

Taridi Kasbi Ridho<sup>1</sup>

## THE INFLUENCE OF CSR ON PERFORMANCE AND ITS DETERMINANTS IN LISTED COMPANIES IN INDONESIA

*This paper explains the influence of corporate governance (CG) and its characteristics to corporate social responsibility (CSR) as well as the impacts of CSR on corporate performance in top-200 listed companies in Indonesia. Content analysis of 2014 annual reports, CSR report/sustainability reporting, and online CSR information published by these companies was employed using Indonesian corporate governance disclosure standard and ISO 26000 guidance on social responsibility to measure CG and CSR indices. Covariance analysis was then used to find the influence of CG index and corporate characteristics (company's size, industry group, company's age, share trading volume, share price and risk, share ownership structure) on CSR index and the impacts of CSR index on corporate performance (financial, customer and employees performance). The results indicate that both CG and corporate characteristics had impact on CSR. Likewise, CSR had impact on business performance.*

*Keywords:* corporate performance; corporate governance; CSR; Indonesia; listed companies.

Таріді Касбі Рідо

## ВПЛИВ КОРПОРАТИВНОЇ СОЦІАЛЬНОЇ ВІДПОВІДАЛЬНОСТІ НА РІЗНОМАНІТНІ ЕКОНОМІЧНІ ПОКАЗНИКИ ІНДОНЕЗІЙСЬКИХ КОМПАНІЙ, ЩО КОТИРУЮТЬСЯ НА ФОНДОВІЙ БІРЖІ

*У статті пояснено вплив корпоративного управління (КУ) на корпоративну соціальну відповідальність (КСВ), а також зворотній вплив КСВ на КУ для топ-200 компаній, що котируються на фондовій біржі Індонезії. В контент-аналізі використано дані фінансових звітів компаній за 2014 р., їхні звіти щодо КСВ діяльності, а також інформацію, доступну онлайн. Для розрахунку індексів КУ та КСВ також використано індонезійський корпоративний стандарт з розкриття інформації та ISO 26000. Після того використано коваріаційний аналіз виявлення впливу КУ та окремих корпоративних параметрів (розмір компанії, галузева належність, вік на ринку, обсяг торгів акцій, рівень ризиків, структура власності) на індекс КСВ, а також навпаки – вплив КСВ на корпоративні показники (фінансові, з точки зору клієнтів, з точки зору співробітників). Результати вказують на те, що практичні всі аспекти КУ можуть мати вплив на КСВ. У той же час КСВ також може вплинути на бізнес-результати.*

*Ключові слова:* корпоративна результативність; корпоративне управління; корпоративна соціальна відповідальність; Індонезія.

*Рис. 1. Табл. 1. Літ. 38.*

Тариди Касби Ридо

## ВЛИЯНИЕ КОРПОРАТИВНОЙ СОЦИАЛЬНОЙ ОТВЕТСТВЕННОСТИ НА РАЗЛИЧНЫЕ ЭКОНОМИЧЕСКИЕ ПОКАЗАТЕЛИ ИНДОНЕЗИЙСКИХ КОМПАНИЙ, КОТИРУЮЩИХСЯ НА ФОНДОВОЙ БИРЖЕ

*В статье объяснено влияние корпоративного управления (КУ) на корпоративную социальную ответственность (КСО), а также обратное влияние КСО на КУ для топ-200 котирующихся компаний Индонезии. В контент-анализе использованы данные финансовых отчётов компаний за 2014 г., их отчётов по КСО деятельности, а также информация, доступная онлайн. Для расчёта индексов КУ и КСО также использованы индоне-*

<sup>1</sup> State Islamic University Syarif Hidayatullah Jakarta, Indonesia.

