

# Corporate Social Responsibility is Viewed from a Contingency Perspective

Danri Toni Siboro<sup>1</sup>, Audrey M. Siahaan<sup>1</sup>, Iskandar Muda<sup>2</sup> and Syafruddin Ginting<sup>2</sup>

<sup>1</sup>Student Postgraduate, Faculty Economic and Business, Universitas Sumatera Utara, Medan Indonesia

<sup>2</sup>Lecture Faculty Economic and Business, Universitas Sumatera Utara, Medan Indonesia

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**Abstract:** Corporate Social Responsibility is a corporate social responsibility to stakeholders where the company is part of the social environment. Corporate Social Responsibility must achieve balance or must be able to integrate from the start of environmental economics and social issues at the same time can provide and meet the expectations of shareholders and stakeholders. So, the company has a responsibility to the corporate environment. Most companies do only corporate social responsibility voluntarily. Contingency theory is a theory that adjusts leaders to the right conditions. Contingency theory argues that leader performance is determined from his understanding of the situation in which they lead. Managers sometimes lack understanding of the mindset rather than Corporate social responsibility. This study uses a literature study to see how CSR is viewed from contingency theory. From the analysis, it can be concluded that CSR with company performance occurs in differences of opinion. There are researchers who claim that the implementation of CSR is determined by industry partnerships, the role of government, and managerial incentives. The implementation of corporate social responsibility in the company must be freed from short-term goals. Corporate social responsibility does not directly have an impact on improving financial performance.

## 1 INTRODUCTION

The phenomenon of Corporate Social Responsibility (CSR) is often a very phenomenon issue; among companies in Indonesia. In Indonesia corporate social responsibility is required by law. This is indicated by the issuance of the Limited Liability Company Law (UU PT) No. 40 Article 74 of 2007 and entered into force on August 16, 2007. For companies that go public in Indonesia regulations regarding social and environmental responsibility are regulated by the Financial Services Authorization in OJK Regulation No. 29 / POJK.04 / 2016 concerning annual reports Issuer or public company. Corporate Social Responsibility Practices in Indonesia only aim to fulfill the obligations of the OJK, impose sanctions, a portion of funds and business interests. The implementation of Corporate Social Responsibility should have meaning, the ongoing implementation, the value of the Corporate Social Responsibility, the goal of sustainable

implementation rather than Corporate Social Responsibility.

Companies in Indonesia only view Corporate Social Responsibility as a tool to obtain foreign funds that are not subject to taxes and other regulatory obligations. The company has many objections to the implementation of Corporate Social Responsibility because the implementation of Corporate Social Responsibility will impose company budgets. The implementation of Corporate Social Responsibility in the company is only limited to absurd statements or principles that will not be able to function to solve various social and business environment problems.

Basically, Corporate Social Responsibility is an ongoing commitment from the company's business that acts ethically and contributes to the economic development of the local community or the wider community, along with improving the standard of living of the people around them. Corporate Social Responsibility must achieve balance or must be able to integrate from the start of environmental

economics and social issues at the same time can provide and meet the expectations of shareholders and stakeholders.

In Indonesia, a business will be seen as implementing Corporate Social Responsibility only for companies engaged in mining or companies related to Natural Resources, while companies that do not manage Natural Resources but have an impact on Natural Resources will never be seen implementing Corporate Social Responsibility.

Stakeholders always think of how management in the company is effective and must be able to understand and implement strategic and tactical decisions. The purpose of business is to create as much value as possible for stakeholders.

The corporate environment is part of one of the desires of stakeholders for the survival of the company. The theory that can fulfill the desires of stakeholders for environmental purposes is a contingency theory. Where this theory will make the proposition between company activity and company structure will be formed from the constraints of the external environment.

Good management oversight of certain activities and circumstances will be able to encourage the company to achieve and the company's desires in the future. Contingency theory can improve the performance of entities as well as company management. One contingency factor is the external environment. The external environment is a source of information and the need for information, where information is needed in the stock market to see whether the situation is stable or not. This information can be obtained indefinitely. One of the external environmental information is the corporate social responsibility.

