



STRATEGY FORMULATION MODEL TO IMPROVE IMPLEMENTATION OF CORPORATE SOCIAL RESPONSIBILITY (CSR)

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ABSTRACT

This research is based on reality condition of Corporate Social Responsibility (CSR) activity in generic CSR program. Many companies implement CSR based on external pressures, such as regulators, environmentalists and other associations. CSR Implementation is not an internal awareness of company to improve social environment and has no relevance to main activities and corporate strategy. Therefore, it does not give benefits to the performance and competitive advantage. This research focus is to develop a CSR implementation model based on internal awareness of company by examining the leadership behavior to formulate CSR-oriented strategy formulation in an effort to improve company performance. This research location is Makassar Industrial Estate (PT.KIMA). The unit analysis is company. The samples are 81 leaders at general manager level and leadership of company functional manager level. The study proves that transformational leadership style has a significant effect on CSR-oriented strategy formulation. Leaders with ethical integrity rules, norms and policies will increase the leadership commitment to formulate the company's strategy by taking into account aspects of natural and social environment in addition to main purpose to generate profits. Organizational learning culture improves the effectiveness of corporate strategy formulation. Strategy formulation will improve leadership commitment to create CSR implementation.

Keyword: Leader behavior, Strategy formulation, CSR

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1. INTRODUCTION

1.1. Background

Corporate Social Responsibility (CSR) implementation has not been driven by internal awareness of company to contribute to improvement of environment, but rather from external pressures. It has an impact on CSR Implementation programs that only to meet the requirements of government regulations and to abort social obligations.

There are various benefits of CSR implementation by various companies and agencies. SWA magazine research showed that only 45 companies have benefit from CSR to maintain and improve the company image (37.38 percent), good relationship with community (16.82 percent), and support the company's operations (10.28) percent (Sinar Harapan 16 / 03/2006). It is time for every company and institution to pay attention to CSR because of many positive benefits that can be obtained in its application.

Porter and Kramer (2002) explained that the economic sacrifices for CSR activities do not have a positive impact on performance or competitive advantage of company because the activity is not based on company's main strategy and activities. Lawrence and Weber (2002) argue that if a corporation makes CSR as part of its business vision and strategy, it will enjoy a reputation and increase business value and long-term profit growth. This opinion is supported by Corporate Sustainability Theory that in order to get sustainable live, corporations must integrate business objectives with social and ecological objectives as a whole (Lako, 2008).

The concept of corporate citizenship (Jeurissen, 2004) provides an opportunity to implement CSR in a new approach based on the harmony between social benefits for community and business benefit through the implementation of corporate citizenship program. Marsden and Andrioff (1998) explained that "Good corporate citizenship can be defined as understanding and managing a company's wider affects on society for the benefit of the company and society as a whole."

Several management experts put CSR as part of corporate strategy. Levine et al. (2008) argued that strategic CSR activities can enhance competitive advantages such as brand reputation, employee awareness and morale and good relationships with regulators and consumers. Graafland et al. (2003); Verissimo and Lacerda (2011); and Kranz and Santalo (2010) stated that CSR implementation will strategically gives the company product competitiveness.

CSR Implementation based on corporate strategy must be supported by several factors, both internal and external. Lako (2008) explains that CSR must be built as an intrinsic essential need manifested in vision, mission, strategy, business policy, corporate culture values and ethical action.

Waldman et al. (2004) used the theory of strategic leadership theory to find the effect of transformational leadership on CSR Implementation. Furthermore, Verissimo and Lacerda (2011) examine the effects of transformational leadership and ethical integrity on a strategic-oriented CSR. Both studies found a positive relationship between transformational leadership on corporate strategy orientation of CSR, but Verissimo and Lacerda (2011) did not found a significant correlation between CEO ethical integration with CSR corporate orientation. Kranz and Santalo (2010) said that company will react by applying differentiation strategy of CSR in order to achieve competitive advantage to increase competition.

Organizational learning culture needs to be included in formulation model of CSR oriented strategy. The premise used is the social values and beliefs held by a culture members

can affect the more specific values and beliefs relevant to organizational functions, as CSR value in strategic executive decision making (Triandis 1995, House et al., 1999; Javidan et al., 2005). The premise is supported by institutional theory that organization will adopt social-level values as a way to get legitimacy from organizational environment (Dickson et al., 2004). Therefore, cultural values of society will affect the emergence of organization values.