*зийский корпоративный стандарт по раскрытию информации и ISO 26000. Затем использован ковариационный анализ для выявления влияния КУ и отдельных корпоративных параметров (размер компании, отраслевая принадлежность, возраст на рынке, объём торгов акций, цена акции, уровень рисков, структура собственности) на индекс КСО, а также наоборот – влияние КСО на корпоративные показатели (финансовые, с точки зрения клиентов, с точки зрения сотрудников). Результаты указывают, что практически все аспекты КУ могут иметь влияние на КСО. В то же время и КСО может влиять на бизнес-результаты.*

*Ключевые слова:* корпоративная результативность; корпоративное управление; корпоративная социальная ответственность; Индонезия.

**Introduction.** According to ISO 26000 (2010), social responsibility is the responsibility of an organization for the impacts of its decisions and activities on society and the environment through transparent and ethical behaviour that contributes to sustainable development, health and society welfare; takes into account stakeholders' expectations; is in compliance with applicable law and consistent with international norms of behaviour; and is integrated throughout the organization and practiced in its relationships.

This is inline with the concept of corporate social responsibility as stated by A.B. Carroll (1979: 497–505) who said that a company had 4 responsibilities, namely economic, legal, ethical, and discretionary responsibilities. Likewise, a private corporation had responsibilities to society that extend beyond making profit (Wheelen and Hunger, 2011: 72), attempting to harmonize the goal of achieving economic prosperity, environmental quality, and social justice, or turning the traditional financial bottom line to be triple bottom lines (Elkington, 1997: 2).

Many believe that corporate social responsibility (CSR) activities will bring many benefits to the company. M. Porter and M. Kramer (2006) emphasized that strategic CSR will minimize the increasing risk of government regulations, exposure to criticism and liability, and consumers' attention to social issues. Furthermore, they concluded that CSR becomes increasingly important to competitive success. Meanwhile, K. Welter (2011) summarized previous literature on benefits of CSR into 3 groups, i.e. philosophical purposes, financial reasons, and competitive advantages.

As a developing country with many corporations operating in natural resources related business, the world also demands Indonesian companies do business more responsibly. There has been many regulations and initiatives to improve CSR practices in Indonesia. However, inside the business community in Indonesia CSR is perceived as being limited to donation and community development activities. Indonesia Stock Exchange is also regarded as one of the worst in the world in CSR, according to CK Capital, Aviva Investors and Standard & Poor's (2013).

The objective of this research is to understand CSR implementation in the top-200 listed companies in Indonesia along with its determinants as well as its implications on corporate performance.

**Literature review.** Previous research has shown that the level of CSR implementation is affected by several factors. The first is corporate governance, as concluded by (Kassinis and Vafeas, 2002; Haniffa and Cooke, 2002; Eng and Mak, 2003; Beltratti, 2005; Brammer and Pavelin, 2006; Gibson and O'Donovan, 2007; O'Sullivan, 2008; Khan, 2010; Adnan et al., 2011; Chong and Freedman, 2011; Rouf, 2011; Rahimi et

al. 2012; Allegrini and Greco, 2013; Hassan, 2013; Kend, 2015). The second is corporate characteristic, as explained by (Gray et al., 2001; Adams, 2002; Gallo and Christensen, 2011; Galani et al., 2011; Rouf, 2011; Melo, 2012; Sabir et al., 2012; Naser and Hassan, 2013; Seng, 2013; Soliman, 2013; Kend, 2015). While other factors that affect CSR implementation are organizational culture (Maignan et al., 1999; Adams, 2002; Melo, 2012; Sabir et al., 2012), management tenure (Melo, 2012) and strategic plan (Sabir, 2012).

Corporate governance and characteristic are used in this research as determinants of CSR implementation. G. Kassinis and K. Vafeas (2002) found a statistically significant relationship between corporate governance of board composition and certain aspect of CSR, i.e. environmental responsibility. R. Rahimi et al. (2012) argued that corporate governance was needed to incorporate and manage CSR within corporate policies, practices and reporting. In their research on Tehran Stock Exchange, R. Rahimi et al. (2012) did not find a significant relationship between corporate governance and CSR.

