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## Article

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*Suggested Citation:* Mai, Muhamad Umar et al. (2024) : Indonesian mining companies' social responsibility performance: the role of ownership structure and sharia compliance, Cogent Business & Management, ISSN 2331-1975, Taylor & Francis, Abingdon, Vol. 11, Iss. 1, pp. 1-18, <https://doi.org/10.1080/23311975.2024.2396738>

This Version is available at:

<https://hdl.handle.net/10419/326535>

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**To cite this article:** Muhamad Umar Mai, Mochamad Edman Syarief, Iwan Setiawan, Dian Imanina Burhany, Nafisah Ruhana, Hanudin Amin & Mohd Raziff Jamaluddin (2024) Indonesian mining companies' social responsibility performance: the role of ownership structure and sharia compliance, Cogent Business & Management, 11:1, 2396738, DOI: [10.1080/23311975.2024.2396738](https://doi.org/10.1080/23311975.2024.2396738)

**To link to this article:** <https://doi.org/10.1080/23311975.2024.2396738>



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# Indonesian mining companies' social responsibility performance: the role of ownership structure and sharia compliance

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## ABSTRACT

Implementing and communicating Corporate Social Responsibility (CSR) is the primary foundation for businesses to accomplish the Sustainable Development Goals. In this perspective, mining operations are seen as one of the most harmful corporate activities when compared to other businesses that utilize natural resources; therefore, these companies must strongly implement and demonstrate higher CSR. The Feasible Generalized Least Squares (FGLS) model was employed in this study to investigate the role of ownership structure and Sharia compliance in improving the CSR performance of Indonesian mining companies that were operated between 2012 and 2021. The findings reveal that institutional ownership, foreign ownership, and Sharia compliance are essential factors in increasing mining companies' CSR performance, but state ownership and ownership concentration are not. This study addresses a vacuum in the current CSR literature for mining businesses. Furthermore, it gives extra information and insight for practitioners, including the Indonesian government as the CSR regulator, investors, management, and non-governmental organizations (NGOs). This is one of the first studies to examine ownership structure and Sharia compliance in relation to mining companies' CSR performance, notably in Indonesia, Feasible Generalized Least Squares.

## ARTICLE HISTORY

Received 13 August 2023  
Revised 26 July 2024  
Accepted 29 July 2024

## KEYWORDS



CSR performance;  
Indonesian mining  
companies; ownership  
structure; sharia  
compliance; feasible  
generalized least squares

## SUBJECTS

Environmental economics;  
economics; finance;  
business, management  
and accounting

## 1. Introduction

The Sustainable Development Goals (SDGs) were introduced by the United Nations in 2015. Since then, companies have released a number of reports to give stakeholders a better understanding of their sustainability activities (Jan, Lai, Draz, et al., 2021). In this scenario, it is believed that companies need to implement and realize Corporate Social Responsibility (CSR) as the main foundation for achieving SDGs (Al-Dhamari et al., 2022; Blagov & Petrova-Savchenko, 2021; Umar et al., 2023). Therefore, for more than three decades, CSR has emerged as a critical issue (Jan, Lai, Siddique, et al., 2023; Jan, Lai, & Tahir, 2021). This is not only due to increased awareness of consumers, investors, and regulatory pressures (Pérez et al., 2017) but also as a factor related to the company's performance in the long run (Al-Dhamari et al., 2022; Y. Zhang et al., 2020). Therefore, it is not surprising that in recent years, companies have dedicated annual report sections, or report separately, and provided websites to disclose their various CSR activities (Correia et al., 2020). According to Elkington (1997), CSR practices are based on three main aspects of sustainability, namely economic, social, and environmental. Thus, CSR is one of the main ways for companies to show that their operations are not harming society. Through CSR practices, companies strive to show that their presence contributes significantly to the economic, social, and environmental improvements of the wider community to achieve perfection (Zaid, Wang, et al., 2020).

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However, there are certain groups of firms, including those that exploit natural resources, whose operations can give rise to air pollution, noise, and a wider range of socio-environmental conflicts (Méndez & Rodríguez, 2016). In this context, mining companies are considered one of the most destructive businesses compared to other business activities that exploit natural resources. Mining firms cause many social and environmental issues at each of their operational sites because they utilize dangerous chemicals in mineral processing and produce permanent rock deposits and toxic effluent, which is frequently referred to as tailings (Sarkar, 2013). However, until now mining companies have survived and even continue to be developed in countries with supporting natural resources. This is because these companies are able to create jobs and generate a lot of foreign exchange, which in turn can boost the countries' economic growth. Given the bad and good implications of mining company operations, stakeholders can only expect higher CSR from these corporations in order to mitigate the consequences of their poor presence in the community (Saenz, 2022).

The importance of CSR to mining companies has prompted academic researchers to examine this matter, resulting in a huge increase in the variety and volume of CSR literature on such companies in recent times (Aboud & Yang, 2022; Chen et al., 2020; Dwekat et al., 2021; Kim et al., 2019). However, the existing CSR literature of mining companies is largely developed based on studies that focus on the opinions of communities in mining operation areas about the CSR demonstrated by the companies (Al Farooque et al., 2020; Khalid et al., 2019; Pons et al. 2021; Yang & Chen, 2022). Researchers have reported that: the CSR of mining companies in Ghana is perceived as bad faith and inauthentic aimed only at appeasing various stakeholders (Khalid et al., 2019); the CSR of Nigerian mining companies falls far short of the expectations of local communities from several points of view, including economic, environmental, philanthropic, and legal (Al Farooque et al., 2020); the debate on the CSR of mining companies is increasingly fierce in developing countries with the poor environmental and health conditions, as a consequence, stakeholders expect greater environmental responsibility from these companies (Pons et al., 2021); and hazardous working conditions and the presence of undisclosed information are key CSR issues that need to be addressed urgently to achieve effective and integrated CSR in the Chinese mining company sector (Yang & Chen, 2022). The final analysis of these previous studies suggests that mining corporations' CSR has not perfectly met stakeholder expectations. Thus, these findings may be viewed as less relevant by CSR decision-makers in mining corporations. If future study takes the same technique, the outcomes may be similar; thus, new approaches to CSR research in mining businesses are required.

