

HOW DOES CORPORATE SOCIAL RESPONSIBILITY ENHANCE THE PERFORMANCE OF OIL PALM COMPANIES IN INDONESIA?

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Abstract: *For the last few decades, the Indonesian Oil Palm industry has contributed to economic development by reflecting on the percentage contribution to the Gross Domestic Product. However, most of those companies had a history of poor financial performance. Poor performance has been linked to inefficient corporate social responsibility. Thus, this study aimed to examine the relationship between corporate social responsibility and company performance. A quantitative research design approach was chosen, with a questionnaire developed for primary data collection via a survey of 231 Indonesian oil palm companies' board of directors from three regions using the cluster random sampling technique. The partial least square regression was applied to analyze the relationship between the variables. The findings show that the dimension of corporate social responsibility such as environment responsibility and community responsibility have significant effect on company performance. The findings have various consequences for the company's owner, as well as stakeholder parties, who believe that the company should adopt the main corporate strategy to fulfil the interests of two parties. As a result, it will create positive vibes from those parties, which will result in better company performance.*

Keywords: *company performance, corporate social responsibility, employee responsibility, environment responsibility, community responsibility.*

1. Introduction

Due to the global economic climate and the competition among oil palm companies, the Indonesian government has taken an active role in the global oil market. As one of the crops produced in Indonesia, oil palm production increased by 2,92% in 2021 (Minsitry of Agriculture Republic of Indonesia, 2021). As a result, oil palm companies contribute to the government's revenue as well as the rising value of oil palm exports.

Furthermore, open markets and competitiveness drive Indonesian companies, particularly oil palm companies, to improve their performance. It will eventually cater the interest of shareholders and investors. Company performance has become a significant subject for both practitioners and scholars (Richard et al., 2009), because the nature of a company is to generate returns through their investment (Penrose, 2009). Nevertheless, the performance of oil palm companies in Indonesia, particularly in the return on asset (ROA) indicator, has gradually dropped over the last four years (IDX, 2021). It is conceivable to conclude that the ROA indicator has yet to have a significant impact on further improving company performance.

Despite Indonesia's oil palm companies contribute to economic development as well as their performance, the expansion in oil palm production has resulted in numerous challenges. More concern is being devoted to the environmental implications of land conversion by oil palm companies (Abdullah et al., 2020), which results in deforestation and slash-and-burn practices primarily performed by Indonesian oil palm companies (Purnomo et al., 2018). There are also societal ramifications, such as land-rights disputes between oil palm companies and local citizens (Afriyanti et al., 2016). Oil palm companies, therefore, have begun to prioritize corporate social responsibility hereinafter as CSR is to eliminate the possibility of disputes with local populations (Sugino et al., 2015). Furthermore, disseminating information about companies' environmental and social initiatives is encouraged to gain public trust and to substantially aid the local community in several aspects as well as other social and economic objectives (Effendi, 2021). According to Harrison and Freeman (1999), implementing stakeholder theory enables CSR to fulfil the various stakeholders' interests through a company's strategies (e.g., employees, community, and the environment). As a result, it will enhance company performance (Nguyen, 2018).

Subsequently, there is vast literature on CSR for both wealthy and emerging nations. The scholars investigated the multiple dimensions such as: employees, environment, and community under the CSR, which have the direct impact on company performance (Velte, 2021). Despite of the numerous of studies have examined the relationship between dimensions of CSR and company performance found inconclusive results (Abeysekera & Fernando, 2020; Yoon & Chung, 2018). The majority of prior studies employed a unidimensional (aggregated) measure of CSR (Johnson & Greening, 1999). Recent research, however, has called this method into question because a unidimensional measure may confound the effects of distinct CSR dimensions that are not equally important or meaningful (Sameer, 2021). This finding clearly suggests that the individual dimensions of CSP must be considered independently (Esteban-Sanchez et al., 2017; Hillman & Keim, 2001). Clearly, CSR does not have the same meaning in every industry. More specifically, some dimensions may be more relevant in certain industries than others (Dupire & M'Zali, 2018). For example, it is critical for oil company to maintain their environmental and social responsibilities, particularly in communities around the company's location (Pasaribu et al., 2020). Therefore, this research gap in this study is to investigate the relationship between CSR dimensions- employees, environment, and community and oil company performance in Indonesia (Fabiani & Breliastiti, 2020).

