

## Corporate Social Responsibilities to Employees in Indonesia: Economic Return or Merely Impression Construction?

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**Abstract:** This paper aims to investigate the effect of CSR to Employees in Indonesia Companies on economic return and human capital efficiency. There were 297 corporate documents recording companies' social activities for their employees were analysed using content analysis method. CSR to employees consists of four broad dimensions that include 41 items and economic performance was measured by return on investment, sales growth, employee productivity, and human capital efficiency. Out of eight hypotheses, there are only three are supported. Thus, the findings of the study could not substantively support in favour of the first model stakeholders theory namely economic return model. Rather, it is suggested that CSR to employees follows the second model, which means it just a responding tool to employee requests in order to builds a good external impression. The originality of this study are twofold, first is providing new evidence to stakeholder theory from Indonesia CSR perspective and second is improving the measurement of CSR to employee. The study's findings should be interpreted with caution. The assessment was based on a content analysis of qualitative data from corporate reports which exposing to inconsistencies of information content interpretation.

**Keywords:** corporate social responsibility, employees, human capital efficiency, stakeholders theory.

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## INTRODUCTION

CSR practises among companies have been developing in Indonesia since the 1980s. Retnaningsih (2015) claims that despite the Indonesian government's creation of relevant rules and regulations, the reality is that CSR implementation has not yet reached its full potential and is falling short of its goals in terms of satisfying the needs and wants of certain stakeholders. Concerns about business social responsibility and disgruntled employees are among them. Employees anticipate that their employers will uphold their obligations to them by providing a fair wage and benefits package, acknowledgment, training and personal growth opportunities,



comfortable working conditions, and a safe and healthy work environment (Mory et al., 2015; Cavazotte & Chang, 2016; Sánchez-Hernández et al., 2016). Regretfully, Indonesia, a nation with 120.8 million workers, continues to struggle with issues related to worker welfare (International Labour Organisation (ILO), 2015).

Most Indonesian labourers earn meagre wages for their labour. According to data from the International Labour Organisation (ILO, 2015), the average wage of workers in the ASEAN region varies significantly. The average wage in Indonesia is USD 174, which is significantly less than the earnings in Malaysia (USD 609), Thailand (USD 357), and Singapore (USD 3,547) among the eight ASEAN countries. This low pay scale may have an impact on employees' productivity. In addition, most Indonesian employees put in more than 48 hours a week at work, particularly in the industrial, service, and commercial sectors. Working too many hours can lead to health problems, weariness, accidents, and a decline in productivity (ILO, 2015; Hendrastomo, 2010).

Gender equality concerns also arise in Indonesia due to the significantly lower position of female employees in the organisation. In actuality, they receive less money in salary and benefits, as well as less prospects for professional advancement (ILO, 2015). The proportion of employees' competence is another barrier, as the nation struggles to find people with the amount of experience required to achieve professional and skilled worker requirements and meet industry demands (Wahyuni, 2013). This issue results from job development and training not receiving enough serious attention by companies. When companies disregard the needs of their employees, it will negatively impact their positive relationships with each other and indirectly affect many other parties, including their families' quality of life, their jobs, and their level of satisfaction with the government (Tamm et al., 2010; Mohammad et al., 2014; Zientara et al., 2015). If the problem persists, it may have a detrimental effect on businesses' ability to sustain (Nakamura, 2015).

In today's business environment, good publicity is essential to a company's long-term viability. In order to accomplish this, businesses must actively participate in the implementation of CSR. According to Han et al. (2016), it is one of the business models employed as a new regulatory mechanism to guarantee the company's adherence to legal requirements and moral principles in terms of valuing and fostering positive relationships with stakeholders and boosting long-term profits. One stakeholder in this situation that requires consideration is the employees (Cavazotte & Chang, 2016). In order to improve human resource management's standing, recruit more qualified candidates, and retain current staff, it is critical to offer CSR to employees (Zientara et al., 2015; Tamm et al., 2010). Employee education and training, occupational health and safety, pay and benefits, non-discrimination policies, decent workplaces, and fostering positive culture among coworkers are a few examples of the CSR implementation that must exist (Sánchez-Hernández et al., 2016; Cavazotte & Chang, 2016; Mohammad et al., 2014).

