

# Sustainably Profitable and Socially Responsible: Identifying Factors for Implementing CSR within Indonesian Context

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## CONFERENCE PROCEEDING

### 2017 International Multidisciplinary Conferences on Productivity and Sustainability Jakarta, 5-7 December 2017

#### Sustainably Profitable and Socially Responsible: Identifying Factors for Implementing CSR within Indonesian Context

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The idea of Corporate Social Responsibility (CSR) in Indonesia is relatively new. Not until early 2000s did it become a hot issue among academia, social activists and government officials. Soon after, the implementation of CSR has been mandatory. The Government of Indonesia (GOI) launched complete set of regulatory frameworks. However, at the implementation level CSR has not lifted up into expectation. This paper aims to explore influential factors for successfully implementing CSR. Selected accessible journal articles were reviewed. Five critical factors, then, revealed in predicting successful CSR: the nature of governmental regulatory frameworks, pressure from immediate corporate environment, responsible internal structure of corporate governance, effective corporate communication strategy and awareness of explicit political and ideological biased. It is expected that these five accounted factors can be blended into an effective model that fit to Indonesian context.

**Keywords:** *Corporate Social Responsibility (CSR), Corporate Virtuous Citizenship (CVC), Corporate Sustainability, the Government of Indonesia (GOI).*

#### 1. Introduction

Within Indonesian context, the idea of Corporate Social Responsibility (CSR) is relatively new. It was only emerged as a hot issue among academia, social activists, government officials, as well as business communities, not earlier than 2000s. Many came to realize the importance of connecting corporate profitability with business ethics and corporate citizenship especially in dealing with critical social problem such as poverty, social inequality and environmental damages. Since then, engagement on CSR has been mandatory. Complete regulatory frameworks were launched by the Government of Indonesia (GOI) to include, Ministerial Decree of the State-Owned Enterprises No. Per-05/MBU/2007, requires SOE to implement Partnership Program with small business and Community Development Program. *Secondly*, Law No. 40/2007 applies to a *Limited Liability Company* in particular those in the field and/or related to the natural resources and Law No. 25/2007 regarding foreign investment stipulating investors to implement CSR.

Previously conducted study on 171 CSR initiatives implemented by 104 out of 119 listed SOEs confirmed that the implementation of CSR in Indonesia has not been lifted up into expectation. It is confirmed that in order to empower and improve social conditions of local communities, most of SOEs allocated some amount of funds for assisting victims of natural disasters, providing educational assistance, promoting community health improvement, building of public infrastructure and utilities, providing religious facilities and supporting natural conservation. However, the activities are tend to be trivial and artificial. In addition, the information about allocated budget provision was not accountable to the general public. CSR initiatives conducted by well-known companies, tend to be motivated by securing their business interest and legal obligation. (Kartasasmita, 2016). This paper aims to construct conceptual model identifying accounted factors for implementing CSR sustainably and impactful within Indonesian business, social, and regulatory context.



## 2. Methodology

Author reviewed selected accessible journal articles published within the last three years and identified whether they revealed with factors accounted for implementing CSR. Then they were classified into five categories i.e. the nature of governmental regulatory frameworks, pressure from immediate corporate environment, responsible internal structure of corporate governance, effective corporate communication strategy and last but not least, explicit political and ideological biased.

## 3. Results and Discussion

*The first* factor accounted for CSR is the nature of governmental regulatory framework. Learning from the implementation of CSR in India, it is convinced that positive and strong collaborative efforts between corporate citizenship and firm regulatory power is critical. The emerging of economic power in India, started with liberalization then immediately followed by fostering CSR. Corporates play key role in combining economic growth with social responsibilities and this true agendas of both private and public sector (Ray & Raju, 2014). Another case study on regulatory guidelines on environmental, social and governance issues in the USA reports that regulatory institutions and non-governmental organizations are pushing forward together the implementation of social responsibility, environmental sustainability and the responsible corporate governance. The study once again demonstrated that governmental policy and regulatory instruments, including relevant legislation and executive orders, unlock corporate citizenship practices from business and industry. The study implies combination between business and political ingredient for promoting corporate citizenship (Camilleri, 2017).

*The second* determining factor for implementing CSR is the pressure from external immediate organizational environment and networks. Interesting evidence indicated the relationship between externally rated firms with the environment performance. The study elaborated how rated and unrated firms change their pollution behavior when more firms in their peer group are rated on environmental performance. The presence of more rated peers is often associated with emissions reductions. This relationship varies by whether a firm was positively or negatively rated featuring within the competitive and regulatory environment (Sharkey & Bromley, 2015). Another study demonstrated of how corporations become more receptive to social activist challenges over time. The study suggested a dynamic process through which gratified interactions lead to increased receptivity. It is argued that when firms are constantly targeted by social activists, they respond defensively by adopting strategic management devices that help them better manage social issues and demonstrate their normative appropriateness (McDonnell, King, & Soule, 2015). Interestingly, powerful corporates are also able to shape their immediate environment and networks. Study using critical discourse analysis on the discursive accounts of water-related cross-sector partnerships (CSPs) involving three biggest major bottled water producers and three world-wide non-profit organization (NPOs), suggest that participated NPOs releasing themselves from responsibilities, using three mechanism, i.e. replacement of moral with technical responsibility, denial of proximity and the usage of intermediaries to whom responsibility is outsourced. This study fills the gap of research on how NPOs use of CSR elements and the consequences of such discursive constructs (Herlin & Solitander, 2017).

