



Received: 04 September 2019  
Accepted: 14 October 2019  
First Published: 22 October 2019

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## ACCOUNTING, CORPORATE GOVERNANCE & BUSINESS ETHICS | RESEARCH ARTICLE

# Investigating the determinants of partnership and community development programs: Indonesia perspectives

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**Abstract:** The purpose of this study is to provide evidence on the relationship between firm visibility and partnership and community development programs. The Partnership and Community Development (PCD) program was designed by government to enhance the capabilities of small businesses and improve social conditions in Indonesia. Through the PCD program, companies can optimize and create a synergy between their activities and stakeholders to achieve community welfare. A sample was selected from the Ministry of State-Owned Enterprises' website in 2017. The annual and sustainability reports of all State-owned Enterprises were examined to measure the performance of PCD programs. The financial data were sourced from the Bloomberg database. Firm visibility was measured by profitability, firm size and capital intensity. This study provides evidence on the relationship between profitability, firm size, capital intensity and the level of engagement in the PCD program. This finding suggests that the visibility of SOEs is a significant driving force for participation in social responsibility activities through the PCD program.

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### PUBLIC INTEREST STATEMENT

This study examines the relationship between profitability, firm size, capital intensity and the level of engagement in the PCD program. The results show that profitability, firm size, and capital intensity are determinants of PCD. This finding indicates that the stakeholder pressure on SOEs in improving PCD programs seems can be explained by stakeholder theory. The theoretical implication of this study suggests that SOEs in Indonesia are motivated to engage in PCD programs mainly as a form of legal accountability to the government. PCD practices in SOEs are influenced by political aspects rather than the economic aspects. This is because SOEs are responsible for providing various social functions. Thus, the findings of this study will provide a new insight into what factors influencing PCD practice in SOEs.

This study augments accounting and business literature by exploring the role of government as the primary stakeholder in encouraging the uptake of PCD. This finding suggests that the stakeholder pressure on SOEs in improving PCD programs seems can be explained by stakeholder theory. This study is one of a few studies to investigate the impact of firm visibility on partnership and community development programs in a developing country.

**Subjects: Environment & Society; Political Economy; Environmental Economics; Business, Management and Accounting**

**Keywords: Sustainability; partnership; community development; stakeholder; state-owned enterprises; Indonesia**

### 1. Introduction

Company sustainability depends on its ability to generate earnings. Growth performance is determined by the ability of companies to produce a return on investment and to set aside earnings for internal funding<sup>1</sup>. In the last few years, the presence of State-Owned Enterprises (SOEs) in various industries in many countries still shows a dominant role (Lazzarini & Musacchio, 2018). According to the 2017 Annual Performance Report of the Ministry of State-Owned Enterprises, SOE's dominated in 14 industrial sectors in Indonesia: information and communication; professional, scientific and technical; construction, transportation and warehousing; flight navigation; trade and retail; agriculture, fisheries and forestry; energy supply; mining and excavation; financial services and insurance; water treatment, sewage and garbage; accommodation; real estate; and industrial manufacturing. In 2017, SOEs contributed 254 trillion rupiahs to the state budget in taxes and dividends or 15% of total state revenue. SOEs also contributed 25.99% of total market capitalization to the Indonesia Stock Exchange. These statistics demonstrate that SOEs play a significant role in the Indonesian economy, as their investments stimulate production and technological development. This helps to address national issues, like unemployment, by empowering the local community.

One of the goals of Indonesian SOEs is to provide guidance and assistance to entrepreneurs, cooperatives, and communities through direct involvement in partnership and community development (PCD) activities. The PCD program is supported by government policies that encourage the acceleration, independence, development, and empowerment of small and micro enterprises to access capital (see Ministerial Regulation Number PER-02/MBU/7/2017).