On the other hand, it was reported in several studies that corporate governance has a positive impact on corporate performance. Research by "Credit Lyonnais Securities Asia" (CLSA, 2001) on 495 companies from various countries in Asia concluded that corporate governance significantly affects financial performance. P.A. Gompers et al. (2003) also concluded there was a positive correlation between company's stock performance at the capital market with its corporate governance score.

Corporate characteristics which may affect CSR according to C.A. Adams (2002) include size, industry group, corporate age, financial/economic performance, share trading volume, price and risk (beta), decision horizon (long- or short-term), debt/equity ratio, and political contributions. Meanwhile, according to K. Naser and Y. Hassan (2013) corporate characteristics include size, industry type, and profitability. R.W. Robert (1992) found that corporate age and size had positive impacts on CSR, while share risk (beta) had a negative one. Soliman (2013) concluded that corporate size and probability had a positive and significant to CSR implementation, while corporate age did not have a significant influence on CSR implementation.

Research on the relationship between corporate social responsibility (CSR) and corporate performance has attracted many researchers for years. Generally, the research intended to prove that socially responsible activities by a company lead to a positive impact on company's financial performance. However, there had been inconclusive results of the relationship between the two.

For that reason, M. Orlitzky et al. (2003) conducted a meta-analysis to 52 previous studies which involved 30 years of empirical data and 33,878 samples and concluded that CSR had positive impact on corporate performance. Similar study was done by J.D. Margolis and J.P. Walsh (2003) and described that from 109 previous studies, 54 studies showed a positive and significant relationship between CSR and performance, 20 studies with various results, 28 studies said there was no significant relationship, and 7 studies revealed negative relationship. For Indonesian case, J. Oeyono et al. (2011) investigated the level of CSR conducted by the top 50 corporations in Indonesia and its relationship with company's profitability and concluded that CSR level, measured based on Global Reporting Initiative (GRI) guidelines, had

a positive relationship with profitability, measured by company's EBITDA and EPS.

J.D. Maignan et al. (1999) tried to find the impact of CSR limited to not only financial performance, but corporate performance in a wider context. They concluded that CSR had a positive and significant influence on employee commitment, customer loyalty, and business performance.

CSR practices in Indonesia has only been legally started in 2007 marked by the issuance of Law Number 40 year 2007 regarding Corporation. Article 74 of the Law said that all companies operate in and/or related to natural resources have to follow social and environmental responsibilities.

The Indonesian state's owned companies (SOEs) has started some activities that become part of CSR activities several years earlier. The Ministry of SOEs is sued the Minister Decree # Kep-216/M-PBUMN/1999 as of 28 September 1999 concerning partnership and environmental management programs for SOEs, # Kep-236/MBU/2003 as of 17 June 2003 concerning SOEs partnership with small enterprises and environmental management program, then reenforced by Law # 19 in 2003 on SOE and SOE Ministry Regulation # Per-05/MBU/2007 concerning SOEs partnership with small enterprises and environmental management program, all stated that each SOE has to allocate 4% of its net profit on partnership and environmental management programs, equally 2% each for partnership program and for environmental management programs. SOE partnership program with small enterprises is a program to improve the capacity of small enterprises to be strong and self sufficient through the utilization of funds from SOE.

The author observed that many business practitioners in Indonesia demonstrate misunderstandings on CSR laws, stating that companies that operate in area other than in/related to natural resources are not obliged to conduct CSR programs. This showed that most of them did not understand the CSR concept well. The author also observed that CSR was still perceived as limited to philanthropic and community development activities by majority of Indonesian business practitioners.

