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The Implications of Organizational Slack-Resources Heterogeneity toward CSR Expenditures

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Abstract:
Research aims: This study aims to prove the alleged effect of organizational resource slack on corporate social responsibilities (CSR) expenditures. The types of organizational resource slack examined in this study were financial slack, human resource slack, and innovational slack. This research was conducted in the mining sector and basic and chemical industries listed on the Indonesia Stock Exchange during 2015-2019.
Design/Methodology/Approach: Non-probability sampling technique with purposive sampling method was as the sampling method. It consisted of 13 companies with a total of 54 samples of observations. Hypothesis testing used multiple linear regression.
Research findings: The results showed that financial slack had a negative effect on CSR expenditures. It supports agency theory used as a theoretical basis regarding management's tendency to manage slack over organizational resources. However, this study could not show the effect of human resource slack and innovational slack on CSR expenditures.
Theoretical contribution/Originality: This study's results constitute empirical evidence related to agency theory explaining the effect of financial slack on CSR expenditures.
Practitioner/Policy implication: This study's results can illustrate the management's tendency to allocate funds for CSR by considering the slack of various types of organizational resources. Improvements related to the implementation of Law No. 40 of 2007 about the responsibility of limited liability companies to carry out social and environmental responsibility also need to be concerned by the regulator.
Research Limitation/Implication: The limitations in this study that can be considered for future research are related to very limited research data for certain variables. The data's availability related to CSR costs and research and development costs included in the annual report is very limited, so the number of samples processed was limited.
Keywords: Corporate Social Responsibilities (CSR); Expenditures; Financial Slack; Human Resources Slack; Innovational Slack

Introduction

Today's business practices are no longer only seen as merely economic activities but also their social and environmental impacts and efforts to overcome them. In this case, corporate social responsibility (CSR) has

become an integral part of doing business worldwide. Hasan and Habib (2017) discovered a dramatic increase in CSR investment and CSR-related initiatives in recent years.

Sustainable and responsible investment (SRI) assets have grown by 76 percent since early 2012 to a total of $ 6.57 trillion, representing based on the SRI report of 2014. Meanwhile, in Indonesia itself, PIRAC research in 2001 revealed that CSR funds in Indonesia reached more than 115 billion rupiahs or around 11,5 million US dollars from 180 companies spent on 279 social activities recorded by mass media. The average number of companies that donated funds for CSR activities was around 640 million rupiahs or around 413 million per activity (Suharto, 2006). It could result from pressure from stakeholders who have begun to be concerned about social and environmental issues in business practices. One example was the dispute between the AICE labor union and AICE management, one of the ice cream producers, where the union questioned various working conditions deemed not ideal under the applicable law provisions. For example, a decrease in wages, working conditions for pregnant women at night, environmental contamination, transfer of workers to union members, and layoffs. Therefore, the pressure to equalize the economic, social, and environmental aspects is getting bigger.

The company's commitment to be more concerned with social and environmental aspects besides economic aspects can be demonstrated in various ways, namely funding allocations for corporate social responsibilities and disclosure of sustainability reports. Although there is a law regulating it, Law No. 40 of 2007 regarding Limited Liability Companies, there is still no standard related to its implementation because it still uses the principles of compliance and fairness, which is very still subjective. It is interesting to see how the management tends to define "compliance and fairness" in the field implementation. Management will consider various factors, especially the resources owned by the organization; adequate resources will motivate managers to allocate funds in the CSR program.

Several previous studies that examined the effect of slack resources on CSR and corporate sustainability practices saw it from the slack resources theory's perspective, explaining that when a company has slack, namely the difference between existing and actual resources needed to complete a task efficiently, it would be used to carry out sustainability activities, such as social and environmental responsibility (Cheng, 2014; Orlitzky, Schmidt, & Rynes, 2003). The slack resources theory concerning CSR practices can be proven by previous research by Adams and Hardwick (1998) and Brammer and Millington (2004), which found that a more significant financial slack would encourage companies to invest their funds in CSR. However, it is inversely proportional when viewed from the agency theory's perspective, type 1 agency problem, where management in managing the company tends to be more concerned with its interests rather than an increasing long-term firm value. Those excess resources will be used by managers to pursue value-added and profitable projects without paying attention to the stakeholders' concerns (Boso et al., 2017; Shahzad, Rutherford, & Sharfman, 2016). The

different points of view of the two theories are used to justify the mixed and inconsistent results of previous research.

