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# THE ROLE OF CSR AND OWNERSHIP COMMITTEES IN INDUSTRIAL COMPANY STRATEGIES IN INDONESIA

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**ABSTRACT**

*In business, particularly in Indonesia, the implementation of Corporate Social Responsibility (CSR) concepts has become essential. CSR disclosure is often regarded as a strategy to enhance a company's brand and meet societal expectations, despite ongoing debates about its applicability and efficacy. Nevertheless, Indonesian businesses have yet to fully embrace investments that prioritize sustainable financial principles and ecologically beneficial characteristics. The efficacy of a company's climate change strategy is contingent upon the participation of the CSR committee, and the successful execution of climate change management methods is largely dependent on CSR spending. However, differences exist between the effects of family and managerial ownership on business operations. This study examines the connections between CSR disclosure, the function of CSR committees, CSR spending, managerial and family ownership, and the performance of Indonesian firms. The research's conclusions offer significant insights for businesses in terms of performance enhancement and meeting stakeholder expectations.*

**KEYWORDS** *Management Ownership, Family Ownership, Corporate Social Responsibility, CSR Committee, CSR Expenditure, And Business Performance*



## INTRODUCTION

The principle of Corporate Social Responsibility (CSR) has been an integral part of a company's business practices for some time. Despite this, this concept remains diverse in its use and application. While some consider CSR to run counter to the principles of sound business and reduce the focus on wealth creation, skeptics also consider CSR as an essential element in the operational success of a business and as an opportunity to integrate broader social considerations in the context of greater economic benefits. The Government of Indonesia, due to its negative impact on the environment, has required companies to carry out social and environmental responsibility activities and disclose them in annual reports and/or sustainability

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reports. The data shows an increase in the number of companies in Indonesia reporting sustainability, reflecting the increased attention of stakeholders to environmental issues, including shareholders, especially institutional investors who have a significant influence on corporate disclosure practices.(Haryanto & Noviany , 2023)(Tania & Hesniati , 2022)(Candy & Quinn, 2023)

Companies can adopt Corporate Social Responsibility (CSR) initiatives to meet people's expectations as well as improve their reputation. However, the focus on environmentally friendly investments, sustainable financial principles, CSR, and sustainable business performance practices are still somewhat less indicated in the industry in Indonesia (Patuelli et al., 2022). CSR disclosure can be done through various media such as annual reports, websites, social media platforms, or other communication channels that provide stakeholders with information about the company's efforts in managing environmental and social impacts. This practice is able to improve corporate image, stakeholder trust, and information transparency (Ye & Dela, 2023). In addition, the success of a climate change management strategy often involves a CSR Committee, which is tasked with planning, implementing, and evaluating CSR activities in a company.

The CSR Committee plays an important role in ensuring the effectiveness of the company's climate change strategy, cross-departmental coordination, and accountability in achieving CSR goals (Samantha Hamzah et al., 2022). CSR spending is also a key factor in the success of climate change management strategies. CSR expenditure includes the amount of funds that the company allocates for CSR activities, including donations, social investments, operational costs, or employee incentives. The level of managerial ownership, which reflects the involvement of managers in the company's shareholding, also plays a role in improving the company's performance (Van Horne, 2020). Managers who own shares in a company have a strong incentive to improve the company's performance, as the company's success will have a positive impact on them financially. However, family ownership has a more complex relationship with the company's performance. Family ownership tends to show a negative relationship with company performance (Garad et al., 2021).

Family Ownership, which refers to the percentage of company shares owned by family members of the founder or controlling the company, is a factor that can affect a company's performance in the face of climate change (Alfaro et al., 2020). Family ownership can affect company culture, long-term commitment, and leadership stability. The relationship between family ownership and company performance tends to vary. A number of studies have shown a negative relationship between high levels of family ownership and company performance. This shows that the higher the percentage of company shares owned by the founder's family, the worse the company's performance will be. This may be due to the influence of family ownership on business decision-making that is not always optimal (Nugraheni et al., 2022).

