Correlation of Internal Enterprise Adequacy Factors in Supporting Corporate Social Responsibility Activity Performance

by Rita Ambarwati

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Abstract

Corporate Social Responsibility (CSR) is one of the activities that deliberately performed by company to society and surrounding environment to get benefit. As an activity of a company, the performance of CSR activities should also be able to be measured. This research aimed to empirically analyze the correlation of adequacy variable from internal company on CSR program activity performance. In this study, the correlation strength of human resource adequacy, Strategic Vision, Operation System and Financial Capabilities would be compared and it should implicate the performance of CSR program activities. The analysis of structural equation modeling (SEM) was performed in this research to find the correlation between Human Resource Adequacy Factor, Strategic Vision, Operation System, and Financial Capability with Performance of CSR program activity. It was expected through this research to get a picture of how the contribution level of each internal enterprise adequacy factor on CSR program activity performance. The level of contribution of these adequacy factors in the performance of CSR program activities would greatly assist the company in designing its CSR program activities.

Keywords: corporate social responsibility; internal enterprise adequacy factor; performance; structural equation modeling/SEM.

1. Introduction

The current CSR study has grown quite far from before. Scientific studies related to social responsibility activities originally conducted by Howard R Bowen et. al. (H.R, 1953) which suggested that companies should make socio-economic consequences as one of the strategic decisions of the company. Carrol (Carroll, 1979) attempted to make an argument about how the company should performs its social responsibility which leads to four things: the reason of economic responsibility because of its profit capability, legal responsibility related to law that is acceptable to society, ethical responsibility related to equality and justice and generosity responsibility to the economic, social, educational and other surrounding communities. Meanwhile, Elkington (Elkington, 1977) introduced the concept of Triple Bottom Line (TBL) where the company's performance should not only make financial profit as its main measurement, but how the company has a contribution to society and the planet. This element is known as 3P (profit, people and planet) on the concept of Triple Bottom Line (TBL).

The objective of this paper was to empirically prove the adequacy of internal enterprise factors for achieving the performance of CSR activities. The CSR performance as a reference is a guideline of Sustainability Report GRI (Global Reporting Initiative) that is GRI Standard G4. This research tried to contribute in the field of strategic management which can be applied by corporate stakeholders to strengthen the factors that contribute to improve the performance of CSR activities.

2. Literature Review
2.1. CSR Definition

Currently, Corporate Social Responsibility (CSR) can be called as Corporate Responsibility, Corporate Citizenship, Responsible Business or Corporate Social Opportunity (Ismail, 2009). Some literature reveals that CSR activity has actually been introduced indirectly since Mesopotamian times (around the 17th century BC) and evolved in various forms to date (Dankova, 2012; Nikolova and Arsić, 2017).

Some definitions related to CSR activities are described as follows. CSR as an expression in a micro-scale economy for sustainable development as an effort to harmonize socio-economic development that affects the environment (Simen and Ndao, 2013). CSR is a concept whereby business organizations also take community interest into account by taking responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities and other stakeholders and the environment. CSR also simply refers to a corporate strategy that conducts its business operations in an ethical and friendly manner in the context of society (Ismail, 2009).

2.2. CSR Performance

In the CSR study, the standard for measuring the performance of CSR activities in a company that is often used internationally is to use the GRI Sustainability Report guidelines or known as GRI Standard (Rahmadhani et al., 2011). The

Global Reporting Initiative (GRI) published guidelines that companies can use to report on their company's sustainability performance. This guide gained support from various parties globally as they promote transparency and accountability in their reports (Brown et al., 2009).

The new GRI standard was issued in 2014 under the name of GRI Standard G4. In this paper, The Measurement Standard G4 of CSR activities that would be studied would be described bellow:

❑ **Contribution to the Environment**

Measurement of the contribution to the environment indicates that CSR activities are capable of raising the level of a better environment at a certain level and scope.

❑ **Social Contribution**

Social Contribution is divided into two aspects namely:

❑ **Human Rights**

Measurement of contributions to the human rights field indicates that CSR activities are capable of raising the level of technical practice of better implementation of human rights at a given level and scope.

❑ **Society**

Measurement of contributions to the society field indicates that CSR activities are capable of raising societal aspects of society in a better society at a given level and scope.

2.3. CSR Performance Supporting Adequacy Factor

Four types of internal adequacy factors are presented to support the implementation of CSR activities in this study. The internal supporting factors of CSR implementation are heterogeneous factors and the impacts can vary between companies (Yuen and Lim, 2016).

