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Analysis of the Effect of Corporate Social Responsibility on MSME Business Performance with Innovation as a Mediating Variable

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Abstract: The purpose of this study is to determine the effect of Innovation on Business Performance and to find out that Innovation mediates the relationship between Corporate Social Responsibility (CSR) and Business performance. The type of research used is quantitative research with a causal form. Data analysis used SmartPLS 3.2.6 software using the Structural Equation Model (SEM) method. The results of this study used 3 variables, namely Corporate Social Responsibility, Innovation and Performance, and the results of the analysis of the 3 variables showed that all hypotheses were significant.

Keyword: Corporate Social Responsibility, Business Performance, Innovation.

INTRODUCTION

Companies in conducting business activities often deal directly with stakeholders. At this time many companies think that business activities are only for profit. But actually, there is a social responsibility that needs to be carried out by the company to these stakeholders. Corporate Social Responsibility according to the definition that is widely used today, namely according to the World Business Council for Sustainable Development (WBCSD, 1999). Based on this definition, CSR is a commitment from a business or company to behave ethically and contribute to sustainable economic development, while also improving the quality of life of employees and their families, local communities and society at large. CSR is not only carried out by large companies but also carried out by micro, small and medium companies. Research on the effect of CSR on micro, small and medium enterprises has been carried out by previous researchers by Isabel, Pedro, Palacios, (2015).

Intense business competition at this time requires companies to be ready to compete globally. Companies are required to make changes in the company so that they are not unable to compete with other companies. Innovation in business is needed as in product innovation, technology and management. Innovation is the tendency to develop new elements or new combinations of a product, technology or previous management and use them for new

knowledge (Moorma and Miner, 1998). The reasons for the need for innovation by companies at this time are often found not wanting to innovate in their companies. Companies tend to be in a comfort zone so they don't want to innovate yet. Aziz and Samad's research (2016) found that innovation has a positive effect on competitive advantage in small and medium enterprises.

At present, Small and Medium Enterprises (SMEs) have an important role in the Indonesian economy. As in increasing Gross Domestic Product (GDP) and providing employment for the community and reducing the number of unemployed in Indonesia. Data from the Minister of State for Cooperatives and Small and Medium Enterprises Suryadharma Ali, UKM contributed 1,778.7 trillion or 53.3% of Indonesia's GDP. In 2013, MSMEs absorbed more than 6 million Indonesian workers (Ministry of Cooperatives and SMEs) which were expected to spur the Indonesian economy in a better direction. SMEs are expected to contribute to new jobs and reduce unemployment. Data from the Central Statistics Agency (BPS) noted that the Open Unemployment Rate (TPT) in February 2017 decreased by 5.33 percent compared to the same period last year.

At this time, SMEs have experienced a lot of growth both in terms of type and number of businesses. Now the types of businesses that are mostly run by the community are clothing, food, handicrafts, and many more. The large number of businesses will increase the number of existing SMEs and will increase from year to year. According to BPS data, in 2013 the number of MSMEs in Indonesia was recorded at 57,895,721. this number increased by 2.41 percent from 56,543,592 in 2012. From this increase in growth, MSMEs in Indonesia are developing well from year to year. In the West Sumatra region, the number of medium and large companies is only 0.74% of the total number of existing companies, the rest is the number of MSMEs in West Sumatra as much as 99.26% (BPS, West Sumatra). From these figures, we can see that SMEs have great potential in helping the community's economy.

At this time there has been research that discusses the relationship between CSR and company performance. However, the company's performance here is more aimed at the company's performance in terms of finance only. There is still little research on the relationship between CSR and non-financial business performance for MSMEs. CSR contributions are very helpful in society. For example, Semen Padang, a company in West Sumatra, often carries out CSR programs through assistance to the city of Padang by building bus stops, making public trash cans and many other examples. CSR is actually not only carried out by large companies but can also be carried out by MSMEs, as in the research of Isabel, Pedro, Palacios, (2015) who also carried out MSME.

The city of Padang is the capital and the capital of the province of West Sumatra. Padang is a city with a good economy. Padang has several leading sectors, namely trade, services and several industries. The development of MSMEs in the city of Padang is currently developing quite well. In 2016 there were 702 cooperatives and 74 thousand more MSMEs in the city of Padang (Dinas Cooperatives and MSMEs of Padang city). The culinary sector in the city of Padang has started to develop well. According to data from the Head of the Padang Culture and Tourism Office, there are 512 Culinary Sector MSMEs in Padang City. This number is actually still small because this number is likely to increase from the next. Therefore, at this time the Padang city government is trying to record all MSMEs in the city of Padang and provide guidance for these MSMEs. The culinary industry in the city of Padang currently has great opportunities because of the large number of immigrants who come on vacation and continue their education in the city of Padang. When viewed from this phenomenon, the city of Padang has great potential in developing the culinary business.

