CORPORATE SOCIAL RESPONSIBILITY PRACTICES VERSUS FIRM VALUE: An Exploration Study

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Abstract

Initially, corporate social responsibility (CSR) implementation was a voluntary commitment of the company to the environment and to society. However, nowadays, the implementation of CSR becomes a corporate obligation. The obligation to implement CSR can influence all stakeholders and be influenced by the company's business operations. Based on the phenomenon of obligation and increasing implementation of CSR in coal mining companies by using theoretical foundations laid by Gregory, Tharyan, and Whittaker (2014) and Crisóstomo, de Souza Freire, and Cortes de Vasconcellos (2011). The purpose of this research is to explore CSR practices and their impact on firm value to business sustainability in coal companies in the East Kalimantan Province. This research is designed and presented with qualitative methods, to explore and understand the meaning. The results show CSR practices of coal companies are not only to comply with applicable laws and regulations, but they also intend to create long-term positive impacts for stakeholders from stakeholder theory, legitimacy theory, and social contract theory points of view. This is because CSR practices are focused on responsibility towards the society or community. Moreover, this research is expected to be used in increasing knowledge and meaning regarding the application of CSR in strategic management in dealing with good corporate governance.

Keywords: Corporate Social Responsibility, Firm Value, Business Sustainability, Stakeholder Theory, Strategic Management

1. INTRODUCTION

Corporate social responsibility (CSR) can be interpreted as a form of commitment and corporate responsibility that cannot be separated from the environment and society. CSR is increasingly being discussed in business development, where CSR has been a concern since 1929 when the US Wall Street market crash occurred. The goals and objectives of CSR implementation are to align social aspiration and governance in the business sector (Lemus, 2016).

The controversy over the concept of CSR, both in the form of support and resistance, makes the concept and implementation of CSR interesting to be studied more deeply. Prihanto (2017) explains
that managers only carry out the tasks entrusted to them. Furthermore, the role of the manager can use the company’s money according to its allocation in order to increase the company’s profit and value. Other studies show that the effect of CSR on corporate value varies greatly depending on the economic situation (Reza & Ulah, 2019). For example, at the time before the crisis, companies that carried out CSR had higher corporate value than non-CSR companies. This condition is different during the economic crisis when CSR has more influence on the company than on the society where CSR needs to be improved (Buchanan, Cao, & Chen, 2018).

The implementation of CSR program is currently being developed to be implemented by companies in Indonesia, but in the implementation of CSR, not all companies carry out the program well. Due to the lack of uniformity and clear boundaries of CSR, some companies tend to carry out CSR as simple as it is and just as a formality (Sirait, 2018; Ariyadi, 2021).

The driver of change in CSR implementation is a shifting paradigm of business and society. It is not only to seek profit, but it is also to be ethical by carrying out social activities and organizing sustainable community development and empowerment programs. This is where the Law No. 40 of 2007 does not regulate the amount of net profit from a company that must be distributed and donated for social activities. One of the companies is a coal mining company (Kurniawan, 2017). Based on the phenomenon of obligations and the increase in CSR implementation in a coal mining company, it is important to conduct an exploratory study of CSR implementation and its impact on company value. This is because the objectives of this research are to understand the implementation of the company’s CSR and to explore the impact of CSR implementation on corporate value. The contribution of this research is expected to be used in increasing knowledge and to be able to explore the meaning of the implementation of the company’s CSR, from a management perspective and can be used in evaluating policies related to CSR.

2. LITERATURE REVIEW

Initially, CSR implementation was a company’s voluntary commitment to the environment and its social environment. However, currently, the demands for the implementation of CSR make CSR a company obligation. The obligation to implement CSR towards all stakeholders who can influence and be influenced by the company’s business operations is obligated. Financial Services Authority (Otoritas Jasa Keuangan — OJK) has mandated issuers to publish sustainability report no later than April 30 of the following year (OJK, 2017).

Regarding finance, various business cases related to the implementation of CSR showed that all indicators are directly related to financial performance. Various studies and CSR practices link CSR issues with financial access, employee retention, employee satisfaction, the creation of new products and markets, and stakeholder satisfaction (Raucci & Tarquínio, 2020). The development of the CSR concept requires companies to change their strategy and business model by building the CSR approach into strategic management and corporate control system. Companies are required to pay attention to the 3Ps (people, planet, and profit), involve stakeholders, and have a long-term orientation (Geoffrey, 2012). In addition, with regard to finance, other studies look at the effect of CSR on expected future cash flows and corporate profits. The results of the study by Gregory, Tarquínio, and Whitaker (2014) showed CSR as an instrument that influences company profits in the future.