2. Literature Review

Employee Responsibility

Employee responsibility is concerned with how the organization treats its employees. It frequently evaluates the company's commitment and performance in creating trust and loyalty in its employees through the application of best-practices in areas such as employment quality, health and safety, training and development, diversity, and equal opportunity (Esteban-Sanchez et al., 2017). Furthermore, most research find that employee relations improve firm performance (Gong et al., 2019; Maqbool & Zameer, 2018; Nguyen et al., 2020). According to prior research, good personnel policies generate competitive advantages in terms of increased efficiency, productivity, and turnover by reducing staff rotation, absenteeism, and stress and increasing employee commitment (Mention & Bontis, 2013; Park et al., 2017; Zhang, 2010).

Nonetheless, Sameer (2021) discovered a contrary result: employee responsibility had no effect on company performance. The rationale for the invalidation is that, for the reasons given, employees working in public companies in the Maldives may not have considered CSR disclosure as important. Furthermore, Brieger et al. (2020) discovered that working in a CSR-committed organization might lead to employee work addiction, which can harm the worker's well-being, as well as the well-being of their family and friends. As a result, extensive study into the relationships between employee responsibility and company performance should be viewed as crucial in management firms.

Environment Responsibility

Traditional economic argument indicates that there will be an adverse impact on environmental responsibility and company performance. Environmental activities, according to proponents of the trade-off theory such as Friedman (1970) and Levitt (1958), deplete financial resources from a firm and so weaken its company performance, because the financial rewards of environmental activities are regarded to be lower than their costs (Makni et al., 2009; Waddock & Graves, 1997). Based on (short-term) shareholder maximization rationale, this viewpoint claims that environmental activities conflict with companies' fundamental objectives because voluntary mitigation of environmental consequences is considered charity, which incurs social costs and contradicts profit maximizing (King & Lenox, 2001).

Nonetheless, the traditional objective of companies to increase shareholder value has been increasingly challenged as a result of diverse value conceptions. According to Kabir and Thai, 2017 and Velte (2021) the more companies consider taking more effort on environmental responsibility, the better company performance, especially in developing nations. Environmental investment will not only benefit stakeholder welfare at large but will also help the organization economically (Shahzad & Sharfman, 2015; Wood, 2010). Thus, scholars and practitioners have been drawn to corporate social responsibility (CSR) efforts relating to environmental responsibility, which have been demonstrated to align the interests of shareholders and stakeholders (Javeed & Lefen, 2019).

Community Responsibility

Numerous studies have established CSR-related community measurement indices, the majority of which cover similar subjects including human rights, state rights, stakeholder rights, community rights, and others (Fernández-Gago et al., 2016; Ghaderi et al., 2019; Yoon & Chung, 2018). Many organizations are involved in the community to educate the public about the functionality of their products, and to that end, they arrange various events in society for entertainment and product publicity, sponsor other public activities taking place in the community, make donations for the welfare of society, organize health awareness programs, and take preventive measures to control dangerous diseases (Malik & Kanwal, 2018). Furthermore, being responsive to the local community has a direct impact on crucial parts of the firm's competitive context, which helps to boost company performance (Maqbool & Zameer, 2018; Taghian et al., 2015). According to the findings of a study conducted in developing nations, businesses should consider the demands of the community in which they operate their economic activities and design a creative approach to solve the community's problems (Javeed & Lefen, 2019). As a result, engaging in numerous projects that benefit the community enables a firm to

create or strengthen its corporate image, resulting in high company performance to cover the cost of social activities.

Hypotheses Development

The relationship between Employees responsibility and company performance

Employees' work-related requirements and the organization's ability to meet such requirements are linked to corporate social responsibility. Employees are more likely to be satisfied and motivated at work if their expectations and organizational commitment to workers are achieved on a reasonable level (Maignan & Ferrell, 2004; Nguyen et al., 2020). Furthermore, CSR toward employees has an important role in their reciprocal behaviours, which may increase company performance by attracting, motivating, and retaining employees (Brieger et al., 2020; Famiyeh, 2017; Lin et al., 2020). The majority of studies have determined that employee responsibility improves company performance (Ghaderi et al., 2019; Nguyen et al., 2020; Ting & Yin, 2018). Therefore, the formulation of the hypothesis is as follows:

H1: There is a positive relationship between employee responsibility and the performance of a company.

The relationship between Environment responsibility and company performance

There is vast literature on corporate social responsibility (CSR) in developed and developing geographies. The scholars have studied the multiple dimensions under the CSR. The environment is also one of the dimensions considered under the CSR umbrella (Gupta & Gupta, 2020). Environment responsibility is an important and distinct part of the overarching concept of CSR (Rahman & Post, 2012). CSR practises on the environment are critical to company function and should be present in configurations that lead to high company performance. One reason is that in a growing number of industries, environmental issues are gaining strategic importance, and companies are trying to develop strategies that would ensure long-term performance (Khlif et al., 2015). The relationship between the environment dimension of CSR and company performance has been studied (Albertini, 2013; Ghaderi et al., 2019; Testa & Amato, 2017), and findings indicated a positive association. Despite the growing research in environmental accountability and transparency, to the best of our knowledge, limited studies covered stakeholders' perspectives in relation to environmental responsibility disclosure by this controversial industry, such as oil palm companies (Abdullah et al., 2020). Thus, environment responsibility is one of the pivotal factors in a company's life due to its external activity, which may generate issues from its operation.

