

How Does CSR Impact Company Performance? A Quantitative Study from Indonesia

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ABSTRACT

Previous studies highlight that corporate social responsibility (CSR) should be integrated into the company's strategy. CSR integration, according to existing literature, could improve the company performance. Due to a lack of empirical studies on how CSR and company strategy can be integrated, the purpose of this study is to investigate how CSR and company strategy are integrated at the strategic level as well as the impact of that integration on company performance. With survey data from 342 Indonesian manufacturing companies and using structural equation modelling (SEM), the results reveal that CSR alignment and communication have a significant impact on financial and employee performances. The findings of this study provide empirical evidence of CSR practices in the manufacturing industry, particularly in developing countries.

Keywords: social responsibility, strategic integration, performance, manufacturing, developing countries

INTRODUCTION

Corporate social responsibility (CSR) can be considered as the companies' ability to be socially responsible for the development and growth of the societies where they run their businesses (Adeneye & Ahmed, 2015). In conjunction with key stakeholders, CSR is defined as the integration of an organization's social, environmental, ethical, and philanthropic responsibilities to society into its operations, processes and fundamental business strategy (Rasche, Morsing & Moon 2017).

Over the past two decades, the concept of CSR has become increasingly popular (Malik 2015). There is growing awareness that business activities create short- and long-term impacts on society and the environment, as well as economics (Carroll & Shabana 2010). Therefore, CSR has become a concern for all businesses (Martinuzzi & Krumay 2013), as they attempt to comply and gain advantages from it (Razafindrambinina & Sabran 2014).

To have a significant effect, CSR should be effectively integrated into every level of a company and in different directions, regarded as an imperative of organisation (Asif et al. 2013; Ooi, Amran & Yeap 2017; Zatwarnicka-Madura et al. 2019). Researchers have emphasised the importance of integration of CSR into business strategy to enhance companies' social and financial performance (Carroll & Shabana 2010; Galbreath 2006; Ganescu 2012b; Hasan et al. 2018; Marín, Rubio & de Maya 2012; Porter & Kramer 2011). However, there is scant empirical research on the integration of CSR into business strategy and the resulting impact on organisational performance (Vitolla, Rubino & Garzoni 2017). It remains unclear how CSR and business strategies can be integrated, as well as how such integration can affect company performance. Furthermore, the integration of CSR is an important topic, but it is seldom considered in strategic management (Engert, Rauter & Baumgartner 2016; Kiron et al. 2013). Since most of the relevant literature are prescriptive and deal with theoretical frameworks and concepts, empirical studies on the integration of

corporate sustainability into strategic management and models that show how CSR can be integrated into business strategy are needed (Engert, Rauter & Baumgartner 2016; Guadamillas-Gómez, Donate-Manzanares & Škerlavaj 2010).

This study seeks to fill current research gaps by developing and testing a model that describes CSR integration at the strategic level. It investigates how CSR and business strategy are integrated and examines the impact of this integration on company performance.

The findings from this study contribute to identifying several indicators how CSR is integrated with company strategy at the strategic level and provide empirical evidence of its effect on financial and non-financial performance.

RESEARCH FRAMEWORK

A strategic process describes the managerial activity inherent in shaping expectations and goals and facilitating the work of an organisation in achieving these goals (Simons 1990). CSR reaches a strategic level in organisations as it contributes to the achievement of its strategic objectives (Talita & Maria Laura Ferranty 2016), which describes how far the company's business strategy embraces CSR at its heart (Sousa Filho et al. 2010). Since alignment between CSR programs and core business is essential to value creation by CSR and vital to the success of companies (Carroll & Shabana 2010; García-Madariaga & Rodríguez-Rivera 2017), CSR should be managed strategically in the context of what a company is trying to obtain (Jeremy 2009) and is started at a company's business strategy level (Busaya, Kalayane & Gary 2009). Moreover, CSR represents a company's 'philosophy' that affects all of its major business activities and is integral to corporate strategy (Zatwarnicka-Madura et al. 2019).