Based on above background, this study will examine the effect of transformational leadership, ethical integrity and organizational culture learning on CSR-oriented strategy formulation.

1.2. LITERATURE REVIEW

Some research results show that CSR Implementation should be integrated with corporate strategy and core competence. It is affected by antecedent factors as: transformational leadership (Waldman et al., 2006; Verissimo and Lacerda, 2011; and Xenikou and Simosi, 2006), ethical integrity (Verissimo and Lacerda, 2011), learning culture of organization and of CSR prediction value in context of strategic decision making (Waldman et al., 2006; Triandis, 1995; House et al., 1999; Javidan et al., 2005).

Verissimo and Lacerda (2011) used transformational leadership, corporate strategic orientation and CEO ethical integrity as antecedent variables of CSR implementation. Transformational leadership is measured by Multifactor leadership Questionnaire (MLQ) by Bass and Avolio (2008). The CEO ethical integrity construct is measured by Perceived Leader Integrity Scale (PLIS) by Craig and Gustafson (1998). While the CSR-oriented corporate strategy constructs are measured by Sustainability Progress Indicator Comparative Evaluation Methodology (SPICE) by Hemming et al., (2004). Their research findings indicate a positive and significant relationship of CSR-oriented corporate strategy on transformational leadership with, but the CEO ethical integrity does correlate with CSR strategic orientation.

Xenikou and Simosi (2006) found a moderate positive relationship between transformational leadership and a humanitarian, achievement and adaptive cultural orientation, and a positive and marginally significant relationship between transformational leadership and business unit performance, while charisma has a significant positive relationship with performance. Waldman et al. (2006) describes how the cultural dimension of institutional collectivism and power differences affect the value of social responsibility to members of top manager's teams. Waldman et al. (2006) suggested no clear definition and dimensionality of CSR, when it is linked with value of managerial decision making, CSR becomes a multidimensional construct of concerned by shareholders / owners, stakeholders, and people's welfare.

Research results on the CSR Implementation with strategic considerations generally show that more competitive industry has a better social level. Kranz and Santalo (2010) specifically found that different market concentration proxies has negative relationship to CSR measures, higher competition associated with higher import penetration leads to superior CSR and firms performance in more competitive environments, with environmental performance superiority was measured by corporate pollution level.

2. CONCEPTUAL FRAMEWORK OF CORPORATE SOCIAL RESPONSIBILITY (CSR)

Business people have an obligation to make a policy and decisions or actions that harmony with goals and values of society (Howard Bowen, 1953; Wartick and Cochran, 1985). This opinion become the beginning era of modern period literature on social responsibility. Bowen is the first people to define CSR and what he develops become phenomenal in future to make him called as the "Father of CSR" (Carroll, 1999).

The Corporate Social Responsibility (CSR) term began to be used since the 1970s and is increasing popular especially after John Elkington's book on *Cannibals with Forks: The Triple Bottom Line in 21st Century Business* (1998). It developed three important components of sustainable development, namely economic growth, environmental protection, and social equity, initiated by World Commission on Environment and Development (Brentford Report (1987). Elkington encapsulate CSR into 3P focuses: profit, planets and people. A good company not only pursues economic profit but also concern to the preservation of environment (planet) and people's welfare, (Global Compact Initiative, 2002).

Corporate social responsibility can also be defined as a business commitment to contribute to sustainable economic development, working with employees, employee's family, local communities and overall society (Foxet al, 2002) in Budimanta et al 2004). Therefore, the CSR is directed to internal and external company. Internal responsibility is directed to shareholders in form of profitability and growth, to employees by providing compensation in accordance with fairness principle. The external social responsibility relates to company role as taxpayers, improving the welfare and competence of community, and maintaining the environment for the future generations benefit. Elkington (1994) introduced the corporate sustainability theory in 1994. The corporate sustainability theory is defined as the area of thought and practice where companies and other business organizations work to extend life expectancy: the ecosystem (the environment and natural resources they provide), communities (cultures and communities that support commercial activity), and economics (governance, finance and capital markets) in context of corporate competition and survival (Elkington, 1997). Lako (2008) said based on theory of corporate sustainability that in order to live sustainable the company must integrate business goals with social goals and ecological objectives as a whole.