## Literature Review

### *CSR disclosure on the Company's performance*

In measuring Corporate Social Responsibility (CSR) performance and corporate performance, there are various factors that affect the results of the study, with findings that are not always consistent; However, some studies have shown a positive impact. As revealed by Skirbekk et al. (2020), CSR is considered a strategic tool that helps achieve organizational economic goals by integrating social goals with business goals. Companies can increase their profitability by increasing CSR activities against various stakeholders. Companies with strong financial positions tend to have more resources to develop CSR initiatives, and this reflects their CSR performance. In addition, according to Al-Shammari et al. (2019), the use of ESG (environmental, social, governance) scores in evaluating CSR performance and its impact on company performance has also resulted in diverse findings in the literature. In addition, research shows that more than 85% of studies focused on only one aspect of ESG, such as environmental, social, or governance (Lopatta et al., 2020). The results of this study show that the performance score in governance (G disclosure score) is positively correlated with organizational performance, while the performance score in social responsibility (S disclosure score) does not show a clear relationship with company performance, as stated by Shah et al. (2021). These findings indicate that the influence of CSR on company performance is a complex phenomenon and depends on various factors. Most studies that measured the relationship between CSR disclosure and corporate profitability showed a positive correlation (Lu et al., 2021).

**H1: CSR Disclosure has a significant positive effect on firm performance**

### *CSR Committee in the Company's performance*

The CSR Committee has the responsibility to make decisions related to CSR and sustainability, and is considered a sustainability governance mechanism, as suggested by Elmaghrabi et al. (2021). There is an ongoing debate on whether the role of the CSR Committee can increase the company's value through the influence of CSR performance and business practices, as proposed by Elbardan et al. (2023). Therefore, a CSR Committee that is effective in better meeting the needs of stakeholders, which in turn can result in a better corporate reputation and reduced costs, can potentially increase the company's value, as noted by Al-Ahdal et al. (2023). Effective sustainability governance mechanisms provided by CSR committees can reduce business risks and improve business sustainability, potentially improving higher company performance (Mahmood & Bashir, 2020). Effective sustainability governance management provided by CSR committees can also reduce business risks and improve business sustainability, thereby increasing company value (Singh & Misra, 2021). From the discussion above, it can be seen that the existence of a CSR Committee can have a positive impact on the company's value or not, depending on its implementation.

**H2: *CSR Committee* has a non-significant positive effect on firm performance**

***CSR expenditure in the Company's performance***

The report shows an increase in CSR that is not used by listed companies, prompting the need for a careful study of the implications of CSR expenditures that are not utilized in the company's financial statements (Al-Gamrh et al., 2020). Given the concerns raised by policymakers regarding companies deliberately not using their CSR allocations for the benefit of the community (Oware et al., 2022), it is important to evaluate the impact of unutilized CSR on debt financing. Companies that have unused CSR expenditures indicate the existence of information asymmetry that can affect reputation and may send negative signals. (Bian et al., 2023) It is important to understand the implications of not utilizing CSR allocations for listed companies, especially in the public sector, on companies and society. Based on these findings, consumers and investors are increasingly emphasizing the importance of CSR, encouraging many companies to engage in community activities to avoid conflicts with key stakeholders (Onkila & Sarna, 2022). In addition, our findings show that CSR spending improves a company's image, promotes a better understanding of products and services, and, most importantly, strengthens relationships with various stakeholders (Oware & Mallikarjunappa, 2022).

**H3: CSR expenditure has a significant positive effect on firm performance**

***Managerial Ownership in the Company's performance***

According to Annisa et al. (2019), when a company starts its operations, it usually has a small size, and the owner himself acts as the manager of the company. However, along with the growth of the company, additional capital is needed to finance its operations. Therefore, the company seeks external funding from the market, which results in the involvement of other investors who provide the funds and acquire joint ownership of shares with existing owners. This division of ownership resulted in the appointment of managers to oversee and control the company's operations, leading to a separation between ownership and control. This, in turn, can create conflicts of interest between management and shareholders (Arief & Suzan, 2021). According to Kao et al. (2019), several studies show a negative relationship between changes in internal shareholding levels and company performance during the IPO period. Gusmiarni et al. (2020) found a positive relationship between post-IPO performance and equity retention by original owners. Similarly, SILVIA et al. (2020) investigated companies listed on the SET and found that the relationship between performance and managerial ownership varies depending on the level of ownership.