The strategic level of CSR includes the adaptation of strategic planning, which can be described as a technique used to direct the activities of the organisation with a focus on its long-term objectives, vision and mission and deployment (Chiarini 2015). Companies should match their CSR priorities and decision-making with their overall objectives and strategies and need to set new CSR criteria and principles (Maon, Lindgreen & Swaen 2009). Specifically, strategic CSR integration signifies the existing level of interconnectedness between CSR and business strategy. The existence of a CSR strategy that matches business strategy indicates its capability to achieve expected outcomes for the company as well as for society (Marques-Mendes & Santos 2016).

Several researchers propose that the first important step in integrating CSR into the company's strategy is to align CSR in the company's vision and mission (Bhattacharyya, 2010; Dey & Sircar, 2012; Ganescu, 2012; Guadamillas-Gómez et al., 2010; Maon, Lindgreen, & Swaen, 2009). Companies should develop CSR objectives within their mission and vision (Lindgreen, Swaen, Harness, & Hoffmann, 2011). Companies with missions and values embedded with CSR are more likely to create a stakeholder-oriented environment that will lead to sustainable competitive advantage (Ooi, Amran & Yeap 2017).

Furthermore, aligning the company's strategic thrust with the principles of CSR needs the support and encouragement of top management (Isabelle, Ferrell & Linda 2005; Lindgreen et al. 2011; Mahmoud, Blankson & Hinson 2017). Top management are key stakeholders who have a critical influence on CSR initiatives, and their support ensures the success of CSR programs (Mahmoud, Blankson & Hinson 2017). Despite this support, CSR programs can be difficult to devise and enforce (Mahmoud, Blankson & Hinson 2017), which can act as critical barriers to CSR implementation (Werre 2003).

Another essential aspect of strategic integration is an effective communication to promote CSR activities and generate a clear perception that CSR is an aspect of strategic importance to the company (Dobele et al. 2014; Guadamillas-Gómez, Donate-Manzanares & Škerlavaj 2010; Lindgreen et al. 2011; Putra 2015). There should be transparent communication, both internally and externally, which contributes positively to the fulfilment of the company's

objectives and is an essential part in the integration process of corporate sustainability (Engert, Rauter & Baumgartner 2016). Disclosing the company's social activities and initiatives can inform and raise awareness about CSR among the various stakeholders (Ghasemi, Nazemi, & Hajirahimian, 2014).

An increasing body of scholarly literature has grown around the relationship between CSR and company performance (Beck, Frost & Jones 2018; Boesso, Favotto & Michelon 2015; Chen, Feldmann & Tang 2015; Ridho 2018; Saeidi et al. 2015; Zhu, Liu & Lai 2016). Companies are concerned about the financial impact of CSR (Bhardwaj et al. 2018) and it is difficult for managers to decide to engage in responsible activities unless they see the possibility of enhancing financial performance (Chtourou & Triki 2017). Recent research over the past two decades has shown different results about the relationship between CSR and financial performance, and has suggested a positive or a negative relationship, or no relationship at all (Moczadlo 2015). For example, similar with Lourenço and Branco (2013), Tang, Hull, and Rothenberg (2012) contend that companies can get better profits from their CSR practices if they engage in them consistently, in addition to cost reductions (Carroll & Shabana, 2010), and also minimise any financial problems in the long-term (Frynas & Yamahaki, 2016). Furthermore, Ameer and Othman (2012) affirm that companies that engage with CSR show better financial performance compared to other companies that have no commitment to CSR by getting higher sales growth, earnings before tax, return on assets, and cash flows from operations. Therefore, I suggest

Hypotheses 1 (H₁): The integration of CSR at the strategic level has a positive impact on financial performance.

From the CSR perspective, evaluations of businesses' impacts on society have to consider both the financial and the social value created by companies (Marques-Mendes & Santos, 2016). Thus, another way of measuring the effect of social responsibility strategies is by evaluating their impact on employees, whether it is sincere or mere window dressing (Insight, 2016). Some authors highlight that CSR can strengthen a company's human resources (Mellahi, Frynas, Sun, & Siegel, 2015), such as increasing employees' loyalty and retention (Moir, 2001), intensify the employees' involvement, creating high-quality connections and creative participation (Glavas & Piderit, 2009), enhancing employee motivation and reducing turnover (Sprinkle and Maines 2010), improving employee productivity (Dey & Sircar, 2012; Malik, 2015). Therefore, I suggest

Hypotheses 2 (H₂): The integration of CSR at the strategic level has a positive impact on employee performance.

