

Corporate social responsibility practice and its effects on community well-being in Southeast Sulawesi, Indonesia



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ABSTRACT

Corporate social responsibility (CSR) should address the concerns of stakeholders toward its business activities and the social, economic, and environmental changes that CSR brings to the community. This study analyzes the impact of the CSR dimensions on community well-being (CWB). The measured CSR dimensions are economic, legal, and ethical aspects, including philanthropy. By contrast, CWB involves the social aspects, economic empowerment, and the environment. A total of 490 respondents from the local community answered survey questionnaires, while Smart PLS.3.0 is used for data analysis. Results of the structural model analysis identified a significant, positive, and direct relationship between CSR and CWB. The implications of this study establish an important link between the CSR and CWB dimensions.

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1. Introduction

Corporate social responsibility (CSR) is an obligation that applies to all business organizations in the public and private sectors. CSR recognizes that employers have a duty to follow the desired path of community values and goals (Bowen, 1953). In this regard, Arnold (2010) explained and believed that the first benefits that flow from CSR improve the relationship between companies and communities. Matten and Moon (2008) defined CSR as a policy of action taken by the involved parties to reflect their responsibility in advancing social interests. Kotler and Lee (2005) explained that CSR involves enhancing people's welfare through the use of company resources. Each company is expected to have a positive impact on community welfare through a CSR program. Hart (1999) and Murphy (2010) argued that CWB is a conceptual framework that incorporates the social, economic, environmental, cultural, and political dimensions identified by individuals and communities. A functional society includes elements of life satisfaction that cannot be defined solely in terms of economic growth because of personal perception

and physical well-being influence individual welfare. Lee and Kim (2015) explained that the definition of CWB is a combination of several domains, such as the social, economic, cultural, environmental, and political aspects.

The nickel mining industry in Indonesia is one of the main pillars of the country's economy. Indonesia is one of the largest nickel-producing countries in the world and second only to Russia, according to ICW (2017). The nickel mining industry plays an important role in developing and expanding support for the world's consumers. In addition, this industry has contributed to Indonesia's development for over 50 years. The industry development intensified because of the sufficiently increasing global demand for nickel, produced a positive impact on state revenues, and supported improvements of community well-being (CWB). The industry's future sustainability in Indonesia partially depends on the role of CSR and dimensions of human well-being. CSR should contribute to the social and economic CWB (Kotler and Lee, 2005), with consideration to stakeholder expectations (Freeman, 1984; Huang and Kung, 2010; Mahmood and Humphrey, 2013). To assess the CSR performance, the four important aspects of economics, legality, ethics, and discretion should be considered (Carroll, 1991). Ismail et al. (2015) reported that the pyramid of essential CSR elements (i.e., economic, legal, ethical, and philanthropic) appears to be positively related to community development.

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Charitoudi et al. (2011) and Sarwar and Azam (2013) showed that CSR performance positively affects the environment and social aspects of society, the environment, and the workplace. The term CSR was first introduced in Indonesia from the 1960s to the 1980s (Rosser and Edwin, 2010). Indonesia was among the first countries to make CSR mandatory with Law 40/2007 on the limited liability of companies, which obliges corporations exploiting natural resources to assign a percentage of their profits to charity or CSR-related projects (Waagstein, 2011). In addition, Law 25/2007 on capital investment, article 15(b) states that capital ventures are obliged to engage in CSR for the local community. Since 2010, the Indonesian government has likewise required listed companies to report on the effects of their CSR activities on social welfare and environmental conservation and mitigation. In particular, CSR of foreign investors and state-owned enterprises should focus on nine sustainable development sectors, including partnership and financial aid (Taneja et al., 2011). Consequently, state-owned companies undertake CSR activities mainly for community sustainable development. That is, CSR can improve the CWB dimensions, and empirical evidence is necessary to verify the expansion of the nickel mining industry in Indonesia. Therefore, the purpose of the current study is to identify the effects of CSR on community development.