Based on the phenomenon above, the researcher is interested in conducting research with the title "Analysis of the Influence of Corporate Social Responsibility (CSR) on MSME Business Performance with Innovation as a Mediating Variable." (Study of SMEs in the City of Padang Culinary Industry)"

LITERATURE REVIEWS

Corporate Social Responsibility (CSR)

Hery (2013) states that Corporate Social Responsibility is a company's commitment to providing a long-term contribution to a particular issue in society or the environment in order to create a better environment.

According to Davis (1973) states that CSR refers to the company's concern, response to issues from a small part of the economic, technical, and legal requirements of the company.

According to Darwin (2004) in Anggraini (2006) Corporate Social Responsibility (CSR) is a mechanism for an organization to voluntarily integrate environmental and social concerns into its operations and interactions with stakeholders, which exceeds organizational responsibilities in the legal field. CSR is usually used as an approach to integrating social and environmental aspects in company activities (Baumgartner, 2014).

According to Werther and Chandler (2006) that CSR is a concept that broadly says that a business is more than just seeking profit, but also has a responsibility to society.

The definition that is widely used today is according to *the World Business Council for Sustainable Development* (WBCSD, 1999). Based on this definition, CSR is a commitment from a business or company to behave ethically and contribute to sustainable economic development, while also improving the quality of life of employees and their families, local communities and society at large.

Business Performance

According to Rivai (2008) performance is work performance displayed by employees in every real behavior that is in accordance with their role in the company. According to Prawirosentono (2009) performance is the result of work that can be achieved by a person or group of people in an organization according to their respective authorities and responsibilities legally, not violating the law and in accordance with morals and ethics.

So, from some of the meanings according to the experts above, it can be concluded that performance is a result obtained by a person or group of people in an organization for their role in that organization.

Innovation

According to Rogers (2001) innovation is a new discovery that is different from previous discoveries.

According to West and Fahr (1992) stated that innovation is the intentional introduction and application of new products, processes, procedures, or ideas designed to benefit individuals, groups, organizations or society. An important way for companies to contribute to sustainable development is that they encourage sustainable innovation practices (Roome, 1994; Paramanathan et al., 2004; Schaltegger 2011). It can be said that innovation is the key to success for an organization (Tohidi and Jabbari, 2011). Therefore innovation can be interpreted as creating products and services that are a little better today (Morris, 2013).

METHODS

The research method used is quantitative research with a causal form, namely finding out the causal relationship between the independent dependent variable and the dependent variable. According to Sekaran (2009) research hypothesis testing explains the nature of certain relationships, or determines differences between groups of two or more independent factors in certain situations.

Researchers in analyzing data using SmartPLS 3.2.6 software using the *Structural Equation Model* (SEM) method. According to Ghozali (2012) PLS has the advantage that it is a *powerful analytical method* because it is not based on many assumptions. This software was

chosen because the SEM data processing method is more accurate in processing the samples studied.

PLS can work on models of constructive and indicator relationships that are reflective and formative, whereas SEM can only work on models of relationships that are reflective (Ghozali, 2006).

The software from this study uses SmartPLS with the SEM (structural equation modeling) method. There are two approaches to using the SEM method:
1. Covariance based model (CBSEM)
2. Variance based SEM

RESULTS AND DISCUSSION
Research result
Model Test (R-square)

In the structural model with SmartPLS it starts by looking at the R-square value for each endogenous latent variable as a prediction from the structural model. Changes in the R-square value can be used to explain the effect of exogenous latent variables on endogenous latent variables whether they have a substance effect. If the R-square results are 0.67, 0.33, 0.17 for endogenous latent variables in the structural model, it is clear that the model is good, moderate, and weak. (Ghozali, 2012).

Table 1. R-square

	R Square
INNOVATION	0.141
PERFORMANCE	0.350

Source: SmartPLS output (2017)

The R Square value, it is explained that the innovation variable can be explained by the CSR variable of 14.1%, the remaining 85.9% is explained by *errors* including other variables outside the model. The performance variables are explained by the innovation and CSR variables of 35%, the remaining 65% is explained by *errors* including other variables outside the model. So the higher the R-square value, the greater the ability of the independent variable to explain the dependent variable so that the better the structural equation and conversely the lower the R-square value, the smaller the ability of the independent variable to explain the dependent variable.

Hypothesis Test (t- *statistic*)

PLS does not assume normality and data distribution, PLS uses a nonparametric test to determine the significant level of the path coefficient, where the t (t-statistic) value generated by running the bootstrapping algorithm on SmartPLS is used to determine whether or not the proposed hypothesis is accepted. The hypothesis is supported if the t-statistic value exceeds 1.96. This study examines the relationship between the influence of Corporate Social Responsibility, Innovation, on the Performance of MSME Businesses in Padang City in the Culinary Industry. The following are the results of hypothesis testing for this study.