The World Business Council for Sustainable Development (WBCSD) defines CSR as: "continued commitment by a business entity to act ethically and contribute to economic development by improving the quality of life in workplace and their families and local communities and wider society". Several EU countries (EU Green Paper on CSR) argue that "CSR is a concept whereby companies integrate social and experimental concerns in their business operation and in their interaction with their stakeholder on a voluntary basic". Law No. 40 year 2007 Article 74 on Limited Liability Companies defined CSR as the responsibility of an organization to affect a decision and its activities on society and environment, through transparent and ethical behavior, consistent with sustainable development and community welfare, taking into account the expectations of stakeholders, applicable law and consistent with international behavior norms, and integrated throughout the organization. The law definition on CSR contains seven core issues: environment, human rights, labor practices, community empowerment, organizational governance, consumer issues and healthy business practices of business enterprises (Hidayat, 2007).

3. RESEARCH METHODS

This research is an explanatory survey research with aims to test the relationship between variables partially. This study examines the effect of transformational leadership, ethical integrity and organizational learning culture on CSR-oriented company strategy formulation and CSR implementation. This research was conducted at PT. KIMA (Industrial Area of Makassar), South Sulawesi Province. It uses quantitative approach. The data type is cross section. The population is 165 industrial companies operated in Industrial Area of Makassar, South Sulawesi. The 81 Samples are selected by purposive sampling method, represented by leaders of general manager and functional manager level. Various indicators in questionnaires reflect the latent variables and arranged in form of a closed statement with Likert scale. The validity and reliability test are also performed. Structural Equation Modelling (SEM) with a variance or partial least square approach (PLS) is used to test the proposed model method, as shown in figure 1.

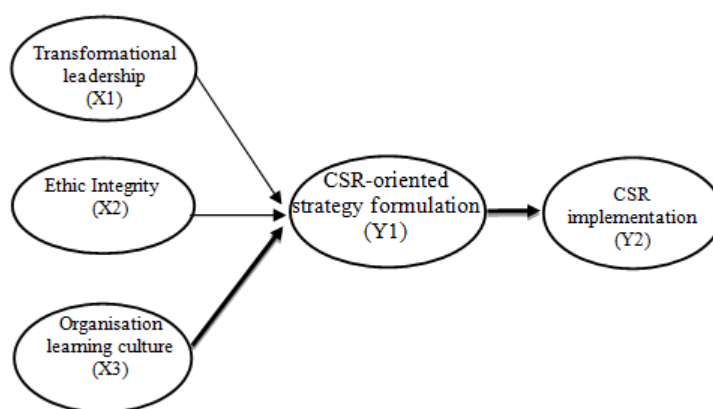


Figure 1 Research model

4. RESEARCH RESULTS AND DISCUSSION

The discussion answers the proposed problems formulation. The hypotheses testing are done based on data and theoretical study. The test results are examined to find out the true meaning and why it happened then linked its relevance to empirical data, existing theories, and previous research as empirical study. Consequently, the discussion will refer to the proposed hypotheses. The test results are shown in table 2 and explained below.

Table 2 Path Coefficients Testing Results (Pathophysiology) of Inner Model

Variable	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (O/STERR)
Transformational Leadership → CSR-oriented strategy formulation	0.295075	0.279786	0.093300	0.093300	3.162655
Ethic Integrity → CSR-oriented strategy formulation	0.336880	0.343671	0.080798	0.080798	4.169413
Organizational learning culture → CSR-oriented strategy formulation	0.162853	0.185925	0.116386	0.116386	1.399248
CSR-oriented strategy Formulation → CSR implementation	0.618085	0.626324	0.066991	0.066991	9.226337

Source: Data processed

4.1. The Effect of Transformational Leadership on CSR-oriented strategy Formulation.

Table 2 shows that transformational leadership has a significant effect on CSR-oriented strategy Formulation at path coefficient of 0.295. The coefficient represents a positive relationship between the transformational leadership style and CSR-oriented strategy Formulation. It means that transformational leadership has a positive effect on CSR-oriented strategy Formulation. This means that transformational leadership behaviors can make positive effect to CSR-oriented strategy Formulation.

