The role of corporate reputation in corporate social responsibility relations to firm performance in jambi province

Agus Solikhin[1], Tona Aurora Lubis[2], Ade Perdana Siregar[3]

[1,2,3]Faculty of Economics and Business, University of Jambi, Indonesia

Abstract

The purpose of this study is to examine the role of corporate reputation in the relationship of Corporate Social Responsibility to firm performance. This research is basic research, to fill the research gap in the study of Corporate Social Responsibility and firm Performance. Corporate Social Responsibility is a corporate commitment to carry out its social responsibilities towards stakeholders. In fact, many companies have not been maximal in carrying out Corporate Social Responsibility programs, so the results have no impact on firm performance. This raises the question of what companies should consider so that the Corporate Social Responsibility program implemented so far can have an influence on improving firm performance. This research was conducted in four cities or regencies in Jambi Province in 2019, Jambi city, BatangHari regency, TanjungJabung Barat Regency and TanjungJabungTimur Regency. The number of respondents used was 55 firms representing companies in the Jambi Province. This study uses path analysis with the help of the SmartPLS version 3.0 program which is used to test hypotheses.The results of this study are that Corporate Social Responsibility has a significant positive effect on firm performance, Corporate Social Responsibility also has a significant positive effect on corporate reputation, corporate reputation has a significant positive effect on firm performance and ultimately corporate reputation is able to mediate in the relationship between Corporate Social Responsibility on firm performance.

Keywords: Corporate social responsibility; corporate reputation; firm performance

INTRODUCTION

Corporate social responsibility (CSR) is a stakeholder claim that the company is not only oriented towards the interests of shareholders, but also for the interests of stakeholders in its business practices. This is as stated by Freeman, et al. (2004) that the company is now seen as no longer an independent entity that is only responsible to shareholders but they also have broader responsibilities, namely the community that supports the company's existence by becoming a buyer of goods and services produced.

Corporate Social Responsibility (CSR) is said to be a corporate strategy, because it is an internal resource that can shape the culture and value of the company thereby increasing reputation and profitability. CSR is expected to create sustainable development, namely business activities and strategies carried out by the company to meet the needs of current stakeholders by protecting the community and existing natural resources so that it does not sacrifice the fulfillment of stakeholder needs in the future (Handayani, 2016). Jensen (2001), argues that the company's goal of providing maximum welfare to shareholders will not be achieved if the company treats stakeholders with inappropriate actions. This shows that companies must be able to work together with stakeholders to be able to provide social welfare to stakeholders and generate wealth for shareholders. However, in reality there are still non-uniform results or controversies between the companies that run CSR and the company's performance.

Several studies have found a significant positive effect of CSR on company performance (Matiolanska 2010; Mugisa, 2011; Mujahid & Abdullah, 2014; Famiyeh, 2017). Their research findings say that when organizations invest in corporate social responsibility (CSR) initiatives will have an impact on reducing costs, improving quality, flexibility, and improving overall company performance. However, there are some studies that actually show differences in results with previous studies and view that companies that carry out CSR activities have no influence on company performance (Buciuniene & Kazlauskaite, 2011; Olowokudejo, 2011; Okwemba et al, 2014; Arshad et al, 2015). Their research found evidence that CSR policies expressed in codes of ethics, company values and explicit statements as corporate social commitments did not affect company performance.

the controversy over the relationship between Corporate Social Responsibility (CSR) and company performance in the business environment is still wide open. Differences in research results also identify that the influence of Corporate Social Responsibility (CSR) on company performance can be more effective if there are intangible resources that will mediate the relationship between them (Surocca et al, 2010; Maduenoa, 2015; Obtained & Amsong, 2017).

Companies that are committed to Corporate Social Responsibility on an ongoing basis will bring many benefits, but some groups accept the concept of Corporate Social Responsibility as something that has a positive impact on the company and others reject it. The group who objected to the implementation of CSR argued that companies tend to consider CSR as a voluntary act and the company has been paying taxes to the state and therefore the responsibility for improving people's welfare has been taken over by the state or government is no longer the company's responsibility (Handayani, 2016). The group that supports CSR activities believes that the company cannot be separated from the individuals involved in it, namely its stakeholders. Therefore, they should not only think about the financial benefits for the company, but must also have sensitivity and concern for the community, especially to the communities around the company's operational areas.

