

Corporate Social Responsibility Policies in Indonesia Manufacturing Companies

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Submission date: 14-Mar-2019 10:21PM (UTC+0700)

Submission ID: 1093270156

File name: CSR_Policies_Revised.doc (118K)

Word count: 4121

Character count: 23906

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Abstract—This research offers a greater understanding of the corporate social responsibility efforts that enable the company to enhance the labor productivity. Thus, it is also used as the basis of the new methods to improve the productivity of the company by developing the aspects in the corporate social responsibility policies, which can integrate the internal and external aspects of stakeholders related to the company. This study is conducted on the manufacturing listed companies in Indonesia. The observed data in this research in total is 314 firm-years. Two out of the five hypotheses are proven in this study, while the rest of the hypotheses are rejected. The variables of CSR policies that proven shows on short-termism behaviour of listed companies regarding CSR. This happens since many manufacturing companies in Indonesia are owned by families and the lack of involvement by the government in shaping CSR.

Keywords— *Corporate social responsibility policies; labor productivity; manufacturing companies; stakeholders*

INTRODUCTION

The majority of countries were heavily affected by the impact of a global recession which resulting in the descent of demand in products, then would also lower the profit. Therefore, people were trying to recover the condition by improving the rate of labor productivity and efficiency to boost the growth of the economy back into their two feet (Sa'nchez & Benito-Herna'ndez, 2013). One of the methods used is by implementing Corporate Social Responsibility (CSR) Policies, as it integrates with the all of the business processes, starting off with an environment, community, consumers, and all stakeholders related to the company itself (Palmer, 2012).

CSR which is implemented in the company will bring the companies into a better positioning since their good deeds to the society would be known, and thus resulted in a better reputation for the company (Stuebs & Sun, 2010). This will also attract qualified employees to get into the company, which will then improve the competitiveness of the company (Heal, 2005). The positive correlation of adopting the corporate social responsibility policies and the effect towards the improvement of company's productivity and performance has already being proven by some of the authors, such as Pablo Esteban Sa'nchez & Sonia Benito-Herna'ndez (2013). Thus in this study, the author would like to find the empirical evidence of efforts to enable Indonesia manufacturing companies to boost their labour productivity rates through the development of the main pillars of their corporate social responsibility (CSR) policies. The studied that have already been made by some authors like Sa'nchez and Benito-Herna'ndez (2013), Heal (2005) is mostly talking about developed countries in Europe and USA.

CSR POLICIES

There are actually no standard of the measurement for CSR policies. In this paper, the measurements of corporate social responsibilities will be focused more on the measurement for its policies. Some of the company's CSR policies which will be taken account in this paper are the organizational method related to the dimensions of the social activities. Those dimensions include the relationship with the community involvement, relationship with the employees, environmental protection disclosure, and the company's product quality development. These dimensions are combined from some authors' framework, like Sa'nchez, P. E., & Benito-Herna'ndez (2013), Schreck (2011), Stuebs and Sun (2010), and Vilanova, M., Lozano, J., & Arenas, D (2009).

Community Involvement Management and Labor Productivity

A business will definitely has the connection with the external stakeholders. External stakeholders covers up several section, the customer, suppliers, government, as well as the communities where the company resides. Those communities may be the labor union, media, financial institutions, and even the competitors of the company (Adewale & Afolabi, 2014). With a good relationship to the community around the company's environment, it will be resulting in an increase of the company competitiveness. Enhancing the social and economic condition can increase the productivity of the business process, and at the same time enhance the motivation of the employees (Porter & Kramer, 2002). The employees will be more eager to do their best for the company with a good reputation (Heal, 2005). This situation will happen since a good external relationship enables the company to build the rapport of trust of the community, and at the same time also increase productivity through the sales performance (Sa'nchez & Benito-Herna'ndez, 2013). Thus the hypothesis is:

H1: There is a positive correlation of the company's community social actions with the labor productivity.