This study differs from previous CSR research on mining corporations. It aims to explore the relationship between ownership structure, Sharia compliance, and CSR performance in Indonesian mining businesses. Previous research on non-mining companies discovered that institutional ownership, foreign ownership, and ownership concentration all play a key impact in boosting CSR performance (Chang et al., 2021; T. Zhang et al., 2022). Meanwhile, Ifada et al. (2019) proved that Sharia organizational culture plays an important role in improving the CSR performance of Islamic rural banks in Indonesia, and Lui et al. (2021) reported that Islamic commercial banks show higher CSR performance than conventional ones. In the context of Sharia, CSR represents the concept of brotherhood with each other (Abu Al-Haija & Kolsi, 2021). The goal of Sharia institutions is equal distribution of communal welfare, which is done by CSR based on Sharia principles (Zafar & Sulaiman, 2020). Thus, performing and expressing higher CSR is mandatory for Sharia institutions (Khan et al., 2019a).

This study was carried out in Indonesia because the development of the mining industry in this country is very promising, and it always ranks in the top 10 in the world as a country with very high mineral reserve potential. Besides, Indonesia ranks fourth in the country with the largest population and has the largest Muslim population in the world. Currently, this country has 62 mining companies, 73.81% of which are categorized as Sharia and the remaining 26.19% are declared as conventional firms. In Indonesia, Sharia-compliant organizations are determined based on the Decree of the Chairman of the Capital Market and Financial Institutions Supervisory Agency Number: KEP-208/BL/2012. This ruling establishes numerous conditions for organizations to be included in the Sharia category, for example, forbidding trade that (1) does not include the delivery of goods/services, (2) makes, distributes, deals, and/or delivers haram goods or services, (3) includes goods/services that harm morals or create losses, and (4) involves bribery. However, the average CSR performance of mining companies in Indonesia during the 2012–2021 period as measured by the Global Reporting Initiative (GRI) 3rd Generation (G3) Indicator was

still low, namely 0.2611. Therefore, by focusing on ownership structure and Sharia compliance as key determinants of Indonesian mining companies' CSR performance, the study is expected to contribute to at least two goals. First, it fills gaps in the CSR literature of mining companies, especially in Indonesia. Second, it increases the awareness and insight of practitioners, including the Indonesian government as the CSR regulator, investors, management, Community Empowerment Institutions (NGOs), and other parties who care about social and environmental issues.

The rest of the paper is structured as follows. [Section 2](#) provides a description of the theory and the development of hypotheses. [Section 3](#) contains the methodology. [Section 4](#) provides a description of the results and their discussion. [Section 5](#) is conclusions and implications. Finally, in Part 6, this paper presents limitations and recommendations for future studies.

## 2. Literature review and hypotheses development

### 2.1. Literature review

#### 2.1.1. CSR and business objectives

CSR is defined as a management concept in which companies integrate social and environmental issues into their business operations (UNIDO, 2020). It shows that companies are not only obliged to maximize value for their shareholders but should also aim to improve people's welfare and protect the environment (Endrikat et al., 2021). Indeed, maximizing revenue is still considered the main target to ensure the survival of the company (Ali et al., 2021). However, the involvement of the business world in social and environmental programs has become increasingly relevant in recent years because businesses cannot be judged solely on the basis of their financial performance and reports (Shahzad et al., 2022). Since risks to businesses are not only related to financial results but also occur in other areas, stakeholders need reliable and precise information regarding the impact of the company's presence on the social and environmental conditions in which it operates. As a result, the company's management must be responsible for balancing the financial and non-financial goals of their business (Jan, Lai, & Tahir, 2021) and must function in the best interest of all stakeholders (Jan et al., 2022; Shah et al., 2022).

Mining companies are considered one of the most damaging business activities to the natural environment and have a high potential to cause social conflicts. Consequently, these companies are required to disclose higher CSR for the sustainability of their business. Evaluation of organizational sustainability will help companies develop long-term relationships with the right stakeholders, which in turn can reduce social costs and environmental risks, increase customer support and loyalty, and build the company's image (Jan, Lai, Asif, et al., 2023). In other words, corporate sustainability ensures the company's role and commitment to sustainable development in three key aspects such as economic, social, and environmental sustainability (P. A. Khan et al., 2022).

#### 2.1.2. Ownership structure and corporate social responsibility

Corporate governance serves as the foundation for CSR, which is an umbrella term that encompasses responsible governance; hence, organizations with strong corporate governance procedures promote ethics, transparency, and social responsibility (Ruangviset et al., 2014). Corporate governance is crucial for implementing ethical practices in the relationship between companies and employees, customers, creditors, shareholders, and other stakeholders (Gallego-Álvarez & Pucheta-Martínez, 2020). It also helps prevent negative impacts on CSR culture (Adnan et al., 2018; Ebaid, 2022). Furthermore, Alfraih & Almutawa (2017) noted that corporate governance establishes norms and procedures to promote openness and more dependable disclosure.

