

Original Article

## **The Influence of Corporate Social Responsibility in Supporting the Achievement of Firm Performance in the National Oil and Gas Companies of Indonesia**

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### **ABSTRACT**

The presence of companies often triggers socio-economic that can disrupt the operations of oil companies. Previous research using stakeholder theory and the social license to operate theory contextualizes that operating companies need to focus on social and environmental responsibility to reduce socio-economic conflicts in local communities. A holistic CSR perspective becomes part of the company's strategic planning and core operations so that the company will be managed in the interests of its broad stakeholders to achieve maximum economic and social value in the long term. This research was conducted to analyse of the relationship between corporate social responsibility can provide social protection and it will generate profits for the company (business reasons).

Researchers analyzed the relationship between corporate social responsibility and Firm Performance in The National Oil and Gas Companies of Indonesia, Pertamina in the period 2020 - 2022. The empirical analysis was conducted using Pertamina's sustainability performance highlights database with the measure of Economic, Environment, Social and Governance (ESDG aspect).

This paper supports previous research which states that corporate social responsibility may not have a positive influence on Company Performance due to the complexity of the relationship. The results of this study indicate that the complexity of the relationship caused by the implementation of Pertamina Group's social and environmental responsibility activities is part of the implementation of the strategic role as a "locomotive of social development" as a state-owned enterprise (not always for business reasons), but it also aims to improve the company's reputation and credibility.

### **INTRODUCTION**

The presence of companies often triggers socio-economic upheaval manifested in the form of local community grievances and conflicts that can disrupt the operations of oil companies (Akporiaye, 2023). Even some experts argue that in developing countries with abundant natural resources will underperform in their development (Ross, 1999, 2015, Sachs and Warner, 2001 in Akporiaye, 2023). Evidence of the natural resource curse in the context of oil has been found to have negative economic outcomes in several developing countries, one of which is Indonesia, although it has also been found to have a positive impact on economic growth in cross-country analysis (Cavalli et al., 2011; Gelb et al., 1988 in Akporiaye, 2023). Previous research using stakeholder theory and the social license to operate theory contextualizes that operating companies need to focus on social and environmental responsibility to reduce socio-economic conflicts in local communities (Akporiaye, 2023). In addition, companies also need to build networks with various stakeholders, establish cooperation with certain parties, build trust with employees, suppliers and customers, maintain business relationships and have policies that benefit all stakeholders (Koka & Prescott,

2002). The Company's efforts to build stakeholder participation is a social capital in the company that can later provide benefits in carrying out the company's production operations by becoming a tool to resolve conflicts that exist in the community (Koka & Prescott, 2002). Corporate social & environmental responsibility is a series of activities that involve various relevant stakeholders with the aim of increasing social value. A holistic CSR perspective becomes part of the company's strategic planning and core operations so that the company will be managed in the interests of its broad stakeholders to achieve maximum economic and social value in the long term (Chandler & Werther, Jr., 2013).

One of the problems that complicates previous research when examining the relationship between Corporate Social Responsibility (CSR) and Firm Performance (FP) is the large heterogeneity of company performance measures. Thus, in previous studies, the measurement of the relationship between corporate social responsibility and firm performance uses the company's rating (Moskowitz, 1972) or based on the analysis of the content of annual reports (Abbott & Monsen, 1979). This research was conducted to analyse the possible influence of the impact of corporate social responsibility in supporting the firm performance, as well as the analysis of the relationship between corporate social responsibility can provide social protection to achieve production targets and it will generate profits for the company (business reasons) with observations on sustainability reports for the period 2020 - 2022 in national oil and gas companies of Indonesia.

## DISCUSSION

### 1. Corporate Social and Environmental Responsibility

Corporate social and environmental responsibility has various definitions, depending on which perspective we see it from. Some academics' perspectives include McWilliams & Siegel (2001) who mention corporate social & environmental responsibility as socially beneficial actions that go beyond the interests of the company and are required by law (corporate perspective), while Lee & Kotler (2013) convey an activity that aims to contribute to society by conducting ethically oriented practices (business ethics perspective), Sheehy (2015) believes that corporate social & environmental responsibility is a type of self-regulation of international private business (corporate self-regulatory perspective), and Johnson et al. (2019) presented CSR as an organisation-level strategy intended to enhance brand reputation (organisation-level strategy perspective).