Research conducted by Julian and Ofori-Dankwa (2013) uncovered that sustainability issues had not been a priority for major market players, such as suppliers, customers, competitors, distributors, and other non-market players (policymakers and the public). It is also supported by the lack of knowledge regarding the urgency of sustainability matters (Scott & Vigar-Ellis, 2014) in developing countries full of uncertainty (Bruton, Fitaotchev, & Wright, 2013; Shevchenko, Lévesque, & Pagell, 2016). It can be a disincentive for these managers to allocate their financial capital to business practices that they consider not value-added.

Moreover, organizational resources take various forms, but previous studies have only focused on identifying slack resources as homogeneous, namely from the financial slack's viewpoint. Therefore, the researchers considered that viewing slack resources as heterogeneous in nature will provide more comprehensive and representative results of the actual reality. Thus, it does not generalize resources as homogeneous. Besides, previous studies have obtained inconsistent research results related to the effect of organizational resource slack on CSR.

Most of the research is implemented in developed countries, where it is seen from the practice and regulations' very qualified maturity level. Hence, the researchers wanted to adopt similar research in Indonesia as a developing country where regulations related to CSR implementation are still immature and still face various obstacles in the field. One of them is the absence of CSR implementation's master plan, which as a result, the government's role as a regulator is often counterproductive (Bahlian, 2007). The problem that comes from the community is that they are less participatory and tend not to be invited to change, and only want to get a disbursement of funds. This research is expected to provide the latest references on the development of CSR practices in Indonesia, as seen from its implementation commitment by companies that regulators can use to improve future regulations.

Considering the existing research gaps, such as limited research that sees resource slack as heterogeneous (not only seen from financial resources), especially in Indonesia as a developing country, to the inconsistency of previous research results, this study aimed to obtain evidence regarding the influence of the slack resources' heterogeneity (financial, human resources, and innovational) on the funds disbursed by companies in carrying out CSR practices in basic industry and chemical and mining sector companies listed in Indonesia Stock Exchange in 2015-2019.

Furthermore, this study is expected to contribute to adding the reference of agency theory used to explain the effect of slack resources on CSR expenditures. It can also be included as references for public companies' management and shareholders, especially regarding wisdom in allocating funds for CSR activities by considering the characteristics of organizational slack resources. Meanwhile, from the policy aspect, it is expected that the Financial Services Authority (OJK) will be able to accomplish the regulation

implementation of Law No. 40 of 2007 concerning Limited Liability Companies that carry out their business activities to do social and environmental responsibility (TJSL).

Literature Review and Hypotheses Development

The conceptual framework in this research will provide an understanding of the relationship between sustainability expenditures and various slack resources, such as financial resources, human resources, and availability of innovation. This research focuses on sustainability expenditures that reflect corporate sustainability performance where Indonesia has required companies to carry out social responsibility activities according to Law No. 40 of 2007 concerning Limited Liability Companies. However, this regulation does not explain how the mechanisms and procedures are standardized, either from the practice or disclosure in the company's sustainability report. The research model that the researchers developed is as follows:
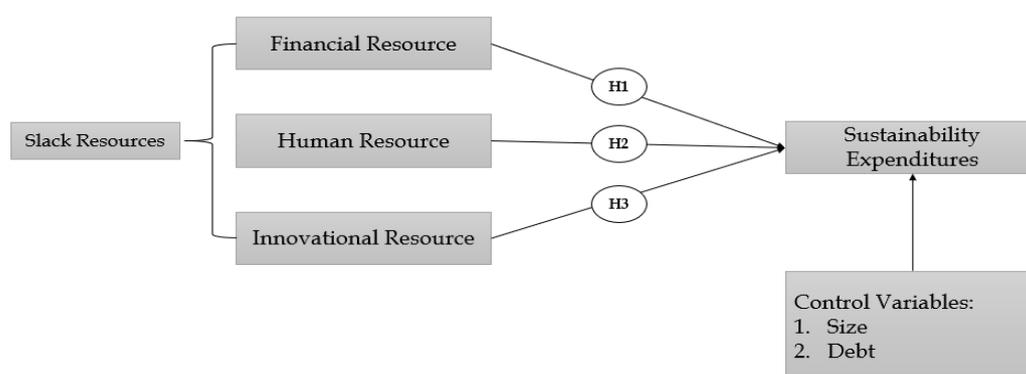

Figure 1 Conceptual Framework

Agency relationships arise when there are conflicts of interest between agents and principals (Jensen & Meckling, 1976). Therefore, in this theory, the company is seen as a set of contracts between company managers and shareholders. Principals or company owners hand over the company management to these agents.