Most studies on CSR are concerned with investigating the practices adopted by companies in developed countries (Zhu, Liu & Lai 2016). CSR is emerging as a distinct area of management studies in developing countries (Jamali & Karam 2018), and it is essential to identify significant information on the contribution of CSR and the main factors affecting CSR performance (Blowfield 2007; Branco & Rodrigues 2006; Crifo, Diaye & Pekovic 2016), including in Indonesia.

Campbell (2007) indicated that CSR practices are different among countries based on the economic conditions, the level of competition, and the varied institutional conditions. Having considered Indonesia as an emerging country which has different characteristics and challenges in CSR practices, it is fascinating to investigate how CSR and company strategy are integrated in the context of Indonesia.

RESEARCH METHODOLOGY

Sampling

Specifically, this study focuses on manufacturing industries with two reasons. First, the manufacturing industry is the main contributor to the national economy through value creation and employment. In Indonesia, the manufacturing industry gives the largest contribution to the national economy, which is 24% of gross domestic product (GDP). In terms of employment, up to August 2017, there were 17.01 million people working in the manufacturing industry or around 14.05% of the total workforce in Indonesia. Accordingly, the Indonesian government gives priority to the manufacturing industry development to continue supporting national economic growth. Second, manufacturing companies have more CSR practices, but in contrast, they are mostly responsible for the harms on the communities in which they operate (Adeneye & Ahmed, 2015).

The target population of this study was manufacturing companies in Indonesia, particularly in Java, because approximately 70% of the manufacturing industry is located in Java (Perindustrian, 2014). The manufacturing industry in Java is also the biggest contributor (70%) to the national GDP (BPS, 2017). Following the criteria from the Indonesian Central Bureau of Statistics, the company size is measured by the number of employees: 5-19 employees for a small company, 20-99 employees for a medium-sized company, and more than 99 employees for a large company. The category of the company's main product follows the Manufacturing Industrial Directory 2017 from the Indonesian Central Bureau of Statistics.

The sample in this study was selected from the manufacturing companies located in several industrial cities in Java, such as Surabaya, Sidoarjo, Gresik, Pasuruan, Mojokerto, Semarang, Jakarta, Bekasi, and Tangerang. The information of samples was taken from the Manufacturing Industrial Directory 2017 supported with company lists of the relevant industrial estates.

Sampling Instrument

The self-administered questionnaire designed for this study covered the strategic integration of CSR and company performance. Fifteen questions concerned with the strategic integration of CSR was measured using a five-point scale from 1='strongly disagree' to 5='strongly agree' to indicate how the respondents agree or disagree with each statement of the strategic integration of CSR.

Regarding the company financial performance and employee performance, this study used subjective measures which rely on respondents' perceptions (Kim, Nam, & Stimpert, 2004), because there is a lack of credible, objective data and published financial reports from the surveyed Indonesian manufacturing companies as well as their reluctance to reveal information concerning their performance, especially in financial performance. Eight questions were available to measure the company's performance of respondents relative to their competitors (Wall, Michie, Patterson, Wood, & et al., 2004) over the most recent three-year period using five-point-Likert scales from 1 = "much worse/much lower" to 5 = "much better/much higher".

Respondents were also required to answer some questions regarding demographic information, such as the main product, company size, company's age, the working position, and working experience.

Data Collection

From June to October 2018, the self-completion questionnaires were distributed through post, e-mail, and personal delivery survey. The questionnaires were addressed to the respondents with a high position in a company, such as directors and managers, considering their comprehensive view of company strategy and performance as well as CSR practices. After data screening and selection, 342 responses were collected from eight industrial estates in Java and remained in the sample.

RESULTS AND DISCUSSION

The results of this study have been categorized into four sub-sections: demographic analysis, descriptive analysis, factor analysis, and the model assessment.

Demographic Analysis

The profiles of respondents presented in Table 1 show that the majority (66.1%) have a managerial position. The percentage of respondents with less than five years of working experience (36.8%) is almost similar to respondents having more than ten years of working experience (37.7%). The majority of respondents' age (70.2%) was in the range of 25 to 50 years. In terms of education, most respondents had graduated with a bachelor degree (64.6%) and post-graduate (26.3%). The rest (5.8%) had graduated with a diploma degree, and only 3.2% finished their education at high school.