According to Aboud and Yang (2022), ownership structure is one of the most important elements in corporate governance that can affect company operations and determine the nature of principal-agent relationships. Certain ownership structures, including state ownership, institutional ownership, foreign ownership, and ownership concentrations, are able to encourage companies to achieve higher transparency and social responsibility disclosure (Chang et al., 2021). This view is supported by the agency, stakeholder, and legitimacy theories. According to agency theory, one way to overcome the agency problem is to concentrate ownership on a certain group of people or parties who form large holdings (Jensen &

Meckling, 1976). Large ownership can give rise to a high ability to control the actions of managers, which in turn can improve company performance, including CSR performance (Garas & ElMassah, 2018). However, the shortcoming is that large ownership can result in self-dealing problems that have the potential to harm the interests of minority shareholders (Shleifer & Vishny, 1997), which in turn can reduce company performance, including CSR performance (Dam & Scholtens, 2013). La Porta et al. (1999) suggested three hypotheses to explain the relationship between substantial ownership and business performance: convergence of interest, entrenchment, and neutrality. The convergence of interest hypothesis explains that concentrated large interests have incentives and power to monitor managers and reduce agency problems, which in turn can improve company performance (Dong et al., 2017). Conversely, the entrenchment hypothesis argues that a high level of ownership concentration increases incentives to expropriate the wealth of minority shareholders (Bouvatier et al., 2014), which can reduce company performance, including CSR performance (Abu Qa'dan & Suwaidan, 2019). Meanwhile, the neutrality hypothesis contends that there is no relationship between ownership concentration and company performance because the maximization of corporate value is decided by external factors, e.g. environmental conditions, markets, and the company's own operations (Kuzey & Uyar, 2017).

Stakeholder theory argues that in addition to being responsible to shareholders, companies must also have a high concern for various groups in society that will affect company performance (Freeman, 1984). In this context, stakeholder theory assumes that there is a contractual relationship between stakeholders and executive managers, wherein, managers are committed to meeting the expectations of various stakeholders in order to obtain their approval. The theory believes that companies with high institutional ownership tend to be subjected to public scrutiny; thus, they have a high incentive to engage in high CSR because their accountability to the public is a concern (Ananzeh et al., 2022). Several empirical studies support this view by showing that higher institutional ownership is associated with higher CSR performance (Dakhli 2021; Suyono & Farooque, 2018).

According to legitimacy theory, companies should report more CSR in order to legitimize their existence in society, retain it, and achieve societal approval. The theory posits that corporations would seek measures to ensure that their operations adhere to societal standards and ethics (Faisal et al., 2012; Kilian & Hennigs, 2014). According to Kostova et al. (2008), one strategy for foreign-owned enterprises to gain legitimacy in the host country is to develop a good symbolic image. Meanwhile, to establish a positive image in foreign markets, companies must engage in numerous social activities that align with the expectations of the people in the host country in order to gain more support (Orazalin, 2019). State enterprises must take more socially responsible actions to further legitimize their existence (Aboud & Yang, 2022) because they are owned by the entire society in the country (Hu et al., 2018).

In the context of Sharia, CSR represents the concept of brotherhood from one to another (Abu Al-Haija & Kolsi, 2021), thus, expressing high CSR is mandatory for Sharia institutions (Khan et al., 2019a). However, Mohammed and Muhammed (2017) found that the profit loss sharing (PLS) principle applied by Sharia banks results in more complicated agency problems. This is because agency problems in Islamic banks are not only limited to the separation between principals and agents but extend to the separation of cash flow control and bank compliance with Sharia rules. In other words, the agency problems faced by Islamic banks are more intense than those of conventional banks (Mohammed & Muhammed, 2017). It has the potential to reduce bank performance, including CSR performance. A further question is whether compliance with Sharia rules is able to overcome the agency problems Islamic banks face so that they can show higher CSR performance than conventional ones. The existing empirical literature provides mixed evidence on the relationship between Sharia compliance and banks' CSR performance, for example, Aracil (2019) discovered that Islamic banks' CSR is more philanthropically oriented than conventional banks in Turkey; Lui et al. (2021) proved that Islamic banks disclose higher levels of CSR than conventional banks in Malaysia; and Shahwan and Habib (2023) reported that there is no significant difference between the CSR performance of Sharia and conventional banks, for the Egyptian context.

### **2.1.3. Mapping Indonesia's mining industry towards SDGs**

United Nations (UN) member states, including Indonesia, have agreed to develop their countries' business models to align with the Sustainable Development Goals (SDGs). The State of Indonesia, through Presidential Regulation Number 59/2017, is committed to the successful implementation of the SDGs



to achieve the 2030 development agenda, which includes 17 goals (Indonesian SDGs Road Map, 2018, <https://www.unicef.org/indonesia/media/1626/>). The goals include no poverty; no hunger; good health and well-being; quality education; gender equality; clean water and sanitation; affordable and clean energy; decent work and economic growth; industry, innovation, and infrastructure; reducing inequality; sustainable cities and communities; responsible consumption and production; climate action; life below water; life on land; peace, justice, and strong institutions; and partnerships for the goals. In addition, Indonesia's commitment to mapping its mining industry is demonstrated through several legislative regulations, including (1) Law Number 40 of 2007 which states that companies that carry out their business activities in the field of and/or related to natural resources are obliged to carry out social and environmental responsibilities; (2) Law Number 4 of 2009 which states that holders of Mining Business Permits (IUP) are required to compile community development and empowerment programs; (3) Government Regulation (PP) Number 23 of 2010 as amended by Government Regulation Number 8 of 2018 concerning the Implementation of Mineral and Coal Mining Business Activities; and (4) Government Regulation Number 47 of 2012 (PP 47/2012) which affirms that every company has social and environmental responsibilities. In addition, according to PP 47/2012, companies that do not carry out social and environmental responsibility are subject to sanctions in accordance with the provisions of laws and regulations.