It is important to further investigate the significant role of SOEs in encouraging sustainable development and community empowerment through the PCD program. The objective of this study is to investigate factors that drive SOEs to engage in PCD program. Indonesia provides a highly interesting environment for studying corporate state ownership (Aprilyanti & Randoy, 2018). Since SOEs play a significant role in the economy of Indonesia, it is expected that SOEs will also have a significant impact on PCD practices. Previous studies showed that the corporate ownership structure has a significant effect on corporate social responsibility (CSR) (Calza, Profumo, & Tutore, 2016). Other studies have investigated the effect of institutional ownership (Dam & Scholtens, 2012; Lopatta, Jaeschke, Canitz, & Kaspereit, 2017; Saleh, Zulkifli, & Muhamad, 2010); managerial ownership (Ghazali, 2007), and family ownership (Rees & Rodionova, 2015) on CSR activities. However, few studies have examined CSR practices in SOEs (Ghazali, 2007; Hu, Zhu, Tucker, & Hu, 2018; Xu & Zeng, 2016), especially in Indonesia where CSR activities are highly regulated. Although some previous studies have examined PCD practices in developing countries, however, these studies have not specifically investigated PCD practices in SOEs. Unlike non-SOEs, PCD practices in SOEs are heavily influenced by strict government regulations. PCD practices in SOEs are influenced by political aspects rather than the economic aspects. This is because SOEs are responsible for providing various social functions. Thus, the findings of this study will provide a new insight into what factors influencing PCD practice in SOEs.

This paper makes three contributions to the literature. First, it provides an understanding of what factors that motivate company to engage in PCD practices. The results of this study are expected to provide a new perspective in CSR literature concerning factors influencing the PCD practices in a developing country, such as Indonesia. Over the last two decades, majority of CSR literatures are dominated by the perspective of developed countries. As a developing country that has a rapid economic growth rate, Indonesia offers an interesting institutional environment to investigate what factors influence SOEs to perform PCD activities, where government regulations are prevalent. Second, the results of this study may be of interest to standard regulatory bodies, both globally and locally regarding reporting guidelines which must be disclosed by the company, especially for SOEs. Finally, the results of this study can also be a relevant to the ongoing debate in Indonesia regarding the role of government in regulating the practice of PCD.

The paper is structured as follows. The next section presents the literature review. Section 3 explains the research methods. Section 4 presents the results and discussion. Finally, Section 5 presents the conclusion of the study.

## 2. Literature review

Firms not only have a responsibility to improve the economic well-being of the owner, but they must also establish harmonious relationships with stakeholders. Stakeholder theory contends that the existence of a company is determined by the stakeholders. The congruent relationship between a company and its stakeholders is crucial. According to stakeholder theory, operational activities undertaken by companies are beneficial for companies and for stakeholders. Freeman (1984, p. 46) defines stakeholders as groups or individuals that can influence or be influenced by the activity of a company. One of the principles of stakeholder theory is that everyone should take responsibility for the impact of their actions (R Gray, 2001).

A company's existence is affected by stakeholder support; the viability of an enterprise relies on the support of its stakeholders. Stakeholders can influence companies using economic resources. Large numbers of powerful stakeholders directly increase the need for companies to positively explain their business conduct (Hahn & Kühnen, 2013). Stakeholders can influence the goods and services produced by a company (Deegan, Rankin, & Voght, 2000). The more powerful the stakeholder, the greater a company's effort to adapt to the corporate environment (Parmar et al., 2010). The company will try to improve its relationship with stakeholders such as employees or community to support its activities. The use of economic resources of the community social environment would encourage companies to be more accountable to society which can be done through PCD activities. PCD activities are directly related to the social environment and aim for long-term corporate sustainability. As argued by Achmad and Faisal (2013), SOEs may think that supporting a PCD program is a useful way to build their reputation with the government, who supervises this program. Therefore, the PCD program is considered part of the dialogue between companies and stakeholders. Ullmann (1985) argued that stakeholder theory provides an appropriate justification for incorporating strategic decision making into studies of corporate social responsibility.

