Understanding the Influence of Corporate Social Responsibility on Firm Performance: Employee Perception

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ABSTRACT

The purpose of this paper is to examine the perception of Corporate Social Responsibility (CSR) on firm performance with the role of one of the potential mediators, namely job satisfaction. This study shows how CSR is related to the performance of the company. This study based on data from 115 employees. The construct was measured by questionnaire. The results show a positive relationship between social responsibility and firm performance based on employee perceptions. By revealing the importance of social responsibility activities to corporate performance, this study contributes to the area of social responsibility research. The main limitation of the study is the limited size of the total sample and only in one company, so the result could not be generalized.

Keywords: Corporate Social Responsibility, Job Satisfaction, Firm Performance.

JEL Classification: M14, L25, J28,
INTRODUCTION

Companies are required to pay more attention to environmental problems that may occur due to the existence of the company itself because they are not just an economic entity, but also as a social entity, so it is expected that companies can go forward and develop together with the society and its environment. In order to maintain the continuity of the company's business, the company must build relationships that are in harmony with the community and its environment.

John Elkington (1997) stated in his book: Cannibals with Forks: the Triple Bottom Line of 21st Century Business, that develops the concept of the triple bottom line in terms of economic prosperity, environmental quality, and social justice. His argued that companies that want to continue to run its business should pay attention to profit, people, and the planet. Companies that run their business are not justified in pursuit of profit, but they must also be involved in the fulfillment of people's welfare, and actively participate in preserving the environment (planet). These three principles support each other in the implementation of Corporate Social Responsibility (CSR) programs. Although in Indonesia, this new concept is applied in compulsory with Law No. 40 of 2007.

CSR is an effort to enhance the harmony relationship, which is a mutual relationship that gives benefit and is viewed from the interests and needs of the company itself to the society and its environment. When the company introduce CSR into their operations, based on previous studies there is a positive relationship between CSR management and company performance is in line with the results of research Famiyeh (2017) indicate that when organizations invest in CSR initiatives, they are likely to achieve cost reductions, flexibility, improved delivery, improved quality, and overall performance. In fact, indicates that it is important to invest in CSR initiatives although previous studies have been mixed results suggest some missing links in reporting the relationship between CSR practices and firm performance, finding positive (Agie et al., 1999; Heinze et al., 1999), and even negative (Margolis and Walsh, 2001) relationships. This paper examines the perception of employee abo influence CSR on firm performance as a follow-up of the recommendation from Smirnova (2012) that "the future research can be done on the perceptions of different groups of stakeholders such as employees, government, customers, and owners to learn their attitudes."
Perspectives in the social responsibility literature are one center on the responsibilities of corporate citizenship and lead to models of social performance (how to be responsible), and the identifies the beneficiaries and matches with the stakeholder theory (respecting responsibility). The stakeholder theory posits the importance of a relationship of trust inside and outside the company. Carroll's (1979) model, referred to in this research, identifies the principles of responsibility. Carroll believes that Social Responsibility consists of four components such as economic, legal, ethical, and policy expectations that the community has for a company and that the company must decide which layer is their focus. On the other hand, Friedman – as most known defender of the neoclassical view of economics – defines social responsibility completely differently "There is one and only one social responsibility of business – to use its resources and engage in activities to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud" (Friedman, 1962).

Some employees have a negative perception that the implementation of CSR programs will be increasing the operating cost, for this reason, if a positive association between the engagement in CSR programs and the firm's success could be shown, more businesses would adopt and implement the CSR programs. This situation could be rectified by providing the perception of employees with a correct understanding that CSR programs are an investment, not an expense item. Companies which engage the CSR program and take into consideration the interests of all stakeholders may gain support and trust from primary stakeholders such as employees (Bhattacharya et al., 2009; Chang, 2015). Thus, because employee behaviour influences organizational outcomes (DeVaro, 2006; Jiang et al., 2012) and higher job satisfaction may lead to greater employee commitment to organizational goals and values (Kehoe and Wright, 2013; Zhu et al., 2014), understanding the impact of CSR on employee satisfaction is relevant to corporate performance.