Milton Friedman pushed for a return to a laissez-faire world economy with minimal government regulation, arguing against the concept of social responsibility as a function of business (Jahn & Brühl, 2018). According to Friedman, a businessman who acts "responsibly" by lowering the price of the company's products to help the poor, or by making expenditures to reduce pollution, or by employing the severely unemployed, is spending shareholders' money for general social benefit. Even if the businessperson has the shareholders' permission or encouragement to do so, he or she is still acting on the basis of motives other than economic and may in the long run be harming the very society the company is trying to help (Jahn & Brühl, 2018). By taking on these social costs, the company becomes less efficient whether prices rise to pay for the increased costs or investments in new activities and research are postponed, thus negatively and perhaps fatally impacting the long-term efficiency of a company (Jahn & Brühl, 2018).

Archie Carroll proposed that managers of business organisations have four responsibilities: economic, legal, ethical and discretionary (Lady, 1966). However, Carroll went further by stating that business managers have responsibilities beyond economic and legal responsibilities. After fulfilling the two basic responsibilities, according to Carroll, a company should pay attention to fulfilling its social responsibilities. Therefore, social responsibility includes ethical and discretionary responsibilities (Jahn & Brühl, 2018). The concept of sustainability should be expanded to include economic and social as well as environmental issues. This is argued by Crane and Matten. They argue that it is impossible to address the sustainability of the natural environment without considering the social and economic aspects of the communities relevant to their activities. Dow Jones & Company, a leading global provider of business news and information, developed a sustainability index that considers not only environmental, but also economic and social factors. The broader concept of sustainability has much in common with the list of business responsibilities, says Carroll presented earlier. In order for a business enterprise to be successful over a long period of time, it must fulfil all of its economic, legal, ethical and freedom of action responsibilities for all. Sustainability therefore involves many issues, concerns and sacrifices.

A view of the firm and its role in society that assumes a responsibility among firms to pursue social goals in addition to profit maximisation and a responsibility among the firm's stakeholders to ask. A guide to moral behaviour based on social norms and culturally embedded definitions of right and wrong (Chandler & Werther, Jr., 2013). A guide to moral behaviour based on social norms and culturally embedded definitions of right and wrong. A for-profit company founded on a vision and mission that is based on social values and four other principles that define conscious capitalism. Higher purpose, interdependence between stakeholders, conscious leadership and conscious culture (Jahn & Brühl, 2018). Stakeholder theory and the social licence to operate are essential motivators for

companies to adopt CSR. CSR is a mechanism by which companies can engage and manage stakeholders and obtain and maintain social licence. To generate goodwill and gain public trust, CSR in the oil industry seeks to internalise recorded negative externalities by making social investments in local communities (e.g. building schools and roads, providing water, etc.) and in some cases addressing the environmental consequences of the Company's operations (Garcia-Rodriguez et al, 2013; Henry et al, 2016; Mohammed et al, 2022a). All key stakeholders (oil companies, governments and local communities) involved in oil production recognise that oil extraction generates negative social, economic, environmental consequences at the local level. Therefore, CSR has been identified as a strategy to internalise such negative externalities and to defuse grievances and conflicts arising from such externalities (Akporiaye, 2023).

## **2. Firm Performance**

The concept of company performance is based on the opinion that companies are productive associations, including achieving common goals (Jahanshahi et al., 2012). Improvement in company performance is an expectation that every company has. Company performance refers to how well the company can achieve market-orientated goals and financial goals. The company performance measures used in this study are financial performance measures, operational performance and market-based performance (Jahanshahi et al., 2012). Financial performance is often measured using accounting-based measures. Financial indicators are calculation techniques using the company's financial criteria, such as profit, return on investment, sales, and so on. Some experts often use return on sales, profitability, sales growth, labour productivity improvement, and production cost improvement to measure financial performance (Jahanshahi et al., 2012).