❑ **Human Resources Adequacy**

The ability of human resources, especially on the manager and officer of CSR program within the company is considered to be one of the supporting factors of CSR implementation process. Indicators that support human resource factors related to CSR implementation are on knowledge of CSR implementation process (Arevalo and Aravi, 2011; Baskaran et al., 2011; Duarte and Rahman, 2010; Shen et al., 2015; Yuen and Lim, 2016).

❑ **Strategic Vision Adequacy**

In some companies, CSR activities have not become the vision of the company that resulted in CSR activities get less attention from the company to run it. Husted (Husted, 2003) stated that if a company is committed to carrying out CSR activities, then CSR should be expressed in the company's vision, mission, goals and objectives. Indicators that support the company's strategic vision factor regarding CSR implementation are on the company's vision of CSR activities (Faisal, 2010; Yuen and Lim, 2016).

❑ **Operation System Adequacy**

The operational capability in carrying out CSR activities is very important to measure the quantity of CSR activities in the field. Therefore, different perspectives on CSR can be high ough challenge for CSR managers and officers to obtain concrete management actions in implementing CSR activities (Pawlik et al., 2012). Some indicators that support operation system factors related to CSR implementation include the ability to benchmark CSR activities and monitoring capabilities of CSR activities (Coady et al., 2013; Faisal, 2010; Hargett and Williams, 2009; Yuen and Lim, 2016).

❑ **Financial Capability Adequacy**

Financial capability becomes a very important factor in CSR activities because CSR activities definitely require funding. Some of the indicators that support the financial capability factor related to CSR implementation are the expansion of financial resources, and financial availability (Baskaran et al., 2011; Duarte and Rahman, 2010; Faisal, 2010; Shen et al., 2015; Yuen and Lim, 2016).

3. Methodology

As illustrated before, the purpose of this paper was to prove empirically the impact of internal adequacy factors on the achievement of CSR activity performance. Independent variables in this study were Human Resource Adequacy Ratio, Strategic Vision Adequacy Factor, Operation System Adequacy Factor and Financial Capability Adequacy Factor. While the dependent variable in this study is CSR Performance.

To articulate the impact of each independent variable on the dependent variable, the following hypothesis were subsequently developed:

H1: The adequacy of human resources has a positive relationship to the achievement of CSR performance

H2: The adequacy of strategic vision has a positive relationship to the achievement of CSR performance

H3: The adequacy of operation system has a positive relationship to the achievement of CSR performance

H4: The adequacy of financial capabilty has a positive relationship to the achievement of CSR performance

Empirical data were obtained through random survey to the CSR Officer in Indonesian companies who have experiences of CSR activity, so it is assumed that the CSR activity and some aspect around it to were known and understood. The survey was conducted in the period of early 2018 (approximately around 4 months). Out of a total of 100 questionnaires distributed, 77 questionnaires were returned and answered.

4. Result and Discussion

Variable	Symbol	Indicator
Human Resource	X11	Knowledge of CSR Implementation Process
Strategic Vision	X21	Corporate Vision to CSR Activities
Operation System	X31	Ability to perform benchmark in CSR Activities
	X32	Ability to monitor CSR Activities
Financial Capability	X41	The firm's intention to issue financial resources
	X42	Financial Availability
CSR Performance	Y1	Environmental Contributions
	Y21	Human Rights Contributions
	Y22	Society Contributions

Table 1. Indicator Symbol

The analysis used to address this study is a modeling equation of SmartPLS (Smart Partial Least Square). The result obtained from SmartPLS output showed that the value of R-Square was 0.814 which means that the models created in this study can explain all the analyzed variables with 81.4%. The remaining 18.60% was explained by other variables outside this model. It could be concluded that R-Square values obtained from this study model could be said to form a good model. The greater the R-Square value obtained, the better is the model.

