

# The Impact of Management on CSR

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## Abstract

The purpose of this study is to investigate the difference in the CSR perceived by the actors in the Indonesia economy represented by managers working in state-owned companies (BUMN) and non state-owned companies. The unit of analysis in this study is Indonesian managers. The population of this study is all Indonesian managers working in the Jakarta stock exchange's listed companies and in state-owned companies. Based on the mean difference analysis, the result is that there is no difference of CSR perceived by managers working in SOC and POC. The rank of CSR dimensions perceived by managers is as follows: (1) corporate governance, (2) customer, (3) employment, (4) community and society, (5) environment, (6) human rights, and (7) controversial business.

**Keywords:** *CSR, Management, Indonesia, corporate governance, customer, community and society, employment, human rights, controversial business, BUMN*

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## Introduction

The extended corporate performance including financial, social, and environmental performance, often referred to as sustainable corporate performance, can be affected by management intervention. This is true because sustainable performance will take place when there are active leaders or managers within the company to champion sustainable approach to managing the company (Szekely &

Knirsch, 2005). Therefore, corporate performance can reflect the performance of management. This understanding is in line with the concern of Thomas and Simerly (1994, 1995) and Simerly (2003), who investigated the role of managers in improving corporate social performance.

Law No. 19/2003 on BUMN stipulates that actors in Indonesian economy include state-owned companies, private-

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owned companies, and companies under cooperative scheme. In terms of ownership, they can be classified into two categories: state-owned companies and non state-owned companies. Therefore, managers in two categories of companies may perceive CSR differently. This is because only Law No. 19/2003 regulates CSR for the private sector companies while state-owned companies are governed by five different sets of laws. In terms of business, the two categories of companies are the same, but in terms of mission set by their owner, they are different. Government as the owner of the BUMN has set some missions of public service offering (PSO) for the companies (Fauzi et al., 2009). Detailed regulation on CSR for BUMN has been established through Ministerial decree of BUMN minister. Under this situation, managers of state-owned companies are expected to perceive CSR more favorably than their counterparts in non state-owned companies. However, the study of Fauzi et al. (2009), using the disclosure approach to measuring CSR, found no difference of CSR between the two categories of managers. The finding is therefore consistent with the data indicated in Table 1-2 and 1-3 previously. This further justifies why a study to examine the perceptions of CSR amongst managers in public and private sector companies needs to be carried out.

This study attempts to answers the following research questions:

Are there any differences in CSR as perceived by managers working in state-owned companies and non state-owned companies? How do managers in state-owned and non-state-owned companies rank the CSR dimensions?

The objectives of the study are to inves-

tigate whether there are any differences in CSR as perceived by managers working in state-owned companies and non state-owned companies; and to determine the ranking of CSR dimensions by managers in state-owned and non-state-owned companies.

### **Literature Review and Hypotheses Development**

The sustainable corporate performance including financial, social, and environmental performance can be affected by management intervention. This is true because the sustainable performance will take place when there are active leaders or managers within the company to champion sustainable approach to managing the company (Szekely & Knirsch, 2005). Therefore, the term of corporate or organization performance can indicate a reflection of the performance of management. This understanding was parallel to the one of Thomas and Simerly (1994). Thomas and Simerly (1995) and Simerly (2003) also had the same concern by investigating the importance of the role of top managers in improving corporate social performance and the relation between management functional background and corporate social performance. To this point, understanding has been gained that top management can highly play role in determining corporate social responsibility or performance. The generalization is supported by the recent investigation by Browns (2003), explaining quality of top management teams as one of the determinants of corporate social performance. Furthermore, corporate social responsibility value can be predicted by the CEO visionary and integrity (Galbreath, 2006).

The perceived CSR may come from managers across companies which in terms of ownership can be classified into two categories: state owned companies and non-state owned companies. In Broader sense, state-owned companies can be defined as a legal entity created by a government to undertake commercial or business activities on behalf of an owner (government). They may also have public policy objectives in addition to financial goal. According to the explanation of the Indonesian Law No. 19 (2003), actors in Indonesian economy include: state owned companies, private owned companies, and companies under cooperative scheme. Based on the Law, non state owned companies include both private owned companies and companies under cooperative. In article 66, the Law also requires that state owned companies conduct government's policy called Public service Offering (PSO). In addition, government (as owner) issue instruction for the state companies to reserve 1-5% of their net profit for helping small-scale companies in the revolving fund form and training activities to increase their management skill. Recently, in an effort to increase Indonesian companies' concern about social responsibility, the Indonesian Law maker approves the Law 40 (2007), which in article of 74 stipulates that all companies in corporation (PT) in Indonesia (state or non state companies) should conduct social responsibility. Given the condition, the perceived CSR by managers of state companies is expected to be better than the one by their counterpart in non state companies.