Based on the business phenomenon and research gap that has been described previously, an interesting problem can be formulated, namely a) There are differences in the results of research on Corporate Social Responsibility on company performance. Some researchers conclude there is a significant influence between Corporate Social Responsibility on company performance, but some researchers conclude there is no influence between the two things. b) Corporate Social Responsibility as a reflection of involvement in social and environmental issues shows the ethical sensitivity of the company has not been done optimally by the company.

Literature review

Stakeholder theory

According to Freeman (2004), stakeholders are groups or individuals who get profits and or losses by, and whose rights are violated or valued by corporate actions. The use of this theory emphasizes that companies have social responsibilities that require them to consider all the interests of various parties affected by their actions. Stakeholder theory, too, offers a new way to organize thinking about organizational responsibilities. By suggesting that the needs of shareholders cannot be met without satisfying the needs of other stakeholders, taking into account the considerations beyond maximizing profits. In other words, when a company tries to serve shareholders as the main concern, its success in doing so may be influenced by other stakeholders (Foster and Jonker, 2005).

Stakeholder theory, companies have responsibilities to each group or individual who can or has been affected by the obligations held by the company. Basically stakeholders can control themselves or have the ability to influence the use of economic resources used by the company. This is determined by the size of the power (power) possessed by stakeholders over the source of the economy. The power can be in the form of the ability to limit the use of limited economic resources (capital and labor), access to influential media, the ability to regulate the company or the ability to influence consumption of goods and services produced by the company (Ghozali and Chariri, 2007).

Corporate social responsibility (CSR)

The concept of CSR, according to the World Bank, can be defined as corporate social responsibility and business commitment to contribute to sustainable economic development, working with employees and their representatives, their families, local communities and the wider community to improve quality of life, good ways to business and good for development.

Pranowo et al. (2013), adding that the focus of CSR is on the balance between economic, social and environmental concerns. There are several steps that must be passed by companies in implementing CSR, namely: 1) The first stage, which is called the company's economy of concern is economical to focus only on profits; 2) The second stage, companies begin to realize social, but may still be charitable, donations to charity when others are asked to do the program; 3) The third stage, for public affairs, provides strategic interests related to business (including causes related to marketing); 4) The fourth stage, with company investment in the community; strategic partnerships initiated by the company, and 5) The final stage, the company will focus on sustainable business functions that are integrated into the business strategy objectives.

Corporate Social Responsibility (CSR) is an open and transparent business practice that is based on ethical values and respects the community, employees, the environment, shareholders and other stakeholders. CSR supports a triple bottom line that emphasizes economic, social and environmental (Said, 2009).

Company reputation

The contemporary business environment shows that companies must be part of the community and play an active role in it. A company's reputation that is built over time is the result of complex interactions and relationships between companies and stakeholders. This means that reputation is based on past actions, experiences, and reactions from stakeholders. In other words, reputation is based on the overall perception of the stakeholders associated with the company. Reputation means the development of complex relationships over time, and is difficult to imitate in a short time (Bojan, 2014).

Fombrun and Shanley (1990), define reputation as a perception that is planted in the minds of the public based on information about the relative position of companies in the organizational field. The public receives market signals that indicate market performance, accounting signals that indicate financial performance, institutional signals that indicate the company's compliance with social norms, and strategic signals that indicate the company's strategic direction. Through all of these signals, the company's reputation will gradually be embedded in the minds of the public.

Malikeh et al. (2013), explains that reputation is a set of collective beliefs about the company's ability to meet the interests of various stakeholders, the company's reputation is also a collective judgment of observers of a company based on an assessment of the financial, social, and environmental influences associated with the company from time to time.

Company performance

An assessment of company performance is important, eitherby management, shareholders and the government, because it concerns the distribution of welfare among them. Companies that have assessed and evaluated the performance of their company can find out the location of the deficiencies that they must immediately correct so that the company can realize its goals well.