Therefore, managers will also have more internal information and are more aware of the company's prospects than shareholders (principals). This phenomenon is known as information asymmetry, where managers have more information related to the company than the company owners, in this case, the shareholders. It is feared that managers can misuse this information asymmetry to maximize its utility and set aside the shareholders' interests.

Agency theory also assumes that all individuals act in their interests. Shareholders as principals are assumed to be only interested in increasing the financial performance of their investment in the company. Meanwhile, agents are assumed to receive satisfaction in the form of financial compensation (Aggarwal & Samwick, 2006).

Agency theory suspects that maintaining resource slack will only benefit managers who act as agents (Jensen & Mackling, 1976), and they can use that resource slack to over-invest in projects that can increase their compensation (Tan & Peng, 2003).

According to Bourgeois (1981), slack resources are "the excess of actual and potential resources owned by the company, which can be used to adapt in condition changes from internal and external pressures of the company. Slack resources are dynamic quantity that shows the difference between the company's current resources and the company's current resource demands (Mishina, Pollock, & Porac, 2004).

Margolis and Walsh (2003) identified 22 studies related to slack in an accounting perspective through market-based performance indicators, including research by Amato and Amato (2006), Melo (2012), and Nelling and Webb (2009). Some researchers argue that slack and corporate social performance (CSP) are multidimensional concepts; if slack resources are considered homogeneously to explain CSP, they will lead to a conclusion that does not represent the true reality, especially regarding the true nature of the relationship between these two constructs. Research by Cheng and Kesner (1997) and Tan and Peng (2003) discussed the development of a theory about slack, while Bourgeois (1981) and Nohria and Gulati (1995) examined the development of slack measurement.

From an emerging market economy perspective, evidence suggests that a larger financial slack causes companies to be more likely to protect their business interests than to spend more for social and environmental purposes (Julian & Ofori-Dankwa, 2013). Economic aspects are still a top priority over environmental and social aspects, and this is due to a lack of knowledge about sustainability's benefits in developing economic markets (Khavul & Bruton, 2013; Loayza, Schmidt-Hebbel, & Serven, 2000; Viswanathan et al., 2012). Besides, from a policy perspective, developing countries tend to make policies to support the economy as an incentive for companies so that social and environmental issues have not become the primary focus (Tang, Kacmar, & Busenitz, 2012). The financial slack will be allocated for legal assistance for corporate litigation due to social and/or environmental deviation. Furthermore, having more financial resources implies that a company can shape public opinion and blunt the negative consequences of social and environmental deviations. In the special case, SMEs are located in developing countries with a high uncertainty level, and policies regarding CSR and practices have not been binding on business entities to focus more on core operational activities. Based on this explanation, the first hypothesis in this research is:

H_1: Financial slack has a negative effect on CSR expenditures.

Pm the other hand, human resource is one of the unique resources because of the high level of specifications; it seems rigid (Mishina et al., 2004). Thus, if there is a slack of human resources, it will be difficult to reallocate it to CSR, and in times of emergency or crisis, CSR problems are becoming more prominent, the HR slack is not helpful enough to handle the crisis on time (Zhang & Li, 2010). It makes HR slack a form of inefficiency,

leading to financial burdens for the company to reduce management incentives further to allocate funds to CSR. Managers will allocate company funds to provide rewards and performance remuneration to improve their employees' performance and commitment to achieve economic goals. It will reduce the funds that should be allocated for carrying out CSR. Based on this explanation, the second hypothesis in this research is:

H_2: Human resource slack has a negative effect on CSR expenditures.

Moreover, agency theory-based research illustrates that high innovation resources will be channeled into value-added projects. More experiments are carried out when the innovation level is high and strict discipline is needed in carrying out these innovations (Wiklund & Shepherd, 2011). This opportunity is misused to pursue their favorite project or continue funding value-added projects (Nohria & Gulati, 1996). Managers will tend to behave inefficiently to use slack over these innovation resources for their experiments. Based on this explanation, the third hypothesis in this research is:

H_3: Innovational slack has a negative effect on CSR expenditures.

