The Impacts of Corporate Social Responsibility on Small and Medium Enterprises Performance

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ABSTRACT

This study investigates how small and medium-sized enterprises (SMEs) conduct corporate social responsibility (CSR) and how it affects their performance. This study used quantitative research with data collected from 138 manufacturing SMEs in Java. By using partial least square structural equation modeling, this study discovers that economic and philanthropic responsibilities have a significant effect on customer and employee performances, whereas legal responsibility has a substantial impact on customer, employee, operational and financial performances. In contrast, ethical responsibility does not affect any aspect of company performance. The findings also highlight that legal responsibility is the most significant predictor of all four performances, and economic and philanthropic responsibilities are the second biggest predictors as each of them has a substantial effect on one performance. The results also show that customer and employee performances receive the most effect from two dimensions. Customer performance is significantly influenced by economic and legal responsibilities, while employee performance is significantly affected by legal and philanthropic responsibilities. These findings can encourage SMEs, particularly in developing countries, like Indonesia, to implement CSR beyond profit maximization and compliance to achieve higher social and financial performance.

Keywords: Business responsibility; CSR dimension; Developing countries; Employee performance; Manufacturing industry.

JEL Classification: C31, D2, G3, L6

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Las Repercusiones de la Responsabilidad Social de las Empresas en los Resultados de las Pequeñas y Medianas Empresas

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RESUMEN

Este estudio investiga cómo las pequeñas y medianas empresas (PYMES) llevan a cabo la responsabilidad social corporativa (RSC) y cómo afecta a sus resultados. Este estudio utilizó una investigación cuantitativa con datos recogidos de 138 PYME manufactureras de Java. Mediante el uso de un modelo de ecuaciones estructurales de mínimos cuadrados parciales, este estudio descubre que las responsabilidades económicas y filantrópicas tienen un efecto significativo en los resultados de los clientes y los empleados, mientras que la responsabilidad legal tiene un impacto sustancial en los resultados de los clientes, los empleados, las operaciones y las finanzas. En cambio, la responsabilidad ética no afecta a ningún aspecto del rendimiento de la empresa. Los resultados también destacan que la responsabilidad legal es el predictor más significativo de los cuatro rendimientos, y las responsabilidades económicas y filantrópicas son los segundos mayores predictores, ya que cada uno de ellos tiene un efecto sustancial en un rendimiento. Los resultados también muestran que los rendimientos de los clientes y de los empleados son los que más efecto reciben de dos dimensiones. El rendimiento de los clientes está significativamente influenciado por las responsabilidades económicas y legales, mientras que el rendimiento de los empleados está significativamente afectado por las responsabilidades legales y filantrópicas. Estas conclusiones pueden animar a las PYME, sobre todo en los países en desarrollo, como Indonesia, a aplicar la RSE más allá de la maximización de los beneficios y el cumplimiento de las normas para lograr un mayor rendimiento social y financiero.

Palabras clave: Responsabilidad empresarial; Dimensión de la RSE; Países en desarrollo; Rendimiento de los empleados; Industria manufacturera.

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1. Introduction

Corporate social responsibility (CSR) is a concept in which companies voluntarily incorporate social and environmental issues into their company operations and interaction with stakeholders (Commission, 2011). CSR should be defined as companies' ability to contribute to the development and progress of the communities in which they operate (Adeneye & Ahmed, 2015). Companies, regardless of size, industry, or location, are concerned about CSR (Martinuzzi & Krumay, 2013), and they aim to comply with and benefit from it (Razafindrambinina & Sabran, 2014).

As most, CSR studies are concerned with examining the activities followed by companies in developed countries (Bai & Chang, 2015; Zhu, Liu & Lai, 2016). CSR is emerging as a distinct area of management studies in developing countries (Jamali & Karam, 2018), including Indonesia. Therefore, it is essential to identify significant information on the contribution of CSR and the main factors affecting CSR performance (Blowfield, 2007; Crifo, Diaye, & Pekovic, 2016).