Company performance is the ability of a company's work to produce an outcome. The outcome of the company's performance should be measured and described the company's condition. Performance appraisal needs to be done by the company to be able to see whether the company has achieved the expected outcome. Robertson et al. (2002), states that effective performance is a derivative of culture.

Research methodology

This research is explanatory research because in explanatory research has the aim of testing the causal relationship or between variables through hypothesis testing, it is hoped that the results of this study can be used to develop knowledge and problem solving in the field.

Population and sample

The population in this study are all large-scale companies located in Jambi province and who carry out Corporate Social Responsibility (CSR) program activities in which as many as 150 companies. The sampling method in this study was carried out using a purposive sampling method, namely the determination of samples on the basis of the suitability of certain characteristics and criteria. The sample selection criteria in this study are a) Large-scale companies in Jambi province in the period 2019. b) The company consistently runs corporate social responsibility (corporate social responsibility) activities for a minimum of 2 years. c) Companies that are incorporated in CSR forums both at the city and district level, the sample in this study were 55 companies. This study uses 11 indicators, so a minimum of 55 samples are needed. A sample size greater than 30 and less than 500 is sufficient for most studies (Ferdinand, 2011).

Definition of operational variables

In this study the measurements and indicators used include three constructs namely a) Corporate Social Responsibility (CSR) b) Company reputation and c) Company performance. Conceptual and operational definitions and their measurement of the three constructs can be explained as follows:

Corporate social responsibility

Corporate Social Responsibility (CSR) is a corporate social responsibility related to the company's commitment to contribute to sustainable development, stakeholder interests and improvement of social conditions (Jamali, 2008). The indicators used in the CSR construct are business ethics, environmental participation, caring consumers and caring for the community.

Company reputation

The company's reputation as a combination of reality (social and economic performance) and perception (performance that is considered important by stakeholders). The company's reputation is also a representation of perceptions of the company's past actions and future prospects that reflect the overall desires of its constituents (stakeholders) compared to competitors (Fombrun, 1996; Malikeh, 2013 and Swaiger, 2011). The indicators used in the Company's Reputation construct are product quality, financial performance, attention to employees and corporate governance.

Company performance

Company performance is the results achieved by the company within a certain period with reference to the standards set. Mishra and Suar (2010) see a holistic company performance where financial performance and social performance are a unity that describes the performance of a company as a whole. The indicators used in the Company's Reputation construct are sales growth, good citizenship and social acceptance.

Measurement scale

The measurement used in this research is to use interval data measurement. Interval scale is a data measurement tool that can produce data that has a range of values that have meaning, even though the absolute value is less meaningful. This interval scale produces measurements that allow calculation of averages, standard deviations, parameter statistics, correlations and others. This scale is a refinement of semantic scalled data. You do this by giving two extreme categories (Ferdinand, 2011).

Data analysis

This study uses descriptive statistical data analysis and inferential statistics. Descriptive statistics are used to describe the characteristics of respondents, samples and construct indicators and indicators used in this study. Inferential statistics are used to test models and hypotheses. Data analysis techniques use structural equation models (Structural Equation Model/SEM) with the help of SmartPLS software version 3.

RESULTS DISCUSSION

Measurement of the model

Measurement of models that are reflective or outer reflective models show how the observed variables represent the latent construct to be measured, namely by testing the validity and reliability of the indicators forming the latent construct through confirmatory factor analysis (Latan and Ghozali, 2012).

Table 1: Loading factor results

	Corporate Social Responsibility	Reputasi Perusahaan	Kinerja Perusahaan	Keterangan
CSR1	0,832			Valid
CSR2	0,715			Valid
CSR3	0,731			Valid
CSR4	0,727			Valid
RP1		0,736		Valid
RP2		0,755		Valid
RP3		0,849		Valid
RP4		0,692		Marginal
KP1			0,841	Valid
KP2			0,809	Valid
KP3			0,734	Valid

Based on table 1 above, it can be said that the indicator of research variables is said to be valid because it meets the criteria> 0.70 for the confirmatory research category. After initial data analysis, it was found that the loading factor for the RP4 indicator shows a value smaller than 0.70.