Research Method

The population in this research was the mining and basic industry and chemical sectors listed on the IDX during the 2015-2019 period by viewing the company's annual reports through the website www.idx.co.id and the company's website. 2015 to 2019 was chosen as the year of observation because several phenomena were starting in 2015 that had quite a large impact on the population and were thought to affect companies in allocating funds for social and environmental responsibility activities. Based on PricewaterhouseCoopers' (PwC) annual report in the mining sector in 2015, there was no mining company in Indonesia with a market capitalization exceeding the US $ 4 billion. The total market capitalization of mining companies listed on the Indonesia Stock Exchange fell from Rp 255 trillion as of 31 December 2014 to Rp 161 trillion as of 31 December 2015. The 37% decline was mainly driven by falling commodity prices (PwC Indonesia, 2016). According to published data by GRI in 2015, Indonesia was a country with several companies most publish sustainability reporting compared to other countries in Asia Southeast. However, on the other hand, the achievement of this number was very low, even the figure has not reached 15% when viewed from the total number of companies listed on the Indonesia Stock Exchange (Asyidiki, 2017).

The sampling method used was the non-probability technique and explicitly employed the purposive sampling method, meaning that the data obtained could be more representative and support the research. Secondary data used in this research was the company's annual report during 2015-2019. This study utilized unbalanced panel data, processed using EViews software. The total sample of observations obtained was 54 samples from a total of 13 companies (see Table 1).

Table 1 Sample Selection

No	Criteria	N
1.	Companies listed on IDX during 2015-2019	152
	Total population observed	760
2.	Annual reports that are not available for access	(325)
3.	Annual reports that do not provide complete data	(199)
4.	Financial reports that are not denominated in the rupiah currency	(182)
	Number of companies used as sample	**13**
	Number of observations during 2015-2019	**54**

Source: Author's data analysis

The analysis method used was multiple linear regression, an equation model explaining one dependent variable/response (Y) relationship with two or more independent variables/predictors (X1, X2, ... Xn). The purpose of the multiple linear regression test is to predict the dependent variable/response's (Y) value if the independent variable/predictor's (X1, X2, ..., Xn) values are known. Besides, it is also to determine how the direction of the dependent variable relates to the independent variables. The regression model for this research is:

$$CSR = \alpha - \beta_1 FIN - \beta_2 HR - \beta_3 INNOV + \beta_4 SIZE + \beta_5 DEBT + \varepsilon \qquad (1)$$

Description:
CSR : CSR Expenditures
α : Constant
β : Regression coefficient
FIN : Financial Resource Slack
HR : Human Resource Slack
INNOV : Innovational Resource Slack
SIZE : Company Size
DEB : Debt Ratio
E : Error term, namely the level of estimator error in the study

This measurement, which focuses on expenditure, has the advantage of providing an objective monetary calculation of the company's CSR (Wood, 1991). The researchers employed the primary measurement, namely the natural logarithm of CSR expenditure, because it is considered an absolute and relevant monetary measurement that can describe the number of funds allocated for CSR, apart from this measurement tool most widely used in previous studies (Amato & Amato, 2006; Brammer & Millington, 2004; Navarro, 1988; Wang et al., 2008).

Referring to the research of Shahzad et al. (2016), the natural logarithm of the number of employees for each company each year and subtracted from the natural logarithm of the average number of employees working in the company's industry in that year was used to measure human resource slack.

The researchers were guided by research by Shahzad et al. (2016), which used the natural logarithm of the total number of employees for each company each year and

was subtracted from the natural logarithm of the average number of employees employed in the company's industry in that year.

The proxy of innovational slack used in this research was the relative amount of R&D costs incurred by a company compared to other companies in the same industry (Scherer, 1980). The researchers divided R&D costs by company sales.

This study also utilized company size variables and debt ratios. According to Sembiring (2005), greater pressure is focused on large companies due to operating activities and large influence and the social programs made by the company that will be given more attention by shareholders so that the funds allocated for CSR will be greater than in small companies. In this study, firm size was measured by the natural logarithm of total assets. Meanwhile, Naser et al. (2006) suspected that the debt ratio was positively related to disclosure because high-risk companies would carry out more detailed social responsibility and disclosure to convince investors and creditors. In this study, the debt ratio was calculated by dividing total debt by total assets.

Result and Discussion

In this study, descriptive analysis aimed to provide an overview of the research variables' characteristics, consisting of CSR expenditures, financial slack, human resource slack, innovative slack, debt ratio, and company size. The data characteristics used in this analysis included the mean values, minimum values, maximum values, and standard deviations of the variables studied. The descriptive analysis results of the research variables are shown in Table 2.