Employee CSR in Indonesia however, is not up to par in a number of areas, such as low pay scales, excessive work hours, a lack of skills, gender inequality, and so on (Hendrastomo, 2010; ILO, 2015; Wahyuni, 2013). There has never been research done in Indonesia on the impact of employee disregard for CSR on the financial performance of the companies. The aforementioned problem raises the question of whether its absence among Indonesian companies has affected the company's economic performance. As a result, objective of this study is to determine how employee CSR affects financial, and human capital efficiency for companies listed on the Indonesian Stock Exchange. Information about the company's CSR to employee implementation is gathered by using the annual report's content analysis approach. The eight hypotheses that this study generated were not, on the whole, supported by the study's findings.

The problems and issues surrounding CSR towards employees in Indonesia are covered in the first section of the article, followed by research contributions, theories and reviews of earlier studies, research models and hypothesis development, research methodology, testing of hypotheses, and discussion. The study's limits, conclusions, and consequences are discussed in the conclusion.

Given the aforementioned problem, one may wonder if Indonesian companies' poor CSR to employee policies have had a detrimental effect on their own success. And would the company's financial performance improve if employee-focused CSR is at its peak? This is a topic that has to be researched empirically, and no such research has ever been done. Consequently, the following are the study's objectives:

1. Examine the relationship between CSR to employee practices and economic performance (return on assets, sales growth and employee productivity).
2. Investigate the relationship between CSR to employee practices and human capital efficiency.

First off, in contrast to earlier research, this study will only look at how CSR affects employees' ability to influence economic performance using the Stakeholder Model developed by Freeman (1984) and Ullmann (1985). The in-depth analysis of employee concerns is made possible by this exclusive study. Secondly, in contrast to earlier research that did not address employee concerns in detail, this study adds value to CSR with regard to specific employee matters. In terms of the CSR to employee component, this research finding is more thorough. Being concern about CSR to employees, this study however does not neglect the importance of other stakeholders. The similar genre of the study can be continued by future researchers. This work aims to demonstrate the applicability of the Stakeholder Model, namely the impression construction or economic interest model within the scope of employee. From a policy standpoint, it is anticipated that this study will be able to advise the company in developing CSR to employee implementation policies by taking employee requests into consideration, which would eventually improve the business performance of the company.

## METHODS

This study's population consists of companies listed on the main board of the Indonesian Stock Exchange in eight industries. The eight different types of industries are divided into three sectors: 1) natural resources, 2) manufacturing, and 3) services. Its yearly corporate reporting tracks CSR to employee activities. Table 1 exhibits there are 117 companies (39.4%) in the service sector, 102 companies (34.3%) in the manufacturing sector, and 78 companies (26.3%) in the natural resources sector.

**Table 1 Research Sample**

Sector	Number of Companies (%)
Natural Resources	
Agriculture	26(8.75%)
Mining	52(17.51%)
Manufacturing	
Consumer products	39(13.13%)
Others	39(13.13%)
Chemical	24(8.08%)
Services	
Transportations	39(13.13%)
Properties	39(13.13%)
Investment	39(13.13%)
Total sample	297(100%)

Corporate reporting behaviour literatures suggest that whenever companies apply CSR to their employee practises, they most likely tend to mention it in their corporate reports (Campbell, 2003). In this regards, the report's CSR to employee information can be regarded as a proxy for the company's implementation. As a result, the company's corporate report issued by Indonesia Stock Exchange contains data and information about CSR to employee activities. In addition, the corporate report is also used to gather data to measure economic performance and human capital efficiency.

In past studies, the number of items in gauging CSR to employees was limited. For example, Mohammad et al. (2014) utilised three items, Hirigoyen & Poulain-Rehm (2015) used five, Cavazotte & Cheng (2016) used four, and Sánchez-Hernández et al. (2016) used eighteen. As a result, past studies' CSR to employee information content was relatively narrow and insufficient. To ensure that CSR to employee information is exhaustive, this study increased the number of items to 41, some of which were adapted from previous studies (Balabanis et al., 1998; Aras et al., 2011; Nejati & Ghasemi, 2012; Cavazotte & Chang, 2016; Sánchez-Hernández et al., 2016), and the majority of which were developed through a pilot study.

- a) Salary and other welfare benefits of employee (CSREa) – 12 items
- b) Training and Education of employee (CSREb) – 12 items
- c) Occupational health and safety of employee (CSREc) – 13 items
- d) Equality of gender, race and religion of employee (CSRE) – 4 items

A value of “1” is given when CSR to employee items are practiced and a value of “0” when the practices are absent. The CSR to employee final score is measured by total value scored by individual company to total 41 items (Cooper & Uzun, 2015).

