

DETERMINANTS OF CORPORATE SOCIAL PERFORMANCE (CSP) THROUGH CORPORATE SOCIAL RESPONSIBILITY (CSR) OF FOREIGN INVESTMENT COMPANIES (PMA) IN INDONESIA

by Kholis Azizul

FILE	ARTIKEL_CSP_AZZ.PDF (1.86M)	WORD COUNT	7751
TIME SUBMITTED	18-JUN-2020 02:30PM (UTC+0700)	CHARACTER COUNT	44087
SUBMISSION ID	1345832354		

1 DETERMINANTS OF CORPORATE SOCIAL PERFORMANCE (CSP) THROUGH CORPORATE SOCIAL RESPONSIBILITY (CSR) OF FOREIGN INVESTMENT COMPANIES (PMA) IN INDONESIA

Azizul Kholis*, Ade Fatma, Azhar Maksum and Rina Bukit

1 **Abstract:** This research studied internal and external determinants of CSP. This study was based on stakeholder theory which discusses the role of various stakeholders in determining the continuity of a company. The difference between this study and a previous study was the previous study only tests several variables, whether internal or external variables which influence CSR, while the current study combined many models and was based on stakeholder theory. The study was performed on 127 foreign companies in North Sumatera Province, Indonesia. The tested variables were internal factors and external relations of CSP through CSR as an intervening variable. The analysis technique used was Structural Equation Model (SEM) with the help of Amos software version 21. The research result showed that internal and external determinants of CSR were Company Policy (CP), Company Reputation (CR), Employee Engagement (EE), Government Regulation (PP), Community Empowerment, customer, and Mass Media (MP) influenced Corporate Social Performance (CSP) through Corporate Social Responsibility (CSR). The limitation of this study was samples were limited to foreign investment companies, so there might be sample bias in Domestic Investment Companies (PMDN). There was also difficulty in collecting data, causing delay in observation period. This study also didn't discuss company financial data, so it couldn't assess the financial performance produced by CSR expenses. The suggestions for future studies are to implement this research on companies listed in Indonesia Stock Exchange, to check the implementation of CSR in public companies in Indonesia. This study contributes to regulations at local governments, so that they can check Corporate Social Performance in their regions by publishing local regulations on CSR.

Keywords: internal, external factors, Corporate Social Performance, Company Reputation

* Doctoral Accounting Programme of Faculty of Economic and Business, University of Sumatera Utara Jl. Prof. TM Hanafiah No. 12, USU Campus Medan-North Sumatera – Indonesia. Postal Code 20115. Corresponding author. E-mail: azizul_kholis@yahoo.com

1. INTRODUCTION

Today, there are two primary problems related to the going concern of a company, which are Corporate Financial Performance and Corporate Social Performance (CSP). Corporate financial performance is still the main purpose of a company as a logical consequence of a profit oriented-business practice, however along with Financial Performance, Corporate Social Performance is also a focus in business practice. Corporate financial performance can be defined clearly and is available in various measurement instruments, such as Return on Assets (ROA), Return on Investment (ROI), Stock Price, Sales, and Profit. Currently, corporate performance measurement is only focused on finances (financial performance). When a company successfully reaches high profit level, performance measurement may measure its success, but doesn't necessarily measure and meet the demands of corporate social performance, especially since financial performance assessment is limited by time, oriented toward shareholders based on Agency Theory, instead of stakeholders. To solve the limits of weaknesses of corporate performance measurement system, which is only focused on financial aspect without paying any attention to non-financial aspect, Corporate Social Performance discourse is developed. According to K Chopra (2010) corporate social performance assessment clearly can't be separated from the influences of internal and external environments of a company. Corporate performance measurement requires non-financial perspective, such as social perspective and political perspective, such as government regulation and environment. This is because accounting practice has become an integral part of political system, creating very close relations between politics, economy, government, and other factors.

The term Corporate Social Performance (CSP) was first used in the 1970s and becomes increasingly popular, especially since the publication of *Cannibals With Forks : The Triple Bottom Line in 21st Century Business*, by John Elkington in 2008. According to him, CSP develops three important components for economic sustainable development, i.e. economic growth, environmental protection, and social equity, initiated by the World Commission on Environment and Development (WCED). Elkington (2008) also classifies the purposes of CSP into three main orientations, 3P, which is short for profit, planet and people. Studies on social performance continue on. The study of Sadosky (1991, 1995, 2005) describes that corporate social performance is important to prioritize in the business era today and that social performance demands become more equal to corporate financial performance. The study of Wokutchand Mc Kinney (2010) also discusses corporate social performance measurement. Tuodolo (2009) even describes several social issues faced by companies and variables related to corporate social performance. Chopra (2010) and Baisakalova (2012) also prove and corporate social responsibility and performance aren't limited to looking for profit, but also paying attention to the society, which is the most important part of business. Various dimensions, measurements, methods, and approaches are studied by researchers to determine corporate social performance, all based on stakeholder theory as its main foundation.