Companies are not only required as business entities that pursue financial success, but also to act as good corporate citizens (Visser, Matten, Pohl, & Tolhurst, 2010). This concept emphasizes that the company must expand its responsibilities in social and environmental aspects, by implementing CSR. Thus, CSR is a form of contribution given by the company, where the company does not only focus on achieving short-term profit but focuses also on long-term sustainability. One of the factors that influence the company’s long-term profit is consumer loyalty and perception of the company’s CSR program (Widayati, Waridin, & Maffrauhan, 2019; Susilo, 2018). Servaes and Tamayo (2013) show that CSR and company value have a positive relationship with companies that have consumers with a high level of CSR awareness. Meanwhile, companies that have consumers with a low level of CSR awareness have a negative or insignificant relationship.

Social and environmental responsibility can be interpreted as an approach to long-term value creation, it is not only for shareholders, but it is also for all stakeholders, based on the ability to take opportunities and risk management (Ghelli, 2013). The concept of sustainability related to the management of environmental impacts from human, economic and social activities has been seen as an important part of the company’s business operation. CSR indirectly affects sustainable growth by increasing the percentage of sales, and reputation (image) and expanding the company’s sales area from year to year (Bintari & Andayani, 2013; Wahyuni & Praninta, 2021). Furthermore, Chen and Lee (2017) stated that investment in CSR will not contribute to corporate value unless there is a significant change in value. This study found that corporate value was related to CSR other than institutional shareholders and corporate size. This means that with more investment in CSR, increasing the ratio of institutional shareholders and increasing the scale of the company can increase profits which are ultimately related to corporate value.

Deeper understanding of the meaning of sustainability is not only related to the long-term survival of the company itself, but also a strategy and way of working by companies to extend the life expectancy of the ecosystem (and available natural resources), society (and culture, and community that supports commercial activities), and economics (governance, financial markets for the competitiveness and viability of companies). Thus, the company can ensure that its business concept remains valid and adaptable (Visser et al., 2010).

Today’s business developments pay attention to CSR as an interesting issue in the fields of accounting and corporate business ethics. CSR is interpreted as part of business sustainability that cannot be separated from environmental, social, and economic aspects (Lemus, 2016). Business changes
that do not only focus on financial achievements but also begin to pay attention to non-financial through CSR practices continue to develop. This has led to changes in the development of strategic management concepts and models used by company management in making decisions to become a sustainable company by taking into account the surrounding environment and social environment. CSR implementation as corporate social reporting is its responsibility. Thus, it forms the embodiment of corporate social legitimacy and contracts in the process of communicating the social and environmental impacts of the company’s economic actions.

Increased publication of sustainability reports prepared by issuers shows that the business world has begun to realize the role of CSR in supporting corporate sustainability. The Sustainability Report is prepared in accordance with Regulation of Financial Services Authority (OJK) No. 51/POJK.03/20171 equipped with a standard sustainability report published by the Global Reporting Initiative (GRI). GRI provides sustainability reporting standards as a practice for public reporting of organizations on economic, environmental, and social impacts. Besides referring to GRI, companies can also refer to International Organization for Standardization (ISO). ISO 26000 is guidance for the implementation of CSR internationally as a form of integrated social responsibility in all organizational activities that covers 7 main issues.

Companies that operate in the mining sector based on natural resources often involve in environmental and social issues in locations around the mine. This has an impact on the development and implementation of CSR. The roles and responsibilities of companies are often discussed in environmental, social, and community contexts to achieve sustainable results, in accordance with applicable regulations. The implementation of CSR is required in Law No. 40 of 2007, that companies the business of which is in the field of resources are responsible for the environment and society.

It is hoped that the implementation of CSR for coal mining companies is in line with the Sustainable Development Goals (SDG). This implementation tends to increase in line with the increasing opportunities for the exploitation of natural resources such as coal. Therefore, it is hoped that the CSR program can have a positive impact on the welfare of the community and not the opposite. As in the study of Crisóstomo, de Souza Freire, and Cortes de Vasconcellos (2011), CSR can damage corporate value in Brazil since there is a significant negative relationship between CSR and corporate value and also on the neutral relationship between CSR and financial accounting performance.

3. RESEARCH METHODOLOGY

This research seeks depth of data and analysis rather than breadth (Creswell, 2007). This research used qualitative with a multi-case studies approach. This is an extension of a single case study design (Bryman, 2012). The aims are to explore CSR practices and investigated corporation value by studying the business sustainability of coal mining companies in the East Kalimantan Province. This type of research was descriptive exploratory research. Coal mining companies that become the unit of analysis were medium-scale companies grouped based on the amount of coal production. Medium-sized companies were companies that have advantages in implementing CSR compared to small companies, where it was found in the organizational structure that there was a community development manager.

