# The Effect of Contextual Variables in the Relationship between CSR and CFP: Evidence from Indonesian Companies

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**Abstract**

The objectives of this study is to investigate whether business environment, business strategy, formalization, decentralization, reliance on combination of belief & boundary system, reliance on combination of diagnostic & interactive control system, reliance on interactive control system moderate the relationship between CSR and CFP under the slack resource and good management theories. 220 respondents from manufacturing companies listed on the Jakarta Stock Exchange were selected and two regression models were developed to examine the relationship between the related variables. The findings show that business environment has moderated the CSR-CFP link under good management theory, decentralization has moderated the CSR-CFP link under slack resource theory, and reliance on combination of diagnostic and interactive control system has moderated the CSR and CFP link based on slack resource theory.

**Keywords**: *CSR, slack resource theory, good management theory, contextual variables, financial performance, business environment, business strategy, Decentralization, formalization, specialization, belief system, boundary system, diagnostic control system, interactive control system, Indonesia.*

## Introduction

To date studies that looked at the relationship between CSR (corporate social responsibility performance) and CFP (corporate financial performance) have produced inconsistent results (e.g. Frooman, 1997; Griffin & Mahon, 1997; McWilliams & Siegel, 2000, 2001; Moore, 2001; Murphy, 2002; Orlitzky, 2001; Orlitzky & Benjamin, 2001; Roman et al., 1999; Ruf et al., 2001; Simp-

son & Kohers, 2002; Waddock & Graves, 1997; Worrell et al., 1997; Wright & Ferris, 1997), and there have been attempts to explain the conflicting results. Some have noted that the conflicting results may have been caused by two main factors: lack of theoretical foundation and methodological problem (Husted, 2000; Orlitzky et al., 2003; Ruf et al., 2001; Wagner, 2001).

So far the argument for considering the contingency perspective in explaining the relationship of CSR and CFP has been that CSR is the result of fit between endogenous organization variables of CSR and exogenous contextual variables (Husted, 2000; McWilliam & Siegel, 2001; Russo & Fouts, 1997; Rowley & Berman, 2000). For example, Russo and Fouts (1997) found that the type of industry will determine the relationship between CSR and CFP, while Husted (2000) argues that the relationship depends upon stakeholder issues.

Despite the importance of contingency perspective proposed by previous studies, many still neglect to integrate the contingency factors in examining the determinants of CSR. It is argued that such consideration is important because CSR is an extended corporate performance of TBL. Hence, in this context, this study is an attempt to relate CSR-CFP to the important variables of corporate performance.

The literatures on accounting and strategic management highlight that corporate performance is a function of fit between business environment, strategy, internal structure, and control system (Govindarajan, 1988; Govindarajan & Gupta, 1985; Gupta & Govindarajan, 1982; Langsfield-Smit, 1997; Lenz,

1980; Tan & Lischert, 1994). The present study thus considers these variables - business environment, strategy, structure, and control system – in an attempt to seek explanation of the relationship between CSR and CFP. By using the integrated model as suggested in the accounting and strategic management literatures, the present study hopes to provide a holistic explanation to the relationship.

Previous studies (e.g. Hilman & Keim, 2001; Husted, 2000; Neville, 2005; Orliztky et al., 2003; Pos et al., 2002) did not clearly relate contingency variable (i.e. strategy) to corporate performance in the context of TBL. Furthermore, the variable of strategy in those studies was not operationalized as business strategy per se but activities related to handling social issues. Previous studies have also only common variables such as industry type and company size as moderating variables to explain the relationship between CSR and CFP (Brammer & Pavelin, 2006; Fauzi, 2004; Fauzi et al., 2007), and have not considered other factors that are more relevant in affecting corporate performance. Thus, this current study will address the gap by using the above variables as contingency factors to explain the relationship between CSR and CFP. More explicitly, the present study looks at how variables such as business environment, business strategy, organizational structure, and control system can affect the relationship between CSR and CFP.

This study attempted to contribute to the literature by addressing the following research questions: Under the slack resource theory, do the following variables moderate the relationship between CFP and CSR, business environment, busi-

ness strategy, formalization, specialization, decentralization, belief system, boundary system, diagnostic control system, and interactive control system? Under the good management theory, do the following variables moderate the relationship between CSR and CFP, business environment, business strategy, formalization, decentralization, specialization, belief system, boundary system, diagnostic control system, and interactive control system?

## Literature Review and Hypotheses Development

### Contingency Approach to Studying CSR and CFP Link

As noted in the previous sections, the mixed result of the relationship of CSR and CFP was due to the omission of the contingency aspect (Ullmann, 1985). Other researchers also did suggest that variations in the result of the relationship between CSR and CFP be solved by using the contingency theory perspective (Wagner, 2001; Husted, 2000; Margolish and Walsch, 2003; Orlitzky et al., 2003). Due to the fact that CSR and CFP are not related under one condition, the contingency perspective needs to be used to examine under which condition the relationship is be valid (Hedesström and Biel, 2008). In addition, Orlitzky et al., (2003) found that the strength of the relationship will be dependent upon contingency such as reputation and construct operationalization. Some other researchers also have shown that CSR and CFP relation was positive using resource-based view (strategy) as contingent variable (Hilman and Keim, 2001; Orliztky et al., 2003; Pos et al., 2002).