The first indication of economic performance is return on assets (ROA), which is calculated by dividing company's net profit by total assets (Asmeri et al., 2017). The second is sales growth, which is computed by dividing current sales by prior year sales (Martin et al., 2018). The third is employee productivity, which is calculated using employees' per capita net operating income. Human capital efficiency is calculated using the Value Added Intellectual Capital model (Pulic, 1998), which is value added (VA) divided by total cost of human capital (HC). The value added is represented by the sum of operational profit, labour costs, depreciation costs, and amortisation costs. The study model also includes three control variables: company size based on the log of employee size, leverage determined based on total debt divided by total assets, and industry type.

This study's data analysis employing structural equation modelling (SEM). It has various advantages over other multivariate statistical analysis methods. There are two structural equations that will be used to examine the direct impact of CSR on economic performance and human capital efficiency as follows:

Model 1: Economic performance =  $\beta_0 + \beta_1 \text{CSREa} + \beta_2 \text{CSREb} + \beta_3 \text{CSREc} + \beta_4 \text{CSREd} + \beta_5 \text{Size} + \beta_6 \text{Lev} + \beta_7 \text{Natural Resources Industry} + \beta_8 \text{Manufacturing Industry} + \beta_9 \text{Service Industry} + \epsilon_i$

Model 2: Human capital efficiency =  $\beta_0 + \beta_1 \text{CSREa} + \beta_2 \text{CSREb} + \beta_3 \text{CSREc} + \beta_4 \text{CSREd} + \beta_5 \text{Size} + \beta_6 \text{Lev} + \beta_7 \text{Natural Resources Industry} + \beta_8 \text{Manufacturing Industry} + \beta_9 \text{Service Industry} + \epsilon_i$

## RESULTS AND DISCUSSION

### Descriptive Analysis

The initial data analysis reveals four variables with high skewness and kurtosis, indicating data abnormality such as return on assets, sales growth, human capital efficiency, and leverage. Furthermore, the Kolmogorof Smirnov

normality test was used, and it was discovered that, with the exception of the company size variable, all of the data were not significantly normally distributed. However, Tabachnick & Fidell (2001) state that for large study samples (more than 100 samples), the amount of the bias and the form of the data distribution, rather than the significant level of data bias, must be observed. This is due to the normality test being overly sensitive with a high sample size. As a result of the amount of the large deviation, this analysis concludes that just four variables are not normally distributed.

Prior performing the value exchange, extreme variable data that caused data irregularity must be properly identified. This identification is accomplished using two methods; the standardised score and the Mahalanobis distance. Extreme data for the standardised score approach has a range of three to four (Ghozali, 2017), however for the Mahalanobis distance test, it is deemed extreme data if the score surpasses the critical value of  $2 = 24.32$  ( $=0.001$ ). Both techniques were successful in detecting the outlier values in the four abnormal variables. Furthermore, value exchange is performed on all data with extreme values. For example, in the three situations with the greatest level of return on assets, the fifth highest value of return on assets is replaced with a new value. The similar procedure is used to exchange values for other extreme data. Furthermore, the three lowest cases of the value of the return on assets are switched with the fourth lowest value of the return on assets. Following that, the two lowest cases of growth level value, human capital efficiency and skill, are swapped with the third lowest case of growth level, human capital efficiency and leverage. Following the completion of the value exchange, the descriptive analysis is repeated, as indicated in Table 2. According to the Table 2, the skewness and kurtosis values for the variables of return on assets, sales growth, human capital efficiency and leverage are at a more acceptable level from a normality standpoint.

Table 2 summarises the descriptive statistics for the study data that have been cleaned from extreme value. The average score of dependent variables are 6.95% for return on assets, 10.90% for growth, 8.86% for employee productivity, and 2.09 for human capital efficiency. In respect of independent variables, it was found that the average score for CSREa is 9.51 (total score 12), CSREb is 9.71 (total score 12), CSREc is 9.12 (total score 13), and CSREd is 2.99 (total score 4). In overall, based on the information disclosed in the corporate report, it is possible to infer that the implementation of CSR to employee in Indonesian enterprises is persuasive.