Table 1: Respondents Profile

Variable	Frequency (n=342)	Percentage	Variable	Frequency (n=342)	Percentage
Position			Age (years)		
Owner	17	5.0	< 25	43	12.6
CEO	7	2.0	25 - 30	51	14.9
Director	14	4.1	31 - 40	82	24.0
Senior Manager	98	28.7	41 - 50	107	31.3
Middle Manager	64	18.7	51 - 60	58	17.0
Assistant Manager	64	18.7	>60	1	0.3
Team Leader	54	15.8			
Others	24	7.0			
Working experience (years)			Education		
< 5	126	36.8	High school	11	3.2
6 - 10	87	25.4	Diploma	20	5.8
11 - 20	79	23.1	Bachelor	221	64.6
>20	50	14.6	Post-graduate	90	26.3

Company characteristics are displayed as in Table 2, signifying that most companies produce food and beverage (21.1%). The majority (84.8%) are large companies with more than 100 employees, and half of the companies have been set up and operating in the duration from 21 to 50 years. Almost three-quarter (73.7%) are private companies, and the majority (67.5%) located in East Java.

Table 2: Companies Profile

Variable	Frequency (n=342)	Percentage (%)	Variable	Frequency (n=342)	Percentage (%)
Main product			Number of employees		
Food and beverage	72	21.1	20 - 99	52	15.2
Tobacco	5	1.5	>100	290	84.8
Textile	11	3.2	Company's age (years)		
Leather and footwear	6	1.8	< 5	16	4.7
Goods from wood, handicraft	4	1.2	5-10	32	9.4
Paper	13	3.8	11-20	56	16.4
Coke and refined petroleum products	3	0.9	21-50	184	53.8
Chemicals and chemical products	44	12.9	> 50	54	15.8
Pharmaceuticals and medicinal chemical	7	2.0	Company's ownership		
Rubber and plastic products	34	9.9	Multinational	81	23.7

Basic metals	6	1.8	State-ownership	9	2.6
Non-metallic mineral products	23	6.7	Private	252	73.7
Fabricated metal products	39	11.4	Company's location		
Automotive	23	6.7	East Java	231	67.5
Computers, electronic and optical products	10	2.9	Centre Java	18	5.3
Repair and installation of machinery and equipment	5	1.5	West Java & Jakarta	93	27.2
Furniture	11	3.2			
Machinery and electrical equipment	20	5.8			
Other manufacturing	6	1.8			

Descriptive Analysis

Table 3 exhibits mean and standard deviation for variables of strategic integration (SI) and company performance (CP). Among 15 variables of SI, three items got mean above 4; it is 'Mechanisms are available for evaluating the results of the objectives' (SI03, 4.19), 'CSR strategy is well aligned with corporate vision and mission' (SI04, 4.08), and 'We establish CSR as one of the main long-term goals of our company' (SI01, 4.03). Regarding CP, two items gained the highest mean, namely cash flow report (CP03, 3.82) and training of employee (CP04, 3.80).

Table 3: Descriptive Analysis

	Indicator and Question	Mean	SD
SI01	We establish CSR as one of the main long-term goals of our company.	4.03	0.83
SI02	Objectives have been established relating to social and environmental aspects.	3.97	0.88
SI03	Mechanisms are available for evaluating the results of the objectives.	4.19	0.71
SI04	CSR strategy is well aligned with corporate vision and mission.	4.08	0.80
SI05	Continuous improvement and/or preventive actions are made in the area of CSR.	3.88	0.85
SI06	Top management formulates and shares a clear vision and core corporate values with regards to CSR.	3.94	0.85
SI07	Top management remains responsive to the issues related to CSR.	3.90	0.85
SI08	Top management provides mentoring and coaching to managers to develop decision-making skills that integrate CSR criteria in evaluating options.	3.72	0.87
SI09	We systematically organize CSR efforts.	3.83	0.95
SI10	We conduct team meeting regularly with top-management with CSR as a fundamental topic.	3.56	0.99
SI11	CSR strategies and goals are clearly communicated to all employees.	3.63	0.96
SI12	We use IT by intensifying the company's presence on the Internet and social networks to communicate CSR.	3.69	0.99
SI13	We communicate CSR activities within the company through multiple channels, such as face-to-face meetings, formal communications from senior managers, and a company newsletter.	3.67	0.99
SI14	We create CSR report with detailed CSR activities information.	3.68	0.97
SI15	We provide CSR information on the company's web.	3.59	1.05
CP04	Compared to our competitors, our training of employee is	3.80	0.85
CP05	Compared to our competitors, career opportunities in our company are	3.76	0.88
CP15	Compared to our competitors, our employee motivation is	3.77	0.82
CP16	Compared to our competitors, our employee turnover is	2.75	1.02
CP03	Compared to our competitors, our cash flow report is	3.82	0.80
CP08	Compared to our competitors, our profit is	3.69	0.80
CP09	Compared to our competitors, our return on investment (ROI) is	3.62	0.77
CP10	Compared to our competitors, our sales growth is	3.74	0.86