## **2.2. Hypotheses development**

### **2.2.1. State ownership and CSR performance**

Referring to legitimacy theory, Aboud and Yang (2022) argued that state-owned enterprises should be able to take more socially responsible actions to further legitimize their existence. See (2009) affirmed that a higher level of state ownership further encourages executive managers to achieve non-financial goals in accordance with policies implemented by the state. These social or political goals can put stronger pressure on companies to demonstrate higher CSR. Thus, although Sahasranamam et al. (2020), Ismail et al. (2018), and Kabir & Thai (2017) reported no relationship between state ownership and the CSR performance of non-mining companies in developing countries, the majority of studies reported the opposite. State ownership is positively related to CSR performance in China (Aboud & Yang, 2022; Hu et al., 2018; Khan et al., 2019b; Ma & Chen, 2023). The Chinese market has experienced a number of economic turmoil in recent years as shown by many Chinese companies created or taken over by the state (Liu & Zhang, 2017). State shareholders are the majority owners of many companies in the Chinese market, putting them as controlling or concentrated owners. Thus, the positive relationship between state ownership and CSR performance is supported by the convergence of interest hypothesis. This positive relationship was also proven by Alkayed and Omar (2022) in Jordanian non-mining companies and Matuszak et al. (2019) in Polish conventional banks. Studies of the relationship between state ownership and the CSR performance of mining companies are rare. However, according to legitimacy theory and most previous research in non-mining industries, we estimate that Indonesian mining companies with larger state ownership will demonstrate better CSR performance. As a result, the initial hypothesis proposed is that:

H1. State ownership improves the CSR performance of mining companies in Indonesia.

### **2.2.2. Institutional ownership and CSR performance**

Referring to stakeholder theory, Ananzeh et al. (2022) argued that companies with high institutional ownership tend to be subjected to public scrutiny. As a result, they have more intention to engage in high CSR because their accountability to the public is a concern. According to Ren et al. (2023), institutional ownership acts as an active monitor that prioritizes the risk of policy uncertainty over physical risk; thus, they are able to reduce the greenhouse gas emissions of Chinese companies. In addition, Zhou and Gan (2022) found that institutional investor visits improve the CSR performance of Chinese companies. Several previous studies support this theoretical view by reporting that high institutional ownership is associated with high CSR performance (Chang et al., 2021; Dakhli, 2021; Nurleni et al., 2018; Suyono and

Farooque 2018). However, Lapointe-Antunes et al. (2006) argued that institutional investors tend to lower CSR performance due to institutional blocks that are often held by financial institutions, especially banks. This negative relationship was supported by Abu Qa'dan and Suwaidan (2019) in their study in Jordan. Meanwhile, Salehi et al. (2017) reported that there is no significant relationship between institutional ownership and CSR performance in Tehran. In conclusion, the existing empirical literature on the relationship between institutional ownership and CSR performance provides mixed evidence. However, based on stakeholder theory and the majority of previous research, we estimate that mining businesses in Indonesia with stronger institutional ownership demonstrate better CSR performance. So the second hypothesis formulated is:

H2. Institutional ownership improves the CSR performance of mining companies in Indonesia.

### **2.2.3. Foreign ownership and CSR performance**

According to legitimacy theory, foreign-owned enterprises can gain legitimacy in the host country by establishing a good symbolic image (Kostova et al., 2008). Also, in order to obtain legitimacy in foreign markets, foreign investors must carry out a large number of social activities that are in line with the expectations of the people in the host area and publicize them. Thus, it is not surprising that foreign ownership is considered a key factor that determines CSR practices in Vietnamese companies (Kabir & Thai, 2021). The majority of studies in non-mining companies have also reported that foreign ownership is associated with higher CRS, for example, Baba and Baba (2021) in Nigeria and Manogna and Mishra (2021) in India. In addition, Zaid, Abuhijleh, et al. (2020) discovered that banks with higher foreign ownership disclose broader and more transparent information about their CSR than those owned by local and state investors. However, Abu Qa'dan and Suwaidan (2019), using a sample of Jordanian manufacturing companies, proved that foreign ownership has no correlation with CSR performance. It can be seen that the relationship between foreign ownership and a mining company's CSR performance has gotten relatively little attention. However, based on legitimacy theory and the bulk of past research findings on non-mining companies, it is projected that Indonesian mining companies with greater foreign ownership will perform better in terms of CSR. Thus, the third hypothesis developed is that:

H3. Foreign ownership improves the CSR performance of mining companies in Indonesia.

### **2.2.4. Ownership concentration and CSR performance**

The existing literature provides three main hypotheses regarding the relationship between ownership concentration and company performance, namely the interest convergence hypothesis, the entrenchment hypothesis, and the neutrality hypothesis. A number of previous studies in non-mining companies have reported numerous positive, negative, and no relationship results between ownership concentration and CSR performance, supporting all three hypotheses. Several studies discovered a positive relationship between the two, supporting the convergence of interest hypothesis, for instance, the studies of Aboud and Yang (2022) in Chinese, Fallah and Mojarrad (2019) in Iran, and Garas and ElMassah (2018) in the Gulf Cooperation Council (GCC) countries. Some others reported a negative relationship between ownership concentration and CSR performance, supporting the entrenchment hypothesis, for example, Ananzeh et al. (2023) and Abu Qa'dan and Suwaidan (2019) in Jordan and Seckin-Halac et al. (2021) using a sample of companies' information stored in the ASSET4 database. Finally, other studies do not find a significant relationship between ownership concentration and CSR performance, supporting the neutrality hypothesis, such as the studies of Lin and Nguyen (2022) in Vietnam, Fatma and Chouaibi (2021) in Europe, and Kuzey and Uyar (2017) in Turkish. Studies on the relationship between ownership concentration and CSR performance in the context of mining companies are rarely conducted. Meanwhile, the existing literature shows mixed arguments and evidence regarding the relationship between the two variables. Nonetheless, we expect mining companies in Indonesia with a high concentration of ownership to show high CSR because these companies demand higher CSR to achieve the SDGs. Therefore, the fourth hypothesis developed is:

H4. Ownership concentration improves the CSR performance of mining companies in Indonesia.



