CSR IN INDONESIA:
COMPANY’S PERCEPTION AND IMPLEMENTATION

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This paper intends to describe current issues of CSR in Indonesia. First, this research drew a picture on how business community Indonesia perceived CSR, followed by an analysis on how was that CSR has been actually implemented in the last two year of 2014 and 2015. Finally this research explained whether CSR implementation influenced company’s performances, in terms of traditional financial and non financial performance both in 2014 and 2015. Using ISO 26000 (guidance on social responsibility) standard in order to determine CSR index as measurement of CSR implementation in 200 top Indonesian listed companies for the year 2014 and 2015, the CSR implementation data was then paired with the company’s performance data in order to find the relationship between CSR implementation and company’s performance. Result indicated that (i) the understanding of majority of CSR managers in Indonesian listed companies regarding CSR was still limited to donation and community development activities; (ii) there was only little improvement of CSR implementation for the last two year; and (iii) CSR implementation had positive and significant impact on company’s financial performance, measured both by ROE and ROA; there was a change of the impact of CSR to customer, from no influence in 2014 to become positively influenced the customer in 2015; and there was no significant influence of CSR implementation on employee both in 2014 and 2015.

Keywords: corporate performance, CSR, Indonesia

Introduction

CSR (corporate social responsibility) management in the global context has moved fast from planning and implementation to evaluation and control phase. As a tool for CSR planning and implementation, started from 1 November 2010, the International Standard Organization (ISO) has officially issued ISO 26000 as a guidance for organization social responsibility. Meanwhile, as a tool for CSR evaluation and control, many companies has published their CSR report, namely sustainability reporting based on a standard issued by Global Reporting Initiative (GRI).
Corporate social responsibility (CSR) is a concept in which a company has responsibility not only in economic sense but also in social and environmental senses. Consequently, a company must not only need to satisfy the need of its shareholder, i.e. to maximize profit, but also have to address the need of its other stakeholders equally. These other stakeholders include internal stakeholders – customers, employees, and suppliers as well as external stakeholders – government, competitors, consumers advocates, environmentalist, and special interest groups and (Freeman, 1984: 25).

In the last ten years, various governing bodies such as governments, financial regulators or stock exchanges across the globe had issued several regulations and made some initiatives to improve CSR practices. For example, UK government since 2006 had obligated all listed companies to report on environment, labour, social and society aspects. Likewise, Swedish government since 2007 required all Swedish Government Owned Enterprises to publish CSR report according to GRI (Global Reporting Initiative). More recently, since 2015 the governing bodies had made compulsory for Taiwanese certain listed companies to publish company’s CSR report according to GRI Generation 4 (GRI G4). The Singaporean authority in that year also released a rule that all Singapore’s listed companies had to publish CSR report using the latest G4 standard by 31 December 2015. (KPMG, 2009; CSR Asia, 2015; Ho, 2009).

Indonesia is currently the only country in South East Asia region that become the member country of G-20 (group of twenty of the world’s largest economies). Many has predicted that Indonesia will play a more important role in the future. McKinsey Global Institute (2012), for example stated that Indonesia would become the top 7 economies in the world in 2030. A global accounting firm, PWC (2015) even forecasted that Indonesia will be the biggest economy no 5 in 2030 and no 4 in 2050. As one of the major economy players in the world, it is rationale that many expect Indonesia also plays an active role in social responsibility implementation. Indonesia is also a country with many corporations operating in natural resources related business, such as mining, plantations, and forestry, a condition that had made the world demand Indonesian companies to do business more responsible.

An initiative to realize social responsibility for companies had actually been started in Indonesia since 18 years ago. The Ministry of SOEs of Indonesia issued a Minister Decree Number Kep-216/M-PBUMN/1999 on 28 September 1999, followed by enactment of Law Number 19 year 2003 concerning SOEs and the issuance of the SOE Ministry Regulation Number Per-05/MBU/2007 concerning SOEs partnership with small enterprises and environmental management program. All law and regulations stated that every SOE had to allocate 4% of its net profit on partnership with small and medium enterprises and environmental management programs, equally 2% each for partnership program and for environmental management programs.

In 2017 the government and parliament of Republic of Indonesia passed 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 follow social and environmental responsibilities. Different from previous law and regulations which are applicable specifically to SOEs, this Law applied to all companies either government, private domestic, or foreign owned companies. There was also an initiative from National Center for Sustainability Reporting, a joint effort of several non governmental organisations and professional association started in 2005 to conduct the Indonesia Sustainability Reporting Award (ISRA) to give award to companies that has published sustainability reporting. For listed companies, the Capital
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Market and Financial Institutions Supervisory Board (now under Indonesian Financial Service Authority) through the issuance of the regulation Number X.K.6 year 2006 stated that all annual report of listed companies have to describe activities and cost related to corporate social responsibilities to societies and environment.

The objective of this research is to describe CSR in Indonesia. It described how CSR was perceived by business players in Indonesia, was implemented in Indonesia for the last two years, and influenced company’s performance.