**Table 2 Descriptive Statistic (after changes of value)**

	n	Min	Max	Ave	SD	Skewness	Kurtosis
CSREa	297	5	12	9.51	1.82	-.47	-.39
CSREb	297	5	13	9.71	1.83	-.27	-.38
CSREc	297	5	12	9.12	2.26	-.55	-.64
CSREd	297	2	4	2.99	.76	.02	-1.28
ROA	297	-37.60	64.00	6.47	12.25	1.34	8.34
Sales Growth	297	-26.96	90.50	11.59	19.36	1.59	4.40
Employee Productivity	297	5.42	12.34	8.86	1.09	-.75	1.93
Human capital efficiency	297	.14	5.42	2.05	.81	1.01	4.13
Size	297	1.80	5.36	3.48	.64	.36	.18
Leverage	297	.02	147.00	24.61	30.06	1.23	1.58



A multicollinearity test was also performed to establish that there was no link between the study's independent variables. There is no multicollinearity relationship between the variables, as indicated in Table 3, because the correlation value is less than 0.80 (Cooper & Schidler, 2001).

**Table 3 Multicollinearity Test**

	CSREa	CSREb	CSREc	CSREd	Size	Leverage
CSREa	1.000	-.084	.262	.075	.021	.020
CSREb	-.084	1.000	-.210	-.240	-.121	-.050
CSREc	.262	-.210	1.000	.280	-.080	.061
CSREd	.075	-.240	.280	1.000	.038	-.010
Size	.021	-.121	-.080	.038	1.000	.196
Leverage	.020	-.050	.061	-.010	.196	1.000

### Hypothesis Testing and Discussion

The study model's fitness to meet the criteria of a good model was tested. RMSEA (category absolute fit), CFI (category incremental fit), and ChiSq/df (category parsimonious fit) are fitness indexes. According to the fitness analysis, RMSEA = 0.058, CFI = 0.974, and ChiSq/df = 2.009. All of these numbers indicate that the research model fits the requirements of a good model (Browne & Cudeck, 1993). Following that, hypothesis testing was performed using multiple regression analysis to prove the eight study hypotheses, and the results are displayed in Table 4.

According to Table 4, the  $R^2$  value for the dependent variable of ROA was 0.117, suggesting that the independent variables and the control variables may explain 11.7% of the change in the ROA and the remainder can be explained by other factors. Similarly, the  $R^2$  value for the sales growth is 5.1%, employee productivity is 11.9%, and human capital efficiency is 3.4%, with the rest explained by other factors.

**Table 4 Multiple Regression Analysis**

Variables	ROA	Sales Growth	Employee Productivity	Human Capital Efficiency
CSREa	(0.124)**	0.032	(0.111)*	0.019
CSREb	0.073	0.034	0.026	-0.057
CSREc	0.123	0.010	0.041	0.093
CSREd	0.073	(0.102)*	0.052	0.022
Size	(0.112)*	-0.016	-(0.274)***	-0.092
Leverage	(0.084)*	-0.075	-0.078	0.047
Ind Natural Resources	-(0.238)***	-0.020	-0.083	0.041
Ind Manufacturing	-(0.106)***	-0.093	-(0.097)*	0.063
Ind Services	(0.180)**	0.103	(0.187)**	-0.609
$R^2$	0.117	0.051	0.119	0.034

Table 4 indicates that there are only two parameters that demonstrate a significant influence of CSRE on economic performance. First, CSREa has a significant impact ROA ( $p < 0.05$ , coefficient value = 0.124). Second, CSREa has a significant effect on employee productivity ( $p < 0.1$ , coefficient value = 0.111). It is concluded that H1 is partly met, only in the context of ROA and employee productivity. This study's findings are consistent with earlier research that revealed that high wages for employees boosted ROA (Mohammad et al., 2014) and that the provision of pension benefits also affects the improvement of the company's financial performance (Cavazotte & Chang, 2016). Furthermore, this analysis only partially supports H7, indicating that CSREd has a substantial influence only on sales growth ( $p < 0.1$ , coefficient value = 0.102) but not on other performance. This study's findings are consistent with those of Balabanis et al. (1998) and Hirigoyen & Poulain-Rehm (2015), who discovered that implementing employee equality in the context of race and the position of women has a significant impact on the company's economic success.

Only three of the eight hypotheses examined in this section shows significant influence on economic performance. Two of which are connected to CSR in the form of fair salaries and other benefits, and one to fair and equality of race, gender, and religion. It is apparent that fair salaries and other direct benefits to employees have a bigger impact on raising productivity and ROA than training, education, and employee safety. Employees in Indonesia are more likely to value the financial and non-financial benefits they receive directly, such as salaries, bonuses, pension schemes, medical claims, insurance, loans, and salary advances. This element can influence their productivity, resulting in additional revenue and profit for the organisation. While the company's social duty in the form of employee training, education, health, and safety may not be viewed as the primary motivator for the productivity and efficiency of their human resource. Similarly, gender, racial, and religion equality characteristics have no effect on economic success or human capital efficiency except sales growth. Companies in Indonesia are unlikely to expect the generation of economic benefit from the adoption of CSR, except in certain aspects.

