The Influence of CSR on Performance and Its Determinants in Listed Companies in Indonesia

Taridi Kasbi Ridho

Abstract - This paper explains the influence of corporate governance (CG) and characteristics to corporate social responsibility (CSR) as well as the impacts of CSR on corporate performance in the top 200 listed companies in Indonesia. Content analysis of 2014 annual reports, CSR report/sustainability reporting, and online CSR information published by the top 200 Indonesian listed companies was employed using Indonesian corporate governance disclosure standard and ISO 26000 of guidance on social responsibility to measure CG index and CSR index. Covariance analysis was then used to find the influence of CG index and corporate characteristics (company’s size, industry group, company’s age, share trading volume, share price and risk, DER, and share ownership structure) to CSR index and the impacts of CSR index to corporate performance (financial, customer, and employees performance). Results indicated that both CG and corporate characteristics had impact on CSR. Likewise, CSR had impact on business performance.

Keywords – corporate performance, corporate governance, CSR, Indonesia

I. INTRODUCTION

According to ISO 26000 (2010), social responsibility is responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that contributes to sustainable development, health and the welfare of society; takes into account the expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behaviour; and is integrated throughout the organization and practiced in its relationships.

This is in-line with the concept of corporate social responsibility as been stated by Carroll (1979: 497-505) who said that a company had four responsibilities, that is economic, legal, ethical, and discretionary responsibilities. Likewise, a private corporation had responsibilities to society that extend beyond making a profit (Wheelan and Hunger, 2011: 72), attempting to harmonize the goal of achieving economic prosperity, environmental quality, and social justice, or turning the traditional financial bottom line to be triple bottom lines (Elkington, 1997: 2).

Many believe that corporate social responsibility (CSR) activities will bring many benefits to the company. Porter and Kramer (2006) emphasized that strategic CSR will minimize the increasing risk of government regulations, exposure to criticism and liability, and consumers’ attention to social issues. Furthermore, they concluded that CSR will become increasingly important to competitive success. Meanwhile, Welter (2011) summarized the previous literatures of benefits of CSR into three groups, i.e. philosophical purposes, financial reasons, and competitive advantages.

As a developing country with many corporations operated in natural resources related business, the world also demands to Indonesian companies to do business more responsibly. There has been many regulations and initiatives to improve CSR practice in Indonesia. However, for many business community in Indonesia, CSR is perceived limited to donation and community development activities. Indonesia Stock Exchange is also regarded as one of the worst in the world in CSR disclosure as been published by CK Capital, Aviva Investors and Standard & Poor’s (2013).

The objective of this research is to understand CSR implementation in the top 200 listed companies in Indonesia along with its determinants as well as its implication on corporate performance.

II. LITERATURE REVIEW


1Taridi K Ridho, Faculty of Economics and Business, State Islamic University Syarif Hidayatullah Jakarta, Jalan Ir. Juanda No. 95 Ciputat 15412 Jakarta, Indonesia, email: taridi.ridho@gmail.com

Corporate governance and characteristic are used in this research as determinants of CSR implementation. Kassinis and Vafeas (2002) found a statistically significant relationship between corporate governance of board composition and certain aspect of CSR, i.e. environmental responsibility. Rahimi, Kangarluie, and Shavalizadeh (2012) argued that corporate governance was needed to incorporate and manage CSR in a corporation’s policies, practices and reporting. As such, in their research in Tehran Stock Exchange, Rahimi et al. (2012) did not find a significant relationship between corporate governance and CSR.

On the other hand, it was reported in several studies that corporate governance has a positive impact on corporate performance. Research by Credit Lyonnais Securities Asia (CLSA, 2001) on 495 companies from various countries in Asia concluded that corporate governance significantly affects financial performance. Gompers et al. (2003) also concluded that there was a positive correlation between company’s stock performance in the capital market with its corporate governance score.

Corporate characteristics which may affect CSR according to Adams (2002) include size, industry group, corporate age, financial/economic performance, share trading volume, price and risk (beta), decision horizon (long-term or short-term), debt/equity ratio, and political contributions. Meanwhile, according to Naser and Hassan (2013) the corporate characteristics include size, industry type, and profitability. Robert (1992) found that corporate age and size had positive impacts on CSR, while share risk (beta) had a negative impact. Soliman (2013) concluded that corporate size and probability had a positive and significant to CSR implementation, while corporate age did not have a significant influence on CSR implementation.