Research by Ramzan et al (2020) showed a significant positive relationship between CSR and financial performance of banks in Pakistan, indicating that CSR activities create a positive perception in the minds of potential customers, which helps attract them, ultimately leading to improved financial performance of banks. Ramzan et al (2020) also suggested that banks should emphasise CSR activities to improve their profitability and market performance. Previous research by Fatma et al (2016) suggests that CSR measurement should consist of economic, social, and environmental factors. Thus, environmental factors are considered a highly rated dimension based on consumer perceptions that can result in cost savings.

## **3. The Relationship Between Corporate Social Responsibility and Firm Performance**

If analysed in the same way as the Company's business decisions, Corporate Social Responsibility can be a socially beneficial source of opportunity, innovation and competitive advantage when there is shared value creation, meaning that the Company uses its unique capabilities to improve the well-being of Society, which in turn will provide high financial returns for the Company (Porter & Kramer, 2006 and Porter & Kramer, 2011). Corporate Social Responsibility is an intangible social protection such as relationship-based insurance from a company that will ultimately contribute to the value of shareholders (Godfrey, 2005 in Havlinova & Kukacka, 2023). Benabou & Tirole (2010) discuss the "win-win" welfare consequences of so-called Strategic CSR, a term coined by Baron (2001), which is when a firm adopts a socially responsible stance to strengthen its market position for increased profits in the long run.

In the course of the history of research and development of Corporate Social Responsibility there are several differences in the results of the relationship between Corporate Social Responsibility and Firm Performance. Moneva (2007) revealed a positive but statistically insignificant relationship between the quality of sustainability reports and Corporate Performance. However, Zao & Murrell (2016) re-examined the results of Waddock and Graves (1997a) using a larger data set covering the period after the global financial crisis until 2013 and showed that Corporate Social Responsibility may not have a positive influence on Corporate Performance due to the complexity of the relationship. Even Hilman & Keim's (2001) research found a negative relationship between participation in social issues, such as charitable giving and Corporate financial performance. Overall, the results of this study suggest that companies should focus on strategic CSR activities that are closely related to their core business to achieve better corporate performance (Havlinova & Kukacka, 2023). The analysis of Havlinova & Kukacka, (2023) was empirically tested using the Thomson Reuters (2021) database, annual financial data and ESGC Scores and quarterly stock prices of the S&P 500 Index constituents obtained for the period 2007-2020 on a sample of 486 companies in the United States.

Previous research by Akporiaye (2023) has investigated the role of CSR in facilitating production by taking a sample of 96 oil-producing countries with the highest volume of oil production collected from the International Energy Statistic database of the Energy Information Administration (EIA) of the United States. Overall these findings do not provide strong evidence that significant investments made by companies in CSR implementation to provide social protection can facilitate oil production. In addition, the Granger causality finding that oil production motivates the need for CSR and will support oil companies to seriously consider the local impact of their extraction (Akporiaye, 2023). The CSR measure used in this study captures the firm's actions (Mohammed et al, 2022a; Wilson, 2016). Previous

researchers according to Akporiaye (2023) have derived the business rationale for CSR from Stakeholder Theory and obtaining a Social Licence to Operate, and the above results provide weak evidence for this approach to CSR. Once the influence of past production patterns is taken into account, substantive CSR is no longer a predictor of oil production. Therefore, the results of Akporiaye's study (2023) suggest a challenge to the business rationale approach to CSR (Agudelo et al., 2020; Henry et al., 2016). The cross-country evidence in Akporiaye's (2023) study confirms that there is no quantitative or qualitative evidence in the literature that CSR does not provide sufficient social protection for firms (Bezzola et al., 2022; Idemudia, 2010 in Akporiaye, 2023).