8

Labor Cost and Labor Productivity

The relationship of labor cost and labor productivity has been researched by a lot of researchers such as Heal (2005), Freeman (2008), and also Conen, Van Dalen, and Henkens (2012). There are several theories which correlate the labor cost towards the labor productivity, such as the human capital theory, contract theory, and the incentive theories. The human capital theory stated that while the remuneration of the employees is high enough, they will be more motivated to do better in their jobs (Conen, Van Dalen, & Henkens, 2012). Some researches stated that companies with good reputation may want to maintain the level of wages for its employees to preserve the employees' satisfaction (Stuebs & Sun, 2010). However, the relationship between these advantages and labour costs is not clear. The others stated that with a good company reputation, the employees are more willing to receive smaller compensations in the company (Roberts & Dowling, 2002). Consequently, the hypothesized changes in terms of lower labour costs and higher labour productivity should result in increased labour efficiency:

H2a: There is a negative correlation of the labor cost with the labor productivity.

Training Expense and Labor Productivity

There are some researchers stated that there are a lot of benefits in doing investments to the employees, which may be affecting the competitiveness as well as the productivity of a company (Sa'nchez & Benito-Herna'ndez, 2013). The training intensity also takes part in influencing the effect on company's productivity. The intensity can be seen from the size of the training, and activities. Colombo and Stanca (2014) found out that the training intensity has a significant effect on labor productivity. Schonewille (2001) conduct their own research of this matter, and found out that training has a positive effect on labor productivity even though it is not really significant. It is still unclear whether the positive correlation of the training towards productivity comes up from the on-the-job training or the off-the-job training (Schonewille, 2001). Hence, a hypothesis can be derived as:

H2b: There is a positive correlation of the training expense incurred by the company with the labor productivity.

Environmental Protection Disclosure and Labor Productivity

Environment is the surrounding of a company in which influence the business process of the company itself. A company must continuously interact with the environment to ensure that the company can survive in the dynamic situation (Adewale & Afolabi, 2014). Environment expenditure implies on the cost incurred as an environmental investment which enable the company to have a lower energy cost. At the same time, it can also drive the cost of waste management to plump up, especially when there is an environmental regulation

that also reduces the productivity of the organization. Hence it was difficult to determine the correlation of the cost incurred as environmental investments with the productivity, especially the labor productivity (Sa'nchez & Benito-Herna'ndez, 2013). Hence, the hypothesis is:

H3: There is no relevant correlation of the environmental protection disclosure with the labor productivity

Product Quality Development and Labor Productivity

CSR can impose on the quality of the company, as it enables the company to continuously improve the internal process to ensure the creation of the efficiency in the business process (Sa'nchez & Benito-Herna'ndez, 2013). Based on European Commision (Sa'nchez & Benito-Herna'ndez, 2013), there are some reasons why there can be a correlation of the CSR and innovation quality of a firm. Stakeholder engagement, business opportunities from the environment changes, and the workplace which enables the integration of innovation of the business process are the reasons for the correlation between CSR and quality (Sa'nchez & Benito-Herna'ndez, 2013). That is described in the hypothesis below.

H4: There is a positive correlation of the product quality development with the labor productivity

RESEARCH METHODOLOGY

The population that is being used for this paper is the manufacturing companies which published their Annual Report in 2013-2015 and were listed in the Indonesia Stock Exchange (www.idx.com). Listed manufacturing companies were used since the corporate social responsibility is more effective on the large company, and used most in the manufacturing company. There are a lot of researchers conducted a research on the manufacturing company, such as Sa'nchez & Benito-Herna'ndez (2013), Torugsa, O'Donohue, Hecker (2012), and Famiola & Adiwoso (2016). The observed data in this research in total is 314 firm-years as seen on the following table.