There is a large body of literature on corporate social responsibility (CSR) in both developed and developing countries. The scholars investigated the CSR's various dimensions. The environment is another dimension taken into consideration within the CSR umbrella (Gupta & Gupta, 2020). The concept of environmental responsibility is an important and distinct component of the overall concept of CSR (Rahman & Post, 2012). Environmental CSR practices are crucial to company function and should be present in configurations that result in great company performance. One reason is that environmental challenges are becoming more strategic

in a rising number of industries, and companies are attempting to build strategies that will assure long-term performance (Khlif et al., 2015). The relationship between the environment dimension of CSR and company performance has been investigated (Albertini, 2013; Ghaderi et al., 2019; Testa & Amato, 2017) and the results showed a positive relationship. Despite the expanding study in environmental accountability and transparency, to the best of our knowledge, a few studies that addressed stakeholders' viewpoints on environmental responsibility disclosure by this controversial industry, such as oil palm companies (Abdullah et al., 2020). As a result of its external activity, which may cause concerns from its operation, environmental responsibility is one of the most important components in a company's life. Thus, the hypothesis suggests that:

H2: There is a positive relationship between environment responsibility and performance of company.

The relationship between Community responsibility and company performance

Community relations CSR investment has an impact on company performance. According to Jo and Harjoto (2011) firm CSR engagement is directly related to internal and external social enhancement, which enhances firm value. Firms can promote their brand name and develop a positive reputation by maintaining excellent community relationships through charity donations or sponsorships, which leads to the increase in company performance (Malik & Kanwal, 2018; Quazi & Richardson, 2012; Rhou & Singal, 2020; Ting & Yin, 2018).

Along with the stakeholder theory, Wood and Jones (1995) discovered that involvement in CSR, particularly in community relations, has a beneficial impact on a firm's future value (Hillman & Keim, 2001; Lu et al., 2014). In the hospitality environment Rhou and Singal (2020) discovered that developing community relations in conjunction with economic activity had a positive impact on their annual report to shareholders. Additionally, the findings suggest that hospitality companies pursuing greater stock market performance during a pandemic can invest in CSR to protect communities and attract further stakeholder attention (Qiu et al., 2021).

Furthermore, the paper discovers that corporate social responsibility is increasingly being debated in developing countries and specific industrial settings, particularly in Indonesian firms. According to a study in the trade sector, CSR activity in community benefits increases perceived company value, which then becomes a substantial added value to shareholders (Nurdiono et al., 2019). Whereas Faisal et al. (2019) and Gunawan (2015) indicated that the "community" is the largest stakeholder group disclosed by the companies, the community involvement category includes items such as cash, product, or service donations to the community to support community activities, education, and the arts. In general, it can be demonstrated how the importance of CSR related to community activity can be used as one important dimension in developing a quality company to empower the surrounding community and improve company performance (Tarigan et al., 2019). As a result, this study hypothesis suggests:

H3: There is a positive relationship between community responsibility and the performance of a company.

3. Research Method

Population and sample

The population in this study focuses on the palm oil companies in Indonesia, whereas the sample taken were the board of directors as a respondent who works in oil palm companies. with probability sampling, cluster sampling was used in selecting samples based on the working region (Salkind, 2012). Questionnaires results from 231 respondents were distributed self-administered to board of director of oil palm companies operating in Indonesia.

Definition Operational variables

Community responsibility pointed an involvement of the company in the wider community, beyond the enhancement of shareholder financial wealth (Lipunga, 2013).

Responsibility for employees is a form of company support in providing comfort in the work environment, support for employees to get education and training that supports their work

Environmental responsibility is a form of concern for the company in participating in protecting the environment and conducting useful research to reduce negative impacts related to the company's operations.

Company performance is measured by the degree to which an entity has achieved its own set of specified goals (Dieckman, 2001). In addition, the measurement of company performance can be defined into two side financial and non-financial (Hoque, 2004; Mishra & Suar, 2010).