Literature review

The idea/reason on why a company need to manage its CSR well is generally laying on the following several theories. First is the stakeholder theory (Freeman, 1984), states that the previous approaches on strategic plan generally overlooked stakeholder issues and too simplify environmental change issues, which in fact had led to many companies experienced many shocks. Therefore, a company needs a new management approach which is called stakeholder approach.

Second is signalling theory, the idea that one party credible conveys some information about itself to another party. Spence (1973) stated that two parties could get around the problem of asymmetric information by having one party send a signal that would reveal some piece of relevant information to the other party. Consumers might perceive CSR as quality and public might perceives it as good signal from the company.

Third is resource-based theory. Hart (1995), for example, argued that resources owned by a company can be used to increase competitive advantage. The experience of CSR management will become a source of competitive advantage for a company. Fourthly, the legitimacy theory, as been raised by Suchman (1995), that argued that a company has to act in accordance to social values and norms to keep the company live. CSR can be a tool to influence public perception on company's operations and give the company social license to operate.

The benefit of conducting CSR explained among others by the following researchers. Porter and Kramer (2006) proposed three strategic reasons of conducting CSR, i.e. sustainability argument, reputation argument, and license-to-operate argument. Senge et al. (2008) concluded that the benefits of CSR were (1) significant new potential revenue sources, (2) creation of competitive edge in the customers’ eye, (3) point of differentiation, (4) opportunity to shape industry direction and to be preferred supplier, and (5) brand and image enhancement).

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 led to a positive impact on company’s financial performance. However, there had been inconclusive results of the relationship between the two. For that reason, M. 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. Similar study was done by J.D. Margolis and J.P. 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.
J.D. Maignan et al. (1999) tried to find the impact of CSR not only limited to financial performance, but corporate performance in a wider context. They concluded that CSR had a positive and significant influence on employee commitment, customer loyalty, and business performance. Erhemjamts, Li, and Venkateswaran (2013) also tried to find the impact of CSR to broader areas, i.e. to financial performance, investment policy, and organizational structure and concluded that CSR had positive impact to company`s performance measured by Tobin’s Q and ROA.

For Indonesian case, J. Oeyono et al. (2011) investigated the level of CSR conducted by the top 50 corporations in Indonesia and its relationship with company’s profitability and concluded that CSR level, measured based on Global Reporting Initiative (GRI) guidelines, had a positive relationship with profitability, measured by company’s EBITDA and EPS. Ridho (2016) found that there was a positive and significant impact of CSR implementation on financial performance measured by both ROE and ROA in top 200 Indonesian listed companies in 2014. On the other hand, there was no significant influence of CSR on non financial performance both customer and employee performance in top 200 Indonesian listed companies in 2014.

**Methodology**

This research used data from top 200 Indonesian listed companies in terms of revenue both in 2014 and 2015. As independent variable is CSR implementation, while the dependent variable is company’s performance. CSR implementation was measured using global standard of CSR implementation as been stated by ISO 26000, whereas stakeholders measurement was used to Measure Company’s performance which include both financial and non financial performance. CSR implementation was measured operationally by identifying whether the top 200 Indonesian listed company had conducted CSR activities as guided by ISO 26000, which (outside organisational governance) consists of six core subjects and 36 issues. The first core subjects is human right, which includes 8 issues, i.e. (1) due diligence, (2) human rights risk situations, (3) avoidance of complicity, (4) resolving grievances, (5) discrimination and vulnerable groups, (6) civil and political rights, (7) economic, social and cultural rights, and (8) fundamental principles and rights at work. The second core subject labour practices, consists of 5 issues, i.e. (1) employment and employment relationships, (2) conditions of work and social protection, (3) social dialogue, (4) health and safety at work, and (5) human development and training in the workplace. The third subject of the environment has 4 issues, i.e. (1) prevention of pollution, (2) sustainable resource use, (3) climate change mitigation and adaptation, and (4) protection of the environment and restoration of natural habitats.

The fourth is fair operating practices, containing 5 issues, i.e. (1) anti–corruption, (2) responsible political involvement, (3) fair competition, (4) promoting social responsibility in the sphere of influence, and (5) respect for property rights. The fifth core subject is consumer issues, consisting of 7 issues, i.e. (1) fair marketing, factual and unbiased information and fair contractual practices, (2) protecting consumers’ health and safety, (3) sustainable consumption, (4) consumer service, support, and complaint and dispute resolution, (5) consumer data protection and privacy, (6) access to essential services, and (7) education and awareness. Finally, community involvement and development with 7 issues, i.e. (1) community involvement, (2) education and culture, (3) employment creation and skills
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development, (4) technology development and access, (5) wealth and income creation, (6) health, and (7) social investment.

This research used both primary and secondary data. Primary data was gathered through telephone/face to face interview with CSR managers of top 200 Indonesian listed companies to ask them about their perception on CSR area of activities, i.e. what activities have been done and what activities should be done by their companies to implement CSR. Secondary data was collected from annual report, CSR report, and CSR information on company’s web site of top 200 Indonesian listed companies both in year 2014 and 2015.