Research on the relationship between corporate social responsibility (CSR) and corporate performance has attracted many researchers for years. Generally, the research intended to prove that socially responsible activities by a company will lead to a positive impact to company’s financial performance. However, there had been inconclusive results of the relationship between the two.

For that reason, Orlitzky et al. (2003) conducted a meta-analysis to 52 previous studies which involved 30 years of empirical data and 33,878 samples and concluded that CSR had positive impact on corporate performance. The similar study was done by Margolis and Walsh (2003) and described that from 109 previous studies, 54 studies showed a positive and significant relationship between CSR and performance, 20 studies with various results, 28 studies said there was no significant relationship, and 7 studies revealed negative relationship. For Indonesian case, Oeyono, et al (2011) investigated the level of CSR conducted by the top 50 corporation in Indonesia and its relationship with company’s profitability and concluded that level of CSR, measured based on Global Reporting Initiative (GRI) guidelines, had a positive relationship with profitability, measured by company’s EBITDA and EPS.

Maignan, Ferrell, dan Hult (1999) tried to find the impact of CSR not only limited to financial performance, but corporate performance in wider context. They concluded that CSR had a positive and significant influence on employee commitment, customer loyalty, and business performance.

The CSR practice in Indonesia has only been legally started in 2007 marked by the issuance of Law Number 40 year 2007 regarding Corporation. Article 74 of the Law said that all companies operate in and/or related to natural resources have to conduct social and environmental responsibilities.

The Indonesian state’s owned companies (SOEs) has started some activities that become a part of CSR activities several years earlier. The Ministry of SOEs by the Minister Decree Number Kep-216/M-PBUMN/1999 dated 28 September 1999 concerning Partnership and Environmental Management Program for SOEs, Number Kep-236/MBU/2003 dated 17 June 2003 concerning SOEs partnership with small enterprises and environmental management program, then enforced by Law Number 19 year 2003 on SOE and SOE Ministry Regulation Number Per-05/MBU/2007 concerning SOEs partnership with small enterprises and environmental management program, all stated that each SOE has to allocate 4 per cent of its net profit for a partnership and environmental management program, equally 2 per cent each for partnership program and for environmental management program. SOE partnership program with small enterprises is a program to improve the capacity of small enterprises to be strong and self sufficient through the utilization of fund from SOE. On the other hand, environmental management program is society empowerment program with fund from SOE.

The author observed that many business practitioners in Indonesia had misunderstanding on that CSR law, said that companies that operate in area other than in/related to natural resources do not have an obligation to conduct CSR program. This showed that most of them did not understand the CSR concept well. The author also observed that CSR was still perceived as limited to philanthropic and community development activities by majority of Indonesian business practitioners.

Different from CSR, corporate governance practice in Indonesia has been initiated long time back. Since 1999, or soon after Indonesia hit badly by the Asian monetary crisis the Indonesian government set up a National

In the capital market area, since 2000 by the issuance of Circular Letter No SE-03/PM/2000, Indonesian Capital Market Supervisory Board has recommended all companies listed in Indonesian Stock Exchange to have independent commissioner and audit committee. Following the enactment of Law No 8 Year 1995 on Capital Market, the Board has also issued many regulations, among others, related to conflict of interest on certain transactions, planning and implementation of Shareholders General Meeting, Information Disclosure, Corporate Secretary, as well as Directors and Commissioners. Moreover, the Indonesia Financial Service Authority, in which now the Capital Market Supervisory Board include in it, has launched a Corporate Governance Road Map for Issuers and Public Companies on 4 July 2014.

III. METHODOLOGY

This research observed 200 biggest companies, measured by their revenues, listed in the Indonesia Stock Exchange for the year 2014. Secondary data was gathered from 2014 company’s annual report, company’s CSR/sustainability report, either based on international GRI guidelines or other standards, and on-line CSR information on company’s web site accessed on June 2015.