Factor Analysis

The variables of the strategic integration were adopted from conceptual, qualitative, and quantitative prior studies in strategic management and CSR. Thus, assessing the measurement model began with conducting an Exploratory Factor Analysis (EFA) for data

reduction (Moonsamy & Singh, 2014) to identify which items were important and significant to measure the strategic integration of CSR to anticipate the uncertainty of the common factors and their relations to the measured variables (Fabrigar, Wegener, MacCallum, & Strahan, 1999). The factor analysis used the original data set, and there is no need to standardize across items because the 15 items of CSR use the same scale (Hair, Black, Babin, & Anderson, 2010). Principal component analysis (PCA) was employed in this study since it is commonly used by researchers interested in scale development and evaluation (Anna & Jason, 2005; Pallant, 2005). PCA for the initial of 15 items of CSR strategic integration showed that the Kaiser-Meyer-Olkin (KMO) index with eigenvalues greater than one was 0.96, more than 0.6 as the minimum value for good factor analysis (Tabachnick & Fidell, 2001). The Bartlett's Test of Sphericity is 4656.03, and $p < 0.001$, indicated that correlations between items are large enough (Field, 2009), thereby, it is sufficient for further analysis (Hair et al., 2010). PCA and the scree plot revealed the presence of two factors with 38.89% and 72.54% of the total variance, respectively. The rotation was performed to reveal the presence of simple structure (Thurstone 1947, cited in Pallant, 2005). Varimax, as the most common choice (Anna & Jason, 2005) yielded a range of loadings from 0.44 to 0.81. However, there were three cross-loading items which load at 0.32 or higher on two factors (Tabachnick & Fidell, 2001), namely SI05, SI07, and SI09. After eliminating three cross-loading items, 12 items remained, and PCA revealed one factor with the total variance of 65.88%. To avoid centralized items in one factor, thus, 12 items were extracted into two factors because the eigenvalue of the second factor is 0.982, very close to the eigenvalue of one, and the scree plot also showed that two-factors could be accepted. Thus, PCA was rerun specifying two factors to extract (Field, 2009), yielding cumulative the total variance of 42.64% and 74.06%, respectively. The rotated factor loadings, communalities, and percentage of variance explained by each factor are shown in Table 4.

Table 4: Factor and Items Extracted from PCA

Factor & Items	Communalities	Loading	Factor & Items	Communalities	Loading
Factor 1: EffCom (Cronbach's alpha 0.95)			Factor 2: Aligning (Cronbach's alpha 0.89)		
SI09	0.77	0.72	SI01	0.67	0.68
SI10	0.72	0.74	SI02	0.70	0.76
SI11	0.77	0.78	SI03	0.69	0.81
SI12	0.73	0.80	SI04	0.77	0.78
SI13	0.78	0.82	SI06	0.72	0.70
SI14	0.81	0.83			
SI15	0.75	0.82			

Model Assessment

This study employs structural equation modelling (SEM) to prove the research framework and hypotheses. SEM is particularly useful for testing complex models and when researchers need to incorporate latent variables (Martinez-Conesa, Soto-Acosta & Palacios-Manzano 2017). SEM includes two levels of analysis, the measurement model and the structural model, as the following.