Content analysis was used to develop CSR index as measurement of CSR implementation. Content analysis was undertook on annual report, CSR report and CSR information on website using the coding instrument based on 36 issues of ISO 26000. Score of 0 was given, if the company’s reports did not disclose specific information as required by a specific issue in ISO 26000. On the other the score should be 1, if the company’s reports provided the required information. as no required CSR implementation on the report and 1 if the report provided the required CSR implementation information. As there are total of 36 issues in ISO 36000, therefore if a company can satisfy all CSR implementation according to ISO 26000, its CSR index shall be 36. On the other extreme, if a company do not implement any of ISO 26000 criteria, then its CSR index shall be 0. The typical CSR index will then have range from 0 to 36.

As this research tried to measure company’s performance using stakeholders perspective, beside the traditional financial performance, i.e. return on equity (ROE) and return on assets (ROA), non financial performance measurement from customers and employees perspective were also added. Customers performance was measured by growth in sales (Freeman, 1984), while employees performance was measured by growth in the number of employees.

Descriptive statistics were then used to provide descriptive information about the CSR implementation for the year 2014 and 2015, including data phenomenon and characteristic such as minimum, maximum, mean, and standard deviation. Finally, inferential statistics using regression analysis was used to understand the relationship between CSR implementation and company’s performance, both financial and non financial performance for the year 2014 and 2015. In order to draw conclusion more accurately, this research used significance level of 5%. A p-value of less than 0,05 means that Ho is rejected and Ha is accepted.

Results and Conclusions

The CSR index calculation for top 200 listed companies in Indonesia can be summarized as the following table.

<table>
<thead>
<tr>
<th>CSR Index of 2014</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR Index of 2014</td>
<td>8</td>
<td>35</td>
<td>22.57</td>
<td>6,55</td>
</tr>
<tr>
<td>CSR Index of 2015</td>
<td>8</td>
<td>35</td>
<td>22.81</td>
<td>6,39</td>
</tr>
</tbody>
</table>
The table 1 shows that the average of CSR index increased slightly from 22.57 in 2014 to 22.81. Converting the index to be a percentage of ISO 26000 CSR implementation of 36, the CSR implementation in top Indonesian listed companies rose from 62.69% in 2014 to 63.36% in 2015, a minor increase of only 0.67%. A score below 65% indicated that the CSR implementation in top Indonesian listed companies during 2014 and 2015 period were still far below the global CSR implementation standard of ISO 26000. Likewise, the maximum index of 35 in both years revealed that none of top Indonesian listed companies had achieved fully global standard of CSR implementation. The minimum index of 8 explained that there were several listed companies in Indonesia which had very low level in implementing CSR, i.e. only 22% of global standard.

As such, in terms of top Indonesian listed companies publishing GRI-based sustainability report (SR), there was a big improvement. The GRI-based SR publisher rose from 26 companies in 2014 to 39 companies in 2015. An increase of SR publication of 50% might bring a hope of an increase in CSR implementation, even though the percentage of SR publisher from top Indonesian listed companies was still low, i.e. 13% and 19.5% in 2014 and 2015 respectively.

Primary data gathered from CSR managers revealed that when the CSR managers were asked on what CSR activities should be done by their company, 31% responses were on community involvement and development activities, 17% on labour practices, followed by 16% on environment related activities. Similarly, when they were asked about what CSR activities had been done by their company, majority of the responses were on community involvement and development, i.e. 59%, followed by on labour practices of 14%, and environment of 13%. This CSR manager’s opinion explains that the understanding of most of Indonesian companies on CSR coverage activities are still limited on community involvement and development issues, a narrower perspective of CSR coverage as set by ISO 26000.

Results from regression analysis on the influence of CSR implementation on company’s performance is summarized in the Tab. 3.

### Table 2 - Influence of CSR implementation on company’s performance
(Source: results of author’s research)

<table>
<thead>
<tr>
<th>CSR Implementation</th>
<th>ROE</th>
<th>ROA</th>
<th>Customer</th>
<th>Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>Significant - positive</td>
<td>Significant - positive</td>
<td>Not significant</td>
<td>Not significant</td>
</tr>
<tr>
<td>2015</td>
<td>Significant - positive</td>
<td>Significant - positive</td>
<td>Significant - positive</td>
<td>Not significant</td>
</tr>
</tbody>
</table>

It can be seen from the above Tab. 2 that CSR implementation associated significantly and positively with financial performance both ROE and ROA in both year 2014 and 2015. This result is consistent with the previous conclusion by Ridho (2016) that CSR implementation shall have positive impact to the financial performance of Indonesian listed companies. There was a change in the influence of CSR implementation on customer performance from no significance impact in 2014 to become significantly had positive impact in 2015. This shifting might indicate that Indonesian customers just started to consider CSR as a factor in deciding whether to buy or not to buy a good or service from a
company. On the other hand, CSR implementation had no influence on employee perspective both in 2014 and 2015 which might be interpreted that Indonesian employees did not consider CSR practiced by a company as a reason to work in that company.

**Limitations/Future Studies**

This research only included top 200 Indonesian listed companies in 2014 and 2015. Further research need to study all top Indonesian companies, including Indonesian SOEs which had not been going public. The longer time of study, for example 5 years or more time series study might improve the conclusion of this research.

**References:**


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