### 2.2.5. Sharia compliance and CSR performance

Agency problems in Islamic banks are not limited to the separation between principal and agent but extend to the separation of cash flow control and bank compliance with Sharia rules (Mohammed & Muhammed, 2017). Sharia-compliant companies come under stronger pressure than conventional ones with regard to their obligations to implement and disclose CSR. These Sharia-compliant companies face additional pressure in the form of Sharia rules that require them to demonstrate higher CSR performance (Khan et al., 2019a). Currently, the literature on the relationship between Sharia compliance and CSR performance focuses on the banking sector. Ifada et al. (2019), for example, found that Islamic organizational culture plays an important role in improving the CSR performance of Islamic rural banks in Central Java province, Indonesia. In addition, Lui et al. (2021) proved that Islamic banks reveal a higher level of CSR than conventional banks in Malaysia. In the context of non-bank companies, Qoyum et al. (2022) revealed that companies in Indonesia and Malaysia with Islamic labels have better environmental and social performance than those with non-Islamic labels. In addition, Hassan et al. (2022) discovered that companies that comply with Sharia rules are more likely to engage in sustainable and responsible practices, especially in the environmental dimension. Studies on the relationship between Sharia compliance and CSR performance of mining companies are rarely conducted. The existing literature shows mixed evidence regarding the relationship between the two variables. Nonetheless, consistent with existing literature, mining companies in Indonesia that comply with sharia rules are expected to show higher CSR to achieve the SDGs. Therefore, the fifth hypothesis developed is:

H5. Sharia compliance improves the CSR performance of mining companies in Indonesia.

## 3. Methodology

### 3.1. Sample selection

The sample of this study was mining sector companies listed on the Indonesia Stock Exchange (IDX) for the 2012–2021 period. The distribution of samples by type of sub-sector of mining companies, namely coal production, oil and gas production and refinery, gold, iron and steel, diversification of metals and minerals, copper, and aluminum is presented in Table 1. Data regarding CSR performance was taken from companies' annual and sustainability reports. Data on ownership structure and other variables were obtained from companies' annual reports. Meanwhile, data on Sharia compliance referred to the Decree of the Chairman of the Capital Market and Financial Institutions Supervisory Agency Number: KEP-208/BL/2012.

### 3.2. Measuring corporate social responsibility (CSR)

This study intends to investigate the role of ownership structure and Sharia compliance in improving the CSR performance of mining companies in Indonesia. CSR performance as a dependent variable was determined using content analysis methods consistent with previous studies examining the relationship between corporate governance and the CSR disclosure index (Dwekat et al., 2021; Suyono & Farooque, 2018). The CSR disclosure index was estimated based on the G3 GRI guidelines which have a total of 79 indicators consisting of environmental, social, and economic indicators. The value of the CSR disclosure

**Table 1.** Sample distribution of mining companies in Indonesia.

Sub-sector	Number of companies	Number of observations
Coal production	33	274
Oil and gas production and refinery	6	50
Gold	3	27
Iron and steel	10	79
Diversification of metals and minerals	5	43
Cooper	1	10
Aluminum	4	40
Total	62	523

Source: Indonesia Stock Exchange (IDX) Report.

index, hereinafter referred to as CSR Performance (CSR\_P<sub>it</sub>), was determined by giving a score of 1 on the indicators disclosed in the company's report and a score of 0 on those that are not disclosed. Each stated indicator score was further summed up by the total expected score using the following formula:

$$CSR\_P_{it} = \frac{\text{A total score of the disclosed indicators}_{it}}{\text{Expected total score}_{it}}$$

where  $i$  indicates a specific company, and  $t$  indicates a specific period.

### 3.3. Regression models

This study developed the Feasible Generalized Least Squares (FGLS) model to examine the effect of ownership structure and Sharia compliance on the CSR performance of mining companies in Indonesia. The model was chosen because the selected Fixed Effect Model (FEM) suffered from heteroscedasticity and autocorrelation, which were difficult to solve. In addition, the model did not meet the goodness of fit when being analyzed by GMM (Generalized Method of Moments). Our FGLS model is consistent with previous CSR studies (Al-Malkawi and Pillai 2018; Haddad, El Ammari, and Bouri 2021; Khatun and Ghosh 2019). In this context, ownership structures were represented by variables of state ownership, institutional ownership, foreign ownership, and concentration of ownership. Meanwhile, Sharia compliance was a variable dichotomy. This study considered company-specific factors consisting of size, profitability, growth opportunities, leverage, and age as control variables, as suggested by several previous studies (Alsartawi, 2019a, 2019b; 2020a, 2020b; Al-Sartawi & Reyad, 2019; Jan, Lai, Shah, et al., 2023). Variables and variable measurements can be seen in Table 2.

The following is the FGLS equation model used:

$$\begin{aligned} CSR\_P_{it} = & \beta_0 + \beta_1 STATE\_OWN_{it} + \beta_2 INST\_OWN_{it} + \beta_3 FRGN\_OWN_{it} \\ & + \beta_4 CONS\_OWN_{it} + \beta_5 D\_SHARIAE_{it} + \beta_6 SIZE_{it} + \beta_7 PROF_{it} + \beta_8 TA\_GROWTH_{it} \\ & + \beta_9 LEV_{it} + \beta_{10} AGE_{it} + \beta_{it} \end{aligned}$$

## 4. Results and discussion

### 4.1. Results

This section includes descriptive statistics, correlation matrix test findings, FGLS model results, and FEM and Random Effect Model (REM) data. Table 3 shows descriptive statistics.