2. Concepts of CSR and CWB

2.1. CSR dimensions

CSR can be interpreted as the moral responsibility of a corporation to its neighboring community (Sciortino, 2017a; 2017b). Carroll (1991) defined CSR as economic, legal, ethical, and voluntary community aid placed on organizations. Beal (2013) defined CSR as a form of a business effort to harmonize company values and behavior against the needs of interested parties, not just consumers and wholesalers, but also workers, suppliers, communities, interest groups, and the entire community. Dahlsrud (2008) presented a comprehensive analysis of 37 definitions of CSR in

previous studies from 1980 to 2003. He divides the definitions into five dimensions, namely, environmental, social, economic, stakeholder, and voluntariness. In the present study, the definition of CSR is viewed through two perspectives, namely, stakeholder and social perspectives. From a stakeholder perspective, CSR was spearheaded by Freeman (1984), who proposes that businesses have responsibilities for groups and individuals with interconnected operations over commercial purposes. Khoury et al. (1999) and Sum et al. (2013) stated that CSR covers the relationship between a company and all stakeholders, such as customers, workers, communities, wholesalers, governments, suppliers, and competitors. Hopkins (1998) argued that CSR protects stakeholders through moral and responsible initiatives to achieve two-sided goals, namely, to retain benefits and improve their lives within and outside the company. On the other hand, Basu and Palazzo (2008) defined CSR as managerial counter-measures against stakeholders regarding commercial operations and social affairs.

In terms of social perspective, Davis and Blomstrom (1975) define CSR as the actions taken by companies to protect and improve social welfare and government interests, as well as cooperate with government policies by maintaining and improving social welfare (Kotler and Lee, 2005). McWilliams and Siegel (2001) considered CSR a governmental mechanism to increase social interests. Mohr et al. (2001) argued that CSR is a commitment of a company to remove or diminish a negative impression on society and simultaneously improve the long-term impression that benefits society (Truong and Hall, 2015). Matten and Moon (2008) explained that CSR consists of policy action taken by company management to reflect their responsibility to advance social interests. Carroll's model states that CSR comprises four types of social responsibility: economic, legal, ethical, and philanthropic (Carroll, 1991). This model is the most acceptable for measuring the implementation of CSR programs (Carroll and Buchholtz, 2006; Carroll and Shabana, 2010; Taneja et al., 2011; El-Garaihy et al., 2014; Al-Zyoud, 2017). The summary of CSR dimensions is shown in Table 1.

Table 1: Summary of CSR dimensions

Dimension	Aspect	Author
Economic	Contribution to local economic development through employees and skills training, job creation, financial support, entrepreneurship, and self-reliance.	Ismail et al. (2015), Maignan (2001), Pérez et al. (2013), Alvarado-Herrera et al. (2017), and Crespo and Del Bosque (2005)
Legal & Ethical	Compliance with state and local laws/rules, environmental protection, local culture, norms, and values	Pérez et al. (2013), Podnar and Golob (2007), Stanaland et al. (2011), Ismail et al. (2015), Maignan (2001), Nazri et al. (2018), and Crespo and Del Bosque (2005).
Philanthropic	Charity in a natural disaster, public infrastructure, health, sanitation, and religious development.	Maignan (2001), Crespo and Del Bosque (2005), Podnar and Golob (2007), Stanaland et al. (2011), Pérez et al. (2013), and Ismail et al. (2015)

In terms of economic response, sustainable businesses find innovative means to balance their economic (financial) goals with those of environmental protection and local community service (Choi and Gray, 2008; Sciortino, 2017b). This

perspective also acknowledges that enterprises should be economically successful and are required to pay taxes and build infrastructure (Rahim et al., 2011). In terms of legal responsibility, although an organization is allowed to run its business to make a

profit, such a firm is likewise expected to comply with laws and regulations (legal liability). De Schutter (2008) and Phaholyothin (2017) explained that regulations or laws are needed for the successful implementation of CSR. Ethics responsibility refers to the response to ethical rules of justice and includes activities or practices that are acceptable or unacceptable to the public. Carroll (1991) explained that ethical components require companies, in achieving corporate goals, to conduct activities in a manner consistent with community expectations and ethics, as well as recognize and respect the norms adopted by society. Nazri et al. (2018) combined the ethical dimension with a new identified dimension and called it Islamic/Shari'ah compliance.