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One of the implementations of CSP is Corporate Social Responsibility (CSR), which is the social responsibility of the business sector for the society and environment. However, a company which performs CSR doesn't necessarily achieve its social performance, because CSR is only activity, while according to Visser (2008) CSP should be more measured. The study by Van Buren (2006) also describes that the influence of corporate social performance on corporate social responsibility and vice versa isn't only the performance of CSR activities. However, Van Bruren (2006) states that companies don't have to report those social activities, unless there is a stock market regulation on it. Unlike the experts above, Serafeim (2012) states that social performance is reached is there is demand, unlike financial performance which must be reached because it's the main purpose of a company. Serafeim (2012) argues that CSR philanthropy is a social character which doesn't have to be owned by a business unit. It's only generosity, voluntary and not an obligation, because the demand is created outside of company system. Alternately, Sadorsky (2005) states that CSR is a part of company strategy to survive and even win business competition. In practice, the achievement of CSP is systematic implementation of CSR consistent with the aspects of regulation compliance, environmental awareness, social contribution, and social activity reporting, which are forms of a company's awareness to improve its relations with the society and environment. These are internal and external factors. Considering there is difference in the views of the experts on the more appropriate way to measure CSP and how CSR doesn't necessarily describe CSP, it's very relevant to study the amount of the influence of CSR on CSP. Several past studies describe many factors which influence CSR. For example, the study by Amranand Devi (2008) mentions at least six internal factors, which are indicated to influence the implementation of CSR in Malaysia. The factors are foreign shareholder, government shareholding, dependence on government, dependence on foreign partner, industry, size, and profitability. External factors can at least refer to the study by Henrique and Sadosrky (1999) on 750 Canadian companies as realization of company managements' perceptions on stakeholder. Maksum (2003) has tested the variables of Government Regulation, Community Pressure, Mass Media Pressure. Another study by Stead (1996) adds customer variable, and the study by Turner and Stephenson (1994) includes environmental information variable as a contributing factor which influences the importance of corporate social responsibility.

In Indonesia, there aren't many studies on CSP. Although there are many studies on CSR, conceptually they don't necessarily describe social performance achievement. In Indonesia, CSR activities develop positively along with democracy, increasingly critical society, globalization and free market era. However, only a small number of companies implement CSR. A survey by Suprptoin 2005 on 375 companies in Jakarta showed that 166 or 44,25% companies didn't perform any CSR activity, 209 or 55,75% companies performed the following CSR activities, family activities (116 companies), donation to religious institutions (50 companies), donation to social institutions

(39 companies), and community development (4 companies). The survey also showed that the CSR performed by the companies depends on the managements. Therefore, the CSR performed by the companies don't necessarily achieve corporate social performance, as stated by various social researchers, because social performance must reach four aspects, which are compliance, environmental awareness, social contribution and social activity reporting. Another negative implication emerges when a CSR program isn't utilized well by the society. The financial aids received by the society aren't used for venture capital, but to meet and buy other needs. It proves that CSR practice in Indonesia doesn't always meet corporate social performance as in other countries. Many CSR studies in Indonesia focus on companies in Indonesian Stock Exchange and the interests of capital market and investors on Corporate Financial Performance. Studies on CSR related to foreign investment companies not listed in the stock exchange are rare.

This study was performed in North Sumatera province because this province is one of the center of economic growth in the western region. North Sumatera is currently in corridor II of Master Plan of Indonesian Economic Development Acceleration (MP3EI). MP3EI is supported by the existence of SeiMangkei Special Economic Zone (KEK) and Kuala Tanjung Industrial Area and Port as an International Hub Port. KEK will draw foreign investorsto North Sumatera, so the current PMA should be studied in terms of CSP and CSR to be beneficial for the government of North Sumatera province. On the other hand, North Sumatera province is also located in a regional economic cooperation zone, Indonesia Malaysia Thailand – Growth Triangle (IMT-GT), so investment is expected to grow in this region, particularly in the era of ASEAN Economic Community (MEA). Data of Investment and Promotion Agency of North Sumatera shows that until 2014, there had been 783 Foreign Investment Companies (PMA) which entered North Sumatera. However, onlyaround 224 companies actively submitted operational activity reports. Based on the background above, the formulations of the research problem are:

1. Do Company Policy (CP), Company Reputation (CR), Employee Engagement (EE), Government Regulation (GR), Community Empowerment (CE), Customer (C), and Mass Media (MM) directly influence Corporate Social Responsibility (CSR)?
2. Do Company Policy (CP), Company Reputation (CR), Employee Engagement (EE), Government Regulation (GR), Community Empowerment (CE), Customer (C), and Mass Media (MM) indirectly influence Corporate Social Performance (CSP) through Corporate Social Responsibility (CSR)
3. Does Corporate Social Responsibility (CSR) directly influence Corporate Social Performance (CSP) ?

The purposes of this study were to test and analyze determinants of corporate social performance, *i.e.* Company Policy (CP), Company Reputation (CR), Employee

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Engagement (EE), Government Regulation (GR), Community Empowerment (CE), Customer (C), and Mass Media (MM) on Corporate Social Responsibility (CSR) and Corporate Social Performance (CSP). Academically, this will provide theoretical conceptual contribution on the implementations of CSP and CSR in Indonesia. It will also be academic reference for various CSP and CSR studies in Indonesia by determining the importance of the role of stakeholder in company operations.

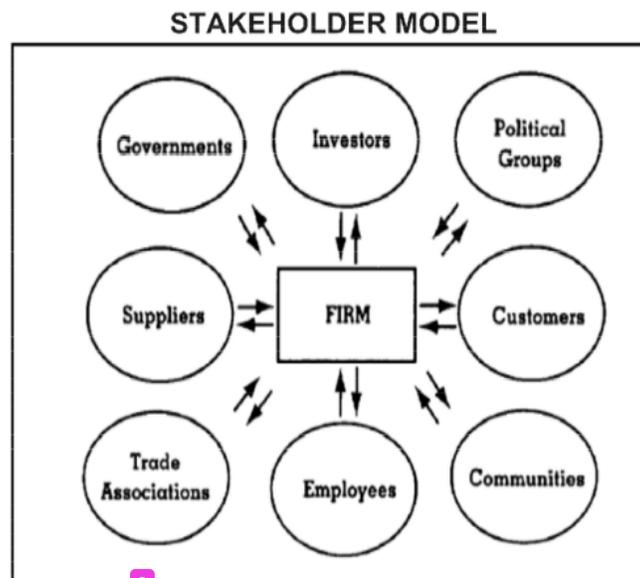
2. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

2.1. Stake Holder Theory

Stakeholder theory according to Freeman (1984) means every group or individual which can influence the achievement of organizational purpose. This theory states that the success and going concern of a company highly depends on its ability to balance various interests of the stakeholders. Stakeholders which become the focus of corporate social performance achievement have the main role in maximizing business profit.