With over 267 million people, Indonesia is the world's fourth most populated nation. As one of the biggest developing countries, Indonesia is the greatest economy in Southeast Asia (Worldbank, 2020). During the previous two decades, CSR has been getting more attention in Indonesia (Maris, 2014). Its government in 2007 released Law No. 40 regarding limited liability companies (*Undang-Undang No. 40 Tahun 2007 tentang Perseroan Terbatas*) (Amrulloh, Sulastri, & Firmansyah, 2020). With this law, Indonesia has become the world's first country that requires companies, particularly those involved in natural resources, to implement CSR and report those activities (Maris, 2014; Waagstein, 2011).

Practically, CSR is crucial for small and medium-sized enterprises (SMEs), not just big companies. The growth of SMEs, notably, is critical to the development of the Indonesian economy. Their existence could be a solution to lowering unemployment and accelerating local economic growth (Ratnawati, Soetjipto, Murwani, & Wahyono, 2018).

Despite these significant advances and the shifting emphasis on CSR in emerging countries, how SMEs in these countries play a role in CSR has received less attention within the context of an extensive research agenda (Jamali, Lund-Thomsen, & Jeppesen, 2017). There are also a few studies on CSR and multidimensional organizational performances in the context of Indonesian SMEs. Therefore, this study purposes to investigate CSR impacts on SMEs' performance to address these two research questions (RQ):

RQ1. Which dimension of CSR can affect organizational performance?

RQ2. Which performance is most affected by CSR?

The remainder of this paper is structured as follows: the theoretical background and the development of hypotheses are explained in the next section. The research method is then described, followed by the results and discussion. The final section presents the conclusion, including the contribution, practical implications, limitations and future studies recommendations.

2. Literature Review

2.1. Stakeholder theory

Stakeholders are groups and persons who can influence or are influenced by the accomplishment of a company's mission (Freeman 2010). As any business operation directly or indirectly affects stakeholders (Shital 2014), stakeholder theory contends that the company has obligations not just to shareholders but also to stakeholders (Freeman 2010). Primary stakeholders contain shareholders or investors, suppliers, employees, customers and the public stakeholder groups (i.e., governments and communities), whereas special interest groups and the media are secondary stakeholders (Clarkson, 1995).

In addition to stakeholders' contribution in accomplishing companies' objectives, they are a critical triggering factor for CSR implementation (Lane & Devin, 2018; Zhu et al., 2016). In particular,

CSR emphasizes how companies interact with internal and external stakeholders in an ethical, social, and responsible manner to enhance their living conditions while ensuring their profitability (Hopkins, 2005). CSR can benefit stakeholders, which improves company performance and reflects the organizational change results (Alsbaity, 2018).

2.2. CSR dimension

Consolidating the multiple views and economic and social perspectives, Carroll (1979, 1991) defines CSR as a multidimensional concept that includes economic, legal, ethical and philanthropic responsibilities. Accordingly, CSR can be classified into four dimensions as follows:

1. Economic responsibilities. The business has been conceptualized as an economic entity with its responsibility to produce and deliver goods and services as efficiently as possible while earning a reasonable profit.
2. Legal responsibilities. Businesses should comply with laws and regulations issued by governments as the fundamental guidelines under which they must operate.
3. Ethical responsibilities. Businesses should conduct their operations ethically by adhering to the standards, norms, or expectations that reflect a concern for what consumers, employees, shareholders and the community regard as fair or consistent with respecting or protecting the stakeholders' moral rights.
4. Philanthropic responsibilities or discretionary responsibilities. Philanthropy refers to corporate actions taken in response to societal expectations that businesses be good corporate citizens.