The difference of CSR may also be perceived by across managers in the same category of company. Top managers tasked to make a company's policy

(including CSR matters) may be thwarted by those assigned the task to of getting the job done (at lower managerial level) (Collins et al., 1973; cited in Ostlund, 1977, and 1978). Specifically, Collins et al. (1973) contended that different attitude between the categories of managers can lead to gap between corporate social policy and implementation of the policy. Therefore, the corporate social policy can be sabotaged by uncooperative employee charged with implementing the policy (Collins et al., 1973; Ostlund, 1978). The difference of CSR perceived by top managers and operating (middle level or lower level executive) managers can be resulted from two folds: (1) lack of incentive for such managers, in that successful social programs are rarely rewarded as straightforwardly as successful profit oriented activities, and (2) middle managers may not share their chief attitude toward the corporate responsibility due to the different value they have (Collins et al., 1973; Ostlund, 1977 and 1978). The last reason is consisted with the view of Hemingway et al. (2004) asserting that manager's personal value can influence CSR.

The priority difference in CSR areas between top and operating managers are also found by Collins et al. (1973) and Ostlund (1977 and 1978). For two areas of CSR: pollution control and minority hiring, for example, operating managers, as reported by him, felt less enthusiastic compared to their chief managers. In contrast, the lower managers are more enthusiastic to responding to the government regulation. In terms of the difficulty in CSR areas, the significant difference as perceived by top and lower level managers occurred in the pollution control variable. The perception differences in the involvement in CSR had

been found in the following CSR areas: equal opportunity of hiring, pollution control, employ safety, resource conservation, responding to government's regulation, reacting to consumerism, community improvement program, foreign investment, and purchasing from minority-owned companies (Ostlund, 1977 and 1978).

There are two laws explicitly requiring Indonesian companies to conduct CSR: Law 19 (2003) and Law 40 (2007). Law 19 (2003) is applied to state-owned companies only, while Law 40 (2007) is for all Indonesian corporations both state and non-state owned companies. State-owned companies are required by two laws, while non-state companies are obliged under one law only in CSR implementation. Under the Law 19 (2003), state-owned companies are required to conduct specific CSR that include two kinds of activities: (1) allocating specific budget (2%-5%) for CSR implementation, and (2) developing related sustainable environmental activities. Given the consideration, the perceived CSR by managers of state companies is expected to be better than the one by their counterpart in non state-owned companies as in addition to complying with Law 40/2007, the state-owned companies must follow the Law 19/2003.

Based on the arguments and findings mentioned above, it is expected that the current study's hypothesis is as follows: H: There are differences of CSR as perceived by managers working in state-owned companies and non state-owned companies

### Research Method

To answer the research questions of this

study, questionnaire-based survey research design was used. The questionnaires that include items of CSR were sent to the respondents who are managers of state-owned companies (BUMN) and private-owned companies using post and e-mail services. Due to the fact that the questionnaire instrument of this study is adopted from the materials written in English and that the respondents were not ones in the English country speaking, to be valid, the back translation technique was used.

The measure for CSR in this study used the MJRA's dimensions of CSR. Following are indicators for each dimension:

1. Community and society:
  - Public reporting
  - Charitable donation program
  - Community relation
  - Aboriginal relation
  - Impact on society
2. Corporate governance:
  - Management Systems
  - Governance data
3. Customers:
  - Impact on customer
4. Employee:
  - Employee data
  - Reporting
  - Employee program and benefit
  - Diversity
  - Health and safety
  - Union relation
  - Other employee data
5. Environment
  - Exposure to Environmental Issues
  - Management Systems
  - Public Reporting
  - Impact and Initiatives
  - Regulatory Compliance
  - Other Environmental Data
6. Human Rights:

- Exposure to Human Rights Issues
  - Management Systems
  - Impact and Initiatives
7. Controversies Business Activities
- Alcohol
  - Gambling
  - Genetic Engineering
  - Tobacco
  - Use of animal

Based on the dimension and indicators as well as micro level indicators, the instrument for this variable was developed using a 7-point scale. Scale 1 is for “Not Absolutely Very Important”, while scale 7 is for “Absolutely Very Important”. For example, in the first dimension of CSR, Society and Community, there were 6 (six) items responded by respondents using the 7-point scale. There were 7 (seven) dimensions of the CSR variable. To measure the SCR, composite or index of CSR was computed by summing up each dimension of CSR.

To answer research question as to the possibility of CSR difference perceived

by group of respondents (BUMN and private-owned company), mean difference was conducted using the independent sample t test. There were two procedures to conduct the test: (1) Levene’s test and (2) t-test for equality of means. The Levene’s test was first conducted to test if two CSRs from two respondent groups (BUMN and private-owned company) were same. The last test is to determine the difference of the two CSR mean.

