

CORPORATE SOCIAL PERFORMANCE AND FINANCIAL PERFORMANCE OF INDONESIAN FIRMS

By:

HASAN FAUZI

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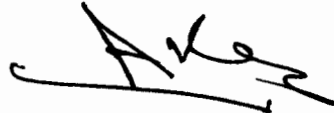
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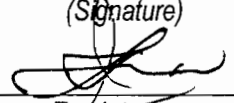
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Pelajar
(Name of Student) : Hasan Fauzi

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Nama Penyelia/Penyelia-penyelia
(Name of Supervisor/Supervisors) : Assoc. Prof. Dr. Azhar Abdul Rahman 
Tandatangan
(Signature)

Nama Penyelia/Penyelia-penyelia
(Name of Supervisor/Supervisors) : Assoc. Prof. Dr. Kamil Md. Idris 
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ABSTRACT

The research objectives of this study are (i) to investigate whether there is any positive relationships between CSP (Corporate Social Performance) and CFP (Corporate Financial Performance) under the slack resource and good management theory, (ii) to investigate whether business environment, business strategy, formalization, decentralization, reliance on combination of belief & boundary system, reliance on combination of diagnostic & interactive control system, reliance on interactive control system moderate the relationship between CSP and CFP under the two theories, and (iii) to examine the perception of managers (from state-owned companies (SOC) and non state-owned companies (POC)) on CSP. 220 respondents from manufacturing companies listed on the Jakarta Stock Exchange were selected and four regression models were developed to examine the relationship between the related variables. The findings show that: (1) there is a positive relationship between CSP and CFP under the slack resource and good management theories, (2) business environment has moderated the CSP-CFP link under good management theory, (3) decentralization has moderated the CSP-CFP link under slack resource theory, and (4) reliance on combination of diagnostic and interactive control system has moderated the CSP and CFP link based on slack resource theory. Moreover, there is no difference in perception regarding CSP between managers working in SOC and POC. The ranking of CSP dimensions (from highest to lowest) as perceived by the managers is as follows: (1) corporate governance, (2) customer, (3) employment, (4) community and society, (5) environment, (6) human rights, and (7) controversial business.

ABSTRACT (Malay Language)

Kajian ini mempunyai beberapa objektif: (i) untuk melihat samada wujud hubungan yang positif diantara prestasi sosial korporat (PSK) dan prestasi kewangan korporat (PKK) mengikut teori 'Slack Resource' dan teori 'Good Management, (ii) melihat samada persekitaran perniagaan, strategi perniagaan, formalisasi, desentralisasi, kebergantungan keatas gabungan sistem kepercayaan dan batasan, kebergantungan keatas gabungan sistem diagnostik & interaktif, dan kebergantungan keatas sistem interaktif boleh memoderasi hubungan diantara PSK dan PKK berasaskan dua teori tersebut, dan (iii) melihat persepsi para pengurus (yang bekerja di BUMN (Badan Usaha Milik Negara) dan di syarikat swasta) mengenai PSK. Seramai 220 pengurus daripada syarikat pembuatan yang disenaraikan di dalam Pasaran Saham Jakarta telah dipilih sebagai responden dan empat model regresi telah dibentuk untuk melihat hubungan antara angkuh-angkuh yang dipilih. Kajian ini mendapati bahawa (1) terdapat hubungan yang positif diantara PSK dan PKK berasaskan teori 'Slack Resource' dan teori 'Good Management', (2) persekitaran perniagaan memoderasi perhubungan diantara PSK dan PKK berasaskan teori 'Good Management', (3) desentralisasi memoderasi perhubungan diantara PSK dan PKK berasaskan teori 'Slack Resource', dan (4) kombinasi sistem kawalan Diagnostik dan Interaktif memoderasi perhubungan diantara PSK dan PKK berasaskan teori 'Slack Resource'. Selanjutnya tidak wujud sebarang perbezaan persepsi mengenai PSK diantara para pengurus yang bekerja di BUMN dan di syarikat swasta. Pangkatan dimensi PSK yang ditanggapi oleh para pengurus (daripada yang tertinggi kepada yang terendah) adalah seperti berikut: (1) tataselia korporat, (2) pelanggan, (3) pekerjaan, (4) masyarakat dan kaum setempat, (5) persekitaran, (6) hak asasi, and (7) perniagaan kontroversi.