Table 2 Descriptive Statistics

Variable	Minimum	Maximum	*Mean*	Standard Deviation
CSR	0,00	19.59	14.5492	4.47665
FIN	-7142103000.00	11236880000.00	1886075032.4644	3467217556.79892
HR	-6.87	1.15	-0.6666	1.47622
INNOV	0.00	0.17	0.0041	0.02404
POL	0.00	3.81	1.7877	1.32268
SIZE	19.72	25.10	22.3909	1.61721
DEBT	0.10	0.96	0.4072	0.18760

Companies' CSR expenditures had a minimum value of 0.00, while the maximum value was 19.59. The mean value of CSR expenditures was 14,5492 with a standard deviation of 4,47665. The lower standard deviation value than the mean value indicated a lower variance of various CSR expenditures during the observation period. Financial slack showed a minimum value of -7142103000.00, while the maximum value was 11236880000.00. The financial slack variable had a mean value of 1886075032.4644 with a standard deviation of 3467217556.79892. The human resource slack in the study revealed a minimum value of -6.87, while the maximum value was 1.15. The human resource slack variable had a mean value of -0.6666 with a standard deviation of 1.47622. Innovational slack had a minimum value of 0.00, while a maximum value of

0.17 even though the mean value of the innovative slack variable was 0.0041 with a standard deviation value of 0.02404.

To determine the most appropriate model (Common Effect Model/Fixed Effect Model/Random Effect Model) based on the data's characteristics to answer the research objectives, the F-test (Chow test), Hausman test, and Lagrange Multiplier (LM) test were carried out. The three types of tests' results on the regression equation can be summarized in Table 3.

Table 3 Selection of Regression Models

Type of Testing	Probability Value
Chow Test	0.0000
Hausman Test	0.4036
Lagrange Multiplier Test	757.6301

The Chow test was used to determine the best model between common or pooled and fixed effect, employed in estimating panel data. Decision-making was based on the Chow test, namely, if the probability value is less than alpha = 0.00 (probability <0.05), then the panel data regression method appropriate to choose is the Fixed Effect Model (FEM). On the other hand, if the probability value is more than alpha = 0.05 (prob> 0.05), then the panel data regression method appropriate to choose is the Common Effect Model (CEM). Table 3 displays the probability value of the cross-section F regression model of 0.000 <0.05, so the panel data regression method appropriate to choose was the Fixed Effect Model (FEM). Furthermore, to choose between the Fixed Effect Model (FEM) and the Random Effect Model (REM) method, a Hausman test was performed.

Decision-making based on the Hausman test is that if the probability value is more than alpha = 0.00 (probability> 0.05), then the panel data regression method appropriate to choose is the Random Effect Model (REM). Meanwhile, if the probability value is less than alpha = 0.05 (prob <0.05), the panel data regression method appropriate to choose is the Fixed Effect Model (FEM). In the regression model equation, the probability value was 0.4036, higher than 0.05, so the panel data method chosen was the Random Effect Model (REM).

In the regression model equation, the Lagrange Multiplier test was then carried out to choose the best method between the Dominant Effect Model (REM) or the Common Effect Model (CEM). The test criterion states that if the calculated LM result is smaller than the chi-square table (alpha = 5%), then the line regression estimation model that corresponds to the research data is the Common Effect Model (CEM), while the square value of the table is greater than the LM value. The significance (alpha = 5%) means that the model regression estimation used is the Dominant Effect Model (REM). In this study, the regression equation had a calculated LM value of 757.63, higher than the chi-square value of 72.15322. Thus, in this equation, the panel regression estimate chosen was the Random Effect Model (REM).

One goal to do research is to do hypothesis testing. Even though the objective of testing the hypothesis is to determine the theoretical answer, the hypothesis is supported by the facts collected and analyzed in the data testing process. Hypothesis testing in this study used the analysis of the coefficient of determination and the T-test (t-test). The results of testing the hypothesis are as follows:

Table 4 Results of the Regression and Coefficient of Determination

Variables	Regression Results
FIN	-4.160**
(t value)	(-22.720)
HR	-0.064
(t value)	(-0.394)
INNOV	0.484
(t value)	(0.942)
SIZE	0.213
(t value)	(1.198)
DEBT	0.153
(t value)	(0.123)
R^2	0.939
Adjusted R^2	0.933
(*) $p<5\%$, (**) $p<1\%$	
Variable Definitions:	
FIN: Financial Slack; HR: Human Resource Slack; INNOV: Innovational Slack; SIZE: Company Size; DEBT: Debt Ratio	

The first hypothesis states that financial slack has a negative effect on CSR expenditures. Based on Table 4, financial slack had a negative effect on CSR expenditures. Based on the regression test results, the first hypothesis was concluded that H1 was accepted. This research supports previous studies conducted by Shahzad et al. (2016), which examined the effect of financial slack on corporate sustainability performance, and Boso et al. (2017), which investigated the effect of financial slack on CSR expenditures. At the same time, it supports the agency theory, explaining information asymmetry related to company slack resources that managers will tend to use to pursue value-added projects and fulfill their opportunistic desires.