Table 1. Sample Selection Procedure

Sample Criteria	No. of Observations
Population of manufacturing companies in 2015	142
Not a manufacturing company in 2013-2015	-5
Number of companies	137
Total period (in years)	3
Number of reports	411
Number of unfound reports	-15
Reporting in other currency than Rupiah	-82
Total samples	314

This research uses the model below to find out the correlation of the CSR policies with the Labor Productivity. The control variables are the leverage, ROA, and Company Size. The research model itself can be looked up in the Figure 1.

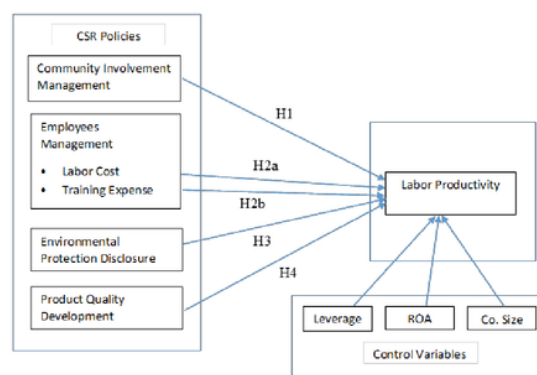


Figure 1. Research model

RESULTS AND DISCUSSION

The hypothesis in this research is tested by using multiple linear regression. The classical assumption test is used to ensure that the research data is valid to be tested. There is three classical assumption test which will be used here, the normality test, multicollinearity test, and heteroscedasticity test. At first, there was a normality problem of the research model. Therefore, there is an outlier elimination and transformation to log and square root to solve this problem.

After conducting the classical assumption tests, the regression model has to be tested for validity by using the F-test and determination coefficient. The result of the test shows that the adjusted R^2 value is 0.379, whereas the F-test has the significance of 0.000, which can be concluded that the regression model is valid to be used for testing the dependent variable. The hypothesis test is conducted by using T-test. The hypothesis test found that COMMIT (Community Involvement Management) has the significance value of 0.039 with the β value of -.103, which shows that it is significantly affecting labor productivity in a negative way. Therefore, H1 is not accepted. The variable COST has the significance of 0.000 and β value of -.485. Therefore it can be concluded that there is a negative significant correlation between labor cost to labor productivity. Hence, H2a can be accepted. TRAI (Training Expense), ENV (Environmental Protection), QUALITY (Product Quality Development) has the significance level of 0.789, 0.071, 0.153, which means that there is no correlation of those variables towards labor productivity for H2b and H4, therefore are rejected. However for H3 is accepted, since on the hypotheses earlier have no relevant correlation. The control variable SIZE is not correlated as it shows 0.353 significant. On the other side, ROA and LEV that have the significance of 0.000 and 0.003 are affecting the labor productivity in a positive way.

Table 2. Hypothesis test result

Model	Unstandardized Coefficients ^a		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	8.84	0.421		20.996	0
COMMIT	-0.157	0.076	-0.103	-2.07	0.039
LCOST	-0.025	0.003	-0.485	-9.591	0
TRAI	1.46E-05	0	0.015	0.268	0.789
ENV	0.084	0.046	0.09	1.811	0.071
INN	0.068	0.048	0.076	1.433	0.153
SIZE	0.014	0.015	0.05	0.93	0.353
ROA	0.993	0.217	0.222	4.586	0
LEV	0.029	0.01	0.145	2.981	0.003

a. Dependent Variable: PROD

COMMIT correlation towards the labor productivity is negative since there is a demand from the community where the management has to handle both their respective works and also the community. Thus, it leads to a disrupted of the work efficiencies, leading to a lower productivity (Trebeck, 2008). As the community involvement management is negatively correlated with the labor productivity, the company has to be careful of maintaining the balance of internal working flow and the relationship of the community. Therefore, it will be better to assign the specific person to manage the overall relationship with the community that is separate with the other working process.