2.2. CWB dimensions

Communities comprise people who care for and interact with one another every day where they live (Flint et al., 2008). That is, society emerges through social interaction. The community may be based on a place or determined by interest (Murphy, 2007). For a society based on place, welfare is often understood as the physical environment, where the welfare dimension is proven. The social interaction includes social dimensions (including psychological, cultural, spiritual), economics, and nature (Christakopoulou et al., 2001). Murphy (2010) and Hart (1999) argued that CWB is a conceptual framework that incorporates social, economic, environmental, cultural, and political dimensions as identified by individuals and communities. Lee and Kim (2015) report that the CWB definition is a combination of

several domain factors, namely, social, economic, cultural, environmental, and political.

Many opinions have been presented on the dimensionality of CWB, such as human, social, and economic capital (Cuthill, 2002), followed by that of psychological, physical, social, and economic well-being (Ramsey and Smit, 2002). Lastly, the dimensions of social, economic, environmental, political, and health, as well as service and facilities, are identified (McCrea et al., 2014). McCrea et al. (2014) focused on the relationship of CWB and state that when a community faces a sudden problem or change (e.g., natural disaster, urban development, or damage to natural resources), its resources become of paramount importance. The CWB dimensions include social, economic, environmental, political, health, physical, and residential. The current study focuses on only three dimensions, namely, economic, social, and environmental dimensions (Table 2). The economic dimension, which is related to basic life needs, is one of the important factors of CWB. McCrea et al. (2014) argued that income sufficiency, employment, and business opportunities are the ideal measurements for a community's social dimension. Christakopoulou et al. (2001) and Reeder and Brown (2005) asserted that the social dimension is income sufficient, in addition to the economic asset of individuals. Moreover, this dimension is a fundamental element of the quality of life and well-being of individuals and the communities where they live. By contrast, Morton and Edwards (2012) focused on dynamic economic resilience at the local level. Therefore, the social dimension plays a significant role in CWB.

Table 2: Summary of community well-being dimensions

Dimension	Aspect	Author
Social Well-being	Personal safety, community spirit, community cohesion, trust and reciprocity, community participation, informal social and interaction, decision making and citizen's voice	McCrea et al. (2014) Christakopoulou et al. (2001) Morton and Edwards (2012)
	Social interaction, family and home, and neighborhood	Sirgy et al. (2010)
	Income sufficiency	Christakopoulou et al. (2001)
Economic Well-Being	Financial work	Sirgy et al. (2010)
	Dynamic, resilient, economic local	Morton and Edwards (2012)
	Income sufficiency	McCrea et al. (2014)
	employment and business opportunities	Forjaz et al. (2011) Ramsey and Smit (2002)
Environment Well-Being	Economic	Christakopoulou et al. (2001)
	Environmental quality	Sirgy et al. (2010)
	Health services	McCrea et al. (2014)
	Appearance, climate, parks	Morton and Edwards (2012) Sirgy et al. (2010) Forjaz et al. (2011)
	Environment	Salvaris and Wiseman (2004) Cuthill (2002)
	Environmental quality and environmental sustainability	McCrea et al. (2014)
	Green spaces, transportation, air quality, the energy quality	Kim et al. (2015)
	Physical and psychological health	Ramsey and Smit (2002)

The social dimension signifies the manner by which individuals and local communities function socially. This dimension is intrinsic to the community's viability and capability to solve problems and maximize the opportunities that it encounters. Thus strength as a social entity affects

whether the community tends to move towards social isolation or inclusion. Christakopoulou et al. (2001) and McCrea et al. (2014) measured social dimension in terms of personal safety, community spirit, community cohesion, trust and reciprocity, community participation, and informal social