2.2. Corporate Social Performance (CSP)

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CSP can be defined as "a construction which emphasizes that a company must perform its responsibility to various stakeholders, such as employees, environment, mass media, and general public, around the company aside from traditional responsibility to



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Figure 1: Stakeholder model, Visser (2008)

economic shareholders, to achieve its social performance" (Turban and Greening 1996, p.658). According to Visser (2008), CSP at least includes four things, which are

1. compliance to company internal and external regulations,
2. environmental awareness,
3. company social contribution,
4. social activity reporting.

Based on Visser's (2008) argument, it is concluded that Corporate Social Performance (CSP) assessment primarily depends on policies related to management practices consistent with internal and external demands and achievement consistent with stakeholders' demands. According to Maon (2013), there are at least 4 things which trigger CSP. They are shown in Table 1 below:

2.3. Corporate Social Responsibility (CSR)

CSR is a business commitment to play a role in economic development which can work with the employees and their representatives, local communities and general public to improve quality of life in ways which are good for the business and development. CSR development in developing countries is studied by Visser (2008) and can be seen in CSR pyramid in Figure 2 below :

The definition of CSR according to International Finance Corporation (IFC), 2000:

"The commitment of the business world to contribute to economic sustainable development through cooperation with employees, their families, local communities and general public to improve their livelihoods in ways which are good for the business and development."

ISO 26000, in *Guidance on Social Responsibility*, defines CSR as:

"An organization's responsibility for the impacts of its decisions and activities on the society and environment, which is realized through transparent and ethical behaviors in

Table 1
CSP Driver

<i>Economic driver</i>	<i>Social driver</i>
<ol style="list-style-type: none"> 1. Competitive advantage 2. Shareholders' demand 3. Company image and reputation development 4. Management risk minimization 	<ol style="list-style-type: none"> 1. Community and NGO pressures 2. Pressure from trade association and labor union 3. Following customer trend
<i>Political driver</i>	<i>Individual driver</i>
<ol style="list-style-type: none"> 1. Legal policy and government regulation frameworks 2. Pressure from government at local and national levels 	<ol style="list-style-type: none"> 1. Ethic-orientation of Top Management 2. Individual value of employees and managers personally

Source: Visser (2008)

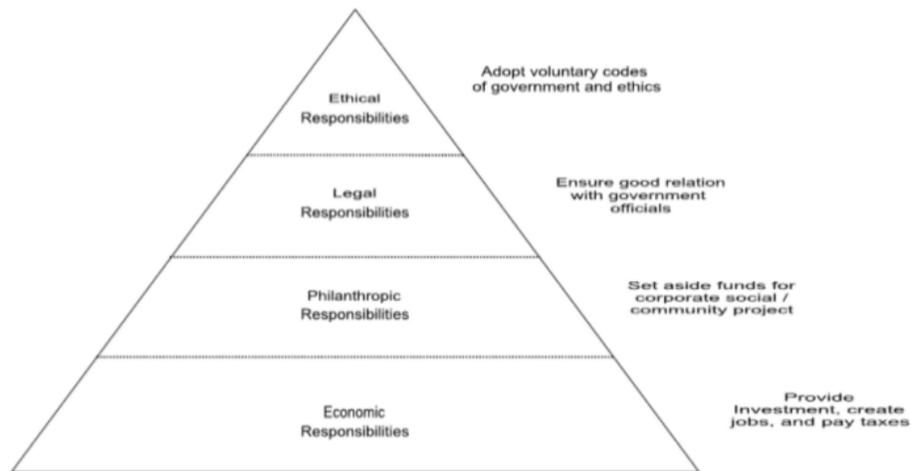


Figure 2: CSR Pyramid for Developing Countries

(Source: Visser, 2008)

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line with sustainable development and public welfare, by considering the expectations of stakeholders, consistent with laws and international behavioral norms in effect, and in integration with the organization as a whole.”

In the Law of Capital Market, which is used as a reference for CSR obligation in the Law of Limited Liability Company, in the explanation of Article 15 letter b, CSR is defined as:

“Responsibility attached to every company to keep creating relations which are harmonious, equal, and consistent with the environment, values, norms, and culture of local communities.”

In the text of Article 74 of Law of Limited Liability Company, CSR isn't defined. However, in the work document of the Formulating Team, there is a definition. “Social and environmental responsibilities and Limited Liability Companies’ commitment to participate in economic sustainable development to improve the quality of life and environment which is beneficial, for the Limited Liability Companies themselves and others. PKBL program (Partnership Program of SOEs with Small Enterprises and Community Development Program) consists of two activities, which are small enterprise empowerment program by lending revolving fund and providing assistance (called Partnership Program) and empowerment program for the social condition of local communities (called Community Development Program). Recently, Bapepam LK releases Decision No. 134/BL/2006 on Obligation to Submit Annual Reports for Issuers and Public Companies. Compared with the previous regulation (Decision Letter of Bapepam No. 38/PM/1996), the amount of information which must be revealed,

especially related to Corporate Governance practice, is higher. In 2007, the House of Representatives also authorized Law No. 40 of 2007 on Limited Liability Company. Article 74 of the law requires companies to describe their activities and expenses spent related to corporate social responsibility to the society and environment. This will lead to more information of a company's activities which must be revealed in the company's annual report, including revealing CSR.