Table 3 reveals that the mean CSR\_P is 2.261, showing that Indonesian mining companies' CSR performance remains low. CSR\_P's minimum value seems to be relatively modest at 0.063. It happens because companies do not publish their sustainability reports, hence the rating depends solely on yearly reports. The mean value of STATE\_OWN is 0.037, showing that Indonesian state ownership of mining enterprises is not dominant and is relatively minor. INST\_OWN has a mean value of 0.319, showing that domestic private institutions control 31.86% of mining businesses in Indonesia; the smallest value is 0.00%, and the greatest value is 97.39%. The average value of FRGN\_OWN is 0.289, showing that foreign private institutions control 28.91% of mining businesses in Indonesia; the minimum value is 0.00%, and the largest value is 98.50%. Furthermore, the mean CONS\_OWN is 0.722 (77.19%), with a minimum of 20.47% and a maximum of 99.94%. The mean of D\_SHARIA is 0.738, suggesting that 73.81% of mining businesses in Indonesia adhere to Sharia principles, and the remaining 26.19% are classified as non-compliant or conventional. Table 3 reveals that the average SIZE is 7.0958 or IDR 12,467,593 million, with a minimum of 4.1790 or IDR 15,101 million and a maximum of 8.2068 or IDR 161,000,000 million. The mean PROF is 1.0493 or 1.05%, showing that Indonesia's mining companies have a low return on assets. This is demonstrated by the minimum PROF value of -77.89%, which indicates that these mining enterprises endure significant losses. The average value of TA\_GROWTH is 0.1108, with a minimum of -0.7197 and a maximum of 4.2085. The minimum TA\_GROWTH value of -0.720 shows that the company's

**Table 2.** Labels, variable names, and variable value measurements.

Label	Variable name	Measurement
Dependent variable		
CSR_P	Performance of social responsibility	The value is 1 if the indicator is disclosed in the company report, and 0 if it is not.
Independent variables		
STATE_OWN	State ownership	The proportion of shares owned by the state.
INST_OWN	Institutional ownership	The proportion of shares held by domestic private institutions.
FRGN_OWN	Foreign ownership	The proportion of shares held by foreign private institutions.
CONS_OWN	Ownership concentration	The percentage of shares owned by the five largest shareholders.
D_SHARIA	Sharia-compliant companies	1 for Sharia-compliant mining businesses, 0 for conventional ones.
Control variables		
SIZE	Company size	Logarithm of total assets.
PROF	Profitability	The earnings-after-tax ratio to total assets.
TA_GROWTH	Growth opportunities	Annual growth of total assets.
LEV	Leverage	The entire debt/total asset ratio.
AGE	Company age	The time (in years) since the company was founded till the data collection period.

**Table 3.** Descriptive statistics.

Variable	Observations	Mean	Std. deviation	Minimum	Maximum
CSR_P	523	0.2611	0.1454	0.0633	0.8481
STATE_OWN	523	0.0367	0.1551	0.0000	0.8000
INST_OWN	523	0.3186	0.3085	0.0000	0.9739
FRGN_OWN	523	0.2891	0.3217	0.0000	0.9850
CONS_OWN	523	0.7219	0.1870	0.2047	0.9994
D_SHARIA	523	0.7381	0.4401	0.0000	1.0000
SIZE	523	7.0958	7.3448	4.1790	8.2068
PROF	523	1.0493	12.0167	-77.8900	57.7000
TA_GROWTH	523	0.1108	0.3970	-0.7197	4.2085
LEV	523	0.5339	0.3532	0.0074	3.0500
AGE	523	25.1841	12.7802	0.6489	53.4889

Source: Annual reports of Indonesian mining companies for the period of 2012–2021.

total assets have decreased by 0.72%, whereas the maximum value of 4.209 indicates that the company's total assets have climbed by 4.21 percent. Next, the mean LEV is 0.534, indicating that mining business actors have a total debt-to-asset ratio of 53.39%. The minimum value of LEV is 0.0074 or 0.74%, and the maximum value is 305.00%, indicating that the company's total debt is 3.05 times greater than its total assets. Finally, the average age (AGE) is 25.184 or 25.18 years, with a minimum of 0.65 and a maximum of 53.49 years.

The correlation coefficients between independent variables, including control variables, are presented in Table 4, which shows that the dataset is free from multicollinearity symptoms because the correlation coefficients between variables are below 0.80.

The Variance Inflation Factor (VIF) model test was conducted to complement the correlation test, the results are presented in Table 5. The table shows that the values of all independent variables, including the control variables, indicate that VIF is smaller than 10.00. This means that there are no multicollinearity symptoms in the estimated dataset (Lassoued, 2018).

This section is concluded by presenting Table 6, which contains the results of the FGLS model juxtaposed with the results of the FEM and Random Effect Model (REM).

Table 6 presents the FGLS model results, showing a Wald chi2 of 1040.78 and Prob>chi2 of 0.000. Thus, the FGLS method developed has met the goodness of fit model.

## 4.2. Discussion

This study investigates the role of ownership structure and Sharia compliance in increasing the CSR performance of mining companies in Indonesia operated from 2012 to 2021. The data for this study was analyzed using the Feasible Generalized Least Squares (FGLS) model. The following is a summary of the study's findings after controlling for specific company criteria such as size, profitability, growth opportunity, leverage, and age.

**Table 4.** Correlation matrix of independent variables.

Variable	STATE_OWN	INST_OWN	FRGN_OWN	CONS_OWN	D_SHARIA	SIZE	PROF	TA_GROWTH	LEV	AGE
STATE_OWN	1									
INST_OWN	−0.2292	1								
FRGN_OWN	−0.2025	−0.5704	1							
CONS_OWN	0.0050	0.1677	0.3277	1						
D_SHARIA	−0.0434	0.0174	0.1072	0.1485	1					
SIZE	0.2152	−0.0535	−0.1422	−0.1944	−0.1008	1				
PROF	0.0178	0.0243	0.0256	0.1577	0.1702	0.0357	1			
TA_GROWTH	0.0084	0.0501	−0.0500	−0.0262	−0.0023	0.0245	0.2676	1		
LEV	0.0047	−0.0894	0.0768	−0.0567	−0.1150	0.0425	−0.1244	0.0350	1	
AGE	0.3473	−0.1610	0.0892	0.0242	−0.0433	0.0739	−0.0095	−0.0855	−0.0411	1

Source: Annual reports of Indonesian mining companies for the period of 2012–2021.