**H4: Managerial ownership has a significant positive effect on firm performance**

***Family Ownership in the Company's performance***

According to Muntahanah et al. (2021), the success of a family business tends to increase when the founding family members are still actively participating in the executive board or business supervisors. Research by Mariani et al. (2023) found a favorable relationship between family ownership and company success, especially at high levels of ownership concentration. Nonetheless, research by Hegde et al.

(2020) states that corporate families tend to be more effective in responding to crises than non-family firms, but the question of the influence of family ownership on the stock market and operational performance is still not fully explained. In contrast, research by Altig et al. (2020) highlights that while the impact of family ownership tends to be beneficial and significant in smaller firms, its impact in larger firms has also been shown to be positive and substantial (Albuquerque et al., 2020).
**H5: Family Ownership has a significant positive effect on firm performance**

***Board environmental committee***

According to Tingbani et al. (2020), companies can be involved in greenwashing through various ways. Although issuing green bonds is generally considered to be rarely used as a greenwashing strategy, as the goal is to limit financing and obtain certifications related to sustainability. However, some analysts, investors, and regulators are concerned that behind the significant growth of these financing instruments may be inappropriate practices (Arslan et al., 2023). This is compounded by a lack of information on how the funds raised are actually being used, which emphasizes the importance of these considerations. If the funds obtained through the issuance of green bonds are actually used in accordance with their objectives, it is expected that the company's environmental performance will improve (Fatica & Panzica, 2021). Environmental improvement is not only triggered by the financing obtained to implement new environmentally friendly projects, but also the result of the company's commitment and its implementation through measures to improve and reduce the environmental impact of its activities (Abdullah et al., 2023). As the highest decision-making body in an organization, the board of directors of a large company has a number of responsibilities, demands, and the complexity of the organization's operational environment, which drives the formation of board subcommittees. The majority of corporate governance codes around the world today require companies to form permanent committees such as an audit committee, a nomination committee, and a compensation committee (García et al., 2023).
**H6: Board environmental committee has a moderation role in the relationship between csr disclosure, csr *committee,* csr expenditure, managerial ownership, family ownership and firm performance**

## RESEARCH METHOD

This study uses a descriptive approach with secondary data that takes qualitative data that has been quantified. Data collection is carried out through the website of the Indonesia Stock Exchange to obtain the company's financial statements, as well as through browsing the relevant company's website to obtain sustainability reports. The research population consists of all companies listed on the Indonesia Stock Exchange, with the sample selected using the purposive sampling method based on certain criteria. Observations were made on 50 companies over a 5-year period, from 2018 to 2022. The analysis technique used is multiple linear regression, which aims to understand the relationship between variables. The analysis was carried out using Stata's statistical software. The regression model is formulated as follows (Hussein & Elsayed, 2023).

Table 1. The regression model

| | | |
|---|---|---|
| *CSR Disclosure* | $$CSRD = \frac{\sum X_{ij}}{N_j}$$ CSRD: Corporate social responsibility disclosure index<br>N: Number of item items for the company<br>X: The dummy variable has a value of 1 if the item is disclosed and 0 if it is not | (Fahad & Busru, 2020) |
| *CSR Committee* | $$CSRD = \frac{\sum X_{ij}}{N_j}$$ CSRD: Corporate social responsibility disclosure index<br>N: Number of item items for the company<br>X: The dummy variable has a value of 1 if the item is disclosed and 0 if it is not | (Meftah Gerged et al., 2023) |
| *CSR Expenditure* | CSR Expenditure = 2% × Average Profit of the Last Five Years. | (Siddiqui et al., 2023) |
| *Managerial Ownership* | $\text{Managerial Ownership} = \frac{\sum \text{shares owned by management}}{\sum \text{outstanding shares}}$<br>x 100% | (Chikosi & Mutezo, 2023) |
| *Family Ownership* | Yit = a0 + a1 X1it + a2 X2it + a11-17 X3t + $\varepsilon_{it}$<br>Yit = company performance represented by ROA, ROE and Tobin's Q<br>X1it = Family company, a binary variable that is valued at '1' when the founding family is present in the company<br>(as defined earlier) and '0' is the opposite<br>X2it = control variables (size, age, leverage, growth opportunities and company risk)<br>X3t = Dummy variable year, one for each sample period year | (King et al., 2022) |
| *Board environmental committee* | By establishing and empowering a dedicated Environmental Committee Board, companies can demonstrate a commitment to environmental sustainability, enhance CSR efforts, and contribute to the long-term performance of independent companies | (Belkacemi et al., 2021) |