## Results and Discussion

### Mean Difference Analysis

The objective of this analysis is to test whether perceived CSR of managers working in SOC and POC are different. As indicated in Table 1, the result of the mean difference test ( $md=2.582$ ,  $p=0.387$ ) demonstrated no CSR difference perceived by managers of BUMN and private-owned companies. Therefore, this study rejects the hypothesis and finds that  $H_{6has}$  not been empirically supported.

**Table 1. Summary of CSR Mean Difference Test for Managers’ BUMN and Private Companies**

Description	BUMN	Private Company
Mean	205.195	207.778
Deviation standard	21.318	19.526
Mean Difference	2.582	2.582
p-value (sig)	0.387	0.387

### CSR Ranked by Respondents

As used in this study, there are seven dimensions of corporate social performance or corporate social responsibility. They include: (1) society and commu-

nity, (2) corporate governance, (3) customer, (4) employment, (5) environment, (6) human right, and (7) controversial business. Table 4-2 summarizes the order of the importance of CSR perceived by the managers of BUMN and

private-owned company. As indicated in the table 2, the most importance CSR dimension is corporate governance fol-

lowed by customer and employment in the second rank and third rank, respectively.

**Table 2. Rank Means and Mean Ranks of CSR Dimension**

CSR Dimensions	SOC Managers		POC Manager	
	Rank Means	MeansRanks	Rank Means	Mean Ranks
Corporate Governance	2.042	1	2.264	1
Customer	2.361	2	2.412	2
Employment	3.042	3	2.953	3
Community and Society	4.417	4	4.331	4
Environment	4.694	5	4.676	5
Human Rights	5.833	6	5.730	6
Controversial Business	6.486	7	6.277	7

### Further Analysis

The analysis applies to the mean difference as used in this study. As a byproduct of the analysis, this study also provides us with other aspect of analysis breaking down the CSR. The important aspect of the analysis is on the impact of each dimension of CSR on financial performance. As shown in Table 3, two dimensions of CSR: environment and controversial business, demonstrate no impact on financial performance. Similar to CSR, the CFP construct as used in this study contains two dimensions: growth and profitability. Table 4 shows the impact of each dimension of financial performance on CSR. As indicated in the tables, only profitability dimension impacted on the CSR.

### Discussion

As mentioned earlier, the five of legal items underlying CSR in Indonesia have

been established. But Law No. 19/2003 regulates CSR in BUMN only. Given the condition, the CSR perceived by managers of state-owned companies is expected to be better than the one perceived by their counterpart in non state-owned companies. However, a study by Fauzi et al. (2009), using the disclosure approach to measuring CSR, finds that no difference of CSR exists between the two categories of managers.

This study, consistent with the study of Fauzi et al. (2009), finds that CSR perceived by managers in both SOC and POC is not different. The finding is not as expected due to the fact that in terms of CSR, BUMNs are required by two acts: Law No. 19 (2003) and Law No. 40 (2007), whereas POC is governed by only one law, that is Law No. 40 (2007). The unexpected finding might be due to the Indonesian managers' low understanding of the relationship between CSR and CFP, the low awareness of Indonesian managers on CSR, education/

**Table 3. Impact of CSR Dimension on Corporate Financial Performance**

CSR Dimension	Type of $\beta$	$\beta$ Coefficient	t-Value	p (sig) value
Community and Society (CSRCOM)	$\beta_1$	-0.247	-1.893	0.060*
Corporate governance (CSRCOG)	$\beta_2$	0.293	3.005	0.030**
Customer (CSRCUS)	$\beta_3$	0.412	2.366	0.019**
Employee (CSREMP)	$\beta_4$	0.504	8.760	0.000***
Environment (CSRENV)	$\beta_5$	-0.166	-1.238	0.217
Human Rights (CSRHMR)	$\beta_6$	-0.539	-2.399	0.017**
Controversial business (CSRCTB)	$\beta_7$	0.188	0.888	0.376

Note: \* significant at 10%

\*\* significant at 5%

\*\*\* significant at 1%

**Table 4. Impact of CFP Dimensions on CSR**

CFP Dimension	Type of $\beta$	$\beta$ Coefficient	t-Value	p (sig) value
Growth Dimension	$\beta_1$	1.087	1.455	0.147
Profitability Dimension	$\beta_2$	2.327	4.933	0.000***

Note: \*\*\* significant at 1%

knowledge, and experience. The low understanding of the relationship between CSR and CFP by Indonesian managers has been indicated by a number of companies in Indonesia (both State and non-state-owned companies) having in-compliance status as shown in Proper Report (2009). The low understanding can lead to their low awareness of CSR. Education level can also influence the finding, where 97% of the respondents of this study have undergraduate degree only. The low education level can also influence managers' experience. In addition, most of respondents of this study have been in their companies for 10 to 20 years.