The loading factor values for each indicator show that the four indicators (idealized influence, inspirational motivation, intellectual stimulation, and dan individualized consideration) strongly reflect transformational leadership. Idealized affect indicator most widely used by companies leaders especially in industrial area of Makassar.

This findings support Bass and Avolio (1994) that transformational leadership is known as "the fours." First, idealized influence is a reflection of superiors behavior that subordinates admire, Secondly, inspirational motivation can motivates subordinates to work maximally to achieve. Third, intellectual stimulation engages leader's ability to create new ideas that will affect the organization development. Fourth, individualized consideration requires leaders to listen and meet the subordinate's needs. In other words, leaders pay attention to subordinate. It is also consistent with Waldman et al. (2006) using transformational leadership theory to reveal the role of CEO in determining what drives them to implement the CSR program. Waldman (2006) examines two transformational leadership indicators of charismatic leadership and intellectual stimulation that significantly related to firms tendency to engage CSR strategies. Empirically, these study findings are consistent with Jose M. Verissimo and Lacerda (2011) in examining the effect of transformational leadership and ethical integrity on CSR-oriented strategy, then reinforced by Hemming at al., (2004) in measuring the corporate strategy orientation of CSR with sustainability progress indicator comparative evaluation (SPICE) method.

The finding shows a positive and significant relationship of transformational leadership on CSR-oriented strategy formulation. This finding justifies the leadership behavioral theory by Yukl G. (1971). This theory states that great leaders are the result of being formed or can be formed, not born (leader are made, not born). It indicates that transformational leadership style is basically formed within corporate environment where leaders emphasize the importance of tasks and human relationships. It can be said that leaders with a transformational leadership style can be formed through a leadership orientation to emphasize the tasks and human relationships.

4.2. The Effect of Ethical Integrity on CSR-oriented strategy formulation.

The hypothesis testing shows that ethical integrity affect on CSR-oriented strategy formulation, with path coefficient of 0.337. This significant result is indicated by t-statistics value (4.169) is greater than t-table (1.989) at alpha 0.05. This indicates a positive effect of ethic integrity on CSR-oriented strategy formulation. The leader with high ethic integrity will affect on CSR-oriented strategy formulation.

Loading factor value of each ethical integrity indicator show that leadership morality indicator has the highest value. It means that spiritual moral aspects are the main factors for the leadership to uphold ethical integrity. This result is supported by Spiritual leadership theory (Fry, 2003) that spiritual leadership is a basic need in relationships, create vision and harmony for each individual and empower the team. Morality is the spiritual values that can enhance the leadership ethics integrity in his subordinates view.

The study results are consistent Ulrich and Thielemann (1993) who examines how business managers think about the role of morality in business. They found that managers generally adhere to assertion that healthy ethics creates good business in long term. This study also shows that leaders with high ethical integrity can drive corporate strategy more oriented to CSR. Turner et al. (2002) examines the normative ethical theories by linking ethical principles with formulation of corporate strategy to find that managers who upheld moral judgment showed greater transformational behavior. Therefore, subordinates would ideally receive effective leaders who demonstrate the level of integrity as perceived by their subordinates (Craig and Gustafson, 1998). This study results are also consistent with Udiyaningsih (2006) that business ethics has a significant effect on corporate responsibility to stakeholders and business performance.

However, this study is inconsistent with Verissimo and Lacerda (2011) to find that Perceived Leader Integrity Scale (PLIS) developed by Craig and Gustafson (1998), but applied to different types of samples. This study uses companies in one region and still belongs to medium industries, while Verissimo and Lacerda (2011) use large companies in Portugal. The results of these two studies show that firm size is a differentiating factor to affect ethical integrity of leadership on CSR-oriented corporate strategy.

The behavioral theory of leadership proposed by Yukl G., (1971) also applies in context of ethical integrity relationships with CSR-oriented strategy. A leader who emphasizes his leadership on human relations or ethical integrity can increase the company's concern to environmental factors. This theory is consistent with theory of stakeholders who emphasize the responsibility of organization on the interests of stakeholders. Responsibility to all stakeholders interests can be realized if a leader's ethical integrity more emphasis on human relations aspects.