In this study, the data was obtained through semi-structured interviews and from documentary sources or archival records (Minichiello, Aroni, & Hays, 2008; Yin, 2009). The semi-structured component of the interview involved face-to-face interaction (Creswell, 2007), and a discussion with the informants based on a set of prepared questions and their responses. Primary data were obtained through a semi-structured interview with the CSR managers of coal mining companies, and the Ministry of Energy and Mineral Resources (Energi dan Sumber Daya Mineral — ESDM) Agency as informants in the East Kalimantan Province. This interview contained some questions related to the implementation of CSR by the company and its impact on the company value, such as profit growth and societal advantages from the CSR programs. There were 5 informants in this study: three participants from coal mining companies and two participants from the ESDM Agency. Documentation is one of the source data and review documents are a source of data analysis as well.

4. RESULTS AND DISCUSSIONS

The companies that were sampled in this study consisted of 3 coal mining companies with the medium business category based on the amount of production. Two companies were companies that still have production permits. Meanwhile, 1 company has entered the post-mining period. Coal mining companies in Indonesia are regulated in various forms of regulation. The legal basis used by coal companies in implementing Social and Environmental Responsibility (Tanggung Jawab Sosial dan Lingkungan — TJSL) was Ministerial Decree (Kepmen) No. 1824 of 2018 concerning Guidelines for Implementation of Community Development and Empowerment (PPM)2 that provided guidelines which regulated the preparation of the Blue Print made by the Governor in more detail and guidelines for the preparation of the Community Development and Empowerment Master Plan (Rencana Induk Pengembangan dan Pemberdayaan Masyarakat — RIPPM) by coal mining companies. Then, based on the RIPPM, an annual PPM program plan was made which was included in the Work Plan Budget and Expenditure (Rencana Kerja dan Anggaran Biaya — RKAB) during the production and post-mining activity stages. If it has been approved by the Director General of the ESMD, the company would start implementing it. In the implementation process, companies were required to submit their PPM realization report every semester.

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1 https://cutt.ly/sVidO73
2 https://bdibit.esdm.go.id/wp-content/uploads/2019/12/Keputusan-Menteri-ESDM-Nomor-1824-K-30-MEM-2018.pdf
4.1. The effect of CSR on corporate value

Various regulations have been issued by the government regarding environmental management and community empowerment. Law No. 40 of 2007 concerning company states that the company has an obligation commitment to implementing CSR in the form of TJLS. The company’s obligation to implement TJLS is strengthened by various regulations issued by the government in the context of environmental preservation and community empowerment to support sustainable development.

CSR is an important issue for coal mining companies, this shows that the company’s awareness of social and environmental impacts is increasing. Coal mining companies are faced with the emergence of externality from their business, especially with the existence of various regulations issued by the government in the context of community development and empowerment. The form of CSR implementation is known as the mandatory PPM. As an ESDM employee (Mr. A) involved in coal mining CSR stated that:

"...indeed, it used to be known as ComDev (community development) or in Indonesia called PPM... but it is more widely known as CSR... but if in our regulation, the name is PPM, starting from Law No. 4 of 2009. Now, it is Ministerial Regulation (Permen) No. 26 of 2018 then the Ministerial Decree No. 1824. In general, the company has implemented it, because it has been stated in their feasibility study, when they are going to do business... Since from Law No. 40 of 2007 it is strengthened again by Law No. 4 of 2009 to be more specific to mining companies, they [companies] on average have implemented... this PPM cost continues to show a positive trend, every year the PPM cost realization continues to increase... When coal prices fall... but PPM costs increase... this showed that the company complied with regulations, it’s just that the resources in the company vary, for middle to lower companies, personnel and funds, of course. As for Coal Mining Concession Work Agreement (PKP2B) and large Mining Business Permits (IUP)... there are divisions that specifically handle it".

Moreover, according to Mr. E as Head of the coal mining company department and Mr. M as Environment and Resource Conservation Department (ERCD) Manager the same situation happen at their companies as explained below:

"2016 was already PPM... actually it was mandatory since the existence of the UUPT (Limited Liability Company Law No. 40 of 2007)... well, CSR was booming in the past, only people who run the guidelines are called CSR, but now because now it has Ministerial decree, there are guidelines and it is more specifically. The discussion about CSR has become more global, now we focus more on PPM because there is a Ministerial regulation, technical guidelines already exist so we are applying that one" (Mr. E).

