate their financial data to satisfy their shareholders and attract more investors (CNN, 2015). On the contrary, Steve Jobs was a visionary CEO, even though he was kicked out of his own company, he did not give up and kept developing his own ideas which made Apple called him back and he also helped Apple became as success as we know now (Beattie, 2011).

CEOs' characteristics also influenced strategic decisions of corporate social actions. The former CEO of Southwest Airlines, Herb Kelleher, was famous for his humble and friendly figure (Nisen, 2013). He applied a great culture to the company which is employee focus. He believed if his employees are happy, they will deliver great service to their customers as well (Nisen, 2013). Southwest is a good role model of social responsibility to the employees but Kelleher did this long before social responsibility was a thing.

From those examples, we believed that characteristics of the CEO somehow influence business performance and corporate social actions. Then our questions came up, how do CEO characteristics affect business performance and corporate social actions?

1.2 Research Objective

The objective of this study is to reveal how personal characteristics of a CEO affect business performance and corporate social actions, both positively and negatively, based on the outcome of analysis through literature studies.

1.3 Research Question

“How do CEO characteristics influence business performance and corporate social actions?”

In order to achieve the objective of this study, we need to answer this main question. In that case, we also need several sub-questions in order to achieve better outcome, we need to know the characteristics of good-performing and underperforming CEOs, and then continued by analyzing their corporate social actions.

To sum up, the sub-questions are:

- *What are the characteristics of good-performing CEOs?*

First, we need to know which characteristics are possessed by the good-performing CEOs and then we need to analyze it, which are considered important based on the literatures.

- *What are the characteristics of underperforming CEOs?*

Second, we continue to look for the characteristics which are possessed by the underperforming CEOs. Again we need to analyze the rank of characteristics, which are considered to be important based on the literatures.

- *Do the good-performing and underperforming characteristics have similarities?*

After analyzing both good-performing and underperforming CEOs characteristics, we compare both of them whether they have similarities between one and another.

- *Do the Corporate Social Actions affected by the characteristics of the CEO itself?*

Based on characteristics of both good-performing and underperforming CEOs, we will try to look at the corporate social actions and see if characteristics influence CSR or not.

In order to obtain the same understanding of what are going to be mentioned during the whole paper, we would like to define the terms that we used. All definition stated below are based on the literatures and we combined them as the best definition according to us.

- *CEO*: People who lead the publicly traded companies.

- *Business performance*: Measured by the return of investment of shareholders by using company's share price (Ross, Westerfield, & Jordan, 2013). More explanation on chapter 3.
- *Good-performing CEO*: CEO who continually made high positive returns to their shareholders or increased the value of the company's share price.
- *Underperforming CEO*: CEO who continually made negative returns to their shareholders or led the company to bankruptcy or fired before their tenure end.
- *Characteristics*: a typical attribute or quality of a person physically and emotionally, in this case we try to look into the CEO psychological characteristics (Cambridge, 2008).
- *Corporate Social Actions*: Social activities or announcement by the company for their environment and stakeholders (Murwaningsari, 2010).

1.4 Structure of Paper

The structure of this paper is constructed as follows. Chapter 1 is the background of this research, what are the drives that trigger this research and the objectives of this research. Chapter 2 is about the methodology of this research, it explains how this research is conducted. Chapter 3 is the theoretical background of the paper according to theories from the literatures which are being used through this research. Chapter 4 is the analysis of the data which has been obtained through literature study due to answer the questions of this research. Chapter 5 contains the summary of this research and chapter 6 contains reflection of what were the obstacles of this research and what could be better and improved for further research.