Different from CSR, corporate governance practice in Indonesia has been initiated long time ago. Since 1999, or soon after Indonesia was hit badly by the Asian monetary crisis Indonesian government set up a National Committee for Corporate Governance Policy. One of the important product of the committee was the Code for Good Corporate Governance (March 2001), which was revised in 2006. The committee has also published the Code for Good Public Governance (2009) and for Good Sharia Business Governance (2010); Sectoral Code for Banking (2004, 2013), for Insurance and Reinsurance (2009), for Actuarial Consultants (2011), and for Insurance and Reinsurance Brokers (2011). Moreover, it has issued GCG Manual for business ethics (2011), for whistleblowing system/WBS (2008), audit committee (2002), and for risk management (2011).

In the capital market area, since 2000 by the issuance of Circular Letter No SE-03/PM/2000, Indonesian Capital Market Supervisory Board has recommended all the companies listed at Indonesian Stock Exchange to have independent commissioner and audit committee. Following the enactment of Law No 8 (1995) on Capital Market, the Board has also issued many regulations, among others, related to conflict of interest on certain transactions, planning and implementation of Shareholders

General Meeting, Information Disclosure, Corporate Secretary, as well as Directors and Commissioners. Moreover, the Indonesia Financial Service Authority, in which now the Capital Market Supervisory Board is included into, has launched a Corporate Governance Road Map for Issuers and Public Companies (4 July 2014).

**Methodology.** This research observed 200 biggest companies, measured by their revenues, listed at the Indonesia Stock Exchange for the year 2014. Secondary data was gathered from 2014 companies' annual reports, companies CSR/sustainability reports, either based on international GRI guide lines or other standards, and online CSR information on companies website accessed during June 2015.

Independent variables in this research are corporate governance and corporate characteristics. Corporate governance is measured by Indonesian corporate governance disclosure standard published by Annual Report Award (ARA) committee. The ARA committee consist of Bank of Indonesia, Financial Services Authority, Indonesian Stock Exchange, Ministry of State's Owned Enterprises, Directorate General of Taxes, Indonesia Accountant Association, and National Committee on Governance Policy. According to ARA, a company shall disclose its corporate governance which includes: 1) Board of Commissioners; 2) Directors; 3) Audit Committee; 4) other committees under the Board of Commissioners; 5) Corporate Secretary; 6) Internal Audit; 7) External Auditor; 8) Risk management; 9) code of conduct or code of ethics; 10) whistle-blowing system. The 10 ARA governance disclosures is then detailed more to be 37 corporate governance parameters. Meanwhile, corporate characteristics used in this research are size, industry group, corporate age, share trading volume, share risk/beta, debt/equity ratio, and ownership structure.

On the other hand, dependent variables were CSR and corporate performance. CSR is measured using core subjects in ISO 26000 (2010), by excluding organizational governance: 1) human rights; 2) labour practices; 3) environment; 4) fair operating practices; 5) consumer issues; 6) community involvement and development. Based on that ISO 26000 (2010) standard, there are 36 parameters to measure CSR. Lastly, corporate performances measurement used in this research are: 1) financial performance, i.e. ROE and ROA; 2) customer performance, measured by sales growth; 3) employee performance, measured by employee turnover.

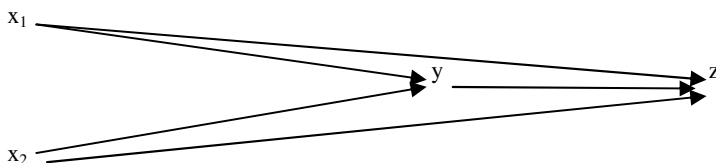
There are three analyses used in this research. First is the content analysis based on corporate governance and CSR disclosure standards to be applied to company's reports to form both corporate governance and CSR implementation index. The second is descriptive analysis to describe data phenomenon or characteristics, and lastly covariance analysis or ANCOVA as an inferential analysis to analyse the direct influence of corporate governance and characteristics to CSR and likewise the direct influence of CSR on corporate performance.

Content analysis is the method of codifying the content or piece text of into categories based on chosen criteria (Weber, 1988). To develop both corporate governance and CSR implementation index, the author employees an ordinal measurement by using "0" and "1" scale. "0" is given if there is no available information as required in company's report, while "1" is given when company's report shows the required corporate governance/CSR information.