Based on the review of strategic management literature, it can be found that corporate performances are matching of business environment, business strategy, internal structure, and control system (Lenz, 1980; Gupta and Govindarajan, 1982 and 1984; Govindarajan et al., 1988; Govindarajan, 1988; Tan and Lischert, 1994; Langsfield-Smit, 1997). Thus, it can be argued that corporate performances referred to the notion of TBL should be affected by some important variables: business environment, business strategy, structure, and control system. Therefore, research to seek an explanation of the relationship between CSR and CFP need to be conducted using the integrated model as suggested in the strategic management literature.

Thus, this current study addresses the gap by using moderating effect of business environment, business strategy, organizational structure, and control system as contingency factors to explain the relationship of CSR and CFP under two theories- slack resource and good management.

### Business Environment and CSR-CFP Link

Business environment can be defined as conditions an organization faces that are normally changing and unpredictable. Lenz (1980) included market structure, regulated industry, and other relevant environments in the concept of the business environment as factors affecting corporate financial performance. Jaworski and Kohli (1993) extended the definition of business environment to include market turbulence, competitive intensity, and technological turbulence. Market turbulence is the rate of change in the composition of customers and

preferences (Jaworski & Kohli, 1993). An organization operating under high market turbulence will tend to modify its product or services continually in order to satisfy its customers. Adversely, when the market is stable there is no change in customers' preference, and the organization is not likely to change its product or service. Therefore, market turbulence is expected to relate positively to organization performance. Competitive intensity refers to market condition in which a company has to compete with. In the absence of competition, a company can perform well with no significant effort as customers have no choice or alternative to satisfy their need. However, in high competition indicated by many alternatives for customers to satisfy their want, a company has to devote its best effort to satisfy the customers. Therefore, competitive intensity is expected to relate positively to organization performance. The last aspect of business environment is technological turbulence, which means simply the rate of technological change. If a company has to be sensitive to technological change, innovation resulting from technological change can increase the company's competitive advantage without having to focus more on the market orientation. By contrast, if a company is not preoccupied with innovation in technology, it should strive to focus more on market orientation. Therefore, technological change is expected to relate negatively to organization performance.

Business environment can also be viewed as a multidimensional construct of three dimensions: dynamism, complexity, and hostility (Duncan, 1972; Lawrence & Lorsch, 1967, as cited in Tan & Lischert, 1994). The dimensions of dynamism and complexity have been referred to as perceived information uncertainty, while hostility is similar to resource dependence (Tan & Lischert, 1994). Following the concept of business environment as multidimensional construct, Jauch et al. (1980) and Tan and Lischert (1994) had extended the concept of business environment to institutional environment which considers more varied elements dimensions similar to stakeholder concept such as (1) competitors, (2) customer, (3) suppliers, (4) technological, (5) regulatory, (6) economics, (7) social-cultural, and (8) international. Dill (1958) asserts that business environment will increase or decrease corporate performance. An organization facing high uncertainty in business environment has less ability to attain the organization's goal. This argument has been echoed by Simons (2000) who asserts that business environment influences strategic uncertainty that in turn will decrease the organization's ability to achieve its goal.

Based on the theory of slack resource, the interaction or fit between business environment and corporate financial performance (CFP) can affect corporate social performance due to fact that increase in CFP resulting from business environment aspect enables the company to have more chance to do the CSR. Thus, it is reasonable to expect from this study that business environment can moderate or affect the relationship between CFP and CSR. The hypothesis for the current study is as follows:

H1a: Business environment moderates the relationship between CFP and CSR based on the slack resource theory

Similarly, Higgin and Currie (2004) identified some factors that affect corporate social performance. They are business climate, human nature, societal climate, the competitiveness of the global business environment, and the nature of competitive organization performance.

Hence, in an effort to seek the relationship between CSR and CFP derived from good management theory, business environment is expected to moderate the CSR and CFP relationship. Based on of slack resource theory the interaction or fit between business environment and corporate financial performance (CFP) can affect corporate social performance because an increase in CFP due to favorable business environment will enable a company to conduct CSR. On the other hand, based on good management theory, the interaction or fit between business environment and corporate social performance (CSR) can affect the corporate financial performance because an increase in CSR due to favorable business environment aspect will enable the company to gain financial performance. Thus, this study may close the existing gap by using business environment variable to affect the CSR-CFP link.

Based on the arguments and finding from the previous studies, it can be concluded that the link between CSR and CFP will be contingent upon the business environment variable. The following is the hypothesis:

H1b: Business environmental moderates the relationship between CSR and CFP based on good management theory.

*Business Strategy and CSR-CFP Link*

Strategy is a complex concept that has consequently led to proliferation of its definition (Lenz, 1980). Mintzbeg (1987, as cited in Simons, 2000) viewed strategy in different lenses including strategy as perspective, position, plan, pattern in action, and ploy. Strategy as perspective refers to mission and vision of a company as a basis for all activities of a company. As a position, strategy indicates the way a company will pursue to compete in the market. This view has led the use of Porter's typology of strategy: differentiation and low cost (Simons, 2000). Strategy as a plan is differentiated as either short-term or long-term plan. Strategy as pattern in action is a company's action plan to cope with the failure of the strategy implementation. It is in this view that emerging strategy is coined (Simons, 2000). Finally, strategy as ploy is a tactic a company can employ to compete. Based on these views, if the strategy is well implemented, it can be an important determinant of the company's performance.