### 2.1. Partnership and community development regulations

In this paper, the term "partnership and community development" is used in accordance with the Ministry for State-Owned Enterprises' Ministerial Regulation Number PER-02/MBU/7/2017. According to this regulation, PCD is defined as a program that enhances the ability of small businesses to become resilient and self-sufficient through the utilization of SOE funds (Article 1, paragraph 6–7). The partnership part of the program includes grants for financing working capital and/or purchasing fixed assets to increase production and sales. The community development part of the program consists of granting assistance for natural disasters, education, health, development of facilities and infrastructure, preservation of nature, and social-community assistance. The PCD term has been used interchangeably with the term "corporate social responsibility". As argued by Buchholtz, Amason, and Rutherford (1999) and Arli and Cadeaux (2014), partnership and community development are components of the larger domain of corporate social responsibility. Blagov, Lenssen, and

Petrova-Savchenko (2012) define community development, community contributions or philanthropy as, “voluntary activity by citizens and legal persons involving disinterested (gratuitous or at a discount) transfer to individuals or to legal persons or property, including of monetary resources, disinterested fulfillment of work, provision of services, rendering of another support.”

The regulation of PCD programs by SOEs started in 2007 when the government released Company Law Number 40/2007, which stipulated that companies running their business activities in the field and/or related to natural resources must demonstrate social and environmental responsibility (Article 74, paragraph 1). The Law subsequently led to the development of regulations, including Ministerial Regulation 234/MBU/2008, which required SOEs to form a Unit of PCD. Ministerial Regulation Number 08/MBU/2013 limited PCD funds sourced from company budgets up to a maximum of 2% of net profit from the previous year. Later, Ministerial Regulation Numbers 09/MBU/07/2015 and PER-03/MBU/12/2016 allowed PCD budgets to increase to 4% of the previous year’s net profit. While regulations have been reinforced, most companies still have broad discretion in the implementation of PCD programs (Cahaya, Porter, Tower, & Brown, 2015). As well, this raises the company’s perception of differences related to the procedure of the implementation of the program of PCD (Waagstein, 2010).

## 2.2. Hypotheses

Several studies have identified visibility as an important organizational attribute. Organizational visibility is defined as the extent to which a company is known to the public. An organization is very susceptible as it is monitored by various parties such as the media, non-governmental organizations, institutions, investors, and regulators. Stephen Brammer and Millington (2006) and Montgomery (2014) argue that organizational visibility helps to reduce the degree of information asymmetry between managers and stakeholders and improves stakeholder support. According to stakeholder theory, the PCD the program is valuable for organizational existence where it is strongly influenced by stakeholders.

Prior studies argued that organizations attribute high visibility with their participation in PCD activities. Companies used the PCD program as a strategic investment (Gao, Wu, & Hafsi, 2017), as part of their reputation management strategy (Branco & Rodrigues, 2008; Park, 2017; Xu & Zeng, 2016), and to avoid regulator pressures (Williams, 1999). By engaging in the PCD program, highly visible companies can maintain their legal status with stakeholders and can also access the required resources (Ali, Alsayegh, Ahmad, Mahmood, & Iqbal, 2018). If CSR performance is determined by stakeholders, then the company’s CSR performance difference will be affected by the differences in characteristics between companies (Artiach, Lee, Nelson, & Walker, 2010). Highly visible companies are generally large, more profitable, have a greater capital intensity, and have a variety of stakeholders. Given that the decision to engage in the PCD program reduces income, there may be incentives for highly visibility companies to engage in such activities (Belkaoui & Karpik, 1989).