Carroll's classifications cover the entire range of societal obligations that businesses have (Garriga & Melé, 2004) and have been recognized as comprehensive and integrative by many theorists and empirical researchers (Wang & Berens, 2015). Maignan and Ferrell (2000, 2001) developed an instrument to evaluate CSR practices based on these classifications. Their instrument has been one of the most widely employed measurements in CSR studies (Dhanesh, 2014) and has been adopted in several studies examining the impact of CSR on organizational performance (Dhanesh, 2012; Kunda, Ataman, & Behram 2019).

2.3. Company performance

Many studies have investigated the impacts of CSR on organizational performance. In terms of financial performance, companies can benefit more from consistent CSR engagement, such as reducing long-term financial problems and increasing sales growth, earnings before tax, and cash flows from operations (Ameer & Othman, 2012; Frynas & Yamahaki, 2016). Regarding non-financial performance, CSR can offer more efficient and better management operations (Aguinis & Glavas, 2012; Malik, 2015). Furthermore, CSR can reinforce a company's human resources, increase employee loyalty and retention, foster employee productivity and boost customer loyalty (Aguinis & Glavas, 2012; Malik, 2015; Mellahi, Frynas, Sun, & Siegel, 2015; Moir, 2001). Based on these explanations, we suggest:

H1: Economic responsibility significantly affects (H1a) customer performance, (H1b) employee performance, (H1c) operational performance and (H1d) financial performance.

H2: Legal responsibility significantly affects (H2a) customer performance, (H2b) employee performance, (H2c) operational performance and (H2d) financial performance.

H3: Ethical responsibility significantly affects (H3a) customer performance, (H3b) employee performance, (H3c) operational performance and (H3d) financial performance.

H4: Philanthropic responsibility significantly affects (H4a) customer performance, (H4b) employee performance, (H4c) operational performance and (H4d) financial performance.

3. Methodology

3.1. CSR dimensions

CSR measurement items were modified from Maignan and Ferrell (2000, 2001) that consisted of four dimensions (constructs): economic, legal, ethical and philanthropic responsibilities. Respondents rated their responses with a five-point scale from 1= “strongly disagree” to 5= “strongly agree” (see Table 1).

Table 1 CSR measurement items

Dimension (construct) and item (indicator)		Mean	SD	Loading	AVE	Cronbach's alpha
Economic responsibility (Economic)					0.55	0.73
CS01	We seek to reduce our operating costs.	4.01	0.96			
CS02	We thoroughly monitor employee productivity.	4.10	0.83	0.66		
CS03	Top management develops long-term strategies.	4.14	0.82	0.76		
CS04	We establish a procedure to handle customer complaints.	4.04	0.81	0.77		
CS05	We constantly improve our product quality.	4.42	0.76	0.77		
Legal responsibility (Legal)					0.61	0.84
CS06	Internal policies prevent discrimination in employee's compensation and promotion.	3.96	0.84	0.74		
CS07	We strive to follow all laws governing hiring and employee benefits.	4.15	0.75	0.82		
CS08	Our products fulfill legal standards.	4.32	0.82	0.85		
CS09	Our contractual obligations are always honoured.	4.35	0.70	0.77		
CS10	Managers know relevant environmental laws.	4.06	0.70	0.63		
Ethical responsibility (Ethical)					0.58	0.82
CS11	We establish a comprehensive code of conduct.	4.06	0.77	0.79		
CS12	We are well-known for being a reliable company.	4.33	0.87	0.72		
CS13	The employee evaluation process considers fairness to coworkers and business partners.	4.17	0.76	0.76		
CS14	We have an appropriate procedure for employees to report any workplace misconduct.	3.91	0.83	0.87		
CS15	Our employees follow professional standards.	3.99	0.85	0.76		
Discretionary/philanthropic responsibility (Philanthropic)					0.52	0.78
CS16	We provide adequate charitable contributions.	3.75	0.95	0.77		
CS17	We encourage partnerships with local businesses and schools.	3.64	1.01	0.72		
CS18	We contribute to sports and/or cultural activities.	3.20	1.05	0.75		
CS19	We implement a program to reduce the amount of energy and materials wasted.	3.79	0.83	0.67		
CS20	We encourage employees to participate in civic organizations that benefit our community.	3.41	1.01	0.70		

3.2. Company performance measurements

There was a lack of reliable, objective measurements of the Indonesian SMEs surveyed and their unwillingness to disclose business performance information. This study thus used subjective measures by asking respondents to rate their business performance over the last three years compared to their competitors (Richard & Marilyn, 2006; Wall et al., 2004).