Another regulation on CSR is Law No. 25 of 2007 on Investment. Article 15 (b) states that "Every investment must perform corporate social responsibility". Although this law has regulated in detail sanctions for business entities or limited liability companies which ignore CSR (Article 34), the law is only able to regulate foreign investors and hasn't clearly regulated CSR for national companies. Generally, the scope of CSR activities are shown in Table 2. below :

Table 2
The Scope of CSR Activities

Description	Charity	Philanthropy	Civic
Spirit/Principle	Religion, Tradition, custom	Norm, ethic and universal law: wealth redistribution	Self enlightenment and reconciliation with social order
Mission	Solving temporary/ current problem	Helping others	Finding and solving root of problem; contributing to society
Management	Short term and partial internalization in company policy		Organized, programed plans
Organization	Committee	Foundation/Trust fund	Professional: involvement of experts
Benefit Recipient	The poor	General public	General public and company
Contribution	Social grant	Development grant	Social or development grant and social involvement

2.4. CSP Determinants

Several determinants of CSP are :

1. Government Regulation, Regulation can come in many forms, such as: legal restriction announced by government authority, self-regulation by an industry such as through trade association, social regulation (such as norms), co-regulation and market. One can consider regulation in action, such as giving sanctions (such as fine).
2. Company Policy, Company policy is regulations stipulated by the Board of Directors as a guideline for the management in performing business activities, i.e.: Developing partnership focused on customer value and customer satisfaction. Transfer of activities which aren't business core to subsidiaries.

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Determination of tariff system focused on customer value, customer satisfaction and work productivity boost, Improvement of Siproimplementation control and fulfillment of required facilities and equipment and implementation of ISPS Code, Change of organizational structure more focused on customer interest, Transfer of some authorities.

3. Company Reputation, Reputation or image is designed as a picture of mind, which is the image in one's mind. Image can become bad or negative if not supported by actual ability or condition.
4. Employee Engagement, Employee engagement is a process to involve employees at every organizational level in decision making and problem solving (may be idea, suggestion, critique, etc.). Empowerment can be defined as significant employee engagement.
5. Community Empowerment, Community empowerment is a development process where a community has an initiative to start social activities to improve their situation and condition. Community empowerment can only happen if the people participate.
6. Mass Media, Mass media is a tool used in relaying messages from a source to the public (recipients) using mechanical communication equipment, such as newspapers, films, radio, TV (Cangara, 2002). Mass media is an environmental factor which changes the public's behaviors by classical conditioning, operant conditioning or imitation (social learning). Two functions of mass media are fulfilling the needs for fantasy and information (Rakhmat, 2001).
7. Customer, Customer bargaining power means power which emerges due to the bargaining power of target customers, who have power in negotiation, influences the value and price of a company product. The more common and undifferentiated the product or the bigger the information they had, the bigger the bargaining power. However, bargaining power will decide if a company has better and irreplaceable product marketability, benefits, and offer.

2.5. Hypothesis Development

There are several studies which have similar variables, whether internal or external. However, there hasn't been any combination of both with structured model equation simultaneously. Simultaneous test on structured model will support previous findings, which reinforce theories on CSP, CSR and their various determinants. Many studies on CSP and CSR have been performed by experts and researchers and it's concluded that they are still in the conceptual framework of triggers of CSP and CSR, as described in the previous table. Many factors influence CSR. In the study by Amranand Devi (2008), there are six factors which are indicated to influence CSR in Malaysia. The

1 factors are foreign shareholder, government shareholding, dependence on government, dependence on foreign partner, industry, size, and profitability. The present study continued the study of Devi (2008) by adopting several factors and adding new factors. The adopted factors were government shareholding, foreign shareholding, industry type, corporate size, and profitability, while the new factors are government regulation and different observation period. The finding of Mamic (2005) emphasizes that company policy in maintaining value chain and company policy in improvisation in corporate social responsibility can improve its reputation. Kramer (2006) also emphasizes the importance of competitive advantage for company to make an important decision and policy related to social performance and social responsibility, so the relation between Company Policy and CSR is very positive.

Roshayani (2011) discovers that company reputation influences CSR, because companies which want to maintain their reputation automatically perform CSR program sustainably. Similar to Roshayani, Ali Imran (2011) also describes the relation between Company reputation and CSR. Similarly, McGuire (2008) and Philips (2008) clearly describe that company reputation influences CSR, and CSR also influences company reputation. Employee engagement is an important aspect in company operation. With the development of employee organization through labor union, shareholders should pay attention to employee engagement. Roper (2001) describes that Employee Engagement shows that it determines the implementation of CSR. If employees are more engaged that their demands, whether individual demands or collective demands through labor unions, are accommodated by the company, CSR will work. Kotler 2005, also notes employee engagement as a determinant of CSR. Roscoe Pound states that the main duty of a government is social engineering, where the government makes umbrella regulations in the life of a nation and state. Law must be developed consisted with changes of social values. Therefore, there should be formulations of personal, community and public interests. Law according to Roscoe Pound is a tool of social engineering, so law isn't only based on logic but also experience. Law is presented as regulations. Regulation reflects the organized needs of the society. Regulation regulates human relations by controlling individual actions and solving conflicts among competing groups. Goyal (2006) explains that many foreign investment companies which want to invest in a country pay attention to the regulation in the investment destination. The investors will study whether government regulations on CSR can lighten their companies' expenses or not, before investing. Visser (2008) also emphasizes that the role of the government in regulation is still very dominant in many countries in terms of CSR. Therefore, the government asks for the commitment of the private sector specifically as a form of responsibility to negative impacts they cause. CSR is a company's commitment to develop better quality of life with related stakeholder, especially local communities around the company. The role of CSR is increasingly important in encouraging corporate social responsibility to create balanced economic, social and environmental developments. It's also derived