LCOST has a negative correlation with the labor productivity, which is indicating that the higher the labor cost, the productivity will decrease down, as labor cost are regarded as an input of the company to make finished goods. It means, the company has to manage the labor cost to achieve the optimal level of labor productivity. It can be done by assigning a bonus for reaching the target that can motivate the employees, and by eliminating the overtime salary by managing the shift schedule. Thus, this findings propose that the managers of the company have to really considering the best proportion of the labor cost to approach for the employee relationship, in order to increase the performance of the company and also motivating the employee at the same time (Saleh, Zulkifli & Muhamad, 2011).

The research result shows that there is no significant relationship of the training cost (TRAI) with the labor productivity, which shows that the hypothesis H2b is not accepted. This result is not consistent with the previous several research (Colombo and Stanca, 2014; (Schonewille, 2001)). Conversely, this result is as the same with the research by Sa'nchez & Benito-Herna'ndez (2013), which also stated that there is no impact of the training incurred by the company with the employee performance in short term. The reason why it can be resulted in this way is because the result of the training can have a greater impact towards the company performance in a long term rather than in the short term (Sa'nchez & Benito-Herna'ndez, 2013). Moreover, the listed manufacturing companies in Indonesia, which are used as the observation in this research, are not really disclosing their expenses incurred for the employees' training. The details of the number of companies disclosing the training expense will be shown in the table 3. Most of them only reveal the number of hours spent for the training, and also the number of employees joining in the training. Therefore, the data which are available to be tested may not be sufficient to reflect the correlation of the training expense incurred by the company with the labor productivity.

Table 3. Disclosed Training Expense Information

Description	No of Companies	No of observations
Companies which disclose training expense incurred in 2013	28	105
Companies which disclose training expense incurred in 2014	33	106
Companies which disclose training expense incurred in 2015	33	103
Total	94	314

Further research result shows that there is no significant correlation between the environmental protection (ENV) disclosures that the company did towards the labor productivity, which concludes that the hypothesis H3 is accepted, as it stated that there is no correlation of the environmental protection disclosure with the labor productivity. This research outcome is having the same result as the previous several research (Sa'nchez & Benito-Herna'ndez, 2013, Saleh, Zulkifli & Muhamad, 2011; Zhang, Bu, & Yang; 2014), who also concluded that there is no effect of the environmental protection disclosures to the productivity of the company. It is happened because there is a huge investment towards the environmental protection that the company incurred in order to reduce the waste and create some savings, which definitely affecting the company's cash flow. However, at the same time, the company can improve their performance by easily attracting and recruiting the employees who are concerned with the environmental means, as well as improving the current process by the reduction of resource wastage (Saleh, Zulkifli & Muhamad, 2011). Employee enthusiasm to work in an environmentally responsible company does not make an improvement for the productivity of the company in short term (Sa'nchez & Benito-Herna'ndez, 2013).

The outcome of the research shows that there is no correlation of the product quality development (QUALITY) with the labor productivity, which led to a rejection of the hypothesis H4. This result is not consistent with the result obtained by Aldieri (2008). Yet, it has the same outcome with the research done by Stuebs & Sun (2010), Sa'nchez (2013) and Saleh et al (2011), who found that there is no such relation between the product quality development disclosure with the labor productivity. The innovation of a

company are usually has result in medium to long term, which means that the effect cannot be shown in the short term (Sa'nchez & Benito-Herna'ndez, 2013). In order to do the innovation for improving the product quality, of course the company has to incurred more investments towards the development. This will definitely influence the cash flows of the company. Therefore, even though there are some improvements unto the process of creating the products to be more efficient than the previous one, there is no guarantee of this improvements to have the result on that accounting period (Saleh, Zulkifli & Muhamad, 2011).

Other than the above explanations, most of the observed data in this research are not really disclosing their expenditure on research and development, which is used as the basis of the variable Product Quality Development measurement. Only 33.5% of the companies publishing their expenses on research and development of product which are accessible publicly. More details on the number of companies disclosing the research and development expenses are shown in the table 4. Therefore, the result in this research may not reflecting the true relationship of the product quality development in manufacturing companies towards the productivity of the employees in Indonesia.