Hillman and Keim (2001) stated that the content of CSR makes a difference in the firm's financial performance. In the business ethics literature, (Huang and Hsiao, 2007; Pettijohn et al., 2007; Singhapakdi and Vitell, 2007) that indicate a positive relationship between CSR perceptions and workers' positive attitudes reduce the social responsibility scope to the ethical climate (internal responsibility) within the company. Therefore, researchers can narrow down the question and ask about employee
perceptions about CSR related to job satisfaction and employee’s perception of job satisfaction that mediates the influence of CSR related to company performance.

This question is s to determine the kind of societal actions which help enhance the firm’s financial performance. This study focuses on to examine the perceptions of employees regarding the influence of CSR on firm performance. They can work optimally in accordance with their job description because they are aligned with the responsible values of companies. Orlitzky et al. (2003) argued that a good social performance is both a determinant and a result of financial performance is mainly because of the good reputation, while the financial performance’s influence on social performance is easy to understand that a good financial performance provides the necessary resources for investment in socially responsible activities.

This study contributes to the body of literature on CSR by providing insights of influence CSR on firm performance in the perception of employee and in practice is the adoption of the CSR concept is attributable to many organizations’ perception of CSR as a cost item that benefits only the society (Porter and Kramer, 2006).

LITERATUR REVIEW

Corporate Social Responsibility

Ness (1992) stated that organizations adopt a policy of social responsibility if they undertake obligations to individuals and institutions beyond the basic economic and legal objective. The theory of CSR has been used to mediate the relationship between business and society. Archie B. Carroll (1979, p. 500), stated that the social responsibility of business involves society’s expectations with regard to organizations in the economic, legal, ethical and discretionary aspects (philanthropic) at some point in time. Schwartz and Carroll (2003) suggest that the CSR model is simplified the understanding of the relationships between dimensions while emphasizing the interrelationship among them. Another change is the repositioning of the philanthropic responsibility, which became part of ethics or economic dimensions, as philanthropic objectives often get confused with these two dimensions. The three dimensions – economic, ethical, and legal – can change into seven categories, resulting from the overlapping character of the model.
Job Satisfaction

Job satisfaction was presented by Locke (1976) as a pleasurable or positive emotional state resulting from the appraisal of one’s job experiences. Job satisfaction includes all characteristics of the job and workplace environment. Employees being one of the stakeholders of the organization care about the fulfillment of social obligations by their organization (Rodrigo and Arenas 2008) which may lead to an impact on their job attitudes and behaviors. Job Satisfaction theory of Greenberg and Baron (2003) stated in general are: a) Two-factor Theory describes the satisfaction and dissatisfaction derived from two distinct groups namely motivators and hygiene factors; b) Value Theory explains the importance of conformity between the work result obtained or the award with the perception of the outcome. Meanwhile, according to Wexley and Yukl (1977), there are three different theories of job satisfaction: a) Discrepancy Theory Satisfaction is the difference between what the employee feels about what he or she should receive with what he receives. b) Equity Theory Gibson, Ivancevich, and Donnelly (2010) stated equity is something of a member's thinking in an organization if it feels that the comparison between effort and reward is equal to that of another individual. As for effective organizational commitment, empirical studies results explore the belief that job satisfaction and work efficiency are strongly linked.

Firm Performance

Companies must integrate social, environmental, and economic concerns. Choi and Yu (2014) show that perceived CSR has a significant impact on organizational performance. The positive relationships between CSR and firms’ performance were reported in research based on the slack resources theory states that a business with slack resources would be able to divert the excess resources to improve its operations and/or to help the society and the stakeholder theory, the main cost components are the company's implicit costs (e.g., production costs of high-quality goods or services, environment cost) and explicit costs (e.g., salary).