Previous studies have considered fit between strategy and corporate performance (see for example Fisher, 1995; Fisher & Govindarajan, 1993; Govindarajan & Fisher, 1990; Govindarajan, 1988; Simon, 1987). But whether or not the strategy will work to help achieve corporate performance depends upon the environment faced by a company. In this regard, Mintzberg (1973) defined strategy as patterns of stream of decision focusing on a set of a resource allocation in an attempt to accomplish a position in

an environment faced by the company. Using focus on decision as developed Mintzberg (1973), Ventakraman (1989), Miller and Frieson (1982), and Tan and Lischert (1994) extended the concept of strategy using dimensionality approach including: (1) analysis, (2) defensiveness, (3) futurity, (4) proactiveness, and (5) riskiness.

Based on theory of slack resource, the interaction or fit between strategy and corporate financial performance (CFP) can affect the corporate social performance due to fact that increase in CFP resulting from strategy enables the company has more chance to do the CSR. Thus, it is reasonable to expect from this study that the strategy can moderate or affect the relationship between CFP and CSR. The hypothesis for the current study is as follows:

H2a: Business strategy moderates the relationship between CFP and CSR based on the slack resource theory

In an effort to seek the relationship between CSR and CFP derived from the good management theory, the strategy variable is expected to be able to moderate the relationship between the link between CSR and CFP. Based on the arguments and finding from the previous studies, it can be concluded that the link between CSR and CFP will be contingent upon the strategy. The following hypothesis is thus formulated:

H2b: Business strategy moderates the relationship between CSR and CFP based on good management theory.

*Organization Structure and CSR-CFP Link*

Corporate performance is highly determined by how effectively and efficiently the company's business strategy is implemented (Walker et al., 1987, as cited in Olson, 2005). The success of the company's strategy implementation is highly influenced by how well the company is organized (Olson, 2005; Vorhies et al., 2003). Organization structure is needed to manage jobs in the organization consistent with the intended strategy. Organization structure is reflected in formalization, centralization, and specialization (Olson et al., 2005; Walker et al, 1987). These three components are central points of Mintzberg's analysis of organization structure (Olson et al., 2005).

Formalization refers to the level of formality of rules and procedures used to govern jobs and working relationships so that the organization is run efficiently by reducing administrative cost especially in an environment characterized by simple and repetitive tasks (Olson el at., 2005; Ruekert et al., 1985; Walker et al., 1987). A company with highly formal rules and procedures is called mechanic organization, while one with fewer formal rules and procedures is referred to organic organization (Burns & Stalker, as cited in Olson et al., 2005). Organic organization enables people in a company to have vertical and horizontal communication. It also enables a company to be rapidly awareness of and respond accordingly to the changes in competition and market, have more effective information, and reduce lag time between decision and action (Miles and

Snow, 1992; Olson, 2005).

Centralization is a condition on whether autonomy of making decision is held by top managers or be delegated to the lower level managers. In management literature, this construct includes two terms in the opposite ends: centralized and decentralized organization (Olson, 2005). In centralized organization, autonomy to make decision is held by top managers. Although fewer innovative ideas can be created in centralized organizations, implementation of the decision is straight forward after the decision is made (Olson, 2005). However, the benefit can only be realized in stable and in noncomplex environment (Olson et al., 1995; Olson et al., 2005; Ruekert, 1985). In an unstable and complex environment indicated by rapid changes in competition and market, the use of organization structure providing lower managers with autonomy of making decision is needed. In a decentralized organization, a variety of views and innovative ideas may emerge from different levels of organization. Due to the fact that autonomy of making decision is dispersed, it may take longer to make and implement the decision (Olson et al., 1995; Olson et al., 2005). However, in a non routine task taking place in complex environment, the use of decentralized organization is more effective to achieve the organization goal as the type of organization empower managers who are very close to the decision in question and to make the decision and implement it quickly (Ruekert  et al., 1985).

Specialization is the level of division of tasks and activities in organization and level of control people may have in conducting those tasks and activities (Olson, 2005).  Organization with high specialization may have high proportion of specialists to conduct a well-defined set of activities (Ruekert et al., 1985; Olson, 2005). A specialist is someone who has expertise in respective areas and, in certain condition he or she can be equipped with a sufficient authority to determine the best approach to complete the special tasks (Mintzberg, as cited in Olson, 2005). The expertise is needed by organizations to respond quickly to the changes in competition and market in order to meet organization goals (Walker et al., 1987).

Based on theory of slack resource, the interaction or the fit between organization structure and corporate financial performance (CFP) can affect the corporate social performance due to fact that an increase in CFP resulting from organization design enables the company to have more chance to do the CSR. Thus, it is reasonable to expect from this study that the organization structure can moderate or affect the relationship between CFP and CSR.  The hypotheses for the current study are as follows:

H3a1: Formalization moderates the relationship between CFP and CSR based on the slack theory

H3a2:  Decentralization moderates the relationship between CFP and CSR based on the slack resource theory

H3a3: Specialization moderates the relationship between CFP and CSR based on the slack resource theory

As mentioned above, another factor affecting corporate financial performance (CFP) is the strategic behaviors in an organization. In the context of corporate social performance, the concept of stra-

tegic behaviors can be extended using the stakeholder theory to explain the fit between organization structure and corporate social performance (CSR). According to Chen (1996); Gatignon and Xeureb (1997); and Olson et al. (2005), the strategic behaviors can be identified into some components: customer-oriented behavior, competitor oriented behavior, innovation-oriented behavior, and internal-cost behavior. The concept can be extended using components of stakeholder as contended by Donaldson and Preston (1995). Supplier-focused behavior, employee-focused behavior, society aspect-focused behavior, and environment-focused behavior are stakeholder-based strategic behavior to be expected to improve corporate financial performance. Using the argument, CSR will affect CFP.