Companies operating in the business environment have different goals. One of the main goals is to earn profits. Profitability is the ability of a company to generate profits that can increase the value of the company. Research frequently assumes that profitability will increase the ability and flexibility of a company to bear the costs of CSR (Hahn & Kühnen, 2013). Profitability is a factor that allows companies to freely engage in social and environmental actions (Hackston & Milne, 1996). Profitable companies can meet stakeholder expectations through expenditures on PCD activities. On the contrary, when profits are low, companies will face pressure from management to reduce costs and maximize economic returns (Artiach et al., 2010). Previous studies have found a significant, positive relationship between profitability and CSR (Haniffa & Cooke, 2005; Othman, Darus, & Arshad, 2011; Prado-Lorenzo, Gallego-Alvarez, & Garcia-Sanchez, 2009; Syed & Butt, 2017). Companies that have higher profits will have greater pressure than stakeholders compared to the lower ones. Therefore, this study predicts that the relationship between profitability and the involvement of SOEs in PCD programs is positive.

H1: Profitability of SOEs is positively associated with the level of engagement in the PCD program.

Existing empirical studies typically use organizational size as a measure of its visibility (Cowen, Ferreri, & Parker, 1987; Hackston & Milne, 1996). Company size becomes a barometer for companies engage in CSR activities. Larger firms tend to be more visible, make better use of economies of scale, and have higher financial and human capital (Kuzey & Uyar, 2017). Higher company visibility drives accountability, which often leads to increased involvement in PCD activities (Cho & Roberts, 2010; Cormier & Gordon, 2001; Giannarakis, 2014). Previous studies found that company size is significantly and positively associated with CSR (Rob Gray, Javad, Power, & Sinclair, 2001; Rob Gray, Kouhy, & Lavers, 1995; Kuzey & Uyar, 2017). Bigger companies are more visible and more sensitive to political pressure than smaller ones. As they are more probable to be visible to the government. PCD is a strategy that may be adopted by companies to reduce the pressures from the stakeholders. Therefore, it is expected that there is a positive relationship between size of SOEs and the level of engagement in the PCD program.

H2: Size of SOEs is positively associated with the level of engagement in the PCD program.

Capital intensity can coincide with more extensive CSR (Hahn & Kühnen, 2013). Capital intensity describes the total investment in fixed assets. Capital intensity can be used to measure a company's future performance. Capital intensity is also a proxy for visibility because the condition and appearance of buildings and equipment will make the company more visible in the eyes of the public (Chithambo & Tauringana, 2014; Clarkson, Li, Richardson, & Vasvari, 2008; Silva-Gao, 2012).

H3: Capital intensity of SOEs is positively associated with the level of engagement in the PCD program.

Companies listed on stock exchanges must meet the standards and requirements set by securities authorities, such as the type and quality of company information that will be communicated to stakeholders, including information related to CSR activities (da Silva Monteiro & Aibar-Guzmán, 2010). For example, Chu, Chatterjee, and Brown (2012) argued that companies listed on overseas stock exchanges must meet the expectations of those countries. Therefore, multinational companies face pressure from both the domestic and global community. Increasing investor demands for information on listed companies' CSR can influence their disclosure practices (Haniffa & Cooke, 2005). Tagesson, Blank, Broberg, and Collin (2009) argued that SOEs are more likely to engage in CSR to set good examples.

H4: Listed SOEs engage in the PCD program at higher levels than non-listed SOEs.

### 3. Research methods

Table 1 shows the study sample. In 2017, 119 companies were listed on the Ministry SOEs' website. However, we could not access annual reports for 56 companies. Of the 63 companies with available annual reports, 13 did not provide information about investments in the PCD program. Thus, the final sample consisted of 50 companies.