*The third* influential factors for implementing CSR is the responsible internal corporate structures and governance, including the role of share-holders within decision making mechanism towards CSR. The study on 195 governance change proposals voted on during 2013, the study suggested that shareholders may be concerned with the potentially adverse effects of weak CSR performance, especially poor environmental performance, and may support changes to corporate governance structures when a company's CSR and environmental performance is weaker. (Cullinan, Mahoney, & Roush, 2016). Another study on Corporate Social Responsibility Disclosures (CSRSD) in Arab Saudi described that average of CSRSD was raising up to significantly. It is shown that government and family ownership, firm size, and firm age are positive determinants of CSRSD. In the meantime, firm leverage is a negative determinant. Surprisingly, effective AC, board independence, role duality, institutional ownership, firm profitability, and industry type are not found not to be determinants of CSRSD (Habbash, 2016). Another internal factor that has significant role in maintaining corporate sustainability and performance is intergenerational equity. The study claimed that since the notion of sustainability has been integrated in CSR models, intergenerational equity has never been considered as a legal basis for organizing the following factors: advantages of economically influential corporate entities, corporate adaptability and independence from voting cycles. It is claimed that by integrating a temporal dimension in current CSR, provides filling a longer-term perspective into the

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corporate world together with advancing tax ethics and global governance crises prevention (Puaschunder, 2016). Governance structures of corporate foundations is also pivotal internal factor for implementing CSR initiatives. However, the study suggested that many of the largest corporations do not embed their *corporate foundation* into their strategic plan as they define it that align with corporate competency (Minefee, Neuman, Isserman, & Lelebici, 2015). An inspiring model, *ESR-CSR Congruence Model*, enhances the existing literature and models of CSR. It improves the understanding of employee-employer congruence, as a result broadening the range of possibilities for achieving positive organizational outcomes based on CSR. The model was built based on literature review regarding social responsibility in the field of interdisciplinary social science within 30 years. The study come up with several descriptors of CSR and employee social responsibility (ESR) in which each of descriptor focuses on two dimensions, socially responsible behavior and, socially responsible identity. From this point the study construct a *Social Responsibility Matrix* that consists of four patterns for classifying the social responsibility of employees and employers namely; *Low Social Responsibility*, *Identity-based Social Responsibility*, *Behavior-based Social Responsibility*, and *Entwined Social Responsibility*. It is argued that this matrix is vital for assessing the level of congruence between employers and employees with regard to social responsibility and for discussing the possible outcomes for both parties. These identity and behavior based patterns, the determinants factors, and the levels of congruence connecting employees and employers, all together construct the foundation for a multi-dimensional, dynamic *ESR-CSR Congruence Model* (Haski-Leventhal, Roza, & Meijs, 2017).

The fourth crucial factor for implementing CSR is an effective corporate communication strategy. The study on the respective matter ended up with three conclusions. *Firstly*, communication practices regarding CSR is positively and significantly correlated with client-perceived value. *Secondly*, reputation fully mediates the effect of CSR on client-perceived value. *Finally*, the effect of CSR on value is stronger when the client firm has a short-term strategic orientation, while long-term strategic orientation boosts the effect of corporate reputation on customer-perceived value (Arslanagic & Zabkar, 2017). Another study on corporate communication strategy provides empirical evidence on the significance of signal breaches from technical trading indicators in explaining variations in the level of CSRD by firms. The study indicated a positive and significant association between the number of technical indicator signal breaches for a firm and the level of CSRD by that firm, particularly in the environment, energy, human resources and products and customers categories. It is suggested that firms with a volatile stock price trend provide greater CSRD, possibly as a legitimacy strategy to distract change the perceptions of investors from its current legitimacy status. It highlighted that regulators need to strengthen regulatory requirements and implement stricter guidelines on CSR reporting, given the importance of CSRD to users (Ling & Sultana, 2015). With regards to corporate reporting quality, the study in China indicated that CSR reporting quality positively influences corporate social reputation. Chief executive officer/chairman duality as a measure of board characteristics, nonetheless, has a negative impact on corporate social reputation. The study demonstrated that firm's financial performance and firm size also positively influence corporate social reputation. (Lu, Abeyssekera, & Cortese, 2015). Study on corporate governance convinced that in general corporate governance is positively associated with CSR, and good corporate governance also leads to good social responsibility in the following year. Strong evidence suggests that good governance leads to good CSR performance. (Stuebs & Sun, 2015)

Finally, the fifth critical factor for successfully implementing CSR is collective awareness of political and ideological biases inherent in CSR. Literature review demonstrated that CSR has become the growing industry of social activists, who are pushing business toward the adoption of CSR. Study confirmed that values underpinning CSR are driven by a socialist-collectivist agenda, which is politically and ideologically conflicting with the capitalist foundations (Orlitzky, 2015).

#### 4. Conclusion

Contribution of this paper is in identifying five influential factors for building model and implementing CSR successfully within Indonesian business, social and political context. One of the most relevant idea is to realize that values inherent in CSR concept in line with Indonesian political ideology represented in the fourth principle of the State Five Principles *Panca Sila* i.e. social justice for the entire people of Indonesia. Further efforts needs to be dedicated on measuring five identified factors as basic ingredient for building powerful model at implementing CSR.

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