Stakeholder Theory

The theory stated that the expectations of the shareholders might be different from those of other stakeholders, i.e., employees, customers, competitors, government agencies, and community. Hence, businesses should also pay attention to other stakeholders’ needs and interests. Also,
firms should determine the possible impacts of their policy implementation and operations and take corrective actions (Freeman and McVea, 1984). According to the stakeholder theory, most socially irresponsible companies attempt to reduce the implicit costs. The practice could give rise to large litigation costs and damages as well as a loss of competitive advantage in the future.

**Slack Resources Theory**

The slack resources theory stated that a business with slack resources would be able to divert the excess resources to improve its operations and/or to help society. Thus, investment in socially responsible programs depends on the firm’s excess resources. According to the theory, if a business performs well financially and thereby has excess resources, it could be expected that the firm would engage in many socially responsible programs (Waddock and Graves, 1997), e.g., an activity to improve the relationship between the company and the community.

**Corporate Citizenship**

Carroll (1979) proposed the classification of an organization’s CSRs as follows: the economic, legal, ethical, and discretionary responsibilities. The discretionary responsibilities were changed to philanthropic responsibilities in 1991. The economic responsibilities as businesses are the basic building blocks of an economy, and they exist to make profits. However, it is a responsibility of the businesses to a society to supply quality goods and services. Also, they are responsible for generating a maximum return for the investors' money. The legal responsibilities are the laws and regulations are required to guarantee compliance with the society's expectations. Examples of the laws and regulations are the Consumer Protection Act, the Labor Protection Act, the Sarbanes–Oxley Act, and other regulations that comply with international laws. The ethical responsibilities are directly related to society’s expectations of an organization. That is, members of a society expect the organization not only to operate in full compliance with the laws and regulations but also to do it transparently and fairly. The philanthropic responsibilities are concerned with the expectations of society members that businesses voluntarily contribute or give back to society.
Murray and Vogel (1997) stated that companies with positive socially responsible behaviors are considered those companies that make direct or indirect contributions to the society and/or engaging in philanthropic actions that improve community social welfare where the company operates. According to this view, companies’ and their surrounding community are interrelated, and their success depends on society health (Galbreath, 2010). Bowen (1953) in his book Social Responsibilities of the Businessman, argued the following definition for CSR as being the obligations of business to pursue policies, to make the decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.

Carroll’s (1991) stated that there are four CSR dimensions that companies have, respectively, economic, legal, ethical, and philanthropic responsibilities. Continuing his argument, the author underlines that a socially responsible company’ endeavors to make a profit, obey the law, have ethical practice, and behave generously so that society benefits. CSR concept is regarded from a wide perspective as a range of varieties of actions that appear to further some social good, beyond the interests of the firm and that which is required by law (McWilliams & Siegel, 2001, p. 118) to a narrow one aiming at shareholder maximizing wealth.

The literature was showing the positive relations between CSR and different companies measures such as reputation, competitiveness, customer loyalty, financial performance, and sustainability (Porter and Kramer, 2006). Social identity theory, explains that perception of a company as a social responsible member of society where it operates is likely to determine its employees to enhance their self-image, and pride in the company, leading thus to a positive impact on work attitudes such as job satisfaction and inevitable improved company performance (Peterson, 2004). CSR activities can have a positive effect on firm’s performance by providing better access to valuable resources (Cochran and Wood, 1984), attracting and retaining higher-quality employees (Turban and Greening, 1997; Greening and Turban, 2000), and contributing toward gaining social legitimacy (Hawn et al., 2011). Furthermore, Stakeholder theory perspective (Freeman, 1984; Freeman et al., 2007; Freeman et al., 2010) suggests that CSR includes managing multiple stakeholder ties concurrently. As a result, CSR can mitigate the likelihood of negative regulatory, legislative, or fiscal action (Freeman, 1984; Berman et al., 1999;
Some studies explore the link between CSR and Firm Performance. However, these studies produce ambiguous results.