Measurement Model

The proposed measurement model for SI as results from EFA is including two latent variables (construct); they are alignment CSR with the company's strategy (Aligning) and effective communication (EffCom). CP includes company financial performance (CFP) and company employee performance (CEP). The validity of the model can be assessed through

convergent validity, discriminant validity, and construct reliability. The convergent validity will validate whether the indicators have a significant relationship with their construct based on their loading factor (Ghozali, 2017). The loading factor of the indicators can be seen in Figure 1. Among 12 indicators of SI, only one indicator had loading less than 0.7; this is 'Mechanisms are available for evaluating the results of the objectives' (SI03, 0.69). Two indicators of CP (CP03, CP10) had loading below 0.7, namely cash flow (CP03), sales growth (CP10), and employee turnover (CP16). However, they can be accepted because factor loadings of 0.55 and above are significant for sample more than 100, (Hair et al., 2010). But, one indicator of CP (CP16) was eliminated due to negative loading.

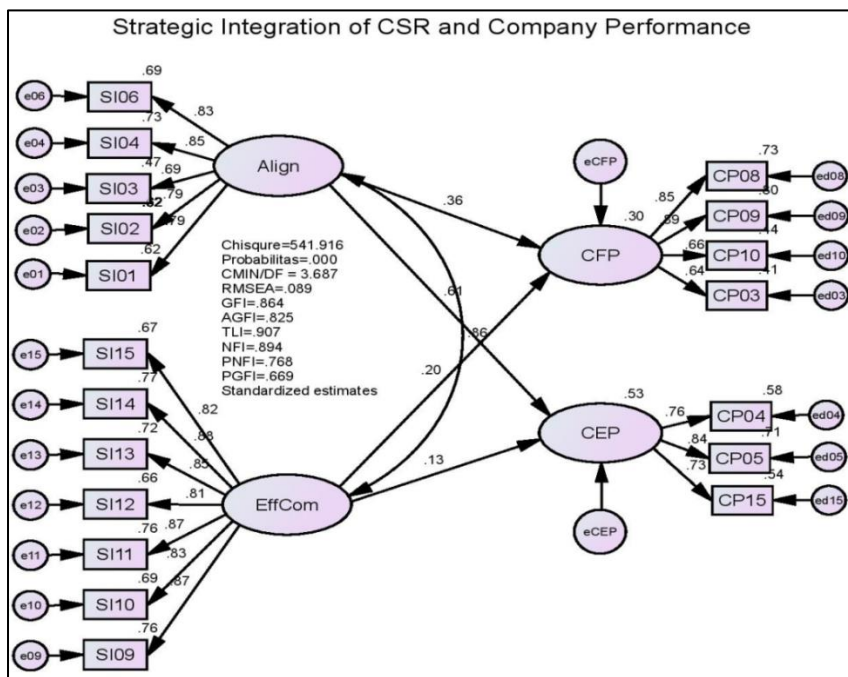


Figure 1: The measurement and structural model of SI and CP

Table 5 demonstrates AVE for all constructs: 0.63 and 0.72 for Aligning and EffCom, and 0.61 and 0.59 for CEP and CFP. It shows that AVE value of four constructs exceeds the recommended value of 0.50, indicating the good convergent (Ghozali, 2017; Hair et al., 2010).

Discriminant validity measures the extent to which a construct is completely different from other constructs. A high value of discriminant validity shows that a construct is unique and can capture the measured phenomenon (Ghozali, 2017). As can be seen in Table 5, four constructs got discriminant validity (DV) more than 0.7. Construct reliability (CR) measures the reliability of the model. Construct reliability is recommended to be 0.76 or more (Ghozali, 2017; Hair et al., 2010). The results presented in Table 5 show that each construct got high construct reliability exceeding 0.8.

After checking the convergent validity, discriminant validity, and construct reliability, the measurement model can be considered good, and next, the structural model would be performed.