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LIST OF ABBREVIATION

CSR	=Corporate Social Responsibility
CSP	=Corporate Social Performance
CFP	=Corporate Financial Performance
TOT_CSR	=Composite Measure of CSR
TOT_CFP	=Composite Measure of CFP
CSRCOM	=Community and Society Dimension of CSR
CSRCOG	=Corporate Governance Dimension of CSR
CSRCUS	=Customer Component Dimension of CSR
CSREMP	=Employee Dimension of CSR
CSRENV	=Environment Dimension of CSR
CSRHMR	=Human Right Dimension of CSR
CSRCTB	=Controversial Business Dimension of CSR
BEV	=Business Environment
TOT_BEV	=Composite Measure of BEV
BEVHOS	=Hostility Dimension of BEV
BEVDYN	=Dynamism Dimension BEV
BEVCOM	=Complexity Dimension of BEV
STG	=Business strategy
STGAGR	=Aggressiveness Dimension of STG
STGANL	=Analysis Dimension of STG
STGPRO	=Proactiveness Dimension of STG
STGRKN	=Riskiness Dimension of STR
STGFTR	=Futurity Dimension of STR
STGDFN	=Defensiveness Dimension of STH
TOTSTG	=Composite Measure of STG
STR	=Organization Structure
STRFOR	=Organization Structure-Formalization
TOTFOR	=Composite Measure of STRFOR
STRDEC	=Organization Structure-Decentralization
TOTDEC	=Composite Measure of STRDEC
STRSPE	=Organization Structure-Specialization
TOTSPE	=Composite Measure of STRSPE
STRFOR_SPE	=Organization Structure-Formalization & Specialization
CON	=Management Control System or Control System
CONBEL	=Control System-Belief System
TOTBEL	=Composite Measure of CONBEL

CONBOU	=Control System-Boundary System
TOTBOU	=Composite Measure of CONBOU
CONDIA	=Control System-Diagnostic Control System
TOTDIA	=Composite Measure of CONDIA
CONINT	=Control System-Interactive Control System
TOTINT	=Composite Measure of CONINT
CONBEL_BOU	=Control System-Belief & Boundary System
CONDIA_INT	=Control System-Diagnostic & Interactive Control System
KLD	=Kinder Linderberg Domini
MJRA	=Michael Jantzi Research Associate
GRI	=Global Reporting Initiative

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND OF STUDY

Corporate social performance (CSP) or its synonym, corporate social responsibility (CSR), has recently become worldwide phenomenon among companies¹ including Indonesia. In Indonesia, CSP is made mandatory when the government passed a new law called Law No. 40/2007 in 2007 to amend the existing law on corporations. Article 74 of the law stipulates that every company in Indonesia must conduct CSR, defined by the law as activities related to the philanthropic things, the one beyond the companies' main activities. Despite the good will of the law, for many companies, conducting CSR means they have to fork out additional costs for activities that may not directly and positively contribute to the corporate financial performance (CFP). The apprehension towards the law may stem from the fact that management does not actually understand the link between CSP and CFP, when they appealed to repeal the law to the Constitutional Court. However, in 2004, the court ruled that CSR remains mandatory for Indonesian firms (Fauzi, 2009).

Low understanding of the CSP-CFP link among managers in various companies in Indonesia is problematic as it affects the company's social and environmental performance. Despite attempts to improve social and environmental performance of

¹ The term company, firm, and corporate are used interchangeably in thesis because they convey the same meaning

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