Based on the finding and the logic, the concern of this study is that the fit between organization structure and CSR will affect the financial performance. Hypotheses for this current research are as follows:

H3b1: Formalization moderates the relationship between CSR and CSR based on good management theory

H3b2: Decentralization moderates the relationship between CSR and CFP based on good management theory

H3b3: Specialization moderates the relationship between CSR and CFP based on good management theory

*Control System and CSR-CFP Link*

One important function of management control system or control system for short is management tool to implement the organization strategy. Of the typologies in control system, Simons' (2000) typology is more complete and comprehensive, including belief system, boundary system, diagnostic control system, and interactive control system.

The careful and consistent use of the control system typology, often called levers of control, can lead to the improved performance (CFP). The following is discussion on how the components of levers of control can be associated with the performance and, therefore, the expectation of the impact of the use of components of the control systems on the relationship between CSR and CFP can be based upon.

Belief system is the one used in an organization to communicate an organization's core value to inspire people in the organization to search for new opportunities or ways to serve customer's needs based on the core values (Simons, 1994, 1995a, 1995b, 2000). In an organization the belief system has been created using a variety of instruments such as symbolic use of information. The instruments are used to communicate the organization's vision, mission, and statement of purpose such that people in the organization can well understand the organization's core value.

The belief system can make people in an organization inspired to commit to organization goals or purposes. In this regard, commitment means believing in organizational values and willingness to attempt some efforts to achieve the organizational goal (Simons, 1995a and 1995b). Therefore, the goal commitment can lead to improved corporate performance (Locke et al., 1988). The

conclusion is consistent with what Klein and Kim (1998) found in their study on situation constraints including goal commitment and sales performance. Chong and Chong (2002) who studied the effect of goal commitment and the information role of budget and job performance demonstrate the same finding.

The resultant of belief system is new opportunities that may contain some problems. The boundary system concerns on how to avoid some risks of innovation resulting from the belief system (Simons, 1994). The risks that possibly emerge can be operating, assets impairment, competitive, and franchise risks (Simons, 2000). On the other hand, the boundary system provides allowable limits for opportunity seekers to innovate as conditions encouraged in the belief system.

Strategic boundaries are defined as rules and limitation applied to decisions to be made by managers needing the organization's resource allocation as response of opportunities identified in the belief system (Simons, 1995 a, 1995b, 2000). In his study using case approach in UK Telecommunication company, Marginson (2002) found that the boundary system-strategic boundary can motivate people in that company to search for new ideas or opportunities within the prescribed acceptable area. Thus, if well implemented, this system can avoid the potential risks and, in turn, can improve the organization performance.

Diagnostic control system is the one used by management to evaluate the implementation of an organization's strategy by focusing on critical performance variables, which are the ones that can determine the success of strategy imple-

mentation and, at the same time, can conserve the management attention through the use of management by exception (Simons, 1995a, 1995b, and 2000). As a system relying upon the feedback mechanism, the diagnostic control system is an example of application of single loop learning whose purpose is to inform managers of outcomes that are not meeting expectation and in accordance with plan (Argyris, 1977 as cited by Simon, 1995b; Widener, 2006, 2007). The single loop learning is a part of organization learning that indicates benefits of implementing management control system in general.

Based on theory of slack resource, the interaction or fit between control system, including belief system, boundary system,, diagnostic control system, and interactive control system, as well as CFP can affect CSR due to fact that increase in CFP resulting from the appropriate use of control system components enables the company to have more chance to do the CSR. Thus, it is reasonable to expect from this study to formulate the hypotheses of current study as follows:

$H_{4a1}$: reliance on belief system moderates the relationship between CFP and CSR based on the slack resource theory.

$H_{4a2}$: reliance on boundary system moderates the relationship between CFP and CSR based on the slack resource theory

$H_{4a3}$: reliance on diagnostic control system moderates the relationship between CFP and CSR based on the slack resource theory

$H_{4a4}$: reliance on interactive control system moderates the relationship between CFP and CSR based on slack resource theory.

As stated by Ouchi (1977) and Robbins (2002), organization behavior refers to behaviors of members of an organization. In general, any organization is concerned about controlling the behavior of the employees and this can be achieved by using a well designed control system (Snell, 1992). One instrument to be used in the control system is strategic behaviors. Chen (1996), Gatignon & Xeureb (1997), and Olson et al. (2005) listed strategic behaviors to include customer oriented behavior, competitor oriented behavior, innovation oriented behavior, and internal/cost oriented behavior. The list can be referred to input-output model of Donaldson and Preston (1995). The list can also be extended using the contingency theory. Thus, corporate social performance is strategic behavior affected by control system and, this in turn is expected to improve corporate financial performance.