Independent variables in this research are corporate governance and corporate characteristics. Corporate governance is measured by Indonesian corporate governance disclosure standard published by Annual Report Award (ARA) committee. The ARA committee consist of Bank of Indonesia, Financial Services Authority, Indonesian Stock Exchange, Ministry of State’s Owned Enterprises, Directorate General of Taxes, Indonesia Accountant Association, and National Committee on Governance Policy. According to ARA, a company shall disclose its corporate governance which include (1) Board of Commissioners, (2) Directors, (3) Audit Committee, (4) other committees under Board of Commissioners, (5) Corporate Secretary, (6) Internal Audit, (7) External Auditor, (8) Risk management, (9) code of conduct or code of ethics and (10) whistle blowing system. The 10 ARA governance disclosures is then detailed more to be 37 corporate governance parameters. Meanwhile, corporate characteristics used in this research are size, industry group, corporate age, share trading volume, share risk / beta, debt/equity ratio, and ownership structure.

On the other hand, dependent variables were CSR and corporate performance. CSR is measured using core subjects in ISO 26000 (2010), by excluding organizational governance, i.e. (1) Human rights, (2) Labour practices, (3) Environment, (4) Fair operating practices, (5) Consumer issues, and (6) Community involvement and development. Based on that ISO 26000 (2010) standard, there are 36 parameters to measure CSR. Lastly, corporate performances measurement used in this research are (1) financial performance, i.e. ROE and ROA, (2) customer performance, measured by sales growth and (3) employee performance, measured by employee turnover.

There are three analysis used in this research. First is a content analysis that is based on the corporate governance and CSR disclosure standard to be applied to the company’s reports to form both corporate governance and CSR implementation index. Second is descriptive analysis to describe data phenomenon or characteristics, and lastly covariance analysis or ANCOVA as an inferential analysis to analyse the direct influence of corporate governance and characteristics to CSR and likewise the direct influence of CSR to corporate performance.

Content analysis is a method of codifying the content or text of a piece of writing into categories based on chosen criteria (Weber, 1988). To develop both corporate governance and CSR implementation index, the author employee an ordinal measurement by using “0” and “1” scale. “0” is given if there is no available information as required in the company’s report, while “1” is given when the company’s report show required corporate governance/CSR information.

Corporate governance implementation index of company “X” is calculated as follow:

$$CGS(x) = \sum_{i=0}^{n} l(x)$$

where:
- $CGS(x)$ is corporate governance score for company “X”
- $l(x)$ is the score for one corporate governance parameter with “0” or “1” result
The maximum corporate governance score that might be achieved by a company is $1 \times 37 = 37$. Therefore, corporate governance index for company “X” ($CGI(x)$) is corporate governance score for company “X” ($CGS(x)$) divided by maximum score of corporate governance of 37.

$$CGI(x) = \frac{CGS(x)}{37}$$

On the other hand, CSR implementation index for company “X” is calculated using the following formula:

$$CSRS(x) = \sum_{i=0}^{n} I(x)$$

Where:
- $CSRS (x)$ is CSR score for company “X”
- $I (x)$ is the score for one CSR parameter with “0” or “1” result

The maximum score for CSR is $1 \times 36 = 36$. Therefore, CSR index for company “X” ($CSRI(x)$) is CSR score of company “X” ($CSRS(x)$) divided by 36.

$$CSRI(x) = \frac{CSRS(x)}{36}$$

Covariance analysis or ANCOVA is used to find direct impact of corporate governance and characteristics on CSR as well as direct impact of CSR to corporate performances. Likewise, direct impact of corporate governance and characteristics to corporate performance. The following are the illustration of the test along with the equations:

- **model 1:**
  $$z = \mu + \tau_1 + b_1x_1 + b_2x_2 + e$$
  - $z$ = corporate performance of company “X”
  - $y$ = CSR index of company “X”
  - $x_1$ = corporate governance index of company “X”
  - $x_2$ = corporate characteristic of company “X”
  - $\mu$ = the grand mean / constant
  - $\tau_1$ = the effect of the independent variable