**Hypotheses development**

Company actions to the benefit of stakeholders can lead to positive emotions among employees, such as enthusiasm, gratification, pride, and fulfillment. Conversely, actions that have a negative impact on stakeholders can lead to adverse emotions among employees, including embarrassment, anger, and fear (Riordan et al., 1997; El Akremi et al., 2015; Onkila, 2015). Companies with high CSR levels are more likely to attract highly skilled employees, avoid high turnover rates, and promote employee commitment and motivation. Employees who hold positive attitudes towards their companies will be more willing to direct their behavior towards activities that are in line with the goals and values of their organization (Lamm et al., 2013; Temminck et al., 2015). Bauman and Skitka (2012) argued that the presence of CSR could lead to positive employee responses. In other words, they believe that the enactment of CSR can promote job satisfaction. Based on the above arguments, this study proposes the following hypothesis:

**H1:** CSR has a positive influence on job satisfaction.

DiSegni et al., (2015) found that firms that are proactive in supporting social responsibility and environmental sustainability are characterized by significantly higher profits measures than the industry and the sector in which they operate. Yu and Choi (2014); Ilona and Kazlauskaite (2012); Arendt and Brettel (2010); Vilanova et al. (2009); Beurden and Gösling (2008) and Smith and Higgins (2000) found a significant positive relationship between CSR and overall firm performance. Based on the above arguments, this study proposes the following hypothesis:

**H2:** Employees’ perception of job satisfaction mediates the positive relation of CSR to firm performance.

**METHOD**

**Sample**

In this paper, to verify the relationship between CSR and firm performance is undertook regression analysis to determine the coefficients of the variables and their magnitude. The sample of the study consists of 115 respondents (from the staff level to the division head). This paper adopted
a quantitative approach wherein the data collection instrument is a questionnaire.

Measurement

A well-established Likert type five-point scale ranging from "strongly disagree" (1) to "strongly agree" (5) is adopted to measure all variables. Closon's questionnaire (2009) is used to measure CSR perceptions and expectations. Job satisfaction is the work situation characteristics as satisfaction sources have often been proposed theoretically (Herzberg, 1966; Locke, 1976) and empirically (Minnesota satisfaction questionnaire, Weiss et al., 1967). The scale of organizational performance was adopted from me Drew (1997).