Based on the processing of research data, to test the hypothesis it results in the t-value model image as shown in Figure 4 below.

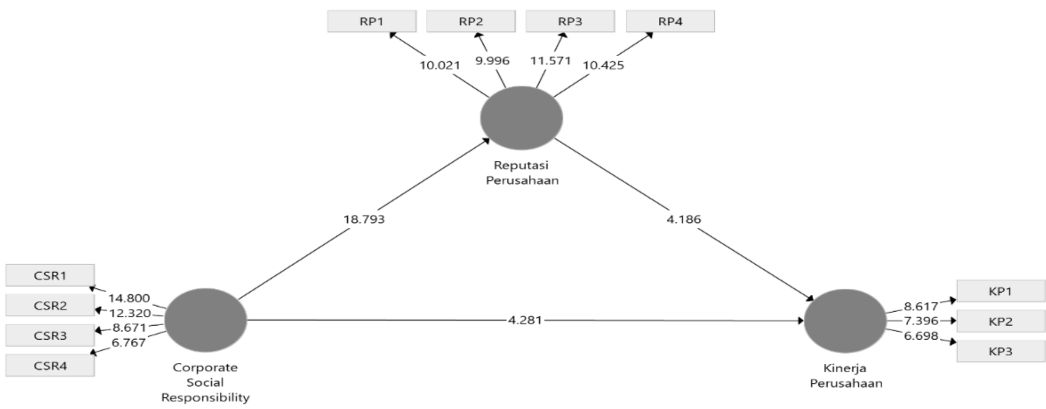

Figure 1. Bootstrapping model

The following are the results of causality testing between variables in this study can be seen in table 2.

Table 2. Summary of research findings

No	Kausalitas	Hipotesis	t-statistic	P value	Hasil
1	CSR → KP	H1	4,281	0,000	Diterima
2	CSR → RP	H2	18,793	0,000	Diterima
3	RP → KP	H3	4,186	0,000	Diterima
4	CSR RP → KP	H4	3,959	0,000	Diterima

Effect of corporate social responsibility (csr) on company performance

Hypothesis 1 statistical test results show that the t-statistic value is 4.281 with a p value of 0.000. These values meet the hypothesis acceptance requirements, namely t-statistic> 1.96 at a significance level of 0.05, it can be concluded that the significant influence of CSR on company performance has been proven.

This test shows that the higher the level of CSR owned by the company, the higher the company's performance can be achieved. In other words, activities that reflect the company's CSR and are reflected in business ethics, environmental participation, consumer care and public concern if carried out by the company seriously will be able to improve company performance.

This research was supported by Mugisa (2010), Lee et al (2011), Palmer (2012) and Khan (2013), who examined the role of CSR activities carried out by companies to improve company performance. Companies involved in CSR activities will get better sales compared to competing companies that do not play a role in CSR activities.

Empirical findings on companies in Jambi province explain that the company has paid attention to stakeholders by running CSR programs such as business activities that are in accordance with local and central government regulations by producing ethical actions and caring for consumers and responding to stakeholder complaints.

Effects of csr on company reputation

Hypothesis 2 statistical test results showed that the t-statistic value was 18.793 with a p value of 0.000. These values meet the hypothesis acceptance requirements that is t-statistic> 1.96 at a significance level of 0.05, it can be concluded that the significant influence of CSR on the company's reputation has been proven.

This test shows that the higher the level of CSR owned by the company, the higher the company's reputation that can be achieved. In other words, activities that reflect the company's CSR and are reflected in business ethics, environmental participation, consumer care and public care if carried out by the company seriously will be able to enhance the company's reputation.

This research is supported by Arikan (2012), D'Souza (2015), Fernandez (2015), and Mukasa (2015), the results of the study show that there is evidence of a positive relationship between the construct of CSR and reputation, which in turn affects market share. CSR that is well implemented will affect stakeholder perceptions which will ultimately increase trust in the company and will enhance a good company's reputation.