Table 1. Hypothesis Using Innovation

	Original Sample (O)	Sample Means (M)	Standard Deviations (STDEV)	T Statistics (|O/STDEV|)	P Values
CSR -> INNOVATION	0.376	0.384	0.099	3,788	0.000
CSR -> PERFORMANCE	0.324	0.334	0.122	2,654	0.010
INNOVATION -> PERFORMANCE	0.388	0.387	0.104	3,721	0.000

Source: Data processing from SmartPLS (2017)

Table 2. Hypothesis Without Innovation

	Original Sample (O)	sample Means (M)	standard Deviations (STDEV)	T Statistics (|O/STDEV|)	P Values
CSR -> PERFORMANCE	0.474	0.517	0.091	5,197	0.000

Source: Data processing from SmartPLS (2017)

In the table above, there is a direct relationship without including innovation as a mediation between Corporate Social Responsibility and Performance variables, namely 5.197 (Direct Effect). Whereas using mediation, the number is 2.654 (Indirect Effect). From this it is known that innovation has a mediating effect between Corporate Social Responsibility and Performance.

In testing mediation, researchers used the Variance Accounted For (VAF) method proposed by Preacher and Hayer (2008).

$$VAF = \frac{\text{Indirect Effect}}{\text{Indirect Effect} + \text{Direct Effect}}$$

$$VAF = \frac{(3,78 \text{ x } 3,72)}{(3,78 \text{ x } 3,72) + 5,19}$$

$$VAF = 0,73 = 73 \%$$

There are two types of mediation in influencing variables:
1. Full mediation, namely if the VAF value is more than 80%
2. Partial Mediation, namely if the VAF value is between 20% and 80%

    the t statistic value is obtained which is used to determine whether or not a hypothesis is accepted. Based on these data then:

Hypothesis 1 : Corporate Social Responsibility has a positive and significant effect on MSME Innovation in Padang City.

    In table 1 above it can be concluded that the first hypothesis has a positive and significant effect. This can be seen in the results of the t -*statistic* which is greater than 1.96, namely 3.788. These results prove that the first hypothesis can be accepted because Corporate Social Responsibility has a positive and significant effect on MSME Innovation in Padang City.

Hypothesis 2 : Corporate Social Responsibility has a positive and significant effect on the Padang City MSME Business Performance.

    In table 1 above it can be concluded that the second hypothesis has a positive and significant effect. This can be seen in the results of the t-statistic which is greater than 1.96, namely 2.654. These results prove that the second hypothesis can be accepted because Corporate Social Responsibility has a positive and significant effect on the Performance of MSME Business in Padang City.

Hypothesis 3 : Innovation has a positive and significant effect on the Padang City MSME Business Performance.

    In table 1 above it can be concluded that the third hypothesis has a positive and significant effect. This can be seen in the results of the t-statistic which is greater than 1.96, namely 3.721. These results prove that the third hypothesis can be accepted because innovation has a positive and significant effect on the Padang City MSME Business Performance.

Hypothesis 4: Innovation mediates the relationship between Corporate Social Responsibility and MSME Business Performance in Padang City

    In table 1 above it can be concluded that the fourth hypothesis has a mediating effect between Corporate Social Responsibility and Performance. This can be seen from the

results of VAF, which is 73% which is included in Partial Mediation. These results prove that the fourth hypothesis is accepted because innovation mediates a positive and significant impact on the business performance of UMKM in Padang City. These results prove that the fourth hypothesis is accepted because innovation mediates a positive and significant impact on the business performance of UMKM in Padang City. The results of this study are in accordance with the research of Isabel, Pedro, palacios, (2015)

Discussion
Corporate Social Responsibility with Innovation

In the results of this study, it was found that there was an influence of Corporate Social Responsibility on Innovation. In the variable Corporate Social Responsibility has an influence on academic achievement because it has a t-statistic result of 3.788 which is greater than 1.96. These results indicate a positive relationship between Corporate Social Responsibility and Innovation. If Corporate Social Responsibility increases, business innovation will also increase. So MSMEs are expected to get good Corporate Social Responsibility. One of the good impacts is the increase in innovation from these SMEs. Forms of Corporate Social Responsibility that can be managed by MSMEs in increasing innovation are by conducting programs for the community, maintaining good relations with the community, supporting employees who wish to attend training, and fulfilling commitments regarding price and quality.

The results of the study show a strong and positive correlation between several variables related to CSR and the first regarding the effectiveness of competition in terms of two aspects, namely: innovation and intangible performance. (Mendibil , Hernandez, Espinach, Garriga, Macgregor, 2007 in Isabel, Pedro, Mercedes 2015).

