Does Corporate Social Performance (CSP) Matter After the Financial Crisis?

Zulfikar Ali Ahmad¹, Fachmi Pachlevi Yandra²
¹,²STIE YKPN Yogyakarta, Indonesia
¹zulfikar.ali.ahmadi15@gmail.com

Abstract

This study aims to examine whether corporate social performance (CSP) increase after the crisis period. This study also examined whether CSP in the Jakarta Islamic Index (JII) member better than non-member JII. The content analysis method was used, and CSP data was measured using the item developed by Michael Jantzi Research Associate (MJRA) Inc. MJRA made a comprehensive measurement for measuring CSP. It dimensions consist of community issues, workplace diversity, environmental performance, employee relations, international issues, business practices and products, and others. The samples on this study are manufacturing companies listed in Indonesia Stock Exchange after the crisis period, 2009-2010. The result indicated that CSP in 2010 higher than in 2009. CSP in the member of JII also better than non-members of JII. This result indicated that CSP was relevant to the Jakarta Islamic Index member even after a crisis period.

Keywords: corporate social performance, crisis, content analysis, jakarta islamic index (JII)

A. Introduction

Corporate governance in the Islamic perspective was different from non-Islamic perspective. It has tawhid as the episteme (Choudhury & Hoque, 2006). The objective is also different than non-Islamic perspective. The objective of corporate governance in Islamic perspective was social wellbeing instead of “maximization of shareholder’s wealth” (Choudhury & Hoque, 2006). This social wellbeing also may be achieved by Corporate Social Responsibility/CSR.

Dusuki and Abdullah (2007) take Maqashid Al-shari’ah (the Shari’ah’s objectives) and Maslahah (the public good) as a foundation for the Islamic perspective of CSR. Dusuki and Abdullah (2007) give detail on how holistic perception of CSR in Islam take into consideration reality. Islamic corporate should
take attention to other people. Following the Islamic view of CSR, corporates are driven by the pursuit of ultimate happiness in this life and Hereafter.

The spirit of holistic view also occurs in Indonesia stock market. Indonesia introduces his first shariah stock index in 2000 with the Jakarta Islamic Index (JII). It consists of 30 selected company which fulfil some condition. It must comply with shariah principle regulated by national shari’ah board (DSN). The general and shari’ah principle regulated in DSN fatwa Number 40/DSN-MUI/X/2002. According to Choudury and Hoque (2006), corporate governance must cause social wellbeing instead of maximization of shareholder wealth. This concept should also be applied to the JII member. They should “good” despite the financial consequences with CSR (Dusuki & Abdullah, 2007).

Indonesia government issued some regulation to ensure the sustainability of CSR, such as law no 25/2007 about capital investment. This regulation also explains the definition of CSR as the responsibility that adheres to each capital investment company to keep creating a harmonious and balanced relationship and fit with the environment, norm, and local culture. The company also has a responsibility to create a healthy climate of business competition, to prevent monopolistic practice and other things that harm to the state. Moreover, the company must create the safety, health, comfort, and welfare of workers. With this regulation, company performance included two aspects, financial aspect and social-environmental aspect.

However, the continued implementation of the regulation about CSR above was threatened by the financial crisis in 2008. Developing countries affected by significantly reduce their export and negative shock of investment (Lin, 2008). The crisis impacted Indonesia with some channel, i.e., exports, investment, and remittances (Tambunan, 2010). From all channel, the most critical channel was export. Retrenchments in export-oriented manufacturing firms in Indonesia, while working time decreased along with increased pressure on wages. The continuation of CSR was on alert condition.

How CSR or corporate social performance (CSP) when crisis time drive researcher to study it. They were curious how economics crisis impact CSP of many countries (Bouslah et al., 2018; Cornett et al., 2016; Ducassy, 2013; Forcadell & Aracil, 2017; Lauesen, 2013; Lins et al., 2017; Souto, 2009; Yelkikalan, 2012). Majority of the study was in the US and European country. It still limited to developing country like Indonesia. There is study comparison between Islamic and non-Islamic corporate performance. However almost of the study was about Islamic bank versus non-Islamic bank (Khan et al., 2016; Masruki et al., 2011; Milhem & Istaiteyeh, 2015; Onakoya & Onakoya, 2013; Rana & Akhter, 2015; Zeidan et al., 2013). Only a few studies take a note from another perspective, such as market indices (Ata & Buğan, 2015), unit trust companies (Saad et al., 2010).
As the best knowledge, there is still a low number of studies focused on manufacture companies and crisis. Study comparison between Islamic-non Islamic also dominated with a bank. This paper tries to fill this literature gap. We believe that manufacture companies selected as a member of JII should give their best to their stakeholder more than non-member JII. This study measured CSP using a measurement developed by an independent rating agency from Canada called Michael Jantzi Research Associate (MJRA). This measurement was comprehensive as measured a lot of dimensions (Fauzi, 2008).