In the research observation at Pertamina, a group of state-owned enterprises (SOEs) that manages the national oil and gas integration business in Indonesia has a role as an agent of development as well as value creation. Pertamina must prioritise the interests of the Indonesian people by running as a social development locomotive, in addition to pursuing the Company's profits to achieve its aspirations as a \$100bn market value global energy champion, and in the upstream oil and gas sector, Pertamina is obliged to safeguard energy security for Indonesia. As one of the national companies that plays a strategic role in Indonesia, Pertamina also supports the achievement of the Sustainable Development Goals (SDGs) Agenda 2030, which is a sustainable development agreement based on human rights and equality. All programmes carried out by Pertamina both in Pertamina Holding and all Sub Holding illustrate the achievement of the Sustainable Development Goals. In accordance with the direction of the Ministry of SOEs, Pertamina together with 3 other companies in the energy cluster, has mapped out six SDGs priorities carried out by Pertamina, namely Goal 12, Responsible Consumption and Production; Goal 13, Handling Climate Change; Goal 14, Marine Ecosystems; Goal 15, Land Ecosystems; Goal 7, Clean and Affordable Energy,; and Goal 8, Decent Work and Economic Growth. In carrying out business activities in the energy sector, Pertamina always pays attention to and carries out natural resource efficiency, management of food waste and production waste, and provision of targeted subsidies. Pertamina actively encourages the supply chain in business activities, as well as consumers, to reduce waste and recycle. Thus Pertamina, together with its stakeholders, is moving towards a more sustainable consumption pattern by 2030. In line with the principles of sustainability, Pertamina is committed to developing products and services that are not only aimed at making a profit (profit), but also preserving nature (planet) for the benefit and future of future generations (people).

Pertamina has implemented social and environmental responsibility activities in an integrated manner with the company's business strategy with the aim of enhancing the Company's reputation and credibility. Pertamina is committed to maintaining sustainable business prospects by prioritising the balance and preservation of nature, protection of the environment and its contribution to the realization of community independence. Pertamina has established a number of strategic initiatives to realise this commitment, namely sustainable community empowerment, environmental conservation, strategic initiatives related to business strategy, implemented thoroughly (including the provision of infrastructure, behaviour, values, and equipping with knowledge/skills). Pertamina has also designed various activity programmes that represent the 4 Pillars of Pertamina Group's Social and Environmental Responsibility, namely the Pertamina Smart Pillar for education, Pertamina Healthy for health. Pertamina conducts various corporate social responsibility activities. CSR activities carried out include education, health, environment, infrastructure, community empowerment, disaster management, and special assistance. The realization of activities is carried out by all Pertamina functional work units, including by operating units, as well as subsidiaries.

Pertamina's sustainability performance highlights for the period 2020 - 2022 with the measure of Economic, Environment, Social and Governance (ESDG aspect) illustrates the relationship between corporate social responsibility and firm performance in the national oil and gas companies of Indonesia:

Description of ESG Aspect	Unit	2022	2021	2020
<b>ECONOMIC ASPECT</b>				
Sales and Other Operating Revenues	USD Million	84,888	57,509	41,649
EBITDA	USD Million	13,593	9,256	7,608
Net Profit for the Year	USD Million	4,060	2,239	821
Oil & Gas Production	MBOEPD	967	897	863
Refining Capacity	Thousand Barel Per Calendar Day (MBPD)	917.98	866.38	855.59
Crude Oil, Gas, & Intermedia Refinery	MMBBL	333.06	314.32	311.53
PSO Fuel Oil	KL Thousands	17,957.26	15,904.57	-
Non-FSO Fuel Oil	KL Thousands	6,797.18	29,664.31	
Gas Sales Volume	BBTU	327,023	317,975	303,078
Gas Transportation Volume	MMSCF	492,554	493,326	459,512