Table 5: Model Validity

Construct	AVE	DV	CR
Align	0.63	0.79	0.89
EffCom	0.72	0.85	0.95
CEP	0.61	0.78	0.82

Table 6: Estimates of Structural Model

Path	Estimate	S.E.	C.R.	P
CEP <--- Align	0.61	0.13	4.81	0.005
CFP <--- Align	0.36	0.13	2.79	***
CEP <--- EffCom	0.13	0.09	1.08	0.28

CFP	0.59	0.77	0.84	CFP <--- EffCom	0.20	0.10	1.63	0.10
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Structural Model

The relationship between SI and CP has been developed with a direct path between two dimensions of SI and CFP as well as and CEP as presented in Figure 1. The fitness of the proposed structural model was tested through three categories of fit: absolute fit, incremental fit, and parsimonious fit (Awang, 2015). The value of CFI (0.92) and TLI (0.91) exceeds the threshold of 0.90, but the value of GFI (0.87), AGFI (0.83), and NFI (0.89) are slightly below the threshold of 0.90. The value of RMSEA (0.089) and CMIN/DF (3.69) is little bit above the recommended value, 0.08 and 3, respectively. Accordingly, the measures of overall fit indicating the fit of the structural model is acceptable.

Table 6 displays the standardized regression weights (loading) between SI and CP. The loadings are 0.39 and 0.61, respectively, from Aligning to CFP and CCP. Both of them are significant with the critical ratio (CR) more than 1.96 (significance level 5%). The loadings from EffCom to CEP and CFP are also positive, 0.13 and 0.20, respectively, but they are insignificant with CR below 1.96.

Based on the results, the model proposed two dimensions to integrate CSR into the company’s strategy at the strategic level: aligning CSR with company strategy and developing effective communication. The first dimension supports the argument from prior studies that CSR should be aligned with the company’s strategy (Guadamillas-Gómez et al., 2010; Lindgreen et al., 2011; Werre, 2003). As suggested in prior studies, company’s objectives should relate to the social and environmental aspect, and there should be a mechanism to evaluate their objectives (Bernal-Conesa, de Nieves-Nieto, & Briones-Peñalver, 2016). The findings are also in line with prior studies that support from top management is essential through formulating and sharing a clear vision and core corporate values with regards to CSR as well as conducting continuous improvement in the area of CSR (Bernal-Conesa et al., 2016). The second dimension, developing effective communication, is relevant to some suggestions in prior studies (Guadamillas-Gómez et al., 2010; Martinez-Conesa et al., 2017; Werre, 2003). They emphasizes the importance of developing effective communication to convey the essential concept of CSR and to report the CSR practices both to the internal stakeholders (employee) and to the external stakeholders (e.g., customers, investor, public community).

The model shows that the impact of CSR integration can be measured by combining financial and employee performances. The structural model assessment indicates a positive relationship between SI and financial performance as well as employee performance. The relationship between aligning CSR and company performance has bigger and significant impacts than the relationship between effective communication and company performance. However, the strongest effect occurs on the relationship from aligning CSR and employee performance, while the lowest impact exists on the relationship between effective communication and employee performance. These findings are in line with the previous findings confirming that through the integration of CSR into strategic activities the company achieves high-performance levels both in social (non-financial) and financial terms (Guadamillas-Gómez et al., 2010). CSR publicity is potential to incur meaningful competitive advantage for companies and to accomplish the economic goals of the companies in the short-term perspective (Chen, Feldmann, & Tang, 2015). Companies increase profits if they implement CSR strategy consistently, including related dimensions of CSR and starting with those more internal to the companies (Tang et al., 2012). Interestingly, the impact on employee performance is stronger than the impact on financial performance. Based on the results, both H₁ and H₂ are supported.

CONCLUSION

This study presents empirical evidence of how CSR and the company's strategy can be integrated at the strategic level. Data were collected from manufacturing companies in Java, Indonesia, and analysed with SPSS and SEM. The results from factor analysis demonstrated that the strategic integration of CSR includes two factors, namely 'Aligning CSR with the company's strategy' and 'Developing effective communication. Twelve items (indicators) for both factors (constructs) got high loading and related significantly with their constructs. They were used in SEM to depict the relationship between strategic integration and company performance as well as to identify the impact of the integration on company performance. In the proposed structural model, both dimensions of strategic integration have positive relationships with financial and employee performance. However, the dimension of aligning CSR with the company's strategy has a stronger and significant impact on employee and financial performance rather than the dimension of effective communication. Because the impact is bigger on employee performance, it needs to investigate further why and whether employee performance can moderate the relationship between strategic integration and financial performance.

Further study can examine the impact on other company performance, such as operating and customer performance, and analyse whether the performance differs related to product type (industry sector), company size, and company location.

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