This study aims to determine whether CSP precisely manufacture companies on JII member is better than non-member JII after the crisis period (2009-2010). We make a comparison of manufacture company because their operation affected many stakeholders. Manufacture companies in Indonesia also affected of crisis (Tambunan, 2010).

B. Literature Review and Hypotheses

1. Stakeholder and Maqasid Al-Shariah

   Stakeholder theory was explained about strategic management and organization. It introduced by Freeman in 1984. Freeman (1984) stated the definition of stakeholders as "Any group or individual who can affect or is affected by the achievement of an organization's purpose". Freeman (1984) also stated that a large company consists of twelve stakeholders that can help or hurt the company. Every group has a vital role in making the company success (Freeman, 1984). The parties who care about the company not only the owner of capital but also other parties in the company.

   Donaldson and Preston (1995) also point out their central thesis about the stakeholder concept. The stakeholder model shows that companies need to pay attention to the individual, the community, and the environment in the company's decision-making. Otherwise, the company will get some problems with those stakeholder components. The company must also incur costs in applying this model.

   Their work has nine groups of stakeholder view of firms, smaller than Freeman (1984). The stakeholder was a government, investors, political group, customers, communities, employees, trade associations and suppliers. The stakeholder theory was not only about descriptive, instrumental, and normative, but also about managerial (Donaldson & Preston, 1995). The stakeholder's concept makes people aware that in addition to financial performance, companies must also pay attention to their social performance. They need to consider another party for company performance and sustainability.
The stakeholder concept is corresponding with an Islamic perspective. The objective of corporate governance Islamic perspective was social wellbeing (Choudhury & Hoque, 2006). With the social wellbeing concept, the conflict between private and social interest was diminished. Islam views social and private wellbeing as complementary rather than competitive and antagonistic (Pusparini, 2010).

The social wellbeing can implement with CSR. Dusuki and Abdullah (2007) take *Maqasid Al-shari’ah* and *Maslaha* as a foundation for the Islamic perspective of Corporate Social Responsibility (CSR). The purposes or *maqasid* of Islamic law is for the ‘interest of humanity’ (Auda, 2014).

Companies should give CSR despite it bad for their financial consequences because CSR is a moral and religious initiative based (Dusuki & Abdullah, 2007). As for the conflict that may emerge while applying CSR, Dusuki and Abdullah (2007) give a framework to resolve it. The picture below depicted the *maslalah* framework proposed.

![Figure 1. The Maslahah Pyramid](Dusuki & Abdullah, 2007)

The importance degree and responsibility of CSR fulfilment reflected in the level of the pyramid. The most important was the bottom level (*daruriyat*), followed by the second level (*hajiyyat*), then the first level (*tahsiniyyat*). This framework gives managers general and ethical guideline to resolve the conflict arises with three-level judgment.

2. **Corporate Social Performance**

Kaplan (1992) popularized the idea of long-term performance measurement, called the balanced scorecard. Balance Scorecard is an example of a performance measurement system. Based on this approach, the business unit must define its goals and measure them based on the following four aspects:
Does Corporate Social Performance (CSP) Matter After the Financial Crisis?

finance, customer, internal business, and innovation and learning. The essence of the balanced scorecard is balancing the financial aspects of non-financial.

The majority of the study non-financial performance focuses on social and environmental performance and its relationship to financial performance (Chen et al., 2015; Cho & Lee, 2017; Fauzi, 2009; Griffin & Mahon, 1997; Landi et al., 2019; Platonova et al., 2018; Sadeghi et al., 2016; Shahzad & Sharfman, 2017; Wang et al., 2016). CSP measurements used in past research may be divided into two groups: single-dimensional and multi-dimensional measurements. In the one-dimensional measurement, the social performance of an organization is measured solely from one issue such as social disclosure and pollution control. In the multi-dimensional measurements, the social performance measured by more than aspect.

Fauzi (2009), and Fauzi & Idris (2010) used a CSP measurement developed by MJRA, Inc. Among the dimensions included are community issues, workplace diversity, employee relations, environmental performance, international issues, business practices and products, and other variables focused on compensation, confidence, and ownership in other companies. Owners of capital as an investor in a company will choose proper company management.