Corporate governance implementation index of company "X" is calculated by adding the score of all 37 corporate governance parameters. The maximum corporate

governance score that might be achieved by a company is  $1 \times 37 = 37$ . Therefore, corporate governance index for company "X" ( $CGI(x)$ ) is corporate governance score for company "X" ( $CGS(x)$ ) divided by the maximum score of corporate governance of 37. Moreover, CSR implementation index for company "X" is calculated by adding the score of all 36 CSR parameters. The maximum score for CSR is  $1 \times 36 = 36$ . Therefore, CSR index for company "X" ( $CSRI(x)$ ) is CSR score of company "X" ( $CSRS(x)$ ) divided by 36.

Covariance analysis or ANCOVA is used to find direct impact of corporate governance and characteristics on CSR as well as direct impact of CSR to corporate performances. Likewise, there is a direct impact from corporate governance to characteristics to corporate performance. The following are the illustration of the test: Figure 1.



$z$  – corporate performance of company "X";  $y$  – CSR index of company "X";  $x_1$  – corporate governance index of company "X";  $x_2$  – corporate characteristic of company "X".

*Figure 1. Test, author's*

ANCOVA is a statistical technique for equating groups on one or more variables when testing for statistical significance using the F-test. It adjusts scores on a dependent variable for initial differences on other variables, such as pre-test performance or IQ (Holosko and Thyer, 2011). It is used to find the influence of an independent variable to a dependent variable by controlling other qualitative variables. It is a useful analysis technique to increase the precision of a test because there is control to the influence of other independent variables. Other uncontrolled variables are called covariates. They are used if independent variable consist of numeric and categorical quantitative variables. It is combination of a comparative and correlational tests.

**Findings.** There are 7 hypotheses in this research:

H1. The level of corporate governance implementation in the top-200 listed companies in Indonesia is low.

H2. The level of CSR implementation in the top-200 listed companies in Indonesia is low.

H3. Corporate governance influences CSR implementation in the top-200 listed companies in Indonesia.

H4. Corporate characteristics influence CSR implementation in the top-200 listed companies in Indonesia.

H5. CSR implementation influences corporate performance in the top-200 listed companies in Indonesia.

H6. Corporate governance influences corporate performance in the top-200 listed companies in Indonesia.

H7. Corporate characteristics influence corporate performance in the top-200 listed companies in Indonesia.

Characteristic of the 200 top-listed companies in Indonesia is as shown in the following descriptive statistic summary (Table 1).

Table 1. Statistic results summary, author's

Variables	Min	Max	Mean	STD
<b>Corporate governance (x1)</b>	9	37	26	7.18
<b>Corporate characteristics (x2)</b>				
Size (trln IDR)	0.23	855	33.69	99.22
- Industry group	1	9	–	–
- Age (year)	6	120	36	19.01
- Share trading volume (average mln share/year)	0.03	33,759	3,132	5,567
- Share risk/beta	0.01	5.82	1.08	0.84
- Leverage (debt/equity ratio)	(8.59)	30.30	2.23	3.53
- Ownership structure	1	4	–	–
<b>CSR implementation (y)</b>	8	35	22	6.37
<b>Corporate performance (z)</b>				
financial performance – ROE	(0.89)	7.99	0.16	0.60
financial performance – ROA	(0.34)	0.43	0.05	0.09
Customer performance	(0.58)	0.75	0.11	0.17
Employee performance	(0.88)	0.90	0.04	0.17

The maximum corporate governance score that might be achieved by a company is 37, and Table 1 shows that there are some companies that could achieve that maximum score of 37 in their corporate governance implementation according to national "Annual report award" corporate governance disclosure standard. Moreover, the average score of corporate governance implementation in the top-200 listed companies in Indonesia is 26 of 37 or 70% could be categorized as "good". However, none of the top-200 has fully implemented CSR according to the international standard ISO 26000, as shown in the table that the maximum score of CSR implementation is 35 or below the standard of 36. Likewise, the average score of CSR implementation is only 22 of 36, or only 61% from the international standard, this could be categorized as "fair".