Data Analysis

Partial Least Square regression (PLS-SEM) version 3.2.8 was applied to analyze the relations between employee responsibility, environment responsibility, community responsibility and company performance. There are two steps to assess PLS-SEM consist of (1) the measurement model, and (2) the structural model. Thus, those process was adopted in this study to assess and report the results of PLS-SEM path model as suggested by Ringle et al. (2015).

4. Results and Discussion

4.1. Results

As discussed in research method section, the measurement model is the outer model in SEM-PLS (Henseler et al., 2009). Measurement model assessment consists the evaluation of: i) outer loading to specify individual indicator reliability, ii) composite reliability (CR) to indicate internal consistency, iii) average variance extracted (AVE) to accomplish convergent validity, and iv) discriminant validity through Heterotrait-Monotrait (HTMT) ratio (Hair et al., 2014; Henseler et al., 2009). The reliability of the individual indicator should be measured by evaluating the outer loading of each of the measures (items) of each construct (Hair et al., 2014; Hulland, 1999) (Hair et al., 2012, 2014; Hulland, 1999). The researchers also provided a thumb

rule for the keeping of items, which they recommended to keep items between .40 and .70 (Hair et al., 2017). Figure 1 illustrates the individual indicator reliability of each constructs.

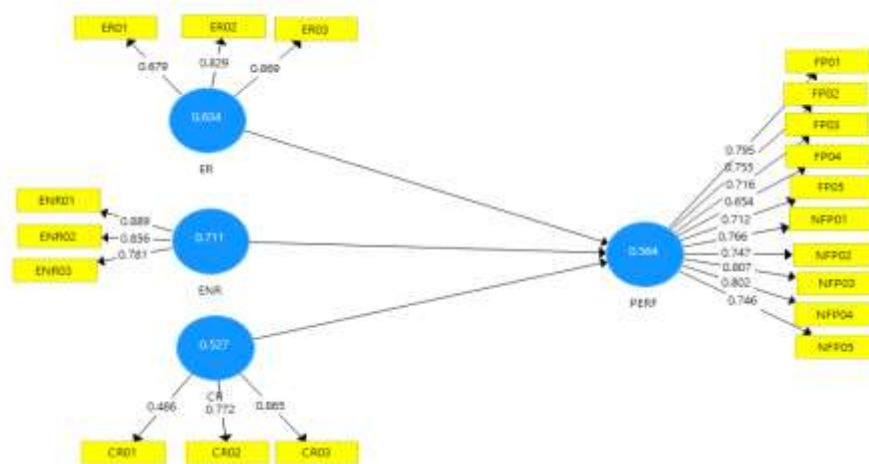


Figure 1 Measurement Model

Source: Processed Data (2021)

The result of figure indicated that the values noted in the arrows represent the outer loading (factor loading) is the range between 0.486 and 0.880. Therefore, the outer loading for each construct is acceptable. Whereas the value remarked inside the constructs indicate the AVE which the minimum for AVE value is .50 (Fornell & Larcker, 1981; Gefen et al., 2000). The AVE values demonstrate the ranging from 0.527 to 0.711. As a result, the criteria of convergent validity for all items are achieved.

Furthermore, table 1 shows the internal consistency reliability results based on cronbach alpha (CA) and composite reliability (CR)

Table 1
Results of convergent validity and internal consistency

Constructs	Loadings	Cronbach's Alpha (CA)	Composite Reliability (CR)	Average Variance Extracted (AVE)
Employee Responsibility:				
ER01	0.679			
ER02	0.829	0.703	0.761	0.634

ER03	0.869			
Environment Responsibility:				
ENR01	0.889			
ENR02	0.856	0.796	0.881	0.711
ENR03	0.781			
Community Responsibility:				
CR01	0.486			
CR02	0.772	0.709	0.837	0.527
CR03	0.865			
Performance:				
FP01	0.795			
FP02	0.755			
FP03	0.716			
FP04	0.654			
FP05	0.712	0.814	0.888	0.564
NFP01	0.766			
NFP02	0.747			
NFP03	0.807			
NFP04	0.802			
NFP05	0.746			

Source: Processed Data (2021)

It can be seen in Table 1 indicated that all constructs have passed the internal consistency reliability based on both CA and CR values. CA value above 0.70 is considered adequate (Nunally, 1978) and CR value between 0,70 – 0.90 are considered satisfactory (Gefen et al., 2000). Hence, all constructs have been reliably measured. Furthermore, HTMT values also did not find discriminant values.

Furthermore, the structural models are performed to evaluate hypotheses results. This study reports the hypotheses testing as in Table 2.