A good company is a company that is proper management not only in financial management but also regarding social activities. When a company undertakes a social activity, and the company also discloses its annual report, automatically the party who reads the annual report will know that the company is doing a social activity. Investors as owners of funds in the company will see that the company is doing a high activity so that they will be more confident to put their capital in the company.

3. Hypothesis development

An economic and financial crisis in 2008 was a threat to some company. Their operation affected by the financial crisis. Corporate social responsibility (CSR) risen to the last decade caused the combination of the economic and financial crisis or called “entrepreneurial crisis of maturity” (Souto, 2009). Crisis time give threat and opportunity regarding how a company manage CSR (Souto, 2009).

CSP on crisis time drive researcher to study it. They were curious how economic crisis impact the social performance of many countries (Bouslah et al., 2018; Cornett et al., 2016; Ducassy, 2013; Forcadell & Aracil, 2017; Lins et al., 2017; Souto, 2009; Yelkikalan, 2012). Majority of the study was in the US and European country.
Indonesia, as a developing country, has also affected by the financial crisis. The crisis impacted Indonesia with some channel, i.e., exports, investment, and remittances (Tambunan, 2010). Indonesia Real Gross Domestic Product (GDP) declined from 6.0% on 2008 to 4.6% on 2009 (IMF, 2011). Indonesia is the least country affected by the crisis in ASEAN (McCulloch & Grover, 2010). Perhaps this is because the main effect occurs through export while Indonesia export proportion is relatively small in ASEAN (The World Bank, 2009).

Moreover, the Indonesian government has strong response over the crisis. The condition of Indonesia economic is stabilized in late 2008 and early 2009 (The World Bank, 2009) and show improvement. The CSP in manufacturing assumed increase following the trend. Therefore, the first hypothesis:

Hypothesis 1: CSP of a manufacturing company in 2010 is higher than in 2009

There is study comparison between Islamic and non-Islamic corporate performance. (Onakoya & Onakoya, 2013; Masruki, Ibrahim, Osman, Abdul Wahab, 2011; Johnes, Izzeldin, & Pappas, 2012; Milhem & Istaiyeh, 2015; Rashid & Jabeen, 2015; Rana & Akhter, 2015). Only a few studies take a note from another perspective, such as market indices (Ata & Bugan, 2015), unit trust companies (Saad, Abd. Majid, Kasim, Hamid & Yusof, 2010). However, almost of the study was about Islamic bank versus a non-Islamic bank. Onakoya and Onakoya (2013) selected some financial ratio as a performance indicator.

Despite affected on global crisis 2008, but the effect was more significant on the conventional market. Indonesian shariah stock market is more adaptive and resilient on crisis than the conventional market (Wardhana et al., 2011). Perhaps, because of the characteristics of shariah stock market itself free from riba (interest), maysir (gambling), gharar (uncertainty), and speculation. JII members were only slightly affected by the economic crisis. Their CSP assumed was higher than non-member JII. Therefore, the second hypothesis was:

Hypothesis 2: CSP of manufacturing companies indexed by the Jakarta Islamic Index (JII) is higher than non-JII index companies.

C. Research Method

The sample in this study is manufacture companies, listed on the Indonesia Stock Exchange in 2009-2010. This study uses 2009-2010 as a sample because there was an economic crisis in 2008. We want to know how the condition of manufacturing company in Indonesia after the crisis of 2008. Manufacture company was taken because it has a significant implication on Indonesia economics.

The technique used in sampling in this research is purposive sampling method. The purposive sampling method is a nonprobability sample that meets a specific
criterion (Cooper and Schlinder, 2014). Samples in this study must meet the following criteria:

1. The company is a listed manufacturing company (listing) on BEI in 2009 (Company Profile and Notes to Financial Statements).
2. The company publishes a complete annual report in 2009 and 2010 at IDX because the complete report will make it easier to obtain supporting data in the research.
3. The company has a cycle of financial statements that expire as of December 31.

According to ICMD 2009 data, there are 144 companies in the manufacturing sector. The sample used in this study is a manufacturing company that publishes annual reports on IDX consistently in 2009 and 2010. Of the 144 companies, 84 companies did not provide the information required by the researcher, leaving the remaining 60 companies. The number of samples used in this study amounted to 100. From annual reports, we obtain data related to CSP.