Description of ESG Aspect	Unit	2022	2021	2020
Electricity Production Volume (Diesel Fuel and Biogas)	GWh	29.23	25.65	18.65
Production Volume of Steam and Electricity from Geothermal	GWh	4,629.59	4,660.48	4,618.27
Total Fleet				
Tanker	Unit	95	95	13
Marine Service & Offshore Support	Unit	369	344	125
Local/Domestic Supplier Engagement	Company/Partner	13,419	11,812	10,927
Realization of Establishment of Distributors for the Disadvantaged, Frontier and Outermost (3T) Areas	Number of Distributors	96	78	83
<b>ENVIRONMENTAL ASPECT</b>				
Water use	Megaliters	299,163.38	263,663.25	291,432.90
Energy Usage	TJ	173,606.95	128,939.08	119,971.88
Fuel Consumption from Immovable Emission Sources				
Fuel Gas	mmscf	317,297.81	560,300.07	405,581.96
Fuel Oil	m <sup>3</sup>	1,174,849.72	1,138,680.31	1,220,263.28
Gasoline	m <sup>3</sup>	60.60	19.30	31.33
Diesel	m <sup>3</sup>	88,931.66	94,473.54	85,117.47
Fuel Consumption from Mobile Emission Sources				
Diesel/Solar	m <sup>3</sup>	702,076.52	1,164,544.55	1,172,228.43
Gasoline	m <sup>3</sup>	2,180.56	20,701.67	48,399.81
Marine Fuel	m <sup>3</sup>	849,282.33	1,557,384.59	1,576,691.56
Realized Accumulated Emission Reduction to Baseline	CO <sub>2</sub> Million Ton	7.9	7.4	6.7
Non-B3 waste reduction	Ton	189.70	173.98	187.12
B3 waste reduction	Ton	183.90	222.32	402.86
Achievement Gold PROPER Rating	Award	20	23	16
Realized Environmental Expenditures	in billion Rupiah	1,523.53	1,225.79	1,535.49
Conservation Area in the Company's Operational Area	Ha	30,810.81	30,426.29	30,059.56
<b>SOCIAL ASPECT</b>				
Total Recordable Incident Rate (TRIR)	Per 100,000,000 Work Hour	0.09	0.12	0.15
Lost Time Incident Rate (LTIR)	Per 1,000,000 Work Hour	0.02	0.01	0.02
Fatal Accident Rate (FAR)	Per 1,000,000 Work Hour	0.42	0.50	0.73
Employee Turnover	%	3	1.13	0.06
Employee Engagement	%	83.36	80.68	N/A
Customer Satisfaction Index	Skala Likert	4.29	4.28	4.10
Disbursed CSR costs	in billion Rupiah	637.59	1,186.09	953.42
Realization of Domestic Component Level (TKDN)	%	60.59	60.00	55.60
<b>GOVERNANCE ASPECT</b>				

Description of ESG Aspect	Unit	2022	2021	2020
GCG Implementation Assessment Results	%	95.06% Very Good	96.94% Very Good	92.85% Very Good
Cyber Security Assessment	Skala Likert	4.27	No assessment done yet	No assessment done yet

Source: (Pertamina, 2022)

## CONCLUSION

This paper supports previous research by Zao & Murrell (2016) which suggests that corporate social responsibility may not have a positive influence on Corporate Performance due to the complexity of the relationship. Based on Pertamina's sustainability performance highlight report from financial, operational, environmental, and governance aspects for the period 2020 - 2022, it shows that the possibility of CSR implementation and cost absorption does not have a direct and significant positive influence on company performance due to relationship complexity. The implementation of Pertamina Group's social and environmental responsibility activities as part of the strategic role of "locomotive of social development" as a state-owned enterprise, in addition to aiming to improve the company's reputation and credibility.

Future research on this topic should examine the complex relationship between the implementation of corporate social and environmental responsibility that can provide socio-economic benefits to local communities in the Company's operating environment in a more quantifiable manner and at the same time can provide social protection for the company to achieve production targets and will generate profits for the company (business reasons) on different objects. Future research needs to analyze not only from the Company's annual sustainability reports which are criticized for various limitations, such as being based on subjective or debatable criteria. The results of contextual analyses from annual reports can generally be biased and misleading as they do not reflect business reality.

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