The Effect of Corporate Social Responsibility Activity on Company Performance, with the Image of the Company as an Intervening Variable

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http://dx.doi.org/10.18415/ijmmu.v7i11.2259

Abstract

This research aimed to find out Corporate Social Responsibility (CSR) toward social, economic, environment aspects on the sustainability of hotels in Bali. This research took a sample of employees of 3, 4 and 5 star hotels in Bali of 254 respondents using survey methods and primary data. The sample selection technique in this research used purposive sampling, data analysis using multiple regression. The results showed that the first problem was the social aspect variables had a positive effect on company image. Second, economic aspects had a positive effect on company image. Third, environmental aspects had a positive effect on company image. Fourth, the social aspect variable had a positive effect on company performance. Fifth, environmental aspects had a positive effect on company performance. Sixth, environmental aspects had a positive effect on company performance. Seventh, corporate image had a positive effect toward company performance.

Keywords: Economy; Social; Environmental Aspects; Company image; Company Performance

Introduction

Based on World Bank, the concept of Corporate Social Responsibility (CSR) is commitment of company to behave ethically and contribute to sustainable development through collaboration with all relevant stakeholders to improve life in good ways for business interests, the sustainable development agenda, and society in general (Kiroyan, 2009). Through CSR activities, the company does not only prioritize obtaining the highest profit, but also focuses on other aspects such as economic, social and environmental aspects (Suharto, 2009).

Companies as one of the economic actors certainly have a very important role in the survival of the economy and society at large. Companies are important for creating jobs, wealth, products and services, but the pressure on businesses to play a role in social issues involving employees, stakeholders, society, the environment, and the government continues to increase (Wijaya, Yulianto, & Abdillah, 2015). Companies in conducting their business activities are not only oriented towards profit. Even though achieving maximum profit is the main goal of the establishment of a company, the company can’t achieve these benefits at the expense of the interests of other related parties, in this case is stakeholders.
Hossain, Alamgir, & Alam (2016) conducted research to 155 companies in developing countries. The empirical results showed a positive result between corporate social responsibility and corporate image, in the sense that CSR involvement could improve the company's good image. The CSR activities of an organization aim to legitimize the company's operations in society to ensure the company's long-term sustainability.

The three aspects of the CSR program, such as economic, social, and environmental, can form opinions, opinions, assessments and public responses to companies that run the CSR program in the environment where the company operates. Opinions, judgments and responses formed by the community can affect the company's image. Samuel & Wijaya (2008) explained that corporate image can be interpreted as the formation of corporate identity or identity. An individual's perception of a company is based on everything that is known and estimated about the company concerned. The company image becomes a guide for many people to make various important decisions, such as the act of consumers buying goods produced by the company, the action of customers recommending the company's products to others, and the action of investors buying stocks or bonds issued by a company.

Company image can become a good bridge to maintain reputation of the company to stakeholders. A good corporate image will expand the space for the company to maximize production factors, thus, it can obtain maximum returns from all levels of stakeholders. This success in the long term has implications for maximum company performance because all levels of the company can work in accordance with expectations and have an impact on company profits. This positive relationship can be realized if aspects in the formation of a company image such as social aspects, economic aspects and environmental aspects can go hand in hand to provide good returns to the community directly. CSR activities further provide support for the company's image which affects the company's performance itself.

CSR is a topic that is deeply embedded in today's business world and it is a corporate social responsibility. CSR activities have potential benefits that the company will obtain. It can be seen that companies will be evaluated by their consumers, investors, financial analysis, business partners, in annual reports, news, even in a congress and in courtrooms (Primadini, 2008). CSR can assist products or even companies to obtain a good image in community. Increasingly, company competition demands that each company be superior, companies are also competing to compete in order to get the best assessment from the public. The company will make various efforts to exist and develop in a positive direction in society. There are problems in society, then a paradigm regarding CSR or social responsibility emerges.

**Literature Review**

**Institutional Theory**

Institutional theory is from the idea that to survive, the organization must convince the public or society that it is a legitimate entity and it deserves to be supported. Ridha & Basuki (2012) explained that institutional theory is used to explain actions and decision making in public organizations. Institutional theory has emerged to become famous as a strong and popular explanation, both for individual and organizational actions caused by exogenous factors (Dacin, 1997; Dacin, Goodstein, & Scott, 2002), external factors (Frumkin & Galaskiewicz, 2004), social factors, community expectation factors, environmental factors (Ashworth, Boyne, & Delbridge, 2009).