Based on the finding and the logic, the concern of this study is that the fit between control system and CSR will affect the corporate financial performance. Thus hypotheses for the current studies are as follows:

$H_{4b1}$: reliance on belief system moderates the relationship between CSR and CFP based on the good management theory

$H_{4b2}$: reliance on boundary system moderates the relationship between CSR and CFP based on the good management theory

$H_{4b3}$: reliance on diagnostic control system moderates the relationship between CSR and CFP based on the good management theory

$H_{4b4}$: reliance on interactive control system moderates the relationship between CSR and CFP based on the good management theory

## Research Method

There are several variables used in this study: Corporate social performance, corporate financial performance, business environment, strategy, organization structure, and control system as main variable; and company size and type of company (in term of ownership: state-owned company non state-owned company) as control variables. The measure for CSR variable in this study used the MJRA's dimensions of CSR by deleting some indicators to adjust Indonesian environment. This CFP variable was measured by using the perceptual method to match with the CSR measure (Wood and Jones, 1995). In this approach, some subjective judgments were provided by respondents using 8 (eight) indicators developed by Ventakraman (1989) comprising of two dimensions: growth and profitability dimension. Business environment were measured using managers' perception of the level of hostility, dynamism, and complexity in each environmental dimension using a 7-point scale (Tan and Lischert, 1994). The business strategy variable was measured by strategic orientation. Using focus on decision as developed by Mintzberg (1973), the strategic orientation were broken down into several dimensions including (1) analysis, (2) defensiveness, (3) futurity, (4) proactiveness, and (5) riskiness. The organization structure was measured using three dimensions: formalization, decentralization, and specialization. Control system was defined by using typology of control of Simons (1995 and 2000) including belief system, boundary system, diagnostic control system, and interactive control system. The company size followed the measure used by Mahoney and Robert (2007) with the argument that total asset is "money machine" to

generate sales and income. Type of company was measured using dummy variable. The measure of 1 is for state-owned company and while 0 is for non-state-owned company.

Unit of analysis in this study is Indonesian managers. Population of this study is all Indonesian managers working in the Jakarta stock exchange's listed companies and in state-owned companies.

Data set of manufacturing sector in publicly traded companies' stock (private-owned companies) and in the directory of state companies in State Ministry of State Owned Company (state-owned companies=BUMN) was used with the intention to reduce mismatching problem as suggested by Wood and Jones (1995) in addition to lessen the sampling error. The data are perception and views of managers in BUMN and private-owned companies pertaining to the indicators of corporate social performance, companies' financial performance, business environment, strategy, organization structure, and management control system. In broader sense, state-owned companies can be defined as a legal entity created by a government to undertake commercial or business activities on behalf of an owner government.

Data for the non state (private)-owned companies were taken from the companies listed in Jakarta Stock exchange (Indonesia Stock Exchange). The choice of the manufacturing sector is based on the fact that this sector (including all mining companies) has contributed more to the aspect of people (social) and planet (environmental) than other sectors. In addition to having the data on indicators of corporate social performance, this study also captured the data on

business environment, strategy, organization structure, and management control system to test the moderating effect of the contextual variables on CSR-CFP link and to test managers' perception toward CSR. Using the same way, data for state-owned companies were selected from the list of manufacturing sector (including mining) in Indonesian State-Owned Companies under control of the Indonesian Ministry of State-Owned Companies. The sampling selection for two sets of data was conducted using the purposive sampling method. Given that method, samples were selected from the two sampling frames: list of companies listed in Jakarta Stock Exchange in 2007 for non state companies and list of state-owned companies under Ministry of State-Owned Companies.

There are several techniques used to analysis the data (1) psychometric analysis, (2) factor analysis, (3) and multiple regression analysis. The psychometric analysis is used to determine consistency or reliability of the measured result. Exploratory factor analyses including coefficient alpha and item-to-total correlation were estimated to assess the psychometric characteristics of scales for each variable.

Due to the fact that latent variables are used in this study coming from constructs that have been developed based on some dimensions of concept, factor analysis was need to reduce the dimensions becoming the single measure of the latent variables. There were criteria used in conducting factor analysis: Kaiser-Meyer-Olkin (KMO), and (2) factor loading.

There two models used in this study: (1) model 1 and (2) model 2. Model 1 is

needed to test the CFP-CSR link under slack resource theory by considering moderating effect. Like model 1, Model 2 is based on the good management theory to test the CSR-CFP link.

The main theoretical model under slack resource theory (model 1) and good management theory (model 2) are as follows, respectively:

**CSR = *f* {CFP, BEV, STG, FOR, DEC, SPE, BEL, BND, DNT, INC, CFP/BEV, CFP/STG, CFP/ FOR, CFP/DEC, CFP/SPE, CFP/BEL, CFP/BND, CFP/ DNT, CFP/INC}**

**CFP = *f* {CSR, BEV, STG, FOR, DEC, SPE, BEL, BND, DNT, INC, CSR/BEV, CSR/STG, CSR/ FOR, CSR/DEC, CSR/SPE, CSR/BEL, CSR/BND, CSR/ DNT, CSR/INC}**

Where:
CFP=Corporate financial performance
CSR=Corporate social responsibility
BEV=Business environment
STG=Strategy
FOR=Formalization
DEC=Decentralization
SPE=Specialization
BEL=Belief system
BND=Boundary system
DNT=Diagnostic control system
INC=Interactive control system
CFP/BEV=Interaction between CFP and BEV
CFP/STG=Interaction between CFP and STG
CFP/FOR=Interaction between CFP and FOR
CFP/DEC=Interaction between CFP and DEC
CFP/SPE=Interaction between CFP and SPE
CFP/BEL=Interaction between CFP and BEL
CFP/BND=Interaction between CFP and BND
CFP/DNT=Interaction between CFP and DNT
CFP/INC= Interaction between CFP and INC
CSR/BEV=Interaction between CSR and BEV
CSR/STG=Interaction between CSR and STG
CSR/FOR= Interaction between CSR and FOR
CSR/DEC= Interaction between CSR and DEC
CSR/SPE= Interaction between CSR and SPE
CSR/BEL= Interaction between CSR and BEL
CSR/BND= Interaction between CSR and BND
CSR/DNT= Interaction between CSR and DNT
CSR/INC= Interaction between CSR and INC