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from the fact that aside from as economic institution, company is also social institution. Therefore a company is expected to grow and develop harmoniously with local communities. Based on the description above, hypotheses 1,2 and 3 are:

H¹: Company Policy (CP), Company Reputation (CR), Employee Engagement (EE), Government Regulation (GR), Community Empowerment (CE), Customer (C), and Mass Media (MM) Influence Corporate Social Responsibility

H²: Company Policy (CP), Company Reputation (CR), Employee Engagement (EE), Government Regulation (GR), Community Empowerment (CE), Customer (C), and Mass Media (MM) indirectly influence Corporate Social Performance (CSP) through Corporate Social Responsibility (CSR)

H³: Corporate Social Responsibility (CSR) influence Corporate Social Performance (CSP)

3. RESEARCH METHOD

3.1. Research Location and Period

This study was conducted in all Regencies/Cities in North Sumatera Province which has Foreign Investment Companies (PMA). The research period was April 2013 to July 2014. The research stages are shown in Table 3 below :

Table 3
Research schedule and stages

No. Month	Activity Description
1. January to March 2013	Improvement, Questionnaire trial
2. April 2013 to July 2014	Distribution and Collection of Questionnaires in the field
3. August 2014 to November 2015	Adding questionnaire distribution and collection time
4. December 2014 to January 2015	Data tabulation and analysis and formulation of research result
5. February 2015 to December 2015	Consultation of improvement of report of research/ dissertation result
6. February 2016	Seminar of research result

Source: Primary data, 2014

3.2. Research Instrument Test

The quality of the instruments were tested using:

- (a) Panel test, panel test was performed by experts experienced in primary data analysis, *i.e.* expert of perception and psychology research, Prof. Dr. Ida Yustina, M.Si (Professor of USU)
- (b) Pilot Test, was performed by distributing questionnaires to lecturers in the Faculty of Economy of Unimed, and manager-level employees of Tirtanadi Local Water Company and PT. Bank Sumut.

The results of research questionnaire validity and reliability tests were shown in Table 4 below.

Table 4
The results of validity and reliability tests of the questionnaire

No.	Variable	Question Indicator	Score	Validity	Reliability
1.	Corporate Social Performance (CSP)	4	1 to 4	0.008	0.78
2.	Corporate Social Responsibility (CSR)	7	1 to 3	0.001	0.86
3.	Company Policy (CP)	3	1 to 3	0.002	0.66
4.	Company Reputation (CR)	3	1 to 3	0.007	0.87
5.	Employee Engagement (EE)	3	1 to 3	0.009	0.77
6.	Government Regulation (GR)	3	1 to 3	0.001	0.73
7.	Community Empowerment (CE)	3	1 to 3	0.006	0.83
8.	Customer (CT)	1	1 to 3	0.005	0.73
9.	Mass media Pressure (MP)	3	1 to 3	0.034	0.75

Source : Processed Primary Data, 2013

The result of the reliability test performed using SPSS program version 20, showed that alpha correlation of cronbach alpha is bigger than > 0.6 . So all questions were reliable:

Table 5
The result of confirmatory factor analysis

No.	Variable	Cronbach alpha	Variable indicator	Confirmatory
1.	Corporate Social Performance (CSP)	0.78	Q1 –Q5	0.044
2.	Corporate Social Responsibility (CSR)	0.86	Q6 –Q 8	0.005
3.	Company Policy (CP)	0.66	Q 9 – Q 11	0.001
4.	Company Reputation (CR)	0.87	Q 12 – Q 14	0.000
5.	Employee Engagement (EE)	0.77	Q 15 – Q 17	0.006
6.	Government Regulation (GR)	0.73	Q 18 - Q 20	0.009
7.	Community Empowerment (CE)	0.83	Q21- Q23	0.002
8.	Customer (CT)	0.73	Q24 - Q26	0.004
9.	Mass media Pressure (MP)	0.75	Q27 - Q29	0.003

3.3. Research Population and Sample

The population of this study was 479 Foreign Investment Companies (PMA) operating in North Sumatera Provinces based on the data of Investment and Promotion Agency of North Sumatera Province in 2013. Referring to PMA license application in North Sumatera Province, 2.057 companies have been listed since 1952, but many companies don't continue their operation and some don't operate at all. Therefore, the research population was companies which operate normally and actively report to of North Sumatera Province until 2013, which was 479 companies. This study didn't use sample method but census method, which is using all members of the population as samples to increase response rate.

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3.4. Variable Operationalization

Variable operationalization in this study adopted and was adapted from Lichtenstein *et al.*'s (2004), and Peterson (2004) and Smidts *et al.* (2001). Details on variable measurement scale are shown in Table 6 below :

Table 6
Variable Measurement Scale

No.	Variable	Indicator	Score	Scale
1.	CSP = Corporate Social social Performance	1. Compliance to regulations 2. Environmental awareness 3. Social contribution to community 4. Reporting of corporate activities	1 to 5	Interval with likert scale score model
2.	CSR = Corporate Social Responsibility	2. Company commitment to CSR 2. CSR budget allocation 3. Activity continuity 4. Types of activity	1 to 5	Same as above
3.	CP = Company Policy environment	2. CSR-oriented business strategy 2. CSR policy on external environment 3. CSR policy on internal	1 to 5	Same as above
4.	CR = Company Reputation	2. CSR program continuation 2. CSR campaign by company	1 to 5	Same as above
5.	EE = Employee Engagement	1. Employee commitment to support CSR program of the company 2. Treatment to employees 3. Employee engagement in CSR program	1 to 5	Same as above
6.	GR = Government Regulation	1. Urgency of government involvement 2. Government shareholding 3. Government regulations on CSR	1 to 5	Same as above
7.	CE = Community Empowerment communities	1. 2. Community involvement in CSR activities of the company 3. Contribution to communities	1 to 5	Sponsorship for local Same as above
8.	CT = Customer	1. Environmentally friendly products 2. Company's readiness for customer service 3. Customer involvement in CSR program	1 to 5	Same as above
9.	MM = Media Massa	1. CSR reporting 2. Advertisements of CSR 3. Institutional cooperation between company and mass media association	1 to 5	Same as above