Based on Law No. 19 (2003), under article 66, BUMNs are required to conduct government's policy called Public service Offering (PSO). In addition, the government (as owner) issues instructions for the state companies to reserve 1% to 5% of their net profit to help small-scale companies with their revolving fund and training activities to increase their management skill. Furthermore, in an effort to increase Indonesian companies' concern about social responsibility, the Indonesian Law maker passed Law 40 (2007), which in article of 74 stipulates that all companies incorporated in Indonesia (SOC and POC) should conduct social responsibility.

Given the condition, the perceived CSR for SOC is expected to be better than the one by their counterparts in non-state-owned companies (POC).

In terms of the order of the importance of CSR, the most important CSR dimension perceived by managers from both types companies is corporate governance followed by customers and employment. This finding supports the view that in the CSR implementation in Indonesia, managers prefer the model based on slack resource theory. They (managers) conduct CSR based on the philanthropic perspective (definition used in Law No.40/2007). Given such perspective, CSR exist because companies have slack resource. If the resource is not available, there is no CSR. The finding that corporate governance is the most important CSR dimension can also be interpreted that the most important stakeholders' components are shareholder. In this case, Friedman' (1970) view that social responsibility of business is to earn profit has dominated Indonesian managers. The next order of importance is the parties related to the market mechanism. Environment component is considered less important by Indonesian manufacturing companies. That is why the percentage of companies categorized by Proper Committee for Environment Evaluation as environment compliance is less than 50% (Proper, 2009).

Therefore, based on the finding and the explanation above, the Ministry of State Owned-Companies was ordered by government to control the BUMN including the implementation of CSR. One of the causes as to why BUMN's CSR have not reach the expected level of satisfaction is the management's low understanding of CSR-CFP link. The main

factor is likely to be the low environmental performance as reported by Proper Evaluation team (Proper, 2009). In terms of business, the two categories of companies are the same, but in terms of mission set by their owners, they are different. The government as the owner of the BUMN has set some missions of public service offering (PSO) for the companies (Fauzi et al., 2009). Detailed regulation on CSR for BUMN was established through Ministerial decree of BUMN minister. To be effective in controlling the BUMN's CSR, it was suggested that the ministry of BUMN redefine the concept of CSR from focusing on philanthropic to emphasizing on stakeholder relationship. With the new redefined CSR, corporations will maintain their relationship with all the components of their stakeholders, as a part of good business practices (Fauzi, 2009). It is expected that by doing so, the performance of corporations (financial, social, and environment) will be better (Fauzi, 2009).

To increase the understanding of the relationship of CSR and CFP, there is a need to redefine CSR. It is suggested that some important institutions can play an important role for this purpose. They include authority for BUMN (ministry of BUMN), banking authority (Bank Indonesia), capital market authority (Bapepam), environment authority (ministry of environment), and Indonesian Accountants Association. The socialization will also include CSR reporting as a consequence of the implementation of Law No.40/2007. The target of the socialization is to change the views of CSR from that of slack resource based to good management perspective. The latter perspective will guaranty the sustainability of the relationship of CSR

and CFP. The next target is to make CSR reporting mandatory.

## Conclusion

This study attempts to contribute to the literature by addressing the following research questions: Is there any difference of CSR as perceived by managers working in state-owned companies and non state-owned companies? How would managers in state-owned and non state-owned companies rank the CSR dimensions?

To achieve the research objective, the CSR instrument of Michale Jantzi Research Associates (MJRA) was used. The CSR included: (1) Community and society, (2) Corporate governance, (3) Customer, (4) Employee, (5) Environment, (6) Human Rights, and (7) Controversies Business Activities

The unit of analysis in this study is Indonesian managers. The population of this study is all Indonesian managers working in the Jakarta stock exchange's listed companies and in state-owned companies. Data are perception and views of managers in BUMN and private-owned companies pertaining to the indicators of CSR.

The research questions of this study have been answered. There is no difference of CSR as perceived by managers working in state-owned companies and non-state-owned companies, and managers from both types of companies perceived corporate governance as the most important CSR dimensions.

Based on the finding of the study, there is a need for further study on CSR devel-

opment stages in companies covered in this study to better know the indifference of CSR between state owned companies and non-state-owned companies. The further study is suggested to be qualitative in nature to uncover managers' views on the CSR dimensions.

There are two drawbacks of this study. The first is the timing of the survey. For the last two years, compulsory implementation of CSR in Indonesia based on the Law No. 40/2007 has been in the process and most Indonesian companies objected to the compulsory implementation of the law. The final limitation is the population of the study. For non BUMN population was manufacturing companies listed on ISE (Indonesian Stock Exchange). Thus, other big manufacturing companies including mining companies such as Freeport are not included in the sample as they are not listed on the Exchange. Such companies may have importantly contributed to CSR.

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