4.3. The Effect of Organizational Learning Culture on CSR-oriented strategy formulation

Hypothesis the affect of organizational learning culture on formulation of CSR-oriented corporate strategy is not supported in this study. The path coefficient of 0.163 illustrates the positive relationship between organizational learning cultures on CSR-oriented strategy formulation. Higher leadership leads to organizational learning will affect on higher CSR-oriented strategy formulation. However, the results are not significant as shown by t-statistics (1,399) smaller than the table (1,989) at alpha 0.05. It can be described that test results prediction the relationship between organizational learning culture and CSR-oriented strategy formulation is inaccurate. Thus the hypothesis in this study is not accepted.

Skerlavaj et al. (2006) suggests that organizational learning culture is defined as a complex process to refer to development of new knowledge and has the potential to change behavior. This opinion is consistent with Huber (1991) who argues that companies that have developed a strong learning culture will better to create, obtain, and transferring knowledge, while also modifying behaviors to reflect new knowledge and discourse. Furthermore, Skerlavaj et al. (2006) suggest that indicators of organizational learning culture consisting of a combination of three processes: (1) information acquisition; (2) Interpretation of information; and (3) Change of mindset pattern. This study results are inconsistent with study of Skerlavaj et al, (2006) although using the same instrument. There is an interesting phenomenon of learning process in context of this study which is suspected as a factor to make organizational learning culture is not significant to CSR-oriented corporate strategy. The phenomenon is an intuitive learning process outside the three learning processes developed by Skerlavaj et al. (2006). The instrument of organizational learning culture

proposed by Skerlavaj et al. (2006) consists of information acquisition, information interpretation, and thinking pattern changes at formal learning (cognition) level and has not touched the aspect of intuitive cognition.

Most managers in Industrial Zone of Makassar (KIMA) use the intuitive approach in learning process based on experience, although logically the decisions taken do not meet the requirements of formal cognition. Leadership aspect of these results is consistent with spiritual leadership theory (Fry, 2003) which assumes that transformational organization design has the creation of intrinsic motivation and organizational learning. Theoretically, in study sample area that apply learning theory, Bruner (1960) with Free Discovery learning presents four key themes in learning process, namely: knowledge structure, readiness to learn, intuition in educational process, and the motivation or desire to learn. The knowledge structure helps to see and to understand facts that seem to have no relationship. It can link one another. Learning readiness consists of acquisition of simpler skills that can allow one to achieve higher skills. The value of intuitive learning, intellectual techniques come to a tentative formulation without going through the analytical steps to find out whether the formulation is a valid conclusion or not.

Bruner (1960) explained his theory that one's mental activity in learning process consists of formal cognition and intuitive cognition. Intuition learning is defined as a subjective and cognition of truth within acceptable, holistic, coercive, extrapolative, and not analytical, without a logical reasoning process. The this study results provide an opportunity to change the dimensions of organizational learning culture proposed by Skerlavaj et al. (2006) into four dimensions consisting of: (1) Acquisition of information; (2) Interpretation of information; (3) Change of mindset pattern; and (4) Intuitive cognition.

Development of organizational learning culture is ultimately assessed its usefulness based on performance or effectiveness of organization. Therefore, a comprehensive learning culture needs to be placed within larger framework of organizational transformation in maintaining its existence, creating superior value-added for various stakeholder groups. At same time, most important part of applying behavior and cognitive change is to convert words into actions.

4.4. The Effect of CSR-oriented corporate strategy Formulation on CSR Implementation.

CSR-oriented corporate strategy formulation has significant effect on CSR Implementation programs (t-statistics, 9.22% greater than t-table 1.989, at alpha0.05). The CSR Implementation instruments are adapted from Mishra and Suar (2010). Mishra and Suar (2010) develops CSR implementation instruments based on stakeholder theory with six stakeholder perspectives, namely: Employee CSR, consumer CSR, Investor CSR, community CSR, environmental CSR and supplier CSR perspectives.

Some previous research is consistent with this study results (Graafland et al., 2003; Verissimo and Lacerda, 2011; and Kranz and Santalo, 2010). These three studies illustrate that companies that implement CSR in an integrated manner will enhance the company's ability to get competitiveness. More specifically, Levine et al. (2008) stated that strategic CSR activities can enhance competitive advantages such as brand reputation, awareness, employee morale and good relationships with regulators and consumers.