	Cronbach's Alpha	R-Square	Composite Reliability	Average Variance Extracted (AVE)
CSR Performance	0.778	0.814	0.870	0.693
Financial Capability	0.888	0.901	0.947	0.899
Human Resource	1.000	1.000	1.000	1.000
Operation System	0.878	1.007	0.940	0.887
Strategic Vision	1.000	1.000	1.000	1.000

Table 2. Discriminant Validity

	CSR Performance	Financial Capability	Human Resource	Operation System	Strategic Vision
CSR Performance	1.000	0.788	0.397	0.267	0.815
Financial Capability	0.788	1.000	0.345	0.487	0.710
Human Resource	0.397	0.345	1.000	0.283	0.613
Operation System	0.267	0.487	0.283	1.000	0.354
Strategic Vision	0.815	0.710	0.613	0.354	1.000

Table 3. Latent Variable Correlation

In this research, the construct validity test of research instrument was discriminant validity. The research instrument is said to be valid if the root of AVE is greater than the correlation coefficient of variables/indicators with others. The reliability test of research instrument was conducted was Cronbach Alpha analysis. Int this test, if alpha > 0.60 then the research instrument is said to be reliable. Overall, research instruments on CSR Performance indicators (0.778), Finance Capability Adequacy (0.888), Human Resource Adequacy (1.000), Operation System Adequacy (0.878), and Strategic Vision (1.000) were valid. Overall, instrument research indicators on the competing variable were considered reliable.
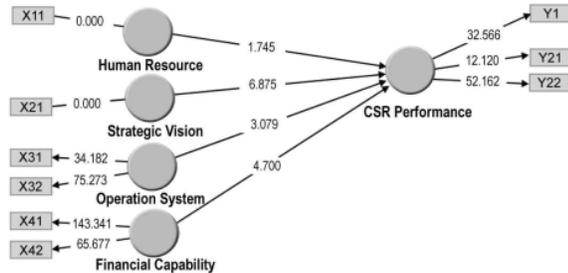

Figure 1. Path Diagram

Based on the path analysis using SmartPLS software, it was found that Human Resource Adequacy variable obtained as the coefficient of 0,397 and t-statistic of 1.745. Because t-statistics on Human Resource Adequacy Variable < 1.96 then the variable had no significant effect on achievement of CSR Performance.

The Variable of Strategic Vision Adequacy had a path coefficient of 0.815 and t-statistics of 6.875, the variable of Operation System Adequacy had a path coefficient of 0.267 and t-statistics of 3.079, the variable of Financial Capability Adequacy had a path coefficient of 0.788 and t-static 4.000. Because t-statistics on the three variables > 1.96 then these variables had a significant effect on achievement of CSR Performance.

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)
Financial Capability -> CSR Performance	0.478	0.458	0.102	4.700
Human Resource -> CSR Performance	-0.080	-0.082	0.046	1.745
Operation System -> CSR Performance	-0.148	-0.151	0.048	3.079
Strategic Vision -> CSR Performance	0.577	0.601	0.084	6.875

Table 4. Path Coefficient Variables

Based on the analysis of Table 4 Path Coefficient Variable, and interesting result could be obtained. Financial Capability (0.478) and Strategic Vision (0.577) got positive value. This indicated that the indicators on Financial Capability and Strategic Vision adequacy were directly proportional to the achievement of CSR Performance, so that the higher the company's concerns about Financial Capability and Strategic Vision the higher achievement of CSR Performance would become. Meanwhile, indicators on Human Resource adequacy (-0.080) and Operation System (-0.148) showed a negative value. This indicated that the indicators on the adequacy of Human Resource and Operation System were inversely related to the achievement of CSR Performance, so the higher the company's Concern related Human Resource and Operation System the lower achievement of CSR Performance obtained although the impact caused was not as high as Capital Adequacy Capability and Strategic Vision.

5. Conclusion

This paper aimed to measure the impact of factors that support the performance of CSR activities. It was found that the adequacy factor of Financial Capability, Strategic Vision and Operation System had significant influence in achieving CSR activity performance. The financial adequacy factor was financial intention and availability. Strategic Vision adequacy factor was in the form of corporate vision on CSR activities. Operation System adequacy factor was in the form of benchmark capability and monitoring of CSR activity. In the supporting factor of CSR performance, financial adequacy factor had the highest influence impact to CSR performance achievement. The most influential indicator was the presence of the company to issue its financial resources.

The implication that could be taken by professionals was that the adequacy of financial resources became the main force in supporting the performance of corporate CSR activities. A company that performs CSR activities was paying close attention to the adequacy of financial capacity.

6. Limitation & Future Research

Although there are some conclusions that can be concluded in this study,but there are still some limitations. This study is still focused on internal factors of the company in supporting the performance of CSR activities. Further study is needed to get a broader model, especially involving variables that come from outside the company. Possible factors from outside the company plays an important role in supporting the performance of corporate CSR activities because CSR activities are true activities for parties outside the company.

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