<table>
<thead>
<tr>
<th>Tabel 1. Scale of Organizational Performance</th>
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</thead>
<tbody>
<tr>
<td><strong>Construct/Items</strong></td>
</tr>
<tr>
<td><strong>Items for Corporate Social Responsibility construct</strong> (Closon’s, 2009)</td>
</tr>
<tr>
<td>Economic dimension</td>
</tr>
<tr>
<td>1. My company generates substantial profits.</td>
</tr>
<tr>
<td>2. My company meticulously controls the productivity of its employees.</td>
</tr>
<tr>
<td>3. My company maximizes its profits.</td>
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<td>4. My company creates value for its shareholders.</td>
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<tr>
<td>5. My company develops long-term financial strategies</td>
</tr>
<tr>
<td>Ethic-legal internal responsibility dimension</td>
</tr>
<tr>
<td>6. My company promotes workforce diversity (age, gender, ethnic origin).</td>
</tr>
<tr>
<td>7. My company formally punishes any non-ethical behavior by all its members (employers, managers, directors).</td>
</tr>
<tr>
<td>8. My company considers equal opportunities a basic principle in its employee promotion process.</td>
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<tr>
<td>9. My company implements fair pay policies.</td>
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<td>10. My company proposes policies that allow its employees to reconcile work and private life.</td>
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<tr>
<td>11. My company promotes social dialogue with employee representatives.</td>
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<tr>
<td>Ethic-legal external responsibility dimension</td>
</tr>
<tr>
<td>12. My company is not a party to any violation of human rights.</td>
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<td>13. My company complies at all times with the law</td>
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<td>14. My company provides clear and full information to its customers.</td>
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<tr>
<td>15. My company never resorts to corruption (bribes, extortion).</td>
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<tr>
<td>16. My company is trustworthy.</td>
</tr>
<tr>
<td>Philanthropic dimension</td>
</tr>
<tr>
<td>17. My company sponsors sports and/or cultural events.</td>
</tr>
<tr>
<td>18. My company minimizes its negative impacts on the environment.</td>
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<tr>
<td>19. My company participates in developing the local industrial fabric.</td>
</tr>
<tr>
<td>20. My company sponsors scientific research.</td>
</tr>
<tr>
<td>21. My company donates funds to not-for-profit associations.</td>
</tr>
<tr>
<td><strong>Items for Job satisfaction construct</strong> (Weiss et al., 1967)</td>
</tr>
<tr>
<td>22. In comparison with most jobs, mine is very interesting.</td>
</tr>
<tr>
<td>23. I am satisfied with the work climate where I work.</td>
</tr>
<tr>
<td>24. I am satisfied with my professional activities.</td>
</tr>
<tr>
<td>25. I am satisfied with my working conditions.</td>
</tr>
<tr>
<td>26. I am satisfied with the understanding that I have with my colleagues.</td>
</tr>
<tr>
<td>27. I am satisfied with the responsibilities entrusted to me.</td>
</tr>
<tr>
<td>28. I am satisfied with the understanding that I have with my line manager.</td>
</tr>
</tbody>
</table>
Items for Firm Performance construct (Drew, 1997; Paliszkiewicz, 2012)
29 Our company has a competitive advantage in its sales growth
30 Our company has a competitive advantage in its market share
31 Our company has a competitive advantage in its profit growth
32 Our company has a competitive advantage in its return on investment

Data analysis

The questionnaire was developed in English without taking piloting survey questions. Correlation analysis is used to inspect the overall pattern of relationships between the variables holistically.

In this study, we aim to verify the relationship between CSR and job satisfaction. For this purpose, regression analysis is used to determine the coefficients of the variables and their magnitude, and four regressions were analyzed (Hayes, 2013), which shows a direct effect and an indirect effect (i.e., through a mediator); four paths are determined, meaning that four regressions would be required. The program first calculates the direct effect. The tested models were:

Model for H1: \( Y_1 = \alpha + \beta_1aX_1 + e \).................................. (1)

Model for H2:
Regressions:
Path a: CSR (X1) affecting job satisfaction (Y2)
Path b: Job satisfaction (X2) affecting firm performance (Y3)
Path c: CSR (X1) affecting firm performance (Y3)
Path c': CSR (X1) affecting firm performance (Y3) through Job satisfaction (X2)

Model equation:
Path a \( Y_1 = \alpha + \beta_1aX_1 + e \).............................................(1)
Path b \( Y_2 = \alpha + \beta_1bX_2 + e \).............................................(2)
Path c \( Y_2 = \alpha + \beta_1cX_1 + e \).............................................(3)
Path c' \( Y_2 = \alpha + \beta_1c'X_1 + \beta_2c'X_2 + ec' \)........................(4)

The proposed research model and the hypothesized relationships between the constructs are indicated as positive (+).
RESULTS

Association between CSR and Job Satisfaction

Model 1 tested the association between CSR (dependent variable) and Job satisfaction (predictor variable). The result of linear regression that association between CSR and Job satisfaction as follows:

<table>
<thead>
<tr>
<th>Variables</th>
<th>Results</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correlation between CSR and Job satisfaction</td>
<td>Sig. (2-tailed) 0,000 &lt; 0,05</td>
<td>Significant</td>
</tr>
<tr>
<td>Correlation between Job Satisfaction and Firm performance</td>
<td>Sig. (2-tailed) 0,000 &lt; 0,05</td>
<td>Significant</td>
</tr>
<tr>
<td>Correlation between CSR and firm performance</td>
<td>Sig. (2-tailed) 0,000 &lt; 0,05</td>
<td>Significant</td>
</tr>
</tbody>
</table>