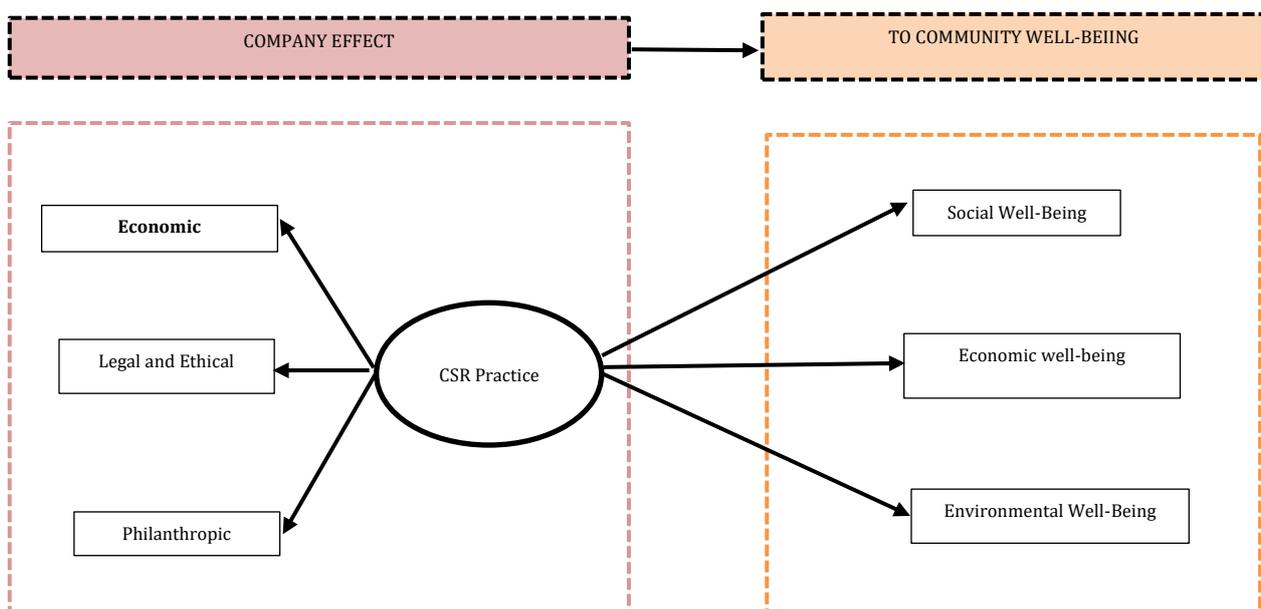
interaction. Sirgy et al. (2010) argued that the social dimension includes interaction between individuals in the family, at home, and in neighborhoods. Education is a component of facilities and human resources (Murphy, 2010). The environmental dimension accounts for the people's perspective of the environment that can run deep in their soul. In addition to being the physical setting of everyday experience, the environment carries a psychological significance for individuals. Christakopoulou et al. (2001) stated that where people live in the community aspect by which the degree of residents' satisfaction with housing and environmental conditions can be gauged. McCrea et al. (2014) suggested that environmental quality and sustainability are vital indicators of CWB. Several studies (Cuthill, 2002; Salvaris and Wiseman, 2004; Wiseman and Brasher, 2008; Forjaz et al., 2011) present similar opinions. However, Kim et al. (2015) discussed that green spaces, transportation, air quality, and energy quality are important factors for measuring the environmental dimension.

3. Methodology

This study distributed a structured survey questionnaire to a community located in the vicinity of the industry and has been the recipient of CSR programs. From 12 villages, 490 heads of households were randomly selected as respondents. The impact of CSR on community well-being was empirically studied using structural equation modeling (SEM) and partial least squares (PLS) statistical methods on first-hand data (Hair et al., 2017). The instrument development included a literature review to classify measures for each construct, of which reliability and validity have been recognized, thereby satisfying content validity. The CSR scale was adopted from the pyramid of Carroll (1991), Crespo and Del Bosque (2005), and other research (Maignan 2001; Podnar

and Golob, 2007; Stanaland et al., 2011; Ismail et al., 2015; Alvarado-Herrera et al., 2017). The CWB scale was established following the results of the investigation by Walton et al. (2014). A five-point Likert scale was used to measure the CSR and CWB dimensions.