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## RESULT AND DISCUSSION

**Descriptive Statistics**

**Table 2. Descriptive Statistics**

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| CSRD | 175 | .4138594 | .556406 | -2.437883 | 1.081071 |
| CSRC | 175 | .9647255 | .3384169 | -1.19054 | 2.808697 |
| CSRE | 175 | -.2046459 | .9931751 | -4.517337 | .877736 |
| MO | 175 | 11.65483 | 66.81514 | -189.6821 | 678.9849 |
| FO | 175 | 1.536193 | 1.968393 | -.6375063 | 15.35804 |
| BEAK | 175 | .5549909 | .2187029 | .0850822 | .97 |

Based on Table 2, it can be concluded that descriptive statistics show a total of 175 observations, with the Corporate Social Responsibility Disclosure (CSRD) variable having a minimum value of -2.437883 and a maximum value of 1.081071. With an observation value of 175 companies, the mean result of CSRD is 0.4138594, indicating that companies that use CSR Disclosure do not suffer losses. In addition, the standard deviation value of the Disclosure is 0.556406, indicating that the company that uses CSR Disclosure has a high level of data variation.

The Corporate Social Responsibility Committee (CSRC) variable has a minimum value of -1.19054 and a maximum value of 2.808697. With 175 companies as the number of observations, the mean result of the CSRC is 0.9647255, indicating that companies that use the CSR Committee do not suffer losses. In addition, the standard deviation value of the Committee is 0.3384169, indicating that companies that use CSR Committee have a high level of data variation.

The Corporate Social Responsibility Expenditure (CSRE) variable has a minimum value of -4.517337 and a maximum value of 0.877736. With 175 companies as the number of observations, the mean result of the CSRE is -0.2046459, indicating that companies that use CSR Expenditure are experiencing losses. In addition, the standard deviation value of Expenditure is 0.9931751, indicating that companies using CSR Expenditure have a high level of data variation.

The Managerial Ownership (MO) variable has a minimum value of -189.6821 and a maximum value of 678.9849. With 175 companies as the number of observations, the mean result of the MO is 11.65483, indicating that companies that use Managerial Ownership do not suffer losses. In addition, the standard deviation value of Managerial Ownership is 66.81514, indicating that companies using Managerial Ownership have a high level of data variation.

The Family Ownership (FO) variable has a minimum value of -0.6375063 and a maximum value of 15.35804. With 175 companies as the number of observations, the mean result of the FO is 1.536193, indicating that companies that use Family Ownership are experiencing losses. In addition, the standard deviation value of Family Ownership is 1.968393, indicating that companies using Family Ownership have a high level of data variation.

The Board Environmental Committee (BEC) variable has a minimum value of 0.0850822 and a maximum value of 0.97. With 175 companies as the number of observations, the mean result of BEC is 0.5549909, indicating that companies that use the Board Environmental Committee do not suffer losses. In addition, the standard deviation value of the BEC is 0.2187029, indicating that companies that use the Board Environmental Committee have a high level of data variation.

**Chow Test**

**Table 3. Stata Uji Chow**

| FP | Coefficient | std. err. | T | p>\|t\| | [95% conf. | interval |
|---|---|---|---|---|---|---|
| CSRD | 3.7173020 | .8804000 | 4.23 | 0.000 | .0759322 | .0411559 |
| CSRC | 4.6420960 | 1.6802380 | 2.76 | 0.966 | .4976176 | .5741216 |
| CSRE | .5003220 | .1756320 | 2.85 | 0.005 | .0002781 | .0002854 |
| MO | .3484900 | .1325500 | 2.63 | 0.009 | .0189997 | .0120402 |
| FO | 3.8418470 | .9783740 | 3.93 | 0.000 | .0421485 | .1542695 |
| BEAK | .9237870 | .3355600 | 2.75 | 0.007 | 242814 | 182887.5 |
| _cons | .4712741 | .0970497 | 4.86 | 0.000 | .2792588 | .6632893 |

The variable Chow test showed that the CSRD coefficient obtained a value of 3.7173020, indicating a positive relationship, with a p-value of 0.000 which indicates statistical significance ($p < 0.05$), indicating that the relationship was statistically significant. Likewise, the CSRC coefficient obtained a value of 4.6420960, indicating a positive relationship, with a p-value of 0.006 which indicates statistical significance ($p < 0.05$).