## 2 LITERATURE STUDY

### Stakeholders Theory

This theory is about how management functions to satisfy the owners and people around the company. Company management seeks to combine performance improvement with increased stakeholder satisfaction. This theory puts forward the interests of stakeholders first compared to the interests of company management.

According to Freeman, stakeholder theory can identify value as the main driver of the company, and also recognizes that the value must be shared with a group of stakeholders were not only shareholders and company managers but also actors in the community who might have an interest in the company's operations. (Theodoulidis et al., 2017).

The company is part of several elements that make up society in the social system. This condition creates a reciprocal relationship between the company and the stakeholders. This means that the company must carry out its role in two directions, namely to meet the needs of the company itself and stakeholders.

### Contingency Theory

Contingency theory is a theory of leader suitability which means adjusting the leader to the right conditions. This theory argues that leader performance is determined from his understanding of the situation in which they lead. In simple terms, contingency theory emphasizes leadership style and understanding the right situation by the leader.

This theory can be used to answer questions about someone's leadership with various types of organizations. This theory can be used to predict someone who has worked well at one position in an organization will be equally effective when moved to a different position. This theory can provide changes in the good management of top management with lower management.

According to Donaldson, contingency theory shows that the results of organizational effectiveness from the characteristics of the right organization will reflect the organizational situation. (McAdam, Miller and McSorley, 2016). The company seeks to improve performance by increasing conformity and harmony with the series that has been determined by contingency theory. Contingency theory will be very useful when there is a shortage of existing theoretical frameworks by emphasizing an approach based on suitable contingencies compared to what is best done to manage the company.

### Corporate Social Responsibility (CSR)

Corporate Social Responsibility is a concept in a company where the company has responsibility to stakeholders (such as employees, consumers, producers, shareholders, a community and environment) in all company operations that cover economic, social and environmental aspects. This Corporate Social Responsibility has a very close relationship with sustainable development. Sustainable development in the perspective of corporate social responsibility must be in the form of short-term sustainability and long-term sustainability.

The concept of Corporate Social Responsibility today is very popular, but uniformity has not been found in defining the concept of Corporate Social Responsibility. Corporate social responsibility is also often seen as a company's business commitment to sustainable development. To run the company's operations, based on the point of view of corporate

social responsibility, the company should not just look at it from an economic aspect, but also must look at the social and environmental aspects. For example, in gaining profits so that dividends can be distributed, companies must also see the impact of the emergence of these benefits and for stakeholders what can be obtained from these benefits.

Corporate social responsibility can also be business behavior related to business ethics. So, companies must be responsible for the company's social environment. In practice, a company must be more motivated to do more corporate social responsibility than obligations under a regulation.

There is a relevant relationship between Corporate social responsibility in the business and strategies naturally in the company's activities. Corporate social responsibility and company performance are considered the most important for generating wealth and improving company performance. (Gallardo-Vázquez and Sanchez-Hernandez, 2014).

Although many companies have realized the importance of carrying out CSR, there are also those who object to implementing it. Even among those who agree that companies run CSR, there are still differences in interpreting the level of company involvement in carrying out CSR. In the end, the success of CSR and the scope of CSR programs that are carried out will be determined by the level of awareness of business people and other relevant stakeholders.

### Corporate Social Responsibility From the Viewpoint of Contingency Theory

The implementation of Corporate Social Responsibility carried out by the company as a form of accountability and concern for the environment around the company. Many benefits obtained by the company with the implementation of Corporate Social Responsibility, among others, products are increasingly preferred by consumers and companies are attracted by investors..

Contingency theory says that there is no best method for managing a company. Management must be able to balance internal needs and adapt to environmental conditions. Management must be able to harmonize and balance internal needs with the environment.

Most companies do corporate social responsibility only voluntarily. This mindset guide is the collection and interpretation of new information. Because mindset acts as an information filter, it is dynamic and continues to develop in response to new information. At this time new information appears and is not consistent with this mindset that will make the mindset change. The following in

Figure 1 we can see the contingent framework according to Jiang et al.