- **model 2:**
  $$y = \mu + \tau_1 + b_1x_1 + b_2x_2 + e$$

- **model 3:**
  $$z = \mu + \tau_1 + b_1y + e$$

Descriptions:
- ANCOVA) is a statistical technique for equating groups on one or more variables when testing for statistical significance using the $F$-test statistic. It adjusts scores on a dependent variable for initial differences on other variables, such as pre-test performance or IQ (Holosko and Thyer, 2011) It is used to find the influence of an independent variable to dependent variable by controlling other qualitative variables. It is a useful analysis technique to increase the precision of a test because there is control to the influence of other independent variables. Other uncontrolled variables are called covariate. It is used if independent variable consist of numeric and categorical quantitative variables. It is combination of comparative and correlational test. Analysis is conducted through comparing dependent variable ($y$).

IV. FINDINGS

There are 7 hypothesis in this research:
1. The level of corporate governance implementation in the top 200 listed companies in Indonesia is low;
2. The level of CSR implementation in the top 200 listed companies in Indonesia is low;
3. Corporate governance influences CSR implementation in the top 200 listed companies in Indonesia;
4. Corporate characteristics influence CSR implementation in the top 200 listed companies in Indonesia;
5. CSR implementation influences corporate performance in the top 200 listed companies in Indonesia;
6. Corporate governance influences corporate performance in the top 200 listed companies in Indonesia;
7. Corporate characteristics influence corporate performance in the top 200 listed companies in Indonesia.

Characteristic of 200 top listed companies in Indonesia is as shown in the following descriptive statistic summary:

<table>
<thead>
<tr>
<th>Variables</th>
<th>Min.</th>
<th>Max.</th>
<th>Mean</th>
<th>STD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate governance (x1)</td>
<td>9</td>
<td>37</td>
<td>26</td>
<td>7.18</td>
</tr>
<tr>
<td>Corporate characteristics (x2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Size (IDR trillion)</td>
<td>0.23</td>
<td>855</td>
<td>33.69</td>
<td>99.22</td>
</tr>
<tr>
<td>• Industry group</td>
<td>1</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Age (year)</td>
<td>6</td>
<td>120</td>
<td>36</td>
<td>19.01</td>
</tr>
<tr>
<td>• Share trading volume (average million share/year)</td>
<td>0.03</td>
<td>33,759</td>
<td>3,132</td>
<td>5,567</td>
</tr>
<tr>
<td>• Share risk / beta</td>
<td>0.01</td>
<td>5.82</td>
<td>1.08</td>
<td>0.84</td>
</tr>
<tr>
<td>• Leverage (debt/equity ratio)</td>
<td>(8.59)</td>
<td>30.30</td>
<td>2.23</td>
<td>3.53</td>
</tr>
<tr>
<td>• Ownership structure</td>
<td>1</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSR implementation (y)</td>
<td>8</td>
<td>35</td>
<td>22</td>
<td>6.37</td>
</tr>
<tr>
<td>Corporate performance (z)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>financial performance - ROE</td>
<td>(0.89)</td>
<td>7.99</td>
<td>0.16</td>
<td>0.60</td>
</tr>
<tr>
<td>financial performance - ROA</td>
<td>(0.34)</td>
<td>0.43</td>
<td>0.05</td>
<td>0.09</td>
</tr>
<tr>
<td>Customer performance</td>
<td>(0.58)</td>
<td>0.75</td>
<td>0.11</td>
<td>0.17</td>
</tr>
<tr>
<td>Employee performance</td>
<td>(0.88)</td>
<td>0.90</td>
<td>0.04</td>
<td>0.17</td>
</tr>
</tbody>
</table>

With the maximum corporate governance score that might be achieved by a company is 37, it can be shown from the above table, that there are some companies that could achieved that maximum score of 37 in their corporate governance implementation based on national “annual report award” corporate governance disclosure standard. Moreover, the average score of corporate governance implementation in the top 200 listed companies in Indonesia is 26 of 37 or 70 % or could be categorized as “good”. However, none of the top 200 listed companies in Indonesia has fully implemented CSR according to international standard of ISO 26000, as shown in the above table that the maximum score of CSR implementation is 35 or below the standard of 36. Likewise, the average score of CSR implementation is only 22 of 36 or only 61 % from the international standard, or could be categorized as “fair”.