Corporate Social Responsibility with Business Performance

In the results of this study, it was found that there was an influence of intellectual intelligence on academic achievement. In the variable Corporate Social Responsibility for Business Performance because it has a t-statistic result of 2.654 which is greater than 1.96. These results indicate that there is a positive and significant relationship between Corporate Social Responsibility and Business Performance. So it can be concluded that the higher the Corporate Social Responsibility, the higher the MSME Business Performance. In several studies, CSR has a major influence and contribution in the performance of a company. CSR has been considered a company's innovation efforts as a variable that contributes to explaining the relationship between CSR activities and financial performance more accurately (Surroca, Tribo, Jorep, Waddock, 2010; Wagner, 2010 in Isabel, Pedro, Mercedes, 2015). According to West and Fahr (1992) stated that innovation is the intentional introduction and application of new products, processes, procedures, or ideas designed to benefit individuals, groups, organizations or society.

Innovation with Performance

In the research results that the third hypothesis has a positive and significant influence. This can be seen in the results of the t -*statistic* which is greater than 1.96, namely 3.721. These results prove that the third hypothesis can be accepted because innovation has a positive and significant effect on the Padang City MSME Business Performance. Good innovations that are carried out will improve the business performance of MSMEs. Innovation will be the difference between a company and other companies. Innovations made by each company have their own characteristics.

In connection with previous research. CSR has been considered a company's innovation efforts as a variable that contributes to explaining the relationship between CSR activities and

financial performance more accurately (Surroca, Tribo, Jorep, Waddock, 2010; Wagner, 2010 in Isabel, Pedro, Mercedes, 2015).

Performance becomes a benchmark in assessing a performance. According to Mangkunegara (2008) suggests there are six indicators in assessing performance, namely:
1. Quantity that exceeds the average
2. Better quality than other employees.
3. Efficiency and accuracy in doing work.
4. Employee standards that exceed company standards.
5. Work-related knowledge.
6. Timely completion of work.

Conceptual Framework

Based on the development of hypotheses from the research variables The Influence of CSR, Innovation on SME business performance, the following thinking model can be created:
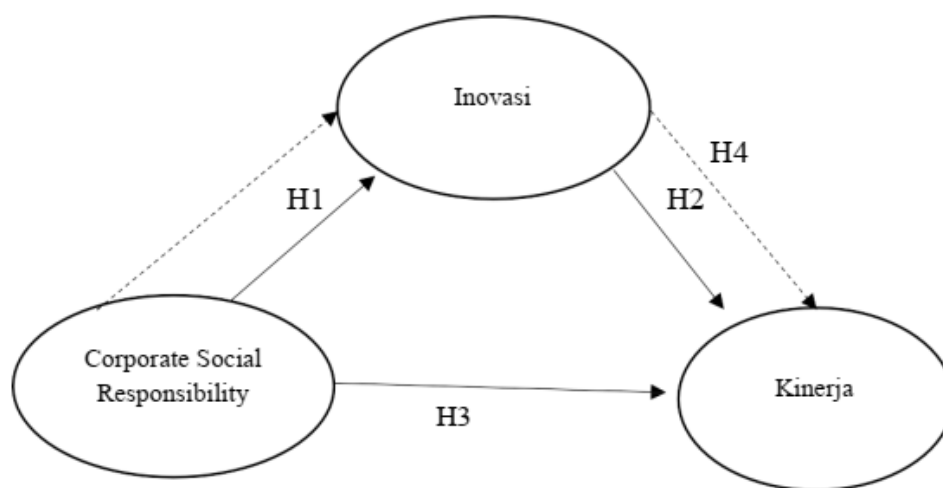

Figure 1. Conceptual Framework

Based on the picture above, it can be seen that the independent variable (variable X) is Corporate Social Responsibility and then the dependent variable (variable Y) is business performance and the mediating variable, namely innovation.

CONCLUSION

The results of SEM (structural equational modeling) testing with SmartPLS can be concluded:
1. Based on the hypothesis test, *Corporate Social Responsibility* has a significant and positive relationship to performance. This shows that the higher *the Corporate Social Responsibility* carried out by SMEs, the greater the business performance of these SMEs.
2. Based on the hypothesis test, *Corporate Social Responsibility* has a significant and positive relationship to Innovation. This shows that the higher *the Corporate Social Responsibility* , the greater the desire of MSMEs to innovate. Good *Corporate Social Responsibility to the parties involved will make them want to innovate.*
3. Based on hypothesis testing, innovation has a significant effect on performance. This shows that innovation influences the business performance of SMEs. When MSMEs innovate within the company, it will create innovations that will make the company superior in the future

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