This hypothesis is based on corporate sustainability theory proposed by Elkinton (1994) on areas of thought and practice where companies and other business organizations work to extend life expectancy based on triple bottom line aspects of profit, planet and place in context of corporate competition and sustainable life. Lako (2008) also suggested that in

order to survive the company must integrate business goals with social and ecological goals as a whole.

The CSR Implementation programs are strategically proposed by Porter and Kramer (2002) as a philanthropic strategy. This strategy uses a partnership approach with local organizations, governments, and citizens to create a coalition with broader community focused on improving local economies and environment, quality of local life in CSR programs implementation. Furthermore, David Grayson et al. (2008) in Club of Rome give new mindset to corporate sustainability. This approach considers the obligation of a company to provide added value not only to shareholders, but also to communities they serve and pay attention to environmental aspects (S2AVE, Shareholder and Social Added Value with Environment). This approach creates new complexities for a manager in implementing sustainability strategies to expand the value chain and business demands to include local communities, governments, NGOs and even competitors that emphasize to the control of corporate sustainability strategies to generate innovation throughout the organization.

Overall respondents answer to the indicator of profit, planet, and peoples show high score. The profit dimension is an indicator with highest average value of variable formulation of CSR-oriented corporate strategy. It can be concluded that CSR with dimensions of value creation in three aspects, namely: economic (Profit), environmental sustainability (Planet), and social environment (People), can be integrated with corporate strategy.

5. RESEARCH IMPLICATION

This research has three implications relate to development of scientific management strategy both at theoretical level and level of empirical. First, this study provides implications for the development of conceptual model of transformational leadership style and ethical integrity to optimize the corporate strategy formulation as a holistic orientation balance, both to natural environment (planet), social environment (people) and economic orientation (profit). Second, this research also provides support to application of triple button line (TBL) theory in formulation of industrial company strategy to improve strategy orientation toward environmental and social aspects. Third, these study findings also provide theoretical implications for the application of stakeholder theory, with a major stakeholder approach consisting of employee, customer, community, environmental, investor and supplier perspectives, and sustainability theory in structural models to improve company performance.

This research provides practical implications for management to formulate strategy and organizational performance planning. First, management can take advantage from this study by utilizing the transformational leadership style and ethical integrity in formulating corporate strategy. This will affect to increase the leadership commitment to formulate a strategy that has a good balance orientation on economic aspect to increase profit and non-economic aspects as natural environment (planet) and social environment (people). Second, this study results indicate that cultural aspects have intuition factors that believed by management to contribute to effectiveness of CSR-oriented strategy formulation. These results provide practical implications, especially in management decision making, forms and methods of CSR implementation that not limited to philanthropy approach. Third, the impact of strategy formulation on CSR implementation is very strong. The corporate strategy formulation must be done in an integrated manner with corporate social responsibility to get society, customers and employees legitimacy and ultimately will improve organizational performance.

6. CONCLUSION

This study has tested several hypotheses related to the effect of leadership behavior variable on effectiveness of CSR-oriented strategy formulation and CSR implementation on company performance. The conclusions can be explained as follows. First, this study proves that transformational leadership style, with dimensions of idealized affect, inspiration motivation, intellectual stimulation and individualized consideration, has a significant effect on CSR-oriented strategy formulation toward conservation of natural environment (planet), social welfare (people) and company performance (profit). Second, Leaders with ethical integrity rules, norms and policies will increase the leadership commitment to formulate the company's strategy by taking into account aspects of natural and social environment in addition to main purpose to generate profits. Third, Organizational learning culture consists of acquisition and interpretation of information and dimensions corporate leaders behavioural to get a low response by corporate leaders because there is a dimension of cognitive intuition that more dominant in aspects of organizational learning culture that is believed to improve the effectiveness of corporate strategy formulation. Forth, Strategy formulation of companies that have an environmental orientation (planet, people, profit) will improve leadership commitment to create CSR implementation in perspective of major stakeholders namely; employees, consumers, communities, environment, investors, and suppliers.

The limitation of this research is the company size at mid-level industry has a tendency to more concern with ethical integrity aspect of a leader in directing the company's strategy in favor of CSR Implementation programs. It is recommended in future research to use firm size as control variable to measure integrity of company leadership ethics.

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