**Table 5.** The results of the Variance Inflation Factor (VIF) model.

Variable	VIF	1/VIF
AGE	5.10	0.196103
D_SHARIA	3.52	0.284214
FRGN_OWN	2.94	0.340271
INST_OWN	2.66	0.375632
CONS_OWN	2.30	0.435245
STATE_OWN	1.64	0.611539
LEV	1.50	0.665725
SIZE	1.45	0.689352
TA_GROWTH	1.18	0.845274
PROF	1.17	0.851845
Mean VIF	2.35	

Source: Processed data of Indonesian mining companies.

**Table 6.** Summary of the results of the FGLS, FEM, and REM.

Variable	Feasible generalized least squares (FGLS)			Fixed effect model (FEM)			Random effect model (REM)		
	Coefficient	Std. Error	P >  z	Coefficient	Std. Error	P > t	Coefficient	Std. error	P > Z
STATE_OWN	0.1246	0.0906	0.169	0.1246	0.0976	0.203	0.1041	0.0697	0.135
INST_OWN	0.0939**	0.0413	0.023	0.0939**	0.0445	0.035	0.0889**	0.0369	0.016
FRGN_OWN	0.0869***	0.0314	0.006	0.0869***	0.0338	0.010	0.0779***	0.0303	0.010
CONS_OWN	−0.0883	0.0572	0.123	−0.0883	0.0616	0.153	−0.0666	0.0509	0.191
D_SHARIA	0.0856***	0.0113	0.000	0.0856***	0.0122	0.000	0.0929***	0.0118	0.000
SIZE	0.0962***	0.0272	0.000	0.0962***	0.0293	0.001	0.0277**	0.0141	0.049
PROF	−0.0004	0.0004	0.254	−0.0004	0.0004	0.290	−0.0002	0.0004	0.556
TA_GROWTH	−0.0039	0.0110	0.726	−0.0039	0.0118	0.745	0.0010	0.0112	0.926
LEV	−0.0369**	0.0161	0.022	−0.0369**	0.0174	0.034	−0.0477***	0.0161	0.003
AGE	0.0022	0.0013	0.087	0.0022	0.0014	0.112	0.0027***	0.0008	0.001
Constant	−0.5247**	0.2195	0.017	−0.4577**	0.1937	0.019	−0.0342	0.1018	0.737
Adj R-squared		—			14.27%			27.12%	
F-value		—			8.34			—	
Prob > F		—			0.0000			—	
Wald chi2		1040.78			—			103.53	
Prob > chi2		0.0000			—			0.0000	

Notes: \*\*\*is significant at the 1% level and \*\*is significant at the 5% level.

**First**, the finding reveals that state ownership has no effect on Indonesian mining companies' CSR performance. The studies of Sahasranamam et al. (2020) in Indian non-mining enterprises, Ismail et al. (2018) in the developing country's oil and gas industry, and Kabir & Thai (2017) as well as Darus et al. (2013) in Vietnamese and Malaysian non-mining companies all support the finding. However, it differs from those of Ma and Chen (2023), Aboud and Yang (2022), and T. Zhang, Gu, and Wang (2022), who demonstrated that state ownership is positively connected to CSR performance in Chinese non-mining enterprises, as suggested by the convergence of interests hypothesis. In addition, Alkayed & Omar (2022) proved that state ownership improves the CSR performance of non-mining companies in Jordan. This finding could be attributed to state ownership of mining companies in Indonesia, as opposed to controlling or concentrated ownership in China. Only four of Indonesia's 62 mining enterprises are state-owned. Therefore, this finding rejects H1, which states that state ownership improves the CSR performance of mining companies in Indonesia.

**Second**, the result shows that institutional ownership has a significant positive effect at the level of 5% on the CSR performance of mining companies in Indonesia. This is supported by Ananzeh et al. (2022) which showed that companies with high institutional ownership tend to be subjected to public scrutiny; thus, they have a high incentive to engage in high CSR. Several previous research also support this study by showing that high institutional ownership is associated with high CSR performance (Chang et al., 2021; Dakhli, 2021; Nurleni et al. 2018). In addition, Zhou and Gan (2022) found that visits from institutional investors improve the CSR performance of Chinese companies. The finding indicating a favorable association between institutional ownership and the CSR performance of mining businesses in Indonesia appears significant because Alsartawi (2020b) contended that CSR boosts the market value of businesses in Gulf Cooperation Council (GCC) countries. As a result, this study confirms H2, which states that institutional ownership improves the CSR performance of mining companies in Indonesia.

**Third**, the result shows that foreign ownership has a considerable beneficial effect on the CSR performance of mining companies in Indonesia at the 1% level. This finding is backed by legitimation theory, which postulates that foreign ownership seeks legitimacy from citizens in the host country through higher levels of CRS expression (Filatotchev & Nakajima, 2014). According to agency theory, foreign investors have the ability to supervise the acts of managers (Randøy & Goel, 2003), leading to lower agency costs and better performance (Abor & Biekpe, 2006). Also, these investors have a strong ability to optimize their investments by focusing more on enhancing the quality of financial reporting, including CSR disclosure (Zaid, Abuhijleh, et al., 2020). Several investigations in non-mining companies, such as Manogna and Mishra (2021) and Orazalin (2019), support the finding. This result is also supported by Baba and Baba (2021) who reported that foreign ownership increases the disclosure of social and environmental information in Nigerian non-mining company reports. As a result, this study supports H3, which states that foreign ownership improves the CSR performance of mining companies in Indonesia.