As indicated in the theoretical framework (Freeman, 1984; Ullmann, 1985) and earlier research, this study does not provide substantive evidence that CSR to employees can improve economic performance and human capital efficiency. As a result, adopting CSR to employees in Indonesia may be perceived as a purely reactive activity with no economic benefits to the firm. Rather, CSR in the workplace might be viewed as a technique for creating an impression in order to secure employee approval. However, it is important to point out that whether CSR to employees was made to benefit the company financially or to fulfil a social commitment, the efforts should continue. This is because the major purpose of the implementation is social justice, even if the corporations must pay costs. The novelty of this study are twofold; firstly, this study provides new evidence to stakeholder theory from Indonesia CSR perspective that previous studies neglected. This means that the practices of CSR to employee were not impactful to economic return of the companies. Perhaps, it can be explained by inefficiency of labour market in Indonesia whereby employee benefit are seen to be merely corporate responsibility rather than motivation for employees' productivity. Second, this study improved the prior studies by applying the most comprehensive measurement of CSR to employee to date. This method would allow the replication of the measurement for future studies.

Because of various limitations, the study's findings should be interpreted with caution. The assessment is based on a content analysis of qualitative data from corporate reports. This data is unweighted, allowing CSR and employee information to be assigned the same value without applying a scale to CSR based on the hardness of the data, such as financial amount and number of activities. Furthermore, the content analysis of the corporate report is vulnerable to researcher neglect because it necessitates careful study and thoroughness

in examining the text to establish the existence and relevance of CSR items. In addition, economic performance indicators are often used in previous studies. Other variables that are more essential to CSR to employees may exist. As a result, future studies can circumvent this limitation by employing different research methodologies such as surveys or case studies.

Despite the fact that only three of the eight hypotheses were supported, this study contributed to proving the stakeholder hypothesis. According to stakeholder theory, CSR is a mechanism used by organisations to meet the needs of stakeholders in order to achieve the company's economic performance. This study adds to the body of evidence for the stakeholder idea, although it is still insufficient. As a result, additional research may be required to gather more information concerning the impact of CSR on economic performance and human capital efficiency.

The 41 items broaden the scope of this study in terms of quantifying CSR to employees which relatively the most comprehensive to date. Because the prior studies only employed a few categories, the studies' research inferences and conclusions are constrained. The very large number of CSR to employee items included in this study has important implications for future studies attempting to assess the amount of CSR to employee implementation. It can be used as a standard, at least in the context of the Indonesian country.

The study's findings show that implementing CSR to employees has a considerable impact on economic success in some areas. This study proposes that the corporation pay attention to the interests of its employees by embracing CSR. This is because its adoption has been shown to have a favourable impact on the company's economic performance in addition to meeting the demands of stakeholders. As a result, firms must pick programmes that have a strong impact on both sides, namely the employees and the company's economy, while establishing and implementing CSR to employee policies.

## CONCLUSION

This study was conducted based on the stakeholders' theoretical beliefs that the implementation of CSR to employees is of a two-pronged nature, which is to meet the demands of the employees while gaining the economic returns. Previous studies failed to incorporate between these two objectives of employees CSR in their studies interpretation. Therefore, the study objective is to interrogate the extent to which the practices CSR to employees improves economic performance and human capital efficiency from Indonesian perspective. The study's findings provided no substantial support for the hypotheses developed. Wages and other benefit have a relationship with ROA and employee productivity, whereas gender justice, race, and religion only have an impact on sales growth. The study concludes that CSR to employees is merely a tool for meeting the demands of workers and does not provide meaningful economic returns to the companies. In other words, the both objectives of CSR to employees from stakeholder theory point of view are not found in this study. Nonetheless, the findings are not generalizable to other countries except in Indonesia. Perhaps, the labour market in Indonesia does not function in full efficient. Meaning that, the company's benefits gained by employees would not lead to labour economic productivity. However, it is advised that the implementation of the CSR to employee must continue to fulfil the CSR to employee's fundamental aim, which is to preserve workers' welfare. This study has various limitations that should be noted when interpreting its conclusions, particularly those relating to the indirect assessment method of CSR to employees via analysis of the content of corporate reports as well as traditional economic performance metrics. The study has various consequences, including new evidence to stakeholder theory and broaden CSR to employee parameter measurement.



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