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3.5. Modeling Test by SEM

The hypotheses of this study used SEM analysis technique with the following model:

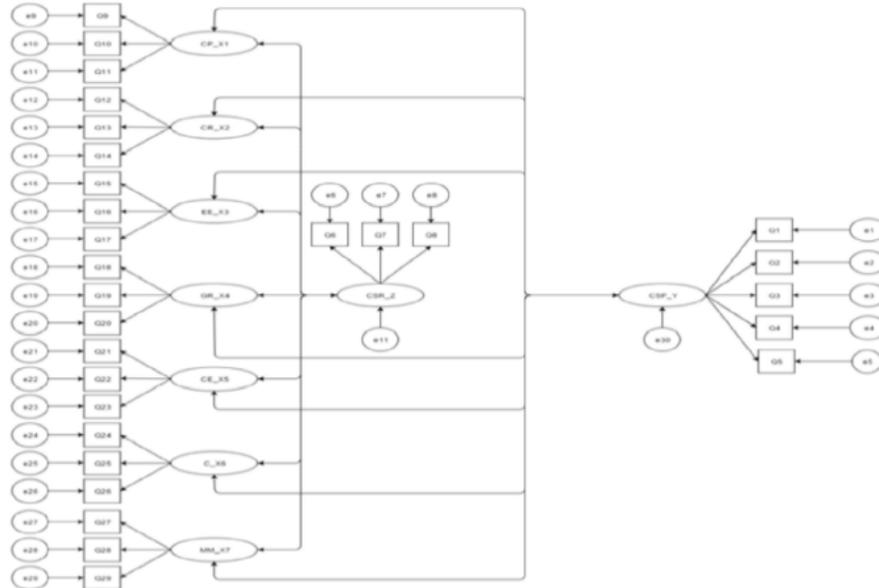


Figure 3: Modeling by SEM

Overall, Best fit Model criteria in SEM are shown in Table 7 below :

Table 7
Criteria of Best Fit Model Test

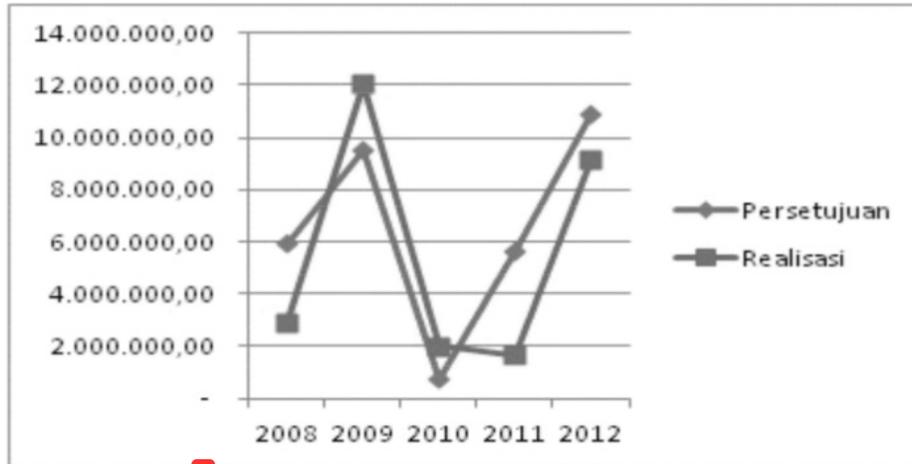
Description of Goodness of fit index	Cut-off value
χ^2 -Chi-Squarey	$\chi^2_{\alpha} = 0,05$
Significance Probability	$\geq 0,05$
RMSEA	$\leq 0,08$
GFI	$\geq 0,90$
AGFI	$\geq 0,90$
TLI	$\geq 0,95$
CFI	$\geq 0,95$

4. RESEARCH RESULT

4.1. Description of PMA Data

The growth of PMA investment in North Sumatera fluctuates in the past five years, both in terms of total projects or total realized fund. However, in 2012 there was an increase of values of approved and realized investments. Further details are shown in figure 4 below

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 Figure 4: PMA realization in North Sumatera in 2008-2012

(Source: BPMP) 2013

From 33 regencies/cities in North Sumatera, PMA only operate in 21 regencies/cities. It's due to investment potential in each region.