**Fourth**, the study reveals that ownership concentration does not affect the CSR performance of mining companies in Indonesia. this finding is in line with the neutrality hypothesis, which postulates that the maximum value of a company is determined by external factors, including environmental characteristics, markets, and the operating conditions of the company itself (Kuzey & Uyar, 2017). Thus, referring to this hypothesis, companies with concentrated ownership are less efficient than those with dispersed ownership (Holderness & Sheehan, 1988), which is supported by Lin and Nguyen (2022) in Vietnamese non-mining companies and Fatma and Chouaibi (2021) in European financial institutions. However, the finding of this study contradicts Garas and ElMassah (2018), who found that ownership concentration improves the CSR performance of non-mining enterprises in GCC nations. In addition, Fallah and Mojarad (2019) reported that ownership concentration is the variable that has the most influence on increasing the CSR performance of industries with heavy pollution in Iran. Thus, the finding of this study rejects H4, which indicates that ownership concentration improves the CSR performance of mining companies in Indonesia.

**Fifth**, the result shows that Sharia compliance has a significant positive effect at the level of 1% on the CSR performance of mining companies in Indonesia. This result is supported by stakeholder theory, which argues that a company is not only responsible to shareholders but also accountable to various groups in society that influence it. This stakeholder theory view is in line with Sharia principles, that Sharia institutions not only focus on economic issues but at the same time spread spiritual and social aspects in running their businesses (Meutia et al., 2019). Thus, expressing high CSR under Sharia principles is mandatory for Sharia institutions (Khan et al., 2019a). The finding of this study is supported by research in the banking sector conducted by Lui et al. (2021), which concluded that Malaysian Islamic banks have a higher level of CSR than conventional ones. Ifada et al. (2019) affirmed that Islamic organizational culture plays an important role in improving the CSR performance of Islamic rural banks in Central Java province, Indonesia. In addition, Hassan et al. (2022), using a dataset of 4,725 entities worldwide during the period 2002–2018, discovered that companies that comply with Sharia rules are more likely to engage in sustainable and responsible practices, especially towards the environmental dimension. Furthermore, Qoyum et al. (2022) revealed that Islamic companies listed on Indonesian and Malaysian exchanges have better environmental and social performance than those with non-Islamic labels or conventionals. The finding of this study therefore supports H5, which states that Sharia compliance improves the CSR performance of mining companies in Indonesia.

The investigation results of the control variables can be briefly shown as follows. First, mining companies with a larger size show higher CSR performance, which is supported by the studies of Ananzeh et al. (2023) and T. Zhang et al. (2022) in non-mining companies. Second, mining companies with higher levels of leverage show lower CSR, which is also in line with Ananzeh et al. (2023) and T. Zhang et al. (2022) in non-mining companies. Third, profitability, growth opportunity, and age do not show any significant influence on the CSR performance of mining companies in Indonesia (Ananzeh et al., 2023; Garas and ElMassah 2018; Lin and Nguyen 2022).

## 5. Conclusions and implications

Overall, the results of this study show that ownership structure and Sharia compliance play an important role in improving the CSR performance of mining companies in Indonesia. Technically, the findings reveal that institutional ownership, foreign ownership, and Sharia compliance play a significant role, but state ownership and ownership concentration do not have any significant impact on improving the CSR performance of Indonesian mining businesses. This is due to the fact that in the context of Indonesian mining companies, state ownership is not dominant, and the concentration of ownership is a mixture of various characteristics of investors who have diverse views on CSR. Furthermore, the findings of this study demonstrate that Sharia compliance plays a significant positive role in improving the CSR performance of mining companies in Indonesia. The empirical evidence shows that Indonesian mining corporations that belong to the Sharia category comply with Sharia rules regarding their obligation to disclose higher CSR, in addition to complying with state regulations and demands from stakeholders.

The results of this study offer three important implications. First, it fills in the existing literature gap on the relationship between ownership structure, Sharia compliance, and CSR performance of mining companies, especially in the Indonesian context. Second, it supports the main theories of CSR, namely agency, stakeholders, and legitimacy theories as well as the convergence of interest, entrenchment, and neutrality hypotheses in explaining the relationship between ownership structure, Sharia compliance, and CSR performance of mining companies. Third, it adds insight for practitioners, including the Indonesian government, investors, management, and NGOs. In all of this, in an effort to improve the CSR performance of mining companies in Indonesia towards sustainability and SDGs, here are our recommendations: The Indonesian state as the CSR regulator should be able to impose regulations that put stronger pressure on themselves and the management of mining companies to further improve CSR performance. The investigation reveals that institutional and foreign ownership as well as Sharia compliance play an important role in improving the CSR performance of mining companies in Indonesia. Therefore, mining company management should be able to make more effective decisions in order to improve their CSR performance. Finally, investors in mining companies and NGOs are expected to take advantage of the findings of this study to make more prudent choices or actions to improve the CSR performance of Indonesian mining companies.

## 6. Limitations and suggestions for future research

Despite its valuable implications, this study bears some limitations. The sample is limited to only one sector in the Indonesian emerging market, the mining sector. Future studies are, therefore, suggested observing the influence of ownership structure and Sharia compliance on the CSR performance of mining companies in other countries although it may be difficult to obtain data regarding Sharia or conventional mining companies. This study measures ownership structure using state ownership, institutional ownership, foreign ownership, and ownership concentration. Future studies may consider other measures, such as board ownership, managerial ownership, and public ownership. They may also consider board composition proxied by independent boards, female boards, board competencies, and board activities. The dependent variable used in this study is CSR performance, measured by the CSR disclosure index. Thus, the next research is recommended to consider sustainability reporting quality or ESG performance of mining companies as a dependent variable.



## Acknowledgements

We would like to express our gratitude to the Center of Research and Community Services (P3M) of Politeknik Negeri Bandung for supporting this research, which allows us to compose this article.

## Disclosure statement

No potential conflict of interest was reported by the author(s).

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