Institutional theory reveals that organization that prioritizes legitimacy will have the tendency to try to adapt to external expectations or social expectations (DiMaggio & Powell, 1983; Frumkin & Galaskiewicz, 2004; Ashworth, Boyne, & Delbridge, 2009) where the organization is located. Adjustments to external expectations or social expectations result in a tendency for organizations to
separate their internal activities and focus on systems that are symbolic to external parties (Meyer & Rowan, 1977). Public organizations that tend to gain legitimacy will tend to have similarities or isomorphism (isomorphism) with other public organizations (DiMaggio & Powell, 1983). DiMaggio & Powell (1983) stated that isomorphism (isomorphism) is a process that encourages one unit in a population to resemble other units in the face of the same environmental conditions. Recent research has emphasized how public organizations are subject to deep institutional pressure that causes public organizations to become more similar in general (Ashworth, Boyne, & Delbridge, 2009). Organizational institutional theory predicts that organizations will become more similar due to institutional pressure, both due to coercive, normative, and mimetic (DiMaggio & Powell, 1983).

**Legitimacy Theory**

Legitimacy theory is based on the phenomenon of social contact between an organization and the public (society), in which the goals of the organization are in accordance with the values that exist in a society. Legitimacy theory focuses on organizational activities and performance that are acceptable to society. Gray, Kouhy, & Lavers (1995) explained that legitimacy is obtained by an organization when the value system of an entity is in accordance with a larger social value system in which the entity is a part of the organization. The third discrepancy occurs between the two parties, thus, the legitimacy process is hampered.

CSR activities can be conducted by companies in an effort to demonstrate that the company's value system is aligned with the social system in which the company operates. In general, this theory reveals that CSR is carried out by companies to gain legitimacy from communities where large companies are. Legitimacy causes the company to avoid things that the company does not want in reducing the value of the company in front of the community. Deegan, Rankin, & Tobin (2002) stated that legitimacy theory does not only pay attention to investor rights but also pay attention to the rights of the public (society).

CSR activities conducted by the companies are considered as an effort that can meet the expectations of society for the company in balancing social values that occur between the company and the community. Companies that try to align company activities with existing norms in society and can continue to run their business (Ratmono & Sagala, 2015).

**Hypothesis Development**

This test examined social, economic and environmental aspects toward company performance with moderation of corporate image for all variables. The following is a discussion of the results of testing each hypothesis in this study.

**H1**: Positive Effect of Social Aspects on Company Image

The first hypothesis in this research is that social aspects have a significant effect on corporate image. Based on the results of hypothesis testing, it can be concluded that the first hypothesis is accepted. It means that the higher the social activities that involve the surrounding community are carried out by the company, the higher the company's image to the community. This fact is consistent with research conducted by Aryawan et al (2017).

**(H2)** Positive Effect of Economic Aspect toward Company Image

The second hypothesis is that economic aspect affects positively toward corporate image to corporate image. Based on hypothesis testing, it can be concluded that the second hypothesis is accepted. The results of this test indicate that the higher the economic aspects provided by the company to the
community, the better the company's image. This is in line with Aryawan et al. (2017) who explained that the economy in the CSR program of PT. Pertamina Sanngaran improves the company image.

(H₃) Positive Effect of Environmental Aspect toward Company Image

Based on hypothesis test result, The third hypothesis, that is to see the effect of environmental aspects on company image, is accepted. It means that the more CSR in the environmental sector, the company's image to society will increase. The results of this test are also consistent with research by Aryawan et al (2017); Bajra, Arifin, & Sunarti (2015) which state that CSR in the environmental sector has a significant positive effect on company image.

(H₄) Positive Effect of Environmental Aspects toward Company Performance

The forth hypothesis is that social aspect affects toward company performance. Based on the results of hypothesis testing, it can be concluded that the fourth hypothesis is accepted. This means that the higher the CSR in the social aspect, the higher the level of company performance. This is in line with research disclosed by Sari et al (2017), stating that social activities carried out by the company, especially the Melia Bali Hotel that has a significant positive effect toward company performance.

(H₅): Positive Effect of Economic Aspects toward Company Performance

The fifth hypothesis is that economic aspect has positive impact toward company performance. Based on the results of hypothesis test, it can be concluded that the fifth hypothesis is accepted. This means that the higher the application of economic aspects in CSR will affect company performance. This condition is in line with research written by Almilia and Wijayanto (2007), which describes Economic Disclosure which has a significant effect on Economic Performance.

(H₆) Positive Effect of Environmental Aspects toward Company Performance

The sixth hypothesis is that environmental aspects have a positive effect on company performance. Based on the results of hypothesis testing, it can be concluded that the sixth hypothesis is accepted. This means that the higher the application of economic aspects in CSR will affect company performance. This is in line with research conducted by Sari, et al (2017), stating that there is a significant positive relationship between economic aspects and company performance.

(H₇) Positive Effect to company image toward Company Performance

The seventh hypothesis is to see the effect of aspects of corporate image on company performance. Based on the results of hypothesis test, it can be concluded that the seventh hypothesis is accepted. This means that the better the image of the company, the better the company's performance. This result is in line with that expressed by Priansa (2012) who stated that the image of private universities (PTS) has a very strong effect on company performance.