Table 2
Results of significance testing

Relationship	β	<i>T</i> statistics	<i>p</i> values	Decision
H1: ER→PERF	-0.085	1.574	0.058	Not supported
H1: ENR→PERF	0.329	6.927**	0.000	Supported
H1: CR→PERF	0.360	5.859**	0.000	Supported

Note: ** $p < .01$ (t-value > 2.33. ER= employees' responsibility, ENR= environmental responsibility, CR= community responsibility, PERF = performance.

Source: Processed Data (2021)

Table 2 presents the result of significance testing of direct relationships between employee responsibility, environment responsibility, community responsibility and company performance. Results in Table 2 exhibits positive and significant relationship between; (i) ENR and PERF; (ii) CR and PERF. Thus, H2 and H3 are supported. On the other hand, there is no significance relationship between ER and PERF, therefore H1 is not supported. Meanwhile, R^2 value interprets the proportion of percentage of variance in dependent variable that is explained by independent variables. Generally, R^2 values of 0.19, 0.33, and 0.67 are regarded as weak, moderate, and substantial respectively (Chin, 1998). Performance has variance explained of 36.9% (i.e. $R^2 = 0.369$). It means the model of Performance among the Oil Palm Companies in Indonesia has a moderate level of variance explained and indicates employee responsibility, environment responsibility, and community responsibility as significant predictor of performance.

4.2. Discussion

Most studies have concluded that employee relations have a beneficial effect on corporate financial performance (Esteban-Sanchez et al., 2017; Jo & Harjoto, 2012; Qiu et al., 2021). However, this study result's discovered insignificant relationship between employee relationship and company performance. This finding is in line with Jung and Kim (2016) who highlight that competitive market pressures and limited resources result in imbalanced CSR practises between external and internal responsibilities, and most CSR companies do not safeguard the rights of internal stakeholders (i.e., employees). In Indonesian companies, particularly those involved in the plantation industry, there is a distinction between empirical evidence and actual evidence. According to a study that has been done by Apriyanto et al. (2020) oil palm companies still face challenges with the refinement programme to empower employees and the community. Hence, oil palm companies should commit to employee responsibility along with other dimensions of corporate social responsibility.

The concept of CSR suggests a readiness on the part of companies to recognize and exercise obligations other than those of a commercial nature, such as environmental concerns (Carroll & Shabana, 2010). According to a study finding, environmental responsibility has a positive relationship with company performance. It was in line with an empirical study in Indonesian companies in which it examined the CSR disclosure based on companies' annual report. Company performance was substantially enhanced by CSR disclosure. According to the findings of this study, companies in the financial services industry disclosed more CSER information compared to companies in other industries (Arujunan et al., 2019). More studies should be carried out to examine the relationship between CSR information and company performance, especially in extractive industries such as oil palm companies. Because of the nature of that industry, there are more concerns about environmental and social issues based on the companies' operations (Devie et al., 2020) and the Indonesian Regulation No. 47, year 2012. This law mandates companies that conduct business in the field of and/or related to natural resources to practise social and environmental responsibility.

Creating shared value is a novel idea in CRS by Porter and Kramer (2006). The primary notion behind this principle is that a company can generate economic advantage through adding value to society (Hou, 2018). According to the study results, there is a significant and positive correlation between community responsibility and company performance. It is consistent with a recent study by Qiu et al. (2021) which asserted that community related CSR ultimately brings higher financial performance to the company, especially during crisis and pandemic situations. Furthermore, community, charity, and social well-being support may significantly boost company productivity, reputation, and innovative capabilities (Ghaderi et al., 2019). As a result, while costly, investing in community responsibility can yield other management benefits and revenues, as well as minimize other kinds of company costs (Feng et al., 2018).

The study's primary aim is to examine the factors that influence company performance in Indonesian oil palm companies. The structural assessment of the study framework suggests that the model has acceptable prediction relevance for the constructs using the blindfolding technique in the PLS-SEM method. In summary, the study's findings show that the influence of employee responsibility, environment responsibility, and community responsibility differ. the positive relationship between environment responsibility, community responsibility and company performance. Nevertheless, this study found that employee responsibility has non significance relationship with company performance. The study finding advice to implement a workable strategy in oil palm in terms of corporate social responsibility in order to receive positive responses from the company's shareholders and stakeholder' interests aligned with the higher company performance. Several limitations of the study were identified, which provide opportunities for future research. It was advised that future research incorporate the corporate governance dimensions such as: female director, as well as other antecedent factors and mediator variables, into the study model. Further confirmation of the study was encouraged by increasing the sample size, broadening the research approach (i.e., qualitative research), and expanding the business sectors.

5. Conclusion

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The discussion section describes the results of data processing, interpreting the findings logically, linking with relevant reference sources.

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