Effect of company reputation on company performance

Hypothesis 3 statistical test results show that the t-statistic value is 4.186 with a p value of 0.000. These values meet the hypothesis acceptance requirements that is t-statistic> 1.96 at a significance level of 0.05, it can be concluded that there is a significant influence of the company's reputation on company performance has been proven.

This test shows that the higher the level of the company's reputation owned by the company, the higher the company's performance can be achieved. In other words, activities that reflect the company's reputation and are reflected in product quality, financial performance, empathy for employees and corporate governance, if carried out by the company seriously it will be able to improve company performance.

Attention to the reputation of the company by the company in the province of Jambi will encourage and impact on the creation of company performance which is increasing as well. The results of this study are also supported by Bojan (2015) and Swaiger (2015), in their research finding that company reputation is an intangible asset, reputation enables the company to manage the expectations and needs of stakeholders. The contribution from his research is useful for managers not to forget the importance of a good reputation for company performance, and also to direct more resources, time and effort to the process of making a good reputation from their company.

Effects of csr on company performance mediated by the company's reputation.

Hypothesis 4 statistical test results show that the t-statistic value is 3,959 with p value 0,000. These values meet the hypothesis acceptance requirements that is t-statistic> 1.96 at a significance level of 0.05, it can be concluded that the significant influence of CSR on company performance mediated by the company's reputation has been proven.

This test shows that the higher the level of CSR that is owned by the company, the more it enhances the company's reputation and will ultimately increase the company's performance that can be achieved. For companies in Jambi province, where there is a desire to improve their performance, they must be able to build the company's reputation, of course, with the support of corporate social activities or CSR activities. The results of this study are supported by his research Obtained &Amsong (2017), the purpose of his research is to examine the relationship between CSR activities and company performance, by focusing on access to capital and the company's reputation as a mediator. The analysis confirms that the corporate social responsibility hypothesis has a significant positive relationship on corporate reputation. The conclusion of his research is that reputation is very important to mediate in the relationship of CSR to company performance.

CONCLUSIONS

CSR has a significant positive effect on company performance in Jambi province, which means that companies that want to improve their performance must be driven by CSR activities.

CSR has a significant positive effect on the company's reputation in Jambi Province, which means that CSR activities will in fact create perceptions for stakeholders about a better company reputation.

The company's reputation has a significant positive effect on company performance in Jambi Province. The more reputation is maintained and improved, the impact on company performance.

The company's reputation is able to mediate in the relationship of CSR to the company's performance in Jambi Province. For a company to improve its performance, it must pay attention to its CSR activities and also maintain a good reputation so that it will improve company performance. A company's reputation is a very important variable for a company because reputation is an intangible asset that is difficult for other companies to emulate.

REFERENCES

Arshad, Anees and Ullah. 2015. The Impact of Corporate Social Responsibility on Firm’s Financial Performance, International Journal of Linguistics,Social and Natural Sciences, 1(1): 33-39

Buciuniene and Kazlauskaite. 2011. The linkage between HRM, CSR and Performance Outcomes, Baltic Journal of Managment, 7(1):5-24

De Castro, G.M, Lopez J.E and Lopez Saez. 2006. Business and Social Reputation:Exploring the Concept and MainDimensions of Corporate Reputation, Journal of Business Ethics, 63: pp. 361–370

Famiyeh, S. 2017. Corporate Social Responsibility and Firm’s Performance: Empirical Evidence , SocialResponsibility Journal, Vol. 13 Iss 2

Ferdinand. 2011. Metode Penelitian Manajemen : Pedoman Penelitian Untuk Penulisan Skripsi, Tesis dan Disertasi Ilmu Manajemen, Edisi 3, Semarang : Badan Penerbit Universitas Diponegoro

Fombrun, C., Shanley. 1990. What is in a Name? Reputation Building and Corporate Strategy, Academy of Management Journal

Foster, D. and J. Jonker: 2005. Stakeholder Relationships: The Dialogue of Engagement, Corporate Governance , Vol. 5, pp.51–57

Freeman, R. Edward., 2004. A Stakeholder Theory of the Modern Corporation, Perspectives in Business Ethics, Singapore:McGraw Hill, hlm.171-181