This research has passed all classical assumptions test that consist of normality, homogeneity, significance, and linearity as well as autocorrelation test. This analysis uses statistical t and F test by using significance level of 5%. It means that if the significance level is less than 0.05, Ha is accepted, and on the contrary is rejected if it is more than 0.05.

The results of hypothesis number 3 – 7 testing using ANCOVA are as follows:
1. Corporate governance and corporate characteristics simultaneously have a significant and positive impact on CSR. Partially, corporate governance, industry group, and company’s age have significantly positive impacts on CSR.
2. Corporate governance and corporate characteristics simultaneously have a significant and positive impact on financial performance - ROE. Partially, corporate governance, industry group, and company’s age have significantly positive impacts on financial performance - ROE.
3. Corporate governance and corporate characteristics simultaneously have a significant and positive impact on financial performance - ROA. Partially, corporate governance, industry group, company’s age, share trading volume, share beta, leverage, and ownership structure have significantly positive impacts on financial performance - ROA.
4. Corporate governance and corporate characteristics simultaneously have a significant and positive impact on customer performance. Partially, corporate governance, company’s size, industry group, share beta, leverage, and ownership structure have significantly positive impacts on customer performance.
5. Corporate governance and corporate characteristics simultaneously have a significant and positive impact on employee performance. Partially, industry group, share trading volume, and leverage have significantly positive impacts on employee performance.
6. CSR and corporate characteristics simultaneously have a significant and positive impact on financial performance - ROE. Partially, CSR, industry group, company’s age, and ownership structure have significantly positive impacts on financial performance - ROE.
7. CSR and corporate characteristics simultaneously have a significant and positive impact on financial performance - ROA. Partially, CSR, industry group, company’s age, share trading volume, share beta, leverage, and ownership structure have significantly positive impacts on financial performance - ROA.

8. CSR and corporate characteristics simultaneously have a significant and positive impact on financial performance. Partially, industry group, company’s age, share beta, leverage, and ownership structure have significantly positive impacts on customer performance.

9. CSR and corporate characteristics simultaneously have a significant and positive impact on employee performance. Partially, industry group, leverage, and ownership structure have significantly positive impacts on employee performance.

From that results, it may indicate that in the top 200 listed companies in Indonesia:

1. Beside corporate characteristics, the level of CSR implementation is affected by corporate governance. This is in line with CSR framework according to ISO 26000 which place corporate governance as a foundation of CSR implementation. This is also confirming several previous research which concluded that one factor that affect CSR is corporate governance.

2. Corporate governance has a significant and positive impact on three corporate performance measurements, i.e. financial performance – ROE, financial performance – ROA, and customer performance. It may indicate that improvement in corporate governance implementation will improve financial performance. Likewise, customer will consider corporate governance factor as one reason to buy or not to buy products or services from a company.

3. CSR has significant and positive impact on financial performance measured by both ROE and ROA. It means that improvement in CSR implementation will make those companies stay ahead of their rivals in terms of financial performance. This shows that stakeholders theory applies in Indonesian listed companies. The fact that there is no significant relationship between CSR and customer performance as well as between CSR and employee performance may indicate that in case of a developing country like Indonesia, customer and employee have not put CSR practice as main factor to buy product/services from a company or to work at a company.

V. LIMITATIONS/FUTURE STUDIES

Future research needs to include more companies that have done good CSR program, for example by covering all listed companies and/or covering companies that have not listed in the Indonesian stock exchange such as state’s owned companies. Likewise, research to use other variables that affect CSR. Also, research may use different measurement of corporate governance such as using ASEAN corporate governance scorecards. Finally, research may use longer time horizon to understand more the changes of corporate governance and CSR implication in the observed companies.

REFERENCES

ACGA. 2012. CG Watch 2012: Market Rankings. The Asian Corporate Governance Association (ACGA) and CLSA Asia-Pacific Markets


Khan, M., 2010. The effect of corporate governance elements on corporate social responsibility (CSR) reporting, Management, 52(2), pp. 82-109