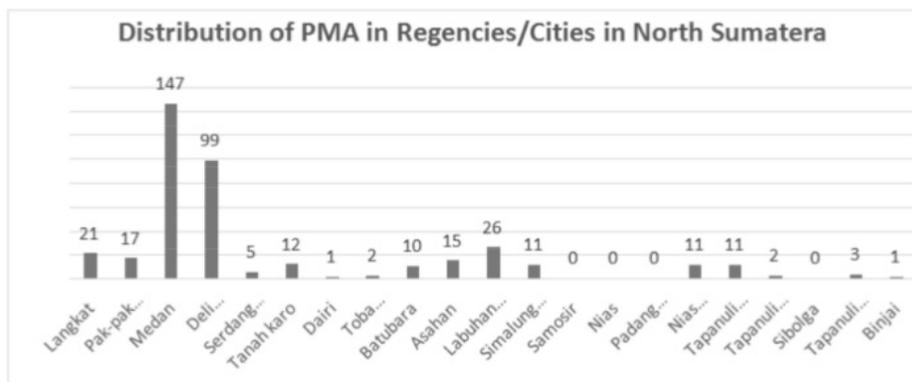


Figure 5: Distribution of PMA in North Sumatera Regencies/Cities

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 By origin country, foreign investors who invest in North Sumatera are seen in the North Sumatera is as follows:

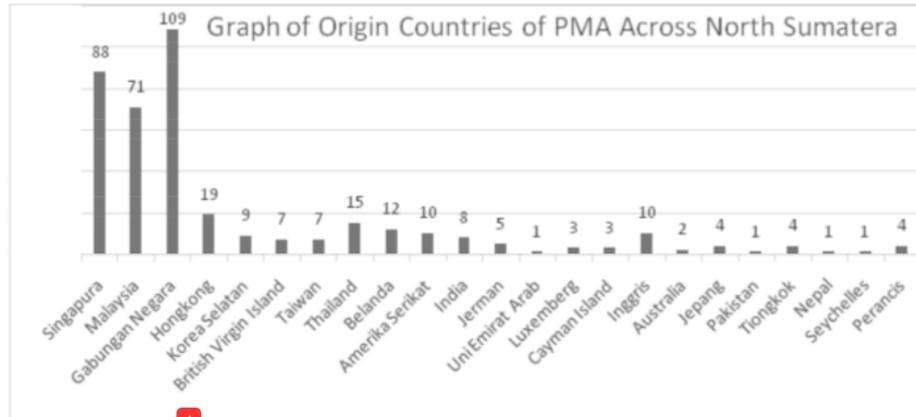


Figure 6: Origin country of PMA investors in North Sumatera

4.2. Result of Data Collection and Response Bias Test

Table 8
Stages of Questionnaire Return

No.	Data Collection Period	Return Period	Total Sample
1.	15 April 2014 to 24 June 2014	April to June 2014	52 companies
2.	27 July 2014 to 11 October 2014 (picked up in person and through contact person)	July 2014 s/d October 2014	94 companies
Total Returned Questionnaire			146 companies
Valid Data Ready for Analysis			127 companies
Response rate			40, 83%

Source : Primary data, 2013

4.3. Respondent Demographic

The demographic of the research respondents is: Based on the table above, 116 or 91,34 % respondents were male and 11 or 8,66 % respondents were female. So, PMA in North Sumatra were predominantly led by men.

Table 9
Respondents' Age and Gender

No.	Age	Total	%	Gender	Total	%
2.	to 30 years old	17	13,39	Male	116	91.34
2.	30 - 40 years old	67	52,76	Female	11	8.66
3.	40 - 50 years old	40	31,50			
4.	over 50 years old	3	2,36			
Total		127	100	Total	127	100.00

Source: Primary data, 2013

The table above shows that 17 or 13,39% respondents were aged up to 30 years old, 67 or 52,76% respondents were 30 to 40 years old, 40 or 31,50% respondents were 40 to 50 years old and 3 or 2,36% respondents were over 50 years old. Therefore, it's concluded that the leaders of PMA in North Sumatera were dominated by people of productive age between 30 and 50 years old. Based on the table above, 30 or 23,62% respondents had Associate's Degree education, 86 or 67,72% respondents had undergraduate education, 11 or 8,66% respondents had graduate education. It's concluded that many leaders of PT. PMA hadn't taken graduate education.

Table 10
Respondents' Years of Service and Education

No.	Years of Service	Total	%	Education	Total	%
1.	to 5 years	30	23,62	Associate's Degree	30	23,62
2.	5 to 10 years	51	40,16	Undergraduate	86	67,72
3.	10 to 15 years	43	33,86	Graduate	11	8,66
4.	Over 15 years	3	2,36			
	Total	127	100	Total	127	100

Source: Primary data, 2013

The table above shows that 30 or 23,36% had worked for up to 5 years, 5 up to 10 to 50 years. 51 or 41,16% had operated for at least 2 years. 43 or 33,86% for 10 to 15 years and 2,36% for over 15 years.

4.4. Company Demography

Company age demography showed that PMA which operated in North Sumatera Province in 2013 which became research samples were 10 to 50 years old and the maximum operating period was 30 years. Overall, description of company age is shown in Table 11 below.

Table 11
Company Age and Business Field

No.	Company Age (year)	Frequency	Percentage (%)	Business Field	Total	%
1.	0 to 10	32	25,19	Service	32	25,20
2.	10 to 20	40	31,49	Trade	45	35,43
3.	20 to 30	21	16,53	Manufacture/industry	50	39,37
4.	30 to 40	13	10,23			
5.	40 to 50	12	9,44			
6.	Over 50	9	7,08			
	Total	127	100	Total	127	100

Source : primary data, 2013

84 or 66,24% companies had CSR amounting up to 500 million, 15 or 11,81% companies had CSR amounting up to 1 billion, 2 or 1,57% companies had CSR amounting to over 2 billion.

4.5. Result of Hypothesis Test

The result of estimation parameters of influence of Company Policy on CSR is 0,03 with C.R value of 0,333 ($C.R < \pm 1,96$) at significance level $p = 0,000$ (significant). It was understandable because company policy plays an important role in CSR. (see attachment 1). This study was consistent with Mamic's (2005) finding which emphasizes company policy in maintaining value chain and company policy in improvisation in corporate social responsibility can improve company reputation. Kramer (2006) also emphasizes the importance of competitive advantage for company to make an important decision and policy related to social performance and social responsibility. Therefore the relation between company policy and CSR is very positive. Empirical facts in this study showed positive and significant influence of Company reputation on CSR, which is 0,01 with C.R value of 0,374 at significance level $p = 0,000$ (significant). This study was consistent with the result of Roshayani's (2011) study which finds that Company reputation influences CSR, because companies which maintain their reputation automatically perform CSR program sustainably. Similar to Roshayani, Ali Imran (2011) also describes the relation between Company reputation and CSR. Similarly, McGuire (1998) and Philips (1998) clearly describes Company reputation influences CSR, meanwhile CSR also influences Company Reputation.