Table 1. Company CSP measurement adopted from MJRA, Inc

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Strength</th>
<th>Concern</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Issues</td>
<td>1. Generous giving</td>
<td>1. Lack of consultation/engagement</td>
</tr>
<tr>
<td></td>
<td>2. Innovating giving</td>
<td>2. Breach of covenant</td>
</tr>
<tr>
<td></td>
<td>4. Strong aboriginal relationship</td>
<td></td>
</tr>
<tr>
<td>Diversity in Workplace</td>
<td>1. Strong employment equity program</td>
<td>1. Lack of employment equity initiative</td>
</tr>
<tr>
<td></td>
<td>2. Woman on board of directors</td>
<td>2. Employment equity controversies</td>
</tr>
<tr>
<td></td>
<td>3. Women in senior management</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. Work/family benefit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5. Minority/women contracting</td>
<td></td>
</tr>
<tr>
<td>Employee Relations</td>
<td>1. Positive union relation</td>
<td>1. Poor union relation</td>
</tr>
<tr>
<td></td>
<td>2. Exceptional benefit</td>
<td>2. Safety problem</td>
</tr>
<tr>
<td></td>
<td>3. Workforce management policies</td>
<td>3. Workforce reduction</td>
</tr>
<tr>
<td></td>
<td>4. Cash profit sharing</td>
<td>4. Inadequate benefits</td>
</tr>
<tr>
<td></td>
<td>5. Employee ownership/involvement</td>
<td></td>
</tr>
<tr>
<td>Environmental Performance</td>
<td>1. Environmental management strength</td>
<td>1. Environment management concern</td>
</tr>
<tr>
<td></td>
<td>2. Exceptional environment planning and impact assessment</td>
<td>2. Inadequate environmental planning or impact assessment</td>
</tr>
<tr>
<td></td>
<td>3. Environmentally sound resource use</td>
<td>3. Unsound resource use</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. Poor compliance record</td>
</tr>
<tr>
<td>Dimension</td>
<td>Strength</td>
<td>Concern</td>
</tr>
<tr>
<td>------------------</td>
<td>--------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td>International</td>
<td>4. Environmental impact reduction</td>
<td>5. Substantial emissions/discharges</td>
</tr>
<tr>
<td></td>
<td>5. Beneficial product and service</td>
<td>6. Negative impact of operation</td>
</tr>
<tr>
<td></td>
<td>1. Community relations</td>
<td>7. Negative impact of product</td>
</tr>
<tr>
<td></td>
<td>2. Employee relations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Environment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. Sourcing practices</td>
<td></td>
</tr>
<tr>
<td>Product and</td>
<td>1. Beneficial products and services</td>
<td>1. Product safety</td>
</tr>
<tr>
<td>Business Practice</td>
<td>2. Ethical business practices</td>
<td>2. Pornography</td>
</tr>
<tr>
<td>Other</td>
<td>1. Limited compensation</td>
<td>3. Marketing practices</td>
</tr>
<tr>
<td></td>
<td>2. Confidential proxy voting</td>
<td>4. Illegal business practices</td>
</tr>
<tr>
<td></td>
<td>3. Ownership in companies have</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The CSP in this study is measured and calculated based on content analysis following an approach adopted by MJRA, Inc., an independent Canadian rating company. The company measures several CSP dimensions to obtain the CSP's overall value. These dimensions include community issues, workplace diversity, employee relationships, environmental performance, international issues, business practices and products, and other variables related to compensation, and ownership in other companies (Fauzi, 2008).

Both positive and negative social responsibilities are collected through annual reports and reports of corporate social activities that are sampled. CSPs for each company is rated on a scale of -2 to 2 for each level. The level -2 for each dimension that shows the main concern, -1 shows important attention, 0 shows the main and important concerns and strengths, +1 denotes an important force, and 2 shows the main strength. Different CSP values are then calculated by summing the value of each dimension for each firm. The combined value of social performance is then summed by summing the results of each dimension in each company.

Both positive and negative information collected through annual reports. Corporate social reports, as well as by checking information obtained from Indonesia Capital Market Directory and Indonesia Stock Exchange. CSPs from each firm are scaled -2 through +2 for each rank. The level -2 for each dimension that shows the main concern, -1 shows important attention, 0 shows the main and important concerns and strengths, +1 denotes an important force, and 2 shows the
Does Corporate Social Performance (CSP) Matter After the Financial Crisis?

main strength. This paper using a t-test to compare CSP data between the first-second year and between JII member-non JII member.