CSR, manufacturing and strategic management literature were used to develop measurement items of company performance. Respondents were required to rate their responses using a five-point scale from 1= “much longer/much lower/much worse” to 5= “much shorter/much higher/much better” (see Table 2).

Table 2 Company performance measurement items

Dimension (construct) and item (indicator)	Mean	SD	Loading	AVE	Cronbach's alpha	R ² value	Q ² value
Customer performance (CCP)				0.72	0.81	0.14	0.07
CP11 Customer complaints	2.35	0.94					
CP12 Customer satisfaction	4.00	0.72	0.93				
CP13 Customer loyalty	4.12	0.74	0.90				
CP14 An increasing number of consumers	3.72	0.75	0.70				
Employee performance (CEP)				0.67	0.76	0.38	0.24
CP04 Training of employee	3.56	0.76	0.84				
CP05 Career opportunities	3.64	0.75	0.85				
CP15 Employee motivation	3.62	0.72	0.76				
CP16 Employee turnover	2.70	1.02					
Financial performance (CFP)				0.58	0.75	0.12	0.06
CP03 Cash flow report	3.64	0.74	0.66				
CP08 Profit	3.65	0.74	0.80				
CP09 Return on investment (ROI)	3.59	0.74	0.86				
CP10 Sales growth	3.74	0.80	0.70				
Operational performance (COP)				0.60	0.71	0.10	0.03
CP01 Timeline of customer service	3.86	0.78	0.75				
CP02 Delivery time	3.86	0.78	0.72				
CP06 Productivity	3.92	0.71	0.83				
CP07 Operational efficiency	3.80	0.71	0.79				

3.3. Sample and data collection

Apart from being the largest contributor to Indonesia's manufacturing industry with more than 70% of Indonesia's GDP (Agustinus, 2017), Java also has 64.29% or 4.41 million manufacturing companies (BPS, 2017). Accordingly, this study took manufacturing companies in Java as a sample study, covering five regions, i.e., Jakarta, West Java, Yogyakarta, Central Java and East Java. The sample study included 33 sets of the Indonesian Standard Industrial Classification. It involved company categories by the Indonesian Central Bureau of Statistics; that is, small (5-19 employees), medium (20-99 employees) and large (over 100 employees).

This study employed a self-completion survey via mail, online and personal delivery. Overall, questionnaires were distributed to 1,055 manufacturing companies from June to October 2018. After the data screening of 514 returned questionnaires, 435 responses remained in the data set, and 138 were SMEs, presented in this paper.

The possibility of a common method bias as a potential issue from using a single informant when gathering data was evaluated in two ways (Hulland, Baumgartner, & Smith, 2018; Podsakoff, MacKenzie, Jeong-Yeon, & Podsakoff, 2003). First, the respondents were assured of anonymity; thus, neither their companies nor personal information could be traced to them (Podsakoff et al., 2003). Second, this study conducted Harman's one-factor test involving 36 variables in principal component analysis (PCA) (Kock, 2015; Podsakoff et al., 2003). In doing so, PCA yielded nine distinct factors, representing a total variance of 67.18%. A single factor presented the highest portion of the variance (27.69%). This result indicated that this study contained no common method bias.