Individual items reliabilities, convergent validity, and discriminant validity were observed to evaluate the acceptability of the measurement model (Hulland, 1999). Cronbach's alpha (CA) and construct reliability (CR) coefficients showed evidence for convergent validity. Factor loading on the dependent variables was significant and above 0.70 (Bagozzi, 1980; Hair et al., 2017), whereas the average variance extracted (AVE) from each variable was above 0.50 (Fornell and Larcker, 1981). Discriminant validity was evaluated by comparing the correlation between each pair of constructs with the root of AVE among those constructs (Fornell and Larcker, 1981). Fig. 1 shows the tests of the proposed theoretical framework and the structural model for reflective measurement. The PLS-SEM technique was used to analyze the reflective indicator. The measurement model was evaluated in terms of individual item reliability to build credibility, convergence validity, and legitimacy of discrimination. In this case, this study shows that the CSR and CWB variables were built on the basis of the instructions of the format indicators. Individual item reliability is considered sufficient when the item has a factor load above 0.5 in each construct. This result can be used for reflective variable instruction. The measurement for construct and convergent validities signifies measures of internal consistency. The examination of reflective constructs is reliable, while the values for the CA and CR coefficients are above 0.7. Convergent validity was assessed by examining AVE, which should be above 0.50. Consistent with this suggestion, all constructs exceed this condition.



Note: CSR= Corporate social responsibility

Fig. 1: CSR and community well-being linkages model

4. CSR and CWB

The results of this study are based on the local community experiences with CSR programs implemented at their village and evaluated by the heads of households. Among the respondents, approximately 43.2% were below 35 years old, 33.5% were between 36–45 years old, and 23.3% were above 45 years old. The gender ratio was nearly balanced with 57.5% males and 42.4% females. The results showed that 30.4% of the respondents attended primary and junior secondary school, while 39.8% attended general secondary school. Nearly half of the respondents, 49.6%, worked in private companies or were self-employed, 22.4% were unemployed, and only 14.3% worked in government organizations.

Evidently, CSR provides an impact on community development. [Ismail et al. \(2015\)](#) found that legal responsibility ranked as the most important orientation, while ethical responsibility was the least important. Education-related activities were the dominant type of CSR. [Brew et al. \(2015\)](#) found that CSR activities are typically related to health, education, community aid, and livelihood. Similarly, [Ait Sidhoum and Serra \(2017\)](#) showed a strong and positive relationship among economic, social, and environmental performance in the CSR dimension ([Degie and Kebede, 2019](#)) noted that CSR has become an important interface between the government and local communities, thereby demonstrating that business corporations are capable of addressing the persistent needs of communities. A recent study on the ethical and philanthropic influence of CSR has demonstrated a significant impact on sustainability development ([Al-Zyoud, 2017](#)). [Rudito \(2014\)](#) showed that CSR practices using a cultural approach as the main method for community development leads to

positive economic changes and improved sustainability. [Sum et al. \(2015\)](#) have shown that CSR contributes to the economic welfare of the people, particularly through employment opportunities, income generation, and asset financing. Thus, previous research has shown that CSR practices, directly and indirectly, contribute to CWB. The present study tested the structural modeling and hypotheses using Smart PLS 3.0 ([Hair et al., 2017](#)). The predictive power of the structural model is evaluated by calculating the R-squared value, which indicates the amount of variance described by the exogenous construct ([Barclay et al., 1995; Hair et al., 2017](#)). Model fit was assessed by assessing the significant relations between the variable and explained variance of the endogenous latent variables (R^2) ([Cool et al., 1989](#)). The results of the structural model analysis showed a positive and direct significant relationship between the CSR construct and social well-being ($\beta= 0.362, p< 0.001$). Thereafter, the test showed a positive and indirect significant relationship between CSR and economic well-being ($\beta= 0.57, p < 0.001$) and environmental well-being ($\beta= 0.498, p< 0.001$). Companies assume social, economic, and environmental responsibilities through CSR programs ([Bigné et al., 2005](#)). The effective implementation of CSR is expected to have a positive impact on CWB ([Kotler and Lee, 2005](#)). The effects of CSR on the economic, legal, ethical, and philanthropic aspects are measured on the basis of Carroll’s pyramid model ([Carroll, 1991](#)). In this case, the dimensional aspects of economics, legality, ethics, and philanthropy are used to measure the CSR dimensions reported by [Crespo and Del Bosque \(2005\)](#). This study likewise relied on [McCrea et al. \(2014\)](#) and previous research to focus on the effect on CWB through the dimensions presented in [Fig. 2](#).