D. Result and Analysis

Based on the final sampling criteria that have been determined, the numbers of companies that become observations in this study is 60 companies. The following are descriptive statistics of the variables used in this study. Data collected in the process of analyzing and hypothesis testings are CSP 2009 and 2010 manufacturing companies of members & non-members of Jakarta Islamic Index (JII). Statistical descriptive analysis was performed to describe data between variables. Descriptive Statistics help to understand the distribution of the value of the dependent variable correctly before testing the hypothesis. Descriptive statistics can be seen in the following table.

Table 2. Descriptive Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Ave.</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSP 2009</td>
<td>60</td>
<td>1.00</td>
<td>13.00</td>
<td>7.70</td>
<td>2.854</td>
</tr>
<tr>
<td>CSP 2010</td>
<td>60</td>
<td>1.00</td>
<td>13.00</td>
<td>8.11</td>
<td>2.905</td>
</tr>
<tr>
<td>CSP member JII</td>
<td>13</td>
<td>7.00</td>
<td>13.00</td>
<td>11.23</td>
<td>1.739</td>
</tr>
<tr>
<td>CSP non-member JII</td>
<td>107</td>
<td>1.00</td>
<td>13.00</td>
<td>7.50</td>
<td>2.724</td>
</tr>
</tbody>
</table>

Based on the table above, information can be found the number of sample companies, the minimum and maximum values, the average, and the standard deviation for each variable. The results of the analysis above show the data distribution from the value of the variable. This information shows that the total sample is 60 companies, time series for 2009-2010 (period after the crisis). The data sample of 60 companies for two years was also divided into member and non-members companies of the Jakarta Islamic Index (JII), a total sample of 13 and 107.

The research hypothesis was tested using a t-test. The test was conducted to compare CSP in the first year after crisis (2009) and the second year after crisis (2010). Besides, t-tests were also conducted to compare CSPs of JII member and JII non-members companies after two years of the crisis period. Paired sample t-test shows the comparison of CSP average scores in 2009 is 7.70, and the 2010 CSP average score is 8.12, $t = 3.085; p <0.01$ then hypothesis 1 is supported. The results of the analysis can be seen in the following table.

Table 3. Paired Sample Test

<table>
<thead>
<tr>
<th>Mean Difference</th>
<th>Std. Deviation</th>
<th>t</th>
<th>df</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.41667</td>
<td>1.04625</td>
<td>3.085</td>
<td>59</td>
<td>0.003</td>
</tr>
</tbody>
</table>
Independent sample t-test is done to compare CSP to member companies and non-member companies JII. The results show that the average CSP score of JII member companies is 11.23, and the CSP score of non-member companies is 7.50, \( t = 4.803; p<0.01 \), then hypothesis 2 is supported. The results of the analysis can be seen in the following table.

<table>
<thead>
<tr>
<th>Mean Difference</th>
<th>Std. Deviation</th>
<th>t</th>
<th>df</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.72610</td>
<td>0.77571</td>
<td>4.803</td>
<td>118</td>
<td>0.000</td>
</tr>
</tbody>
</table>

### E. Conclusion

The company began to pay attention to its social performance in various aspects. It shows that the manufacturing company in Indonesia began to pay attention to CSP. The objective of this study is to examine whether CSP on JII member is better than non-member JII after the crisis period. Results show that JII member companies have higher CSP than non-JII member companies.

This finding indicates that companies which comply to shariah principle will more consider the important of CSP. This result indicated that CSP was important to JII member even after a crisis period. Finally, this study has a theoretical contribution to Islamic finance literature. First, this study shows that shariah companies came up faster after a crisis period. Second, this study also shows that shariah companies have a positive relation to CSP.

However, this study has limitations that can be used as a possibility for subsequent researchers to conduct further research. First, this study only uses manufacturing companies without any classification of companies based on their field, whereas each field has different characteristics. The next research is suggested to add the sample of the company, not only manufacturing companies but also non-manufacturing accompanied by the classification.

Second, this study only used a consistent sample of manufacturing firms for two years to publish an annual report on IDX. Not all companies report annual report on IDX. The next research is suggested to take the source of the annual report from more sources than IDX. Third, this study uses only one CSP measurement parameter from MJRA. Further research is suggested to use other parameters for measuring CSP or using two or more parameters simultaneously in one study.
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Does Corporate Social Performance (CSP) Matter After the Financial Crisis?


https://doi.org/http://dx.doi.org/10.1108/MRR-09-2015-0216