**Results and Discussion**

Based on the factor analysis result (Rotated component matrix), the factors created for organization structure and control system are not the same as the initial dimensions. Rather, they undergo some modification. The created factors for organization structure have two dimensions: (1) formalization (FOR) and (2) decentralization (DEC). The created factors for control system having three dimensions include: (1) CBELBGOU, (2) CDIAINT, and (3) INT. Given the new variable, the new hypotheses are formulated as follows:

H$_{3a1}$: Formalization moderates the relationship between CFP and CSR

**Table 1. Summary of Regression Results**

| Regression Model | Model 1 | Model 2 |
|---|---|---|
| **Dependent Variables** | **CSR** | **CFP** |
| **Adjusted-$R^2$** | 0.731 | 0.468 |
| p-value of F Statistics | 0.000* | 0.000* |
| **SIZE** | 0.000 | 0.000 |
| | (0.987) | (0.829) |
| **TYPE** | 0.961 | -0.200 |
| | (0.616) | (0.795) |
| **CSR** | | 0.079 |
| | | (0.004)* |
| **CFP** | 0.615 | |
| | (0.000)* | |
| **BEV** | 0.182 | -0.016 |
| | (0.005)* | (0.482) |
| **STG** | -0.086 | -0.035 |
| | (0.419) | (0.456) |
| **FOR** | 2.613 | 0.075 |
| | (0.182) | (0.456) |
| **DEC** | 2.596 | 1.058 |
| | (0.056)*** | (0.087) |
| **CBELBOU** | 13.517 | 2.998 |
| | (0.000) | (0.001) |
| **CDIAINT** | 9.269 | 0.267 |
| | (0.000) | (0.624) |
| **INT** | 4.836 | 0.321 |
| | (0.000)* | (0.601) |
| **CFP*BEV** | -0.002 | |
| | (0.785) | |
| **CFP*STG** | 0.012 | |
| | (0.298) | |
| **CFP*FOR** | 0.351 | |
| | (0.103) | |
| **CFP*DEC** | 0.539 | |
| | (0.001* | |
| **CFP*CBELBOU** | -0.203 | |
| | (0.441) | |
| **CFP*CDIAINT** | 0.661 | |
| | (0.002)* | |
| **CFP*INT** | -0.153 | |
| | 0.496 | |
| **CSR*BEV** | | 0.002 |
| | | (0.012)** |
| **CSR*STG** | | -0.001 |
| | | (0.629) |

**Table 1. Summary of Regression Results**

| | | |
|---|---|---|
| **CSR*FOR** | | -0.004 |
| | | 0.917 |
| **CSR*DEC** | | 0.006 |
| | | (0.806) |
| **CSR*CBELBOU** | | 0.038 |
| | | (0.308) |
| **CSR*CDIAINT** | | 0.044 |
| | | (0.120) |
| **CSR*INT** | | 0.045 |
| | | (0.118) |

Note:
*** significant at 1%
** significant at 5%

based on slack resource theory

$H_{3a2}$: Decentralization moderates the relationship between CFP and CSR based on slack resource theory

$H_{3b1}$: Formalization moderates the relationship between CSR and CSR based on good management theory

$H_{3b2}$: Decentralization moderates the relationship between CSR and CFP based on good management theory

$H_{4a1}$: Reliance on combination of belief system and boundary system moderates the relationship between CFP and CSR based on slack resource theory

$H_{4a2}$: Reliance on combination of diagnostic and interactive control system control system moderates the relationship between CFP and CSR based on the slack resource theory

$H_{4a3}$: Reliance on interactive control system moderates the relationship between CFP and CSR based on slack resource theory

$H_{4b1}$: Reliance on combination of belief system and boundary system moderates the relationship between CFP and CSR based on good management theory

$H_{5b2}$: Reliance on combination of diagnostic and Interactive control system moderates the relationship between CFP and CSR based on good management theory

$H_{5b3}$: Reliance on interactive control system moderates the relationship between CFP and CSR based on good management theory

Therefore, given the modification of the dimensions of organization structure and control system construct, the corresponding models are modified in terms of variables resulting from the created dimensions. The modified models are:
Model 1:

$$CSR = \alpha + \beta_1 CFP + \beta_2 BEV + \beta3 STG + \beta_4 FOR + \beta_5 DEC + \beta_6 CBELBOU + \beta_7 CDIAINT + \beta_8 INT + \beta_9 CFP*BEV + \beta_{10} CFP*STG + \beta_{11} CFP*FOR + \beta_{12} CFP*DEC + \beta13 CFP*CBELBOU + \beta_{14} CFP*CDIAINT + \beta_{15} CFP*INT + \beta16 SIZE + \beta17 TYPE + e$$

Where
CSR= Composite score of corporate social responsibility
CFP = Composite score of corporate financial performance

BEV= Composite score of uncertainty business environment

STG= Composite score of companies' strategic orientation

FOR= Total score of formalization dimension of organization structure

DEC=Total score of decentralization dimension of organization structure

CBELBOU=Total score of combination belief and boundary system

CDIAINT =Total score of combination diagnostic and interactive control system

INT= Total score of interactive system control system

CFP*BEV= Composite score of corporate financial performance* Composite score of uncertainty business environment