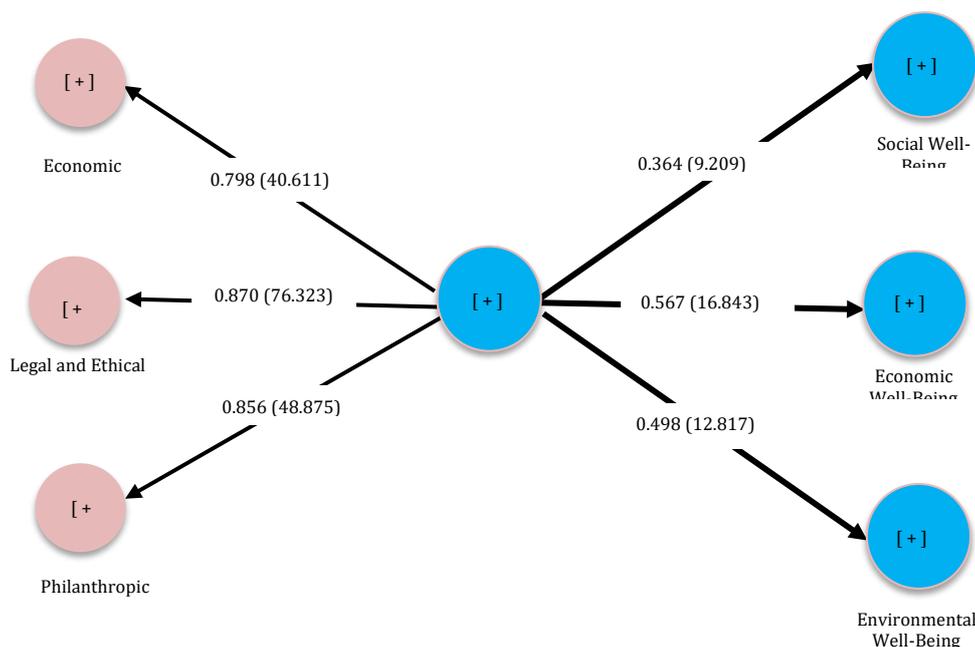


Fig. 2: The dimension of quality of life

5. Conclusion and future research

The objective of this study is to investigate the effects of CSR on the CWB dimensions (social, economic, and environmental well-being). The findings reveal that the CSR dimensions have significant and positive outcomes on CWB dimensions, which is consistent with previous studies that show a significant relationship between these dimensions (Ismail et al., 2015; Brew et al., 2015). For example, Ismail et al. (2015) found that CSR plays an important role in community development (health, education, economic), and CSR philanthropic giving contributes to communities (Sciortino, 2017b). Brew et al. (2015) determined that CSR activities in some cases correlate with the empowerment of health, education, and economic factors. Degie and Kebede (2019) stated that CSR practices could act as an important mechanism to improve the capability and well-being of local communities. However, the results of the current research support previous studies indicating that ethical and philanthropic influence can have a significant impact on sustainability development (Al-Zyoud, 2017). That is, CSR practices exerted a positive change toward economic conditions and sustainability (Rudito, 2014). Sum et al. (2015) stated that CSR projects contribute to the economic welfare of the population. Thus, CSR practices, directly and indirectly, contribute to economic well-being. Therefore, CSR practices have an impact on CWB with varied proportions for each dimension, although the overall effect is positive. As noted in previous studies, the success of CWB is also influenced by other factors, such as the ability and motivation of the community, government policy, and contribution from other stakeholders. In this case, future research could recommend and focus on community capacity issues and local government contribution to CWB. Furthermore, the effective collaboration mechanism between the government and companies should be explored to sustain CWB.

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Compliance with ethical standards

Conflict of interest

The authors declare that they have no conflict of interest.

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