Variables are presented in Table 2. Consistent with previous studies, participation in the PCD program was measured by the amount of money invested by companies (Achmad & Faisal, 2013; Amato & Amato, 2007; S. Brammer & Millington, 2004; Chen, Patten, & Roberts, 2007). Multivariate regression analysis was used to examine the influence of independent variables on the dependent variable. This analysis also measured the strength and direction of relationships between these variables. The regression equation is:

$$PCD = \beta_0 + \beta_1 PROF + \beta_2 SIZE + \beta_3 CAPIN + \beta_4 LIST + \epsilon$$

#### 4. Results and discussion

Table 3 presents descriptive statistics. The PCD mean suggests that SOEs have relatively sufficient funds for contributing to the PCD program. Results show that the average financial performance is relatively low (6%). Statistics show that, on average, large companies have a relatively high capital intensity ratio.

Table 4 presents the multiple regression results. The value of Kolmogorov-Smirnov is 0.653 with a p-value of 0.788. As the p-value more than 0.05, it can be concluded that the residual is normally distributed. Table IV also displays the result of the Glesjer heteroscedasticity test. The level of significance for all the independent variable is higher than 0.05, so there is no heteroscedasticity problem. The results of multicollinearity tests show that the tolerance values for all variables are far above 0.10 and all the VIF values are below 10. Therefore, multicollinearity is not a problem in the regression model.

Multiple regression analysis revealed a positive and statistically significant association between profitability and PCD ( $t = 3.216$ ;  $p\text{-value} = 0.002$ ). Thus, H1 is accepted. This result suggests that companies with good financial performance are more likely to contribute to PCD programs. This finding supports the stakeholder theory that a key reason for becoming involved in the PCD program is to improve company accountability and visibility. Highly visible companies have a bigger effect on their community, and therefore, normally have a broader group of stakeholders to satisfy.

Table 4 shows that there is a positive and statistically significant association between firm size and PCD ( $p\text{-value} = 0.000$ ). Thus, H2 is accepted. Large companies are more likely to get involved in PCD activities. This finding supports the stakeholder theory that companies invest in PCD to improve their accountability and visibility. There is a positive and statistically significant association between capital intensity and PCD ( $p\text{-value} = 0.011$ ), suggesting that companies with high capital intensity provide more PCD. H3 is thus accepted. This finding is in line with the argument that companies with higher capital intensity will look good in the eyes of stakeholders. Companies involved in PCD activities require resources in the form of capital, such as land and equipment. Investment can be focused on the provision of facilities (e.g., a means of education and worship) or

**Table 1. Sample selection**

Criteria	N
Number of State-Owned Enterprises (SOEs) that registered in the Ministry of State-Owned Enterprise' website in 2017	119
Number of annual reports of SOEs that cannot be accessed	(56)
Number of SOEs that do not provide the amount of rupiahs of partnership and community development	(13)
Final sample	50

**Table 2. Variable measurement**

Variables	Measurement
PCD	The amount monetary partnership and community development made by firm which is self-reported in annual and/or sustainability reports
PROF	ROA = Total assets divided by total liabilities
SIZE	Total assets
CAPIN	Total fixed assets divided by total assets
LIST	Take a value of 1 for listed firm and 0 for non-listed firm

**Notes:** PCD = Partnership and Community Development; PROF = Profitability; SIZE = Firm size; CAPIN = capital intensity; LIST = listing status; ROA = return on assets.

**Table 3. Descriptive statistics**

Continuous Variables	N	Minimum	Maximum	Mean	Std. Deviation
PCD (million rupiahs)	50	206	517,830	57,742	91,926
Profitability	50	0.0009	0.2430	0.0676	0.0565
Firm Size (million rupiahs)	50	294,505	855,039,673	85,360,334	201,571,803
Firm Size (Ln)	50	26.4085	34.3821	30.1450	1.9337
Capital Intensity	50	0.0025	0.8311	0.2315	0.2383
Categorical variable	N			%	
Listing status:					
1 = listed firms	18			36	
0 = non-listed firms	32			64	

**Notes:** PCD = Partnership & Community Development; Listing Status: 1 = listed firm; 0 = non-listed firm

supplies for the community to carry out environmental actions (e.g., pollution reduction, waste management, energy conservation, environmental conservation). By investing in capital equipment, a company can meet stakeholder expectations, which in turn, can enhance their reputation (Erhemjamts, Li, & Venkateswaran, 2012).