"Now this is the latest Ministerial Decree in the Ministerial Decree 1824... PPM or ComDev that there are 8 fields... If we open ISO 26000 in Google, there are 7 types, there are human rights, labor, reasonable operation, good organizational governance. It turns out that PPM itself is there. In the Ministerial decree 1824 of socio-culture, there is a lot of charity there, charity cannot be lost, cannot... We also include charity in the form of religious assistance, natural disaster, cultural preservation, sport. We haven’t gone to CSR but we went to ComDev, then the section goes to ComDev (on organizational structure), so we tend to go to the community" (Mr. M).

This is in line with Ulwan (2021) demonstrating the role of labor in the CSR practices of startup companies. According to Mr. M, PPM is part of CSR and wider CSR. This is in accordance with what was expressed by Mr. B, as an employee in a coal mining company that is now operating in the post-mining period:

“Actually, if it is the operation then it is better known as the CSR. If we have just left the programs, it will be narrow, because it is post-mining. For CSR... including those that are charity in nature are also included. ComDev or CD are the average programs. If we use empowerment programs, there are more CDs. There are large CSR programs including CD and charity, such as financial assistance, usually more to charity. There is CSR in the form of program or charity program. For this year, we want to make the 17 August Program in the villages just a charity thing, not that it’s not mandatory. Next year we have to contribute again. If the program is usually... for example, we have a scholarship program for several years, so we have to run the program every year until it’s finished. There are 2 CSR programs: there is charity and program. If we are divided, if the program and its nature continue to be included in ComDev or community development. But there is also a CSR section itself; if CSR focuses more on charity examples of natural disasters”.

The implementation of CSR in coal mining companies within the medium category can be seen to have been going on for a long time. This is also evidenced by the existence of the company’s organizational structure, a special division related to ComDev so the implementation of corporate social responsibility is more focused and gets a sufficient budget. In addition, the existence of this division will establish better communication between management, beneficiaries, and stakeholders involved.

CSR implementation in the form of company PPM is carried out through several stages; mapping CSR needs through social mapping in areas affected by mining activities, in order to provide maximum benefits. Determining the program by involving the community through communication forums with the community and paying attention to existing resources from the community (skills and urge to be actively involved), government, and sources of funding from companies.

Determine priority programs and formulate PPM plans both RIPPM and annual PPM plans. Implement the PPM program as planned and monitor implementation through the field implementation team, carry out consultations with the government, so it is in accordance with the established development direction.

Determine priority programs and formulate PPM plans in RIPPM and annual PPM plans based on rings 1, 2, and 3 according to the explanation in the Ministerial Decree No. 1824 of 2018. However, they are prioritized more in ring 1, namely with a high frequency of relationships with companies and are directly affected by the company’s operations, both environmental and social impacts.
Implement the PPM program and monitor implementation through the field implementation team. The monitoring is also carried out by the ESDM Agency. Conducting an analysis of the community satisfaction index to get feedback on the activities conducted.

4.2. Reporting to the ESDM Agency as a form of accountability for the implementation of CSR

We found that the implementation of CSR in coal mining companies was an involuntary obligation, the implementation was more emphasized on the legitimacy of the company. Legitimacy theory predicts companies will adopt social responsibility to legitimate their operations. CSR implementation is a form of compliance with applicable regulations in the form of ComDev. Since 2018, CSR has undergone better changes through the implementation of the PPM program. PPM is increasingly well organized and is being carried out by many companies because of the clearer regulations that lead to community development and empowerment which demands increased corporate accountability in its implementation and reporting to the government in accordance with applicable regulations.

PPM implementation of the company has implemented 8 programs in the Ministerial Decree No. 1824 on PPM Guidelines, however, companies that enter the post-mining period were not that many because they have only completed a few programs that have not been realized. The difference in the number and types of activities in each program is influenced by several factors. Those factors depended on the needs of the village community, the potential of the village, the community’s activeness to be involved in it, the amount of company funding, the creativity of the company, and the recipient community to work together to produce more added value to the community. With an emphasis on community self-reliance development programs, this is in line with stakeholder theory, namely the company seeks to provide an analysis for the recipient group for social action, and efforts to meet the needs and expectations of stakeholder groups.