Given the results, it is possible to accept the alternative H1 that CSR has a significant positive association with Job satisfaction.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized coefficients</th>
<th>Standardized coefficients</th>
<th>t</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>SE</td>
<td>β</td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-4.686</td>
<td>5.029</td>
<td>-0.932</td>
<td>0.353</td>
</tr>
<tr>
<td>CSR</td>
<td>0.374</td>
<td>0.049</td>
<td>0.581</td>
<td>7.594</td>
</tr>
</tbody>
</table>

Job Satisfaction as a mediation

In Model 2 to test whether the relationship through a mediation variable is significantly capable of being a mediator in the relationship then is run Sobel test. The results of the Sobel test get the z value of 2.803 because the value of z obtained by 2.803 > 1.98 with a significance level of 5% then prove that job satisfaction can mediate the influence of CSR to Firm Performance.
performance. To illustrate the mediation of Job Satisfaction in the CSR and Firm performance relationship as follows:

**Figure 2. Job Satisfaction as a mediation**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>t</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-2.947</td>
<td>-0.967</td>
<td>0.335</td>
</tr>
<tr>
<td>Job Satisfaction</td>
<td>0.247</td>
<td>4.354</td>
<td>0.000</td>
</tr>
<tr>
<td>CSR</td>
<td>0.136</td>
<td>3.708</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Note: Dependent variable Firm Performance

When the Job satisfaction of a company is more favorable, CSR has a more significant impact on Firm performance in that company. These results confirm that Job satisfaction is a mediator of CSR and Firm performance, supporting H2.

**DISCUSSION**

The result from the study indicates evidence concerning Job satisfaction as a mediating variable influence relationship positive significant between CSR and firm performance. An organization can improve the quality of CSR implementation to stand and increase firm performance. This study also enhances to deepen the understanding of the relationship between CSR and Job satisfaction.

These findings support by empirically testing two hypotheses: that the CSR related positively to firm performance and job satisfaction is mediating factor in that relationship, supporting both H1 and H2. Employees as the capital of the companies will work more effectively and efficiently, and the emergence of built trust is shown by high satisfaction
doing in a job such as innovation and quality culture that impact to the improvement of firm performance. Since employees comprise a critical stakeholder group, and they contribute to a firm’s value-creation process (Brunton et al., 2015; Greening and Turban, 2000; Griffin et al., 2015).

Thus, the results of this study provide evidence that CSR oriented actions undertaken by companies will lead to increase job satisfaction and, in turn, will lead to improving firm performance. Such findings contribute to both theory and practice. A literature review indicates that human capital is crucial to the achievement of organizational goals and may improve firm performance (DeVaro, 2006; Jiang et al., 2012). CSR engagement contributes to the development of human capital by enhancing employee satisfaction, where both stakeholders and the company can benefit from CSR activities. Contribution to the literature, this study provides evidence of the indirect impact of CSR to firm performance and CSR activities will increase job satisfaction so it can be more significant to achieve good firm performance.

This study does have some limitations, and the hypotheses were tested within just the one company, and respondents include lower staff level so the result can not be a generalization. Future research on CSR can broaden investigations of the impact of CSR on corporate culture as a mediator of the relationship between CSR and firm reputation. Other mediators can be explored and tested.

CONCLUSION

This study examines the perception of the employee as part of internal stakeholder that job satisfaction mediates the relationship between CSR and firm performance. The result shows that CSR positive related to firm performance and job satisfaction is a mediating factor in that relationship and support both H1 and H2.

Implication for this study is Companies undertake CSR will lead to increase job satisfaction, and this, in turn, will lead to enhance firm performance.

Limitations of this study are only engaged in one company so that the results can not be generalized, and the choice of instrument is only questionnaires not combined with the interview. Future research can be done to add some variables i.e., corporate culture, intellectual capital, and management control related to CSR.
REFERENCES