Listing status does not significantly affect PCD ( $p$ -value = 0.169). H4 is rejected. Arguably, public companies do tend to have greater public pressure compared to private companies. Generally, public companies will be more involved in PCD activities to avoid negative stakeholder pressure. However, this study failed to show that listed SOEs will be more engaged in the PCD program. The insignificant result may be caused by the influence of Ministerial Regulation Number PER-02/MBU/7/2017, which requires all SOEs to participate in the PCD program. Another factor could be the large number of non-listed SOEs in the study sample. The results of this study indicate that PCD is more related to adherence to regulations rather than considerations regarding reputation and image. As explained:

“Activities-PCD in Bank BTN is no longer only a philanthropy or just simply giving feedback to the community, but also as a form of implementation of the principles of Good Corporate Governance (GCG) and corporate social responsibility as a SOE.”

“Business activities run by the company, not solely pursue profit. As SOE, WIKA also has the responsibility of helping the Government improve the welfare of society, as well as participates in maintaining environmental sustainability. Profit, people and planet, became the basis for the company to conduct business activities that are sustainable. WIKA embodies the fulfillment of that responsibility, among others, with the implementation of the PCD.”

## 5. Conclusion

This study examines the relationship between profitability, firm size, capital intensity and the level of engagement in the PCD program. The findings indicates that the stakeholder pressure on SOEs in improving PCD programs seems can be explained by stakeholder theory. The theoretical implication of this study suggests that SOEs in Indonesia are motivated to engage in PCD programs mainly as a form of legal accountability to the government. This because the SOEs consider that the PCD activities may reflect their long-term commitments to the environment, respect for human rights, and providing a comfortable and good working relationship, occupational health and safety and participate in developing economies and local communities.

This study also provides evidence on the relationship between profitability, firm size, capital intensity and the level of engagement in the PCD program. This finding suggests that the visibility of SOEs is a significant driving force for participation in social responsibility activities through the PCD program. However, this study also found that there was no significant distinction PCD program

**Table 4. Multiple regression results**

Variabel	Prediction	Coefficient	t	p-value	Multicollinearity		Heterocedasticity	
					Tolerance	VIF	t	p-value
Constant		-.731	-4.453	.000	-	-		
Profitability	+	.371	3.216	.002	.791	1.264	1.238	.338
Firm Size	+	.496	4.338	.000	.805	1.242	1.237	.463
Capital Intensity	+	.297	2.638	.011	.832	1.201	1.089	.471
Listing Status	+	.169	1.535	.132	.867	1.154	1.211	.275

One-Sample Kolmogorov-Smirnov test: 0.653, p-value = 0.788  
 Adjusted R<sup>2</sup> = .526; F = 12.503; p-value = .000; N = 50



between listed and non-listed SOEs. The practical implications of these findings suggests that government may need to implement different policies for public and privately SOEs.

There are some limitations to this study. The small number of samples may make it difficult to generalize the findings. This study explored the influence of corporate ownership based only on listing status. Other, more comprehensive ownership indicators should be considered such as equity, public/private, family/non-family, and small and microenterprise ownership.

#### Funding

This work was supported by the Universitas Diponegoro [329-109/UN7.P4.3/PP/2019].

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#### Citation information

Cite this article as: Investigating the determinants of partnership and community development programs: Indonesia perspectives, Indira Januarti, Faisal Faisal & Resi Juliati Situmorang, *Cogent Business & Management* (2019), 6: 1682764.

#### Note

1. The term “partnership and community development” is used throughout the paper. This term is defined in accordance with the Ministry for State-Owned Enterprises’ Ministerial Regulation Number PER-02/MBU/7/2017. This term is used interchangeably with corporate social responsibility and corporate community involvement.

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