Methodology

Population refers to all group of people, events, or things of interest that investigative researchers want (Sekaran & Bougie, 2010). The population used in this research are corporate stakeholders in the hospitality sector consisting of hotel employees and managers. The hotels selected were 227 hotels, 3, 4 and 5 star hotels in the Province of Bali (Bali Provincial Tourism Office, 2019). The classification of star hotels is based on data from the Bali Provincial Tourism Office in 2019 in which there are classifications of 59 3-star hotels, 98 4-star hotels, and 70 five-star hotels. 3, 4, and 5 star hotels have met the non-absolute criteria in hotel classification, such as having carried out CSR activities based on the Regulation of the Minister of Tourism and Creative Economy of the Republic of Indonesia Number PM.53/HM.001/MPEK/2013 concerning Hotel Business Standards.
Sekaran and Bougie (2010) stated that the sample was a sub-group or part of the population. The sample selection used a purposive sampling method, which was a sampling technique from a population based on certain criteria (Hartono, 2015). The use of purposive sampling in this research was taken because it is in accordance with the research objectives, namely to determine the effect of CSR disclosure on company performance through company image which requires perceptions from stakeholders, especially employees and managers in order to get appropriate results. The samples in this study were hotel managers and employees. Managers are considered to know the CSR policies taken by the company and employees are considered to know the CSR activities that have been carried out by the company. Both are also considered to be involved in the implementation of the company's CSR activities. In this research, the population size is not known with certainty and the sampling technique used according to Abdillah and Hartono (2015) is at least 10 times the number of paths or hypotheses developed. The hypotheses of this research are 7 hypotheses so that the minimum samples size are 70 samples. Researchers determined that the sample used was 454 samples which were divided equally into 227 3, 4, and 5 star hotels in Bali (Bali Provincial Tourism Office, 2019). In one hotel, 2 respondents will be taken as samples, consisting of one manager each and one hotel employee. These results are believed to be able to represent the entire population that has been determined.

Result and Discussion

Respondents in this research were employees and manager of 3, 4, and 5 in Bali Province. Researchers collected data from 17 September 2020 to 16 October 2020. The number of questionnaires distributed by researchers was 454 questionnaires. The number of questionnaires that did not return were 200 questionnaires and the reconfirmation stage was carried out three times. A total of 254 questionnaires were returned, but 223 questionnaires could be processed.

The convergent validity test used a factor loading value parameter of more than 0.7, and an Average Variance Extracted (AVE) value and a communality value of more than 0.5 (Abdillah and Hartono, 2015). If the factor loading values of all variables and indicators meet these parameters, it can be used in hypothesis testing in this study.

It is known that AVE and communality of all variable has met validity requirements, that was a value above 0.5. However, there are 12 indicators that have a factor loading value less than 0.7, namely S2, S4, S6, S8, E3, E7, L2, L3, CP2, CP7, KP6, KP8. so the researchers decided to remove the indicators. These twelve indicators can’t be used in hypothesis testing. Then the researchers retested the convergent validity. Following are the results of convergent validity testing after removal of indicators with a factor loading value of less than 0.7.

All indicator had a factor loading value above 0.7. Besides, the AVE and communality values of each variable were more than 0.5. This shows that all indicators in each variable can be declared valid, so that all indicators in these variables can be used as data in testing the hypothesis of this research.

The second stage is discriminant validity test. The parameter used was the AVE root value must be more than the latent variable correlation and the cross loading value is more than 0.7. If these parameters are met, then all indicators in the variables can be used in testing the hypothesis of this study.

The next stage is the reliability test. In this test using the parameter value of composite reliability and Cronbach's alpha value. This research instrument will be considered to be reliable if the Cronbach's alpha value is more than 0.6 and the composite reliability value is greater than 0.7. The variables that meet these parameters can be used in testing the hypothesis in this research.
Conclusion

The result of the research proves that there is a significant effect between the financial aspects, economic aspects and environmental aspects on the company image. In a stakeholder entity, when these three aspects are met, there will be an increase in the company’s image for stakeholders such as investors, owners, users and the community. Furthermore, when a company image increases, the company's performance will also increase, that is indicated by the loyalty of stakeholders in building the company.

Limitation and Suggestion

Limitation that researchers have realized during their research are as follow; This is considered important for further research that refers to this research. This research did not know the exact number of the population, so the sampling technique used the convenience sampling method which is one of the techniques in nonprobability sampling. By using this technique, the generalization level of the results will be lower when compared to probability sampling techniques. For further research, they should use a sample with a clear known population, thus, the results can be better generalized.

Besides, the number of returned questionnaires is not entirely from the questionnaires given to respondents, such as with a 55.94% rate of return. This is because the data collection is conducted during the peak season for the stakeholders. Thus, it is necessary to confirm up to three times so that stakeholders are willing to fill out the research questionnaire. For further research, they should be able to control it to be carried out within the low season period.

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