The research result showed there was positive influence (estimation parameter = 0,0002). It's evident in C.R value of 0,200 ($CR < \pm 1,96$). It's consistent with the results of previous studies, such as Roper (2001), that Employee Engagement determines the performance of CSR by a company. The more engaged the employees and the more accommodated employees' individual and collective demands by a company, the more effective the CSR.

The research result showed positive influence (estimation parameter = 0,005) of Government regulation on CSR. It's evident in C.R value of 0,398 ($CR < \pm 1,96$) at significance level $p = 0,000$ ($p > 0,05$). It's consistent with many studies in various countries which state that the government plays an important role in CSR. Roscoe Pound (2005) states that the main duty of a government is social engineering, where the government makes umbrella regulations in the life of a nation and state. Law must be developed consisted with changes of social values. In the context of CSR, government regulation must regulate it, then afterward the government regulation is implemented.

Goyal (2006) explains that many foreign investment companies which want to invest in a country pay attention to the regulation in the investment destination. The investors will study whether government regulations on CSR can lighten their companies' expenses or not, before investing. Visser (2008) also emphasizes that the role of the government in regulation is still very dominant in many countries in terms of CSR. Therefore, the government asks for the commitment of the private sector specifically as a form of responsibility to negative impacts they cause. CSR is a company's commitment to develop better quality of life with related stakeholder, especially local communities around the company.

Empirical evidence in this study showed that there was positive and significant influence of Community empowerment on CSR, which is 0,006 with C.R value of 4,09 at significance level $p = 0,004$ (significant). It's in line with Smith and Read (2011), who also explains the pressure of Community in determining CSR activities is a main consideration today. Company can't ignore local community (Tuodolu, 2009). Community is also company stakeholder. Yoon, *et.al* (2006) also explains how company impact should pay attention to community.

Visser (2008) emphasizes that in developing countries, based on the observation of the World Bank, CSR is often focused on communities. Therefore, Community is an important factor which must be considered by company. Empirical evidence of this study showed positive influence (estimation parameter = 0, -238) on Customer on CSR, (C.R value of 2,134 at significance level $p = 0,001$). Smith and Read (2011) states that the role of customer in determining CSR activities is a main consideration today. The continuation of a company's business is also determined by Customers. Bhattacharya (2004) explains that the higher the customer response to company, the more effective the CSR program. In a customer-oriented era, companies have no other choice and must listen to customers' aspirations from company stakeholders. Estimation parameter of CSR on CSP showed positive (0,003) and significant result. It's reflected in C.R value of 0,296 ($C.R < \pm 1,96$) with probability $p = 0,000$ which is below significant value of 0,05, so the alternative hypothesis that CSR influenced CSP was accepted.

Most empirical studies on CSP are tightly related with CSR. Experts make CSP the performance target and CSR is the implementation of the CSP. The finding of McGuire (1998) connects CSR with CSP and the result is positive and significant. The result of the study of Wriath (2004) also shows that there is influence of CSR on CSP. Based on the test results, it is concluded that all variables which determined CSR has structured and simultaneous relations and significant influence. It means that the combination of internal and external factors of company is acceptable. The result of this study describes corporate social activities, which showed positive development of CSR implementation in Indonesia, especially North Sumatera Province, in terms of program quantity and quality. However, many countries refused to perform CSR programs because they considered it an expense (cost).

5. CONCLUSION, IMPLICATION AND LIMITATION

5.1. Conclusion

Internal and external determinants of CSP such as Company Policy (CP), Company Reputation (CR), Employee Engagement (EE), Government Regulation (GR), Community Empowerment, Customer, and Mass Media (MP) influenced Corporate Social Performance (CSP) through Corporate Social Responsibility (CSR). Therefore, hypotheses 1, 2, and 3 in this study were accepted as it was significantly proven that there was indirect influence of all internal and external determinants of CSP through CSR.

5.2. Implication

The implications of this study were :

1. There is no standard Corporate Social Performance measurement, so there should be studies more focused on CSP.
2. There should local regulations on CSR in North Sumatera. Local regulation referred to is derivation of laws which regulate CSR. It's also expected to increase the reception of PMA CSR.
3. CSR potentials in various sectors, especially industry, service and trade sectors, in North Sumatera should be studied, because the CSR of these sectors have great potentials which hadn't been optimized. Current CSR potentials were dominated by plantation sector
4. CSR potentials from SOEs in North Sumatera province should also be studied to compare between the two sources of CSR.

5.3. Limitation and Suggestion for Future Studies

The limitations of this study were:

1. The samples were limited to Foreign Investment Companies (PMA) in one single province, with most of the samples from the plantation sector, so there might be sample bias against other sectors.
2. Difficult of mail survey which caused delayed data collection might influence company policies which change rapidly in every period.
3. This study also didn't discuss company financial data, so it couldn't measure financial performance due to CSR expense.

The suggestions of this study were:

1. The research sample could be Foreign Investment Companies (PMA) across Indonesia, with broader characteristics from various sectors
2. Mail survey should consider delayed return of questionnaires
3. Future studies may include company financial data as a determinant to measure the impact of financial expense on social performance achievement

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