The CSR implementation by the company in the form of community development proves the company’s CSR implementation as a manifestation of social contact theory. According to this perspective, companies act like social institutions and join other social structures such as family, education, and religious institutions in order to promote a better quality of life. The position of the company and the community is at the same level. Companies must communicate with the desires and perceptions that the community wants (Donaldson & Dunfee, 1994; Dusuki, 2008). Changing public perceptions of companies has caused companies to modify their CSR implementation. One of the purposes of establishing and developing a social contract is to explain the relationship between the company and society. In this case, the company (or any other form of organization), has an obligation to the community to provide benefits to the local community. The interaction of the company (organization) with the community will always try to comply with the rules and norms that apply in society (community norm), so the company can be seen as legitimate (Deegan, 2002).

4.3. The impact of CSR practices on the value of coal mining companies

Social responsibility is considered a value that companies must uphold, although according to Prihanto (2017), it is difficult to determine the benefits of companies that implemented CSR because no one can guarantee that a company that has implemented CSR properly will get certain benefits. However, Prihanto (2017) suggests several other opinions about the benefits obtained when companies carry out CSR. Based on the triple bottom line (TBL) concept, one of the considerations in implementing CSR is profit. Profit is the most important element and is the main objective of every business activity. Profit is additional income that can be used to ensure the survival of the company as Mr. M and Mr. B said:

“So if you think about the concept or paradigm of CSR actually will add the selling value of our coal, add the company image so in our perspective we are also good, production permits can also run smoothly, people also don’t often make demands on companies … if CSR is a religion then CSR is strong, this is charity for more blessings… The effect is felt … now it’s getting better, production continues to increase. There is always a reason, the blessing has always had reasons, for example the increasing market demand, also the area we can open increases, meaning that we are allowed to increase, increase smoothly, and our production is not wasted too much, we used to dig an empty mine even though in the data there is mining inside of it… we also appreciate it a lot so the government views it as a good company. The company’s image has risen, making the impact of the permit easier. Various PPM programs synergize with government programs proved that the program is being carried out properly. If it is mined well, the CSR is good, the environment is good… Green PROPER will determine the sustainability of our company. If the buyer thinks and considers to the environment, to the social empowerment of the community, that’s why now there is ISO 26000 internationally. The company’s CSR refers to ISO 26000, its derivative to Ministerial Decree 1824 described above...” (Mr. M).

“Regarding the company’s business unit as a whole, in principle, all of us are very concerned about (CSR implementation) …. Because we entered the global market and because of its impact on the stock market… why are we so concerned because of the trust of the government and our investors” (Mr. B).

Based on the observations and interviews conducted, it was found that the company realized the connection between the CSR implementation of a coal mining company that was focused on the pillars of the community development and empowerment program. Especially those directed at the communities around the company’s operational areas would benefit from its implementation (Buchanan et al., 2018). If viewed from the concept of the TBL, the company’s awareness of environmental and social responsibility will enhance the company’s image, able to increase company sales it can increase the company’s profit (Crisóstomo et al., 2011). The increase in profit will add to the company’s long-term value and increase
investor confidence to continue investing in the company. The results are in line with previous research examining the role of CSR in the social, economic, and environmental values of a company. More specifically, previous literature suggested a critical role of CSR to increase the company image (Suryani & Lindiaiwati, 2018), financial performance (Ali & Oudat, 2021), business compliance (Mamun, Shaikh, & Easmin, 2017), and business sustainability (Abdulaziz-Alhumaidan & Ahmad, 2019) by advancing its social value (Ilge, Icha-Ituma, & Madichie, 2018) and environmental ethics (Mo, Park, & Kim, 2018; Sledge, 2015).

The CSR implementation carried out by the coal mining company showed a CSR implementation model as a form of strategic management in value creation that aimed to be innovative and promote a sustainable business model. Good integration and management by the corporation (corporate governance) of the three basic business pillars will support the success and sustainability of business and corporate profit growth (sustainable profit) in the long term (Lako, 2018). If the company is stakeholder-oriented and has a strong relationship and is in harmony with the environment, it will benefit in the form of sustainable company growth and increased corporate value.

5. CONCLUSION
CSR practice is not only intended to comply with applicable laws and regulations but was also aimed at creating long-term positive impacts for stakeholders inside and outside of the company. CSR practice was focused on the responsibility to the affected communities. Mining management was based on sustainable principles, considering the environment and social aspects that are an integral part of mining operations, in accordance with the TBL concept. The company knew that the sustainability of the company’s business activities cannot be separated from the participation of the community. In doing so, the company continued to build good relationships with the community, one of the interactions is through the implementation of CSR. Therefore, a company needs to create a CSR program that empowers the community. Making changes in community conditions for a better purpose shows the successful implementation of the company’s CSR. By carrying out CSR, it is expected not only to pursue short-term profits but also to contribute to improving the quality of life of the community and the environment (especially the surrounding environment) in the long term in order to increase company value.

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