4. Results and Discussion

4.1. Descriptive analysis

Concerning the respondents' profiles, most respondents are between the ages of 41 and 60 (53.6%). One-third of respondents (32.6%) is from 25 to 40 years of age. The remaining 8.7% are under 25, whereas 5.1% are above 60 years of age. More than half of the respondents (60.14%) are

in the top management position (owner and director), and one-third (31.16%) are in the management position (assistant, middle and senior manager). The remaining 8.7% consists of team leaders and others. Most respondents (39.9%) have over 10 years of work experience, 34.8% have less than five years, while 25.4% have six to 10 years of work experience.

Samples from a variety of manufacturing SMEs were selected. The main products of respondents' companies are: 1) food and beverage (32.6%), 2) textiles (14.5%), 3) rubber and plastic products (7.2%), 4) fabricated metal products (7.2%) and 5) chemicals and chemical products (5.8%). Food and beverages, textiles, and chemicals and chemical products were three of the five products that contributed the most to the manufacturing sector's export value in 2019. (Kemenperin, 2020). As a result, the sample may represent the population of manufacturing SMEs in Indonesia.

More than half of respondents' companies (59.4%) have been operating between 11 and 50 years, and 22.5% have run their business for five to 10 years. The remaining 16.7% have operated for less than five years, and 1.4% have worked for over 50 years. Most respondents' companies (79.71%) are in East Java, 12.32% are in Centre Java and Yogyakarta, while 7.97% are in West Java and Jakarta.

Table 1 shows that 12 variables have mean values above 4.0. Among four dimensions, legal responsibility has the biggest mean value of 4.17, followed by economic responsibility (4.14) and ethical responsibility (4.09). Philanthropic responsibility has the lowest mean value of 3.56. Regarding company performance, 12 variables have mean values between 3.0 and 4.0 (see Table 2). COP has the highest mean value (3.86), followed by CFP (3.66) and CCP (3.55). On the other hand, CEP has the smallest mean value (3.38).

4.2. PLS-SEM analysis

This study analyzed data using PLS-SEM for two reasons. First, PLS-SEM is appropriate in predicting which dimension of CSR has the most significant impact on organizational performance (Hair, Hult, Ringle, & Sarstedt, 2017; Matthews, Hair, & Matthews, 2018). Second, PLS-SEM can accommodate the data distribution abnormality found in the data set (Hair et al., 2017).

Figure 1 depicts a model of the relationship between four dimensions of CSR and four aspects of company performance. SmartPLS 3 was employed to assess the measurement and structural models. The PLS algorithm used the weighting scheme of factor, maximum iterations of 500, and stop criterion of 7. With the 'no sign changes' option in the original data, the bootstrapping procedure ran 5,000 subsamples and 500 observations. In addition, for the confidence interval method, two-tailed testing with a significance level of 0.05, complete bootstrapping, bias-corrected and accelerated (BCa) bootstrap were used (Hair et al., 2017; Hair, Sarstedt, Ringle, & Gudergan, 2018).

Assessment of measurement model

As shown in Table 1 and Table 2, reflective measures have Cronbach's alpha from 0.74 to 0.84, above 0.70 and below 0.90 (Hair et al., 2017). Indicators' loadings are above 0.70 and significant. Except for CS01, CP11, and CP16, they were eliminated because their loadings were less than 0.50. The Fornell-Larcker criterion is the most widely used conservative approach to testing discriminant validity (Hair et al., 2017; Hamid, Sami, & Sidek, 2017). Except for the Economic-Ethic construct, which has a similar value, the square root of average variance extracted (AVE) is higher than the cross-loadings with other constructs. Overall, the result revealed that the assessment of measurement models has been achieved satisfactorily.

Figure 1 The model of CSR-company performance relationship

Assessment of structural model

Regarding the determination coefficient, the most significant predictor of the structural model is CEP ($R^2=0.38$), followed by CCP ($R^2=0.14$) and CCP ($R^2=0.12$), and then COP ($R^2=0.10$) (see Table 2). Philanthropic has a significant medium effect on CEP ($f^2=0.09$) at the 10% confidence level. The resulting cross-validated redundancies (Q^2) are in the range of 0.03 to 0.24. Accordingly, the four exogenous constructs of CSR have a medium predictive relevance on four endogenous constructs.