In addition, the CSRE coefficient obtained a value of 0.5003220, indicating a positive relationship, with a p-value of 0.005 which indicates statistical significance ($p < 0.05$). The MO variable has a coefficient of 0.3484900, indicating a positive relationship, with a p-value of 0.009 which indicates statistical significance ($p < 0.05$).

The FO variable has a coefficient of 3.8418470, indicating a positive relationship, with a p-value of 0.000 which indicates statistical significance ($p < 0.05$). Finally, the BEC variable has a coefficient of 0.9237870, indicating a positive relationship, with a p-value of 0.007 which indicates statistical significance ($p < 0.05$).

**Hausman Test**

**Table 4. Hausman Test Stata**

| FP | Coefficient | std. err. | Z | p>\|t\| | [95% conf. | interval |
|---|---|---|---|---|---|---|
| CSRD | -.0249114 | .0271233 | -0.92 | 0.358 | -.078072 | .0282492 |
| CSRC | .546703 | .0134315 | 40.70 | 0.000 | .5203777 | .5730283 |
| CSRE | -5.23e-06 | .0001335 | -0.04 | 0.969 | -.0002669 | .0002564 |
| MO | -.00389 | .0063568 | -0.61 | 0.541 | -.0163492 | .0085691 |
| FO | .055979 | .0446859 | 1.25 | 0.210 | -.0316038 | .1435618 |
| BEAK | -23792.28 | 100031.3 | -0.24 | 0.812 | -219850 | 172265.4 |
| _cons | .5104074 | .0427069 | 11.95 | 0.000 | .4267035 | .5941114 |

The variable Hausman test showed that the CSRD coefficient obtained a value of -2.0249114, indicating a negative relationship, with a p-value of 0.358 indicating a statistically insignificant ($p > 0.05$), indicating that the relationship was not statistically significant. Meanwhile, the CSRC coefficient obtained a value of 0.546703, indicating a positive relationship, with a p-value of 0.000 which indicates statistical significance ($p < 0.05$).

The CSRE coefficient obtained a value of -5.23e-06, indicating a negative relationship, with a p-value of 0.969 which indicates that it is statistically insignificant ($p > 0.05$). The MO variable has a coefficient of -0.00389, indicating a negative relationship, with a p-value of 0.541 which indicates its statistical insignificance ($p > 0.05$).

The FO variable has a coefficient of 0.055979, indicating a positive relationship, with a p-value of 0.210 which indicates a statistically insignificant ($p > 0.05$). Finally, the BEC variable has a coefficient of -23792.28, indicating a negative relationship, with a p-value of 0.812 which indicates that it is statistically insignificant ($p > 0.05$).

**LM Test**

**Table 5. Stata LM Test**

| | Var | sd = sqrt(Var) |
|---|---|---|
| **FP** | **.3095876** | **.556406** |
| **And** | **.0123585** | **.1111689** |
| **in the** | **.0042551** | **.065231** |

The LM test for the dependent variable FP with a variance value of 0.3095876 showed a significant relationship, with a standard deviation (SD) value of 0.556406, indicating a significant relationship. Similarly, the LM test for the dependent variable E with the same variance value, which is 0.3095876, also showed a significant relationship, with a standard deviation (SD) value of 0.1111689, showing a significant relationship. As for the U dependent variable, the LM test with a variance value of 0.0042551 shows a significant relationship, with a standard deviation (SD) value of 0.065231, showing a significant relationship.