Ghozali, Imam dan A. Chariri. 2007. Teori Akuntansi, Badan Penerbit Universitas Diponegoro Semarang

Handayani, Rini. 2016. Membangun Model Kemitraan Sosial Proaktif Dalam Meningkatkan Kinerja Perusahaan, Disertasi, Program Doktor Ilmu ekonomi, Undip

Husain. 2003. Metode Riset Bisnis, Jakarta : Gramedia Pustaka Utama

Jamali. D, 2008. A Stakeholder Approach to CorporateSocial Responsibility: A Fresh Perspectiveinto Theory and Practice, Journal of Business Ethics, Vol. 82, pp. 213–231

Jensen, M.C. 2001. Value Maximization, Stakeholder theory and the Corporate Objective Function, European Financial Management, 7(3), pp.297-317

Katrinli and Gunay. 2011. Corporate Social responsibility, Strategy and Culture : Bati Anadolu Group Case, International Journal of Business Strategy, 11 (2), pp.32-38

Latan dan Ghozali. 2012. Partial Least Square : Konsep, Metode dan Aplikasi, Badan Penerbit Universitas Diponegoro.

Lee, Pati and Roh. 2011. Relationship between Corporate Sustainability Performance and Tang ible Business Performamce : evidence from oil and gas industry. IJBT 3 (3): 72-82

Maduenoa, jorgea, conesab and Martinez-Martinez. 2015. Relationship between Corporate Social Responsibility and Competitive Performance in Spanish SMEs: Empirical evidence from a stakegolders perspective: Bussiness Research Quarterly, 1-18

Malikeh., B and Azam K, 2013. Reputation: An Important Component of Corporations' Value, International Journal of Academic Research in Business and Social Sciences July 2013, Vol. 3, No. 7

Matiolanska. 2010. Social Responsibility Management in Polish Companies, Zagreb International Review of Economics & Business, Special Conference Issue, pp. 29-43

Mishra and Suar. 2010. Does Corporate Social Responsibility Influence Firm Performance of Indian Companies? Journal Of Business Ethics, 95: 571-601

Mujahid and Abdullah,2014. Impact of Corporate Social Responsibility on Firms FinancialPerformance and Shareholders wealth, European Journal of Business and Management,Vol.6, No.31

Mugisa. 2011. The Effect of Corporate Social Responsibility on Business Operation and Performance, Faculty of Business Administration and Management, Uganda Martyrs University.

Obtained &Ansong, 2017. Corporate social responsibility and firm performance of GhanaianSMEs: Mediating role of access to capital and firm reputation, Journal of Global Responsibility, Vol. 8 Iss 1

Okwemba, Chitiavi, Egessa, Douglas, and Musiega. 2014. Effct of Corporate Social Responsibility on Organisation Performance; Banking Industry Kenya, Kakamega Country, International Journal of Business and Management Invention, 3(4)

Olowokudejo, Aduloju and Oke. 2011. Corporate Social Responsibility and Environmental sustainability, Bussiness & Society, 50 (1) : 6-27

Palmer. 2012. Corporate Social Responsibility and Financial Performance : Does it Pay to Be Good?, Claremont McKenna College, Claremont, CA

Pranowo Budi, Suryono Agus, Siti Rochmah Siti , Kusuma Ratna Aji, 2013. Performing Corporate Social Responsibility of State Owned Enterprises: A Good Governance Perspective, Public Policy and Administration Research, Vol.3, No.9

Prieto and Revilla. 2006. Learning Capability and business performance : A non-financial and financial performance, The Learning Organization, 13 (2):166-185

Robert and Dowling. G, 2002. Corporate Reputation And Sustained Superior Financial Performance Strategic Management Journal Strat. Mgmt. J., 23: 1077–1093 (2002)

Robertson, Crittenden, Brady, and Hofman. 2002. Situational Ethics Across Borders: A Multicultural Examination, Journal of Business Ethics, 38 (4): 327-338

Surruca, Tribo and waddock. 2010. Corporate Responsibility and Financial Performance : The Role of Intangible Resources, Strategic Management Journal, 31:463-490