As presented in Table 3, 16 direct effects from CSR to company performance. Three positive and significant relationships are: Economic $\rightarrow$ CCP ($\beta=0.28$, $p<0.05$), Legal $\rightarrow$ CEP ($\beta=0.28$, $p<0.05$) and Philanthropy $\rightarrow$ CEP ($\beta=0.30$, $p<0.05$). At the confidence level of 10%, three paths have a significant direct effect: Legal $\rightarrow$ CCP ($\beta=0.18$, $p<0.10$), Legal $\rightarrow$ COP ($\beta=0.25$, $p<0.10$), and Legal $\rightarrow$ CFP ($\beta=0.2$, $p<0.10$). Surprisingly, there are no significant direct effects from Ethical to CCP, CEP, COP and CFP.

The result indicates that economic responsibility has a significant impact on CCP, which supports H1a. Interestingly, legal responsibility directly affects CCP, CEP, and COP, supporting H3a, H3b, H3c and H3d. Philanthropic responsibility has a significant impact on CEP, supporting H4b accordingly.

There is a plausible explanation for these findings. When SMEs conduct their businesses economically in compliance with the regulations, it will positively impact their essential primary external stakeholder by enhancing customer satisfaction, improving customer loyalty and generating more customers. These findings are consistent with results from other studies. CSR would have an immense effect on the perceptions and attitudes of customers towards companies and the goods they manufacture (Nguyen, Vo, Nguyen, & Choo, 2020). CSR also affects customer loyalty and customer satisfaction (Awatara, Samsi, Hamdani, & Susila, 2020).

Furthermore, fulfilling the legal and philanthropic responsibilities can reflect a company's commitment to comply with regulations and concern the community. The findings show that SMEs can achieve better employee performance by providing appropriate training for their employees, offering them good career opportunities, and thus, increasing employee motivation. Employees who work for more dedicated employers tend to be more optimistic, loyal, and productive (Dey & Sircar, 2012). If employees are sufficiently motivated, they will complete their works with perseverance (Uloli, Akbar, & Kadir, 2019). Besides, if they believe that their companies are socially responsible for legal problems, they are more likely to trust them (Kunda, Ataman, & Behram, 2019). As a result,

they can produce better operational performance (Sun & Yu, 2015), whereas improved employee performance can lead to a good company reputation (Aziz et al., 2020).

Table 3 Direct effect

Hypothesis	Path	Direct effect	t-value	p-value	Supported?
H1a	Economic -> CCP	0.28 [0.06, 0.50]	2.09	0.02	Yes
H1b	Economic -> CEP	0.00 [-0.15, 0.15]	0.04	0.48	No
H1c	Economic -> COP	0.13 [-0.10, 0.38]	0.92	0.18	No
H1d	Economic -> CFP	0.13 [-0.09, 0.36]	0.95	0.17	No
H2a	Ethical -> CCP	-0.08 [-0.31, 0.16]	0.52	0.30	No
H2b	Ethical -> CEP	0.14 [-0.07, 0.33]	1.11	0.13	No
H2c	Ethical -> COP	-0.10 [-0.38, 0.18]	0.61	0.27	No
H2d	Ethical -> CFP	-0.06 [-0.29, 0.16]	0.47	0.32	No
H3a	Legal -> CCP	0.18 [-0.05, 0.40]	1.31	0.09	Yes
H3b	Legal -> CEP	0.28 [0.11, 0.46]	2.67	0.00	Yes
H3c	Legal -> COP	0.25 [-0.03, 0.51]	1.51	0.07	Yes
H3d	Legal -> CFP	0.26 [-0.03, 0.50]	1.58	0.06	Yes
H4a	Philanthropy -> CCP	0.03 [-0.14, 0.21]	0.26	0.40	No
H4b	Philanthropy -> CEP	0.30 [0.17, 0.43]	3.74	0.00	Yes
H4c	Philanthropy -> COP	0.12 [-0.07, 0.32]	1.00	0.16	No
H4d	Philanthropy -> CFP	0.03 [-0.15, 0.23]	0.22	0.41	No