Table 4. Number of Companies which Disclosed R&D Expense

Description	No of Companies	No of observations
Companies which disclose R&D expense incurred in 2013	26	105
Companies which disclose R&D expense incurred in 2014	35	106
Companies which disclose R&D expense incurred in 2015	35	103
Total	96	314

Furthermore, the reason why there is no significant correlation from TRAI, ENV and QUALITY because the corporate social responsibility dimensions are not directly affecting the productivity in the short term, and that the stakeholders also not receptive towards the environmental actions (Sa'nchez & Benito-Herna'ndez, 2013). More companies in Indonesia are owned by families, which is means the family owners bring their own values and interests to their companies, including priorities on social and environmental performance (Jem & Chew, 2009). Beside that, lack of involvement by the government in shaping CSR in Indonesia also one of the important issue that need to solve. The importance of government in shaping CSR today is highlighted by the difference in environmental management performance among Japan, Hong Kong and Singapore. In Japan, 80% of local companies were considered by the Ethical Investment Research Services (EIRIS) as having either an advanced or good management response to environmental issues, compared to 10% reported in Hong Kong and Singapore (Jem & Chew, 2009).

The control variables used in this research is also being a part of calculation of the regression model, and enable the regression to be more stable than without it. In this research, the control variables used are the size of the company (SIZE), return on asset (ROA), and also leverage (LEV). The research result also shows the correlation between the control variables towards the independent variable, which enables the author to also see whether it is significantly influencing the independent variable or not.

In term of the firm size (SIZE), the research shows that there is no significant relation of the firm size with the labor productivity as the independent variable. The insignificant relation of the firm size is not according to the Dam & Scholtens (2013). However, this is consistent with the result from the research done by Orlitzky (2001). Therefore it concludes that the size of the company is not really matters towards its labor productivity. A big company may not have a great productivity, and the small company also may not have least productivity than the bigger one. Hence, there are still a lot more of factors which need to be considered further in this regards, such as the company's efforts in managing the employee in order to work more effective and efficient to reach a high productivity in the working process.

Further result of the research also shows that the return on asset (ROA) is significantly correlated with the labor productivity. The return on asset is positively correlating to the labor productivity. This result is consistent with the research conducted by Dam & Scholtens (2013) and also LaGore, et al (2015). Therefore it also concludes that the increase of the return on asset is also impacting to a higher labor productivity. This is the case since with the increase of return on assets, means that the resources and assets of the company is being used as efficient as possible. With an efficient working process and assets usage, it will also related with the working flow of the labor that will be even faster than the normal process. Hence, it will resulted to a higher productivity of the employees in the company.

The research conducted shows that there is a significant correlation of the leverage (LEV) towards the productivity. The correlation of the leverage to the labor productivity is positively correlated. This means that the increase of the leverage is also leading to a bigger amount of productivity of labor in the company. This can happen because the debt of the company which is bigger than the internal funding of the company is being used to improve the condition of the company itself. The improvement may be used for investments of machines and others which can create a time efficiency. The excess funding can also be used to increase the well-being of the employees in the company. This will then lead to a timelier workflow and increasing the labor productivity into a better one.

CONCLUSION

This research is conducted to find the impact of the corporate social responsibility policy dimensions towards the labor productivity of the manufacturing companies which are listed on the Indonesian Stock Exchange. By undergoing this research, it can show the empirical evidence of the internal corporate social responsibility efforts (employee management) that enable the company to enhance the labor productivity. Thus, it also is used as the basis of the new methods to improve the productivity of the company in Indonesia by developing the aspects in the corporate social responsibility policies, which can integrate the internal and external aspects of stakeholders related to the company.

The research limitation is that there is a bias of the observation data which were taken from the manufacturing companies which are listed on the Indonesian Stock Exchange, which is not reflecting the impact of corporate social responsibility policies towards labor productivity as a whole in Indonesia companies. Therefore, it is suggested to the companies to consistently disclose information related to the corporate social responsibility to give additional knowledge for the investors in regards to the sustainability of the company

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