It is also encouraged because this research background was in Indonesia as a developing country, where economic aspects are still a top priority over environmental and social aspects; this is due to a lack of knowledge about the sustainability's benefits in developing economic markets (Khavul & Bruton, 2013; Loayza et al., 2000; Viswanathan et al., 2012). Policies in developing countries provide more incentives to increase productivity and other economic aspects so that social and environmental problems have not become the primary focus (Tang et al., 2012).

The second hypothesis proposes that human resource slack has a negative effect on CSR expenditures. However, on the other hand, the study results could not prove this hypothesis. Human resource slack did not affect CSR expenditures. Human resource slack did not affect CSR expenditures, meaning that the number of employees employed in a company did not affect the company's tendency to allocate funds to conduct CSR.

Human resource is one of the unique resources because of the high level of specifications; it seems rigid (Mishina et al., 2004). Thus, if there is a slack of human resources, it will be difficult to reallocate it to CSR, and in times of emergency or crisis, CSR problems are becoming more prominent, so the HR slack is not helpful enough to handle the crisis on time (Zhang & Li, 2010). Besides, the company's CSR programs do not require a clean allocation of human resources. Moreover, the company's CSR programs are philanthropic by the disbursement of funds without considering the number of employees they have. Human resources did not affect the company's tendency to allocate funds in CSR, but they would have more consideration for the number of human resources they had for other value-added activities.

Moreover, innovational slack did not affect CSR expenditures, presumably because the company in implementing its CSR program did not require special innovation resources, so the existence of this innovational slack did not affect the company's tendency to allocate its funds. As known, innovative resources are all the resources a company needs to innovate. Most CSR programs owned by the company are in the form of philanthropic activities, expected to contribute significantly to poverty reduction and improve people's living standards. The CSR program itself is a company-side program aimed at social and environmental aspects and is not directly integrated into primary business practices.

Conclusion

Sustainable business practices are of concern to various parties and dominate various business literature, especially when these parties have begun to realize the importance of environmental and social aspects and the idea of equalizing these two aspects to economic aspects. They realize that to achieve business sustainability, it is not enough just to pursue profitability in monetary terms.

The company's commitment to implementing sustainable business practices is shown by the number of funds allocated for these CSR. Based on agency theory, it is suspected that the company's commitment to allocating funds for CSR is influenced by the slack of organizational resources owned by the company, namely financial resources, human resources, and innovation resources. This research tries to prove this, especially in Indonesia, with the characteristics of a developing country.

Empirical studies in the mining and basic industry and chemical sectors showed that financial slack negatively affected CSR expenditures. It indicated that when a company had higher financial slack, it would be allocated by management to pursue value-added projects to maximize profits. However, this study could not prove the negative effect of human resource slack and innovational slack on CSR expenditures because the researchers found that innovational slack did not affect CSR expenditures. It was presumably because companies generally had sustainability programs reflected in environmental and social responsibility programs that did not require particular forms of innovation or excess human resources in their programs' design and implementation.

Therefore, the existence of human resource slack and innovational slack did not affect CSR expenditures.

In addition to the variables above, the researcher also tested two control variables: company size and debt ratio, which did not affect CSR expenditures. It was presumably because companies have begun to realize the importance of social and environmental aspects to support their business sustainability. Besides, the rules also oblige all companies to carry out social and environmental responsibility for both small and large companies, so that company size and the debt ratio no longer affected the tendency of companies to allocate their funds for CSR activities.

This research can provide a practical description of how management responds to slack resources and trends in allocating CSR funds based on their resources. Each organizational resource slack is known to have specific characteristics that must also be considered in making decisions for the allocation of funds in implementing CSR programs in particular or for key business practices. Besides, this research is also expected to include the Financial Service Authority as a regulator to complete the regulations' implementation of Law No. 40 of 2007.

The limitations in this study that can be taken into consideration for future research are related to minimal research data for specific variables. The data's availability related to CSR costs and research and development costs included in the annual report is very limited, so the number of samples processed was limited. Future studies that will carry out similar research may consider this study's limitations by expanding the study population or increasing the number of years of research so that the number of samples will be more and more representative.

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