CFP*STG= Composite score of corporate financial performance* Composite score of companies' strategic orientation

CFP*FOR= Composite score of corporate financial performance* Total score of formalization dimension of organization structure

CFP*DEC= Composite score of corporate financial performance* Total score of decentralization dimension of organization structure

CFP*CBELBOU= Composite score of corporate financial performance* Total score of combination of belief and boundary system

CFP*CDIAINT= Composite score of corporate financial performance* Total score of combination of diagnostic and interactive control system

CFP*INT= Composite score of corporate financial performance* Total score of interactive control system

SIZE= Company size measured by company's total asset

TYPE= Dummy variable indicating 1for state owned-companies and 0 for private-owned companies

e= Error term

Model 2:

$$CFP = \alpha + \beta_1 CSR + \beta_2 BEV + \beta_3 STG + \beta_4 FOR + \beta_5 DEC + \beta_6 BEL\_BOU + \beta_7 DIA\_INT + \beta_8 INT + \beta_9 CSR*BEV + \beta_{10} CSR*STG + \beta_{11} CFP*FOR + \beta_{12} CSR*DEC + \beta_{13} CFP*CBELBOU + \beta_{14} CSR*CDIAINT + \beta_{15} CSR*INT + \beta_{16} SIZE + \beta_{17} TYPE + e$$

Where

CFP= Composite score of corporate financial performance

CSR= Composite score of corporate social responsibility

BEV= Composite score of business environment

STG= Composite score of companies' strategic orientation

FOR= Total score of formalization dimension of organization structure

DEC=Total score of decentralization dimension of organization structure

CBELBOU=Total score of combination belief and boundary system

CDIAINT =Total score of combination of diagnostic and interactive control system

INT= Total score of interactive system control system

CSR*BEV= Composite score of corporate social responsibility * Composite score of uncertainty business environment

CSR*STG= Composite score of corporate social responsibility * Composite score of companies' strategic orientation

CSR*FOR= Composite score of corporate social responsibility *Total score of formalization dimension of organization structure

CSR*DEC= Composite score of corporate social responsibility * Total score of decentralization dimension of organiza-

tion structure
CSR*CBELBOU= Composite score of corporate social responsibility * Total score of combination of belief and boundary system
CSR*CDIAINT= Composite score of corporate social responsibility * Total score of combination diagnostic and interactive control system
CSR*INT= Composite score of corporate social responsibility *Total score of interactive control system
 e= Error term

According to the result of Model 1, the CFP-CSR link depends upon two aspects: (1) decentralization ($H_{4a2}$), and (2) diagnostic and interactive control system ($H_{5a2}$).

Decentralization refers to the degree of autonomy to make decision in units in organization.  The objective of decentralization is to improve the effectiveness in an organization (Govindarajan, 1986). According to Elkington's (1994) the concept of TBL (triple bottom line), the effectiveness of an organization can be defined by three aspects: (1) financial, (2) social, and (3) environment. Thus, the degree of decentralization as depicted by Govindarajan (1986) can influence the relationship between CFP and CSR.  In the recent trend, the increasing number of departments in organization handling the CSR can also support the relationship. This finding is consistent with the proposition of Centre for Business Ethics (1986).

The combination of diagnostic & interactive control system is a part of concept of levers of control introduced by Simons (1994 and 2000). In response to the problem of effectiveness of organization resulting from the pace of busi-

ness growth, he proposed the concept of four levers of control including: (1) belief system, (2) boundary system, (3) diagnostic control system, and (4) interactive control system.  However, based on the finding of factor analysis, the components of the levers of control have undergone a modification as indicated by Simons (1994 and 2000) for the possibility of combination among the levers in the implementation stage. The modifications based on this study include: (1) combination of belief system & boundary system, (2) combination of diagnostic & interactive control system, and (3) interactive control system. The combination actually had been predicted by Simons (2000) when explaining the use of diagnostic and interactive control system in practice. Abernethy and Brownell (1999) also use the combination of diagnostic and interactive control system in a study on the role of budget in strategic situation. When explaining the first two components of levers of control, Simons (2000) implicitly said that belief and boundary system should be combined. The function of belief system is to inspire people in organization to always search for alternatives for better effectiveness (performance) by improving innovativeness. However, the continuing innovativeness can make an organization apprehensive; thus, the breaker tool is needed.  The breaker tool is the function of the boundary system. Therefore, based on logic, the belief and boundary should be combined. In addition, the interactive control system alone is needed especially for handling the characteristic of strategy that is uncertainty. According to Simons (2000), strategy set in strategic planning become invalid if the following factors emerge: (1) new technology, (2) change in customer desires, (3) changes in legislation, and (4)

entry/exit competitors. To meet that purpose, interactive control system is effective tools to create new strategy (emerging strategy).

The finding of this study that diagnostic & interactive control system can influence the CFP-CSR link may be explained as follows. Some important control tools in diagnostic control system are performance measurement and reward system. The use of TBL for the performance measurement including the three dimensions: (1) financial, (2) social, and (3) environment, along with the proper reward system, will improve CSR. At the same time, companies are always facing risks and competition, especially the ones who are low dependence on technology, should focus on customers and their needs, which, in the perspective of interactive control tool, can emerge new strategy to handle the risk. This kind of action resulting from the interactive control system can improve CFP and, in turn, affect the CSR.