Moreover, when CSR is conducted in compliance with obligations (Amrulloh et al., 2020), SMEs can ensure their stakeholders that they operate their activities and create the financial report legally. This condition is conducive to improving operational performance (e.g., shorter customer service timeline, increased productivity, faster delivery time and improved operational efficiency). It can also enhance financial performance, such as better cash flow report, greater profit, higher sales growth and ROI.

The findings of this study reveal that only three CSR dimensions (i.e., economic, legal, and philanthropic responsibilities) have a significant impact on company performance. On the contrary, the ethical dimension has no effect on any performance. The findings are supported by a prior study that not all CSR dimensions have an equally significant effect on organizational commitment (Dhanesh, 2012). However, the findings of this study differ from another finding, suggesting that the ethical dimension has the most significant influence on employee performance (Peterson, 2004). In this study, employee performance is most affected by legal and philanthropic responsibilities, and customer performance is influenced by economic and legal responsibilities. This finding is supported by other findings from prior studies. Involvement of all stakeholders is essential in decision-making, such as CSR practices (Alsbaity, 2018), while employee and customer (in addition to the environment) are the most critical stakeholders for SMEs (Jain, Vyas, & Chalasani, 2016). Accordingly, SMEs should maintain a reliable and beneficial relationship with their primary stakeholders. If the company has a better relationship with stakeholders, it will be easier to achieve its business objectives. However, if the company has a poor relationship with stakeholders, achieving its objectives will be more difficult (Maulamin, 2017).

In summary, RQ1 asks which dimension of CSR can affect company performance. The findings reveal that legal responsibility is the CSR dimension with the highest mean value and the most significant predictor of four performances. Economic and philanthropic responsibilities are the second most significant predictors because they have a substantial effect on one performance. Conversely, ethical responsibility has no effect on any performance. RQ2 inquires as to which performance is most influenced by CSR dimensions. The findings suggest that two dimensions have the most significant influence on customer and employee performance. Customer performance is influenced significantly by economic and legal responsibilities, while employee performance is

affected significantly by legal and philanthropic responsibilities. Employee performance, however, has the greatest impact of the two.

5. Conclusion

This study evaluates the model that describes the relationship between four CSR dimensions and company performance. The findings reveal that six of 16 hypotheses were supported. This study highlights that three CSR dimensions (economic, legal and philanthropic responsibilities) significantly affect social and financial companies' performance. The findings discover that legal responsibility is the primary driving factor of CSR practices in the Indonesian context. As a result, it is relevant that manufacturing companies are affected by CSR regulation (Laws No. 40 in 2007).

The findings of this study enrich CSR literature by elucidating how CSR can be implemented and how it impacts organizational performance. The findings provide empirical evidence that primary stakeholders (e.g., customer and employee) should be considered in CSR implementation and organizational performance analysis.

Besides, the findings of this study have implications for SMEs, particularly in developing countries. The findings can help SMEs conduct CSR by improving their understanding of the various CSR activities. Importantly, the findings can motivate SMEs to implement CSR beyond profit-oriented motivations and legal enforcement. The results suggest that they can achieve better employee performance by engaging in philanthropic activities.

This study, however, has some limitations. First, this study counted on the data collected from respondents as single informants. Future studies may address this concern by involving many levels of informants, for example combining customer and employee surveys for better data distribution and bias reduction. Second, because this study focused on a single industry in Java, the findings of this study could limit the generalizability. Future studies could overcome this limitation by integrating other sectors and regions, such as the service industry inside and outside Java.

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