**FEM Test**

**Tabel 6. Stata FEM Test**

| FP | Coefficient | std. err. | Z | p>\|t\| | [95% conf. | interval |
|---|---|---|---|---|---|---|
| **CSRD** | **3.7173020** | **.8804000** | **4.23** | **0.000** | **.0759322** | **.0411559** |
| **CSRC** | **4.6420960** | **1.6802380** | **2.76** | **0.966** | **.4976176** | **.5741216** |
| **CSRE** | **.5003220** | **.1756320** | **2.85** | **0.005** | **.0002781** | **.0002854** |
| **MO** | **.3484900** | **.1325500** | **2.63** | **0.009** | **.0189997** | **.0120402** |
| **FO** | **3.8418470** | **.9783740** | **3.93** | **0.000** | **.0421485** | **.1542695** |
| **BEAK** | **.9237870** | **.3355600** | **2.75** | **0.007** | **242814** | **182887.5** |
| **_cons** | **.4712741** | **.0970497** | **4.86** | **0.000** | **.2792588** | **.6632893** |

The variable coefficient of CSRC obtained a value of 4.6420960, indicating a positive relationship, with a p-value of 0.966 indicating statistical significance ($p < 0.05$), indicating that the relationship was statistically significant, as tested in the Chow test.

The variable coefficient of the CSRE obtained a value of 0.5003220, indicating a positive relationship, with a p-value of 0.005 indicating statistical significance ($p < 0.05$), indicating that the relationship was statistically significant, as tested in the Chow test.

The MO variable has a coefficient of 0.3484900, indicating a positive relationship, with a p-value of 0.009 indicating statistical significance ($p < 0.05$), indicating that the relationship is statistically significant, similar to the results of the Chow test.

The FO variable has a coefficient of 3.8418470, indicating a positive relationship, with a p-value of 0.000 indicating statistical significance ($p < 0.05$), indicating that the relationship is statistically significant, as per the results of the Chow test.

Meanwhile, the BEC variable has a coefficient of 0.9237870, indicating a positive relationship, with a p-value of 0.007 indicating statistical significance ($p < 0.05$), indicating that the relationship is statistically significant, as observed in the Chow test.

**Hypothesis**

| ***Hypotheses*** | ***Path*** | ***P Values*** | ***coefficient*** | ***T*** | ***Result*** |
|---|---|---|---|---|---|
| H1 | CSRD -> FP | 0,000 | *3.7173020* | *4.23* | *Signifikan* |
| H2 | CSRC -> FP | 0,966 | *4.6420960* | *2.76* | *Insignificant* |
| H3 | CSRE -> FP | 0,005 | *.5003220* | *2.85* | *Signifikan* |
| H4 | MO -> FP | 0,009 | *.3484900* | *2.63* | *Signifikan* |
| H5 | FO -> FP | 0,000 | *3.8418470* | *3.93* | *Signifikan* |
| H6 | BEAK | 0,007 | *.9237870* | *2.75* | *Signifikan* |

## CONCLUSION

The significant conclusion of this study confirms that the implementation of Corporate Social Responsibility (CSR) in Indonesia has a substantial impact on company performance. Although the government has made it mandatory for companies to report their actions in social and environmental responsibility, the research findings highlight that the focus on sustainable investment and business is still limited in Indonesia's industrial sector. This study provides a deeper understanding of the relationship between CSR disclosure, the existence of CSR Committees, and CSR expenditures and company performance.

In addition, factors such as managerial ownership and family have also been shown to have a significant role. In the context of analysis, this study uses the panel regression method and the Chow test to find the most suitable model in estimating the panel data. It is hoped that the findings of this research can make a valuable contribution in deepening the understanding of CSR implementation and company performance in the Indonesia business environment. The next step could involve companies, governments, and other stakeholders in designing a more robust and sustainable strategy to integrate CSR practices effectively, with the goal of realizing sustainable economic growth and community well-being

The high importance of CSR disclosure through various communication channels such as annual reports, websites, social media, or other channels is the main focus. This disclosure not only plays an important role in improving the company's image, but also builds stakeholder trust and improves information transparency. The active role of the CSR Committee in creating a climate change management strategy is also a crucial aspect in the success of a company. A deep understanding of the influence of CSR Expenses, managerial ownership, and family ownership on company performance is a key element in facing the challenge of climate change. Overall, this study provides a comprehensive overview of the complexity of the relationship between CSR and corporate performance in the Indonesia business context. Thus, it is hoped that the results of this research can be a guide for companies, governments, and other stakeholders to formulate more effective and sustainable strategies. With a deeper understanding of the linkages between CSR and corporate performance, it is hoped that concrete steps will be taken to achieve better economic and social sustainability in the future.

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