The CSR-CFP link under good management theory (Model 2) is also positively significant. This study finds that only contextual variable of business environment ($H_{1b}$) can influence the CSR-CFP link.

According to Jaworski and Kohli (1993), business environment facing companies include the following: (1) market turbulence, (2) competitive intensity, and (3) technological turbulence. Market turbulence is the rate of change in the composition of customers and preferences. It can be a predictor of business performance (Jaworski and Kohli, 1993). An organization operating under market turbulence will tend to modify its product or services continually in order to

satisfy its customers. Adversely, if the market is stable, indicated by no change in customers' preference, the organization is not likely to change its product or service. Therefore, the market turbulence is expected to relate positively to organization performance. Competitive intensity is referred to market condition in which a company has to compete with. In the absence of competition, a company can perform well with no significant effort as the customers have no choice or alternative to satisfy their needs. However, when the competition is high, a company has to devote its best effort to satisfy the customers. Therefore, the competitive intensity is expected to relate positively to organization performance. The last aspect of business environment is technological turbulence defined as the rate of technological change. For a company that is sensitive to technological change, innovation resulting from the technological change can be an alternative to increase the company's competitive advantage without having to focus more on the market orientation. In contrast, for a company with no innovation in technology, it should strive to focus more on market orientation. Therefore, the change in technology relates negatively to organization performance.

The finding of this study is consistent with Lenz (1980), Gupta and Govindarajan (1984), Govindarajan and Gupta (1985), Govindarajan (1988), Tan and Lischert (1994) and Langsfield-Smit (1997). This study also confirms the proposition of Higgin and Currie (2004). They had identified a number of variables that affect CSR in a corporation. The factors include business climate, human nature, societal climate, the competitiveness of the global business envi-

ronment, and the nature of competitive organization performance. Thus, arguments for business climate or environment discussed above, especially for the concept of business environment derived from the larger concept similar to stakeholder concept can moderate the CSR-CFP link.

From the analysis of all the models above it is clear that contextual variables (business environment, , business strategy, organization structure, and control system) can resolve the conflicting result of the relationship between CFP and CSR (under slack resource theory) and CSR and CFP (under the good management theory). The studies on the relationship between CSR and CFP have never considered the contextual variables as predictors of CSR. Therefore, the body of knowledge of CSR contributed by this study explained that (1) CSR concept is an extended corporate performance, then becoming sustainable corporate performance including financial, social, and environmental performance, (2) the contextual variables also determine the variability of CSR, and (3) the causality of the relationship of CSR and CFP is also significantly determined by the contextual variables.

Based on the implication, there is a need to do an in-depth study on the impact of contextual variables of corporate performance on CSR as a basis to develop TBL-based CSR reporting in Indonesia. This suggestion for future research is vital for several reasons. First, stakeholder theory used in this study and other studies may undergo modifications given the continuous study on impact of contextual variables of corporate on CSR. Second, as suggested in managerial decision implication, CSR needs to

be redefined in Indonesian context. Finally, there is a possibility to make mandatory CSR reporting as a consequence of the CSR implementation in accordance with article 74 of the Law No. 40/2007.

**Conclusion**

This study addresses research problems using contextual variables to explain the relationship of CSR and CFP. More explicitly, it describes how variables such as business environment, business strategy, organizational structure, and control system can affect the relationship between CSR and CFP.

This study also addresses methodological problems, which become the sources of the conflicting result of CSR-CFP link. The problems include (1) mismatching measurement, (2) sampling error, and (3) measurement error

Under slack resource theory, only decentralization and diagnostic & interactive variables moderate the relationship between CSR and CFP. Under good management theory, only business environment variable moderates the relationship between CSR and CFP.

Based on the finding of the study, there is a need for further study on the impact of contextual variables of corporate performance on CSR as a base to develop TBL-based CSR reporting in Indonesia. This suggestion for future research is important for the following reasons: (1) stakeholder theory used in this study and others may undergo some modification given the deep study on impact of contextual variables of corporate on CSR, (2) as suggested in managerial decision

implication, the CSR need to be redefined in Indonesian and (3) there is the possibility of making mandatory CSR reporting as a consequence of implementation of Law No. 40/2007 (Article 74).

It should be pointed out that this study has several limitations. This may be especially important for researchers who are less familiar with Indonesia culture, business environment, and differing culture.

The first limitation of the study is the timing of the survey. For the last two years, compulsory implementation of CSR in Indonesia based on the Law No. 40/2007 has been in the process and most Indonesian companies objected to the compulsory implementation of the law.

The second limitation is related to the questionnaire procedure. The length of the questionnaires exceeds eleven pages. Such length, according to Dilman (1978), may reduce the expected response rate. In addition, non random and non probability methods were used in selecting the sample. These techniques may influence the finding of the study and its application to businesses other than manufacturing.

The third limitation is that the population of the study for non BUMN was manufacturing companies listed on ISE (Indonesian Stock Exchange). Thus, other big manufacturing companies including mining companies such as Freeport are not included in the sample as they are not listed on the Exchange. Such companies may have importantly contributed to the environment.

The fourth limitation is that no study has examined the constructs of this research (integrating contextual variables affecting corporate performance into CSR as an extended corporate performance), either in Indonesia or outside Indonesian. Therefore, the researcher has to proceed without the advantage of having an established model to refer to and research findings as comparisons.

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