This research has passed all classical assumptions test that consist of normality, homogeneity, significance, and linearity as well as autocorrelation. This analysis uses t-statistics and F-test by taking significance level of 5%. It means that if the significance level is less than 0.05,  $H_0$  is accepted, and on the contrary it is rejected if the significance level is more than 0.05.

The results for the hypotheses # 3–7 testing using ANCOVA are as follows:

1. Corporate governance and corporate characteristics simultaneously have a significant and positive impact on CSR. Partially, corporate governance, industry group, and company's age have significantly positive impacts on CSR.

2. Corporate governance and corporate characteristics simultaneously have a significant and positive impact on financial performance – ROE. Partially, corporate governance, industry group, and company's age have significantly positive impacts on financial performance – ROE.

3. Corporate governance and corporate characteristics simultaneously have a significant and positive impact on financial performance – ROA. Partially, corporate governance, industry group, company's age, share trading volume, share beta, lever-

age, and ownership structure have significantly positive impacts on financial performance – ROA.

4. Corporate governance and corporate characteristics simultaneously have a significant and positive impact on customer performance. Partially, corporate governance, company's size, industry group, share beta, leverage, and ownership structure have significantly positive impacts on customer performance.

5. Corporate governance and corporate characteristics simultaneously have a significant and positive impact on employee performance. Partially, industry group, share trading volume, and leverage have significantly positive impacts on employee performance.

6. CSR and corporate characteristics simultaneously have a significant and positive impact on financial performance – ROE. Partially, CSR, industry group, company's age, and ownership structure have significantly positive impacts on financial performance – ROE.

7. CSR and corporate characteristics simultaneously have a significant and positive impact on financial performance – ROA. Partially, CSR, industry group, company's age, share trading volume, share beta, leverage, and ownership structure have significantly positive impacts on financial performance – ROA.

8. CSR and corporate characteristics simultaneously have a significant and positive impact on customer performance. Partially, industry group, company's age, share beta, leverage, and ownership structure have significantly positive impacts on customer performance.

9. CSR and corporate characteristics simultaneously have a significant and positive impact on employee performance. Partially, industry group, leverage, and ownership structure have significantly positive impacts on employee performance.

The results may indicate that for the top-200 listed companies in Indonesia:

1. Beside corporate characteristics, the level of CSR implementation is affected by corporate governance. This is in line with CSR framework according to ISO 26000 which place corporate governance as a foundation of CSR implementation. This is also confirming several previous research which concluded that one factor that affect CSR is corporate governance.

2. Corporate governance has a significant and positive impact on 3 corporate performance measurements, i.e. financial performance – ROE, financial performance – ROA, and customer performance. It may indicate that improvement in corporate governance implementation will improve financial performance. Likewise, customers will consider corporate governance factor as one more reason to buy or not to buy products or services from this company.

3. CSR has significant and positive impact on financial performance measured by both ROE and ROA. It means that improvement in CSR implementation will make those companies stay ahead of their rivals in terms of financial performance. This shows that the stakeholders theory applies to Indonesian listed companies. The fact that there is no significant relationship between CSR and customer performance as well as between CSR and employee performance may indicate that in case of a developing country like Indonesia, customer and employee have not put CSR practice as the main factor to buy product/services from a company or to work at a company.



**Limitations/future studies.** Future research needs to include more companies that have carried out good CSR programs, for example, by covering all the listed the companies and/or covering companies that have not listed at Indonesian stock exchange such as state's owned companies. Likewise, helpful will be the research using other variables that affect CSR. Also, future research may use different measurement of corporate governance such as the ASEAN corporate governance score-cards. Finally, research may use longer time horizon to understand more the changes of corporate governance and CSR implication in the observed companies.

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