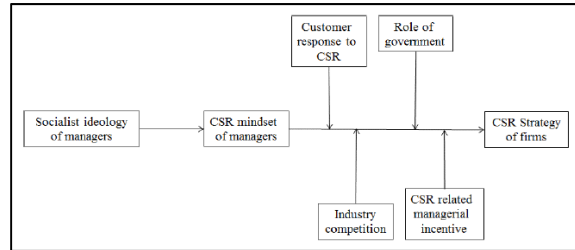


Figure 1: A contingent Framework of Political Ideology, CSR mindset and CSR Strategy

Managers sometimes lack understanding of the mindset rather than Corporate social responsibility, so they do not consider Corporate social responsibility less. A manager's mindset can be in the form of the desire to maximize profits, or the manager is considered as the representative of the owner of the company or, more concerned with improving the manager's personal life. Corporate social responsibility often focuses on fulfilling employee rights, social justice, and environmental preservation. This is what makes the mindset of Corporate Social Responsibility for each manager different so that he is unable to understand the purpose of overall corporate social responsibility.

## 3 METHODOLOGY

The researcher conducted a literature study to find out how the implementation of corporate social responsibility is seen from the perspective of a contingency perspective. Researchers examine from several journals related to corporate social responsibility and contingency theory. The researcher wants to find out whether how corporate social responsibility is carried out by companies for the interests of stakeholders so that a contingency perspective is needed.

## 4 RESULT AND ANALYSIS

Contingency theory explains that the higher the fit between management control predictions and other contingent factors, the higher the level of achievement of entity performance or vice versa.

The results of research on corporate social responsibility with the company's performance are very much and there are differences of opinion, there is research that there is a positive relationship between corporate social responsibility and company

performance. And there are also results of research saying that there is a negative relationship between corporate social responsibility and company performance. But there are also studies that say there is no relationship between corporate social responsibility and company performance.

Corporate social responsibility has a positive relationship with company performance. (Wang et al., 2015). The benefits of corporate social responsibility will be greater in value than the costs incurred. The commitment of a company to implement Corporate Social Responsibility will increase economic value.

Corporate social responsibility has a negative relationship with company performance. (Mallin, Farag and Ow-Yong, 2014; Chen, Feldmann and Tang, 2015). This is because the company believes that the social environmental costs are avoidable costs.

Corporate social responsibility has no relationship with company performance. (Lu et al., 2014).

According to Jiang et al., (2015) that managerial decision making in terms of strategy Corporate social responsibility is influenced by political ideology. The manager's mindset will influence the strategy of Corporate social responsibility. The strength of the relationship between the mindset of Corporate social responsibility and the choice of strategy Corporate social responsibility is moderated by customer responses to Corporate social responsibility, industry competition, the role of government, and managerial incentives related to corporate social responsibility. (Jiang et al., 2018).

In the economy in transition, manufacturing companies are encouraged to invest more in corporate social responsibility. According to the managers of a company that implements corporate social responsibility, it will create better customers and increase the value of a company. Xie (2017) stated that efforts to improve corporate social responsibility can improve customer satisfaction and recognition so that financial performance is better. (Xie et al., 2017).

During the implementation of Corporate Social Responsibility, all parties in the company must be freed from short-term goals. Corporate social responsibility does not directly have an impact on improving financial performance. (Lu et al., 2018).

The owner and top management of the company must consider the employee to be a tool to connect the success of Corporate social responsibility. Because, the company invests its money in Corporate Social Responsibility, and the company

receives great benefits for the implementation of Corporate Social Responsibility.. (De Roeck and Maon, 2018).

## 5 CONCLUSIONS

Many company management, in allocating company resources to improve the performance of Corporate social responsibility. The resources owned and used by the company do not fully translate into productive efficiency and economic values. Every company that moves and operates competitively will present heterogeneity in terms of time availability.

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