

■ 査読付論文

## Drivers of Corporate Social Responsibility in Indonesia

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**Abstract:** In developing countries, companies that fulfill their corporate social responsibility (CSR) act as agents of development by performing activities addressing poverty and poor public services. Due to such trends, this paper provides a framework for understanding the CSR dynamics in those countries by examining the Indonesian context, including the case of Sukabumi Regency. When reflecting on Polanyi's three major forms of economic organization, it could be pointed out that the delivery mechanism of CSR activities in developing countries is driven not only by money-making and reciprocity principles but also by the government's intermediary role that could be explained by abstracting the concept of redistribution. Because the element of government power attached to the concept of redistribution does not appear in its intermediary role to avoid contradicting the voluntary nature of CSR, the phenomenon is called quasi-redistribution. Indonesia is distinctive in that its governmental institutions have issued frameworks for the quasi-redistributional CSR, which seems to violate the voluntary nature of CSR practices. However, the Indonesian government still emphasizes the voluntary aspect of CSR activities. Furthermore, the government's efforts to encourage state-owned enterprises as role models for other companies in the implementation of CSR practices have added to the peculiarities and the dynamism of CSR practices in the country.

**Keywords:** Corporate social responsibility, quasi-redistribution, Indonesia

### I. Introduction

Academicians have debated about what constitutes responsible corporate behavior. Friedman (1970) emphasizes shareholder profit as the only proper responsibility of a company. However, Carroll (1979) and Freeman (1984) urge companies to consider not only the economic but also the environmental and the social impacts of their operations. Therefore, varied definitions of corporate social responsibility (CSR) can be found in the literature.

CSR is defined as a company's contribution to economic development while preserving the profitability (Hopkins, 2003), relationships with internal stakeholders (i.e., employees) and external stakeholders (i.e., customers) (Khoury et al., 1999), and environmental concerns in business operations (Marrewijk, 2003). Each study seems to grasp an aspect of CSR by abstracting the phenomenon, mostly from developed country cases.

However, the CSR concept is improvised and adapted to a variety of distinctive contexts based on local societal norms and expectations wherever a company operates. Growing industrialization in developing countries adds dynamics to the definitions and the practices of CSR.

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In the context of developing countries, societies and governments have come to expect corporations to take responsibility for social and developmental issues, which are the responsibility and the function of the governments in developed countries. The issues include poverty and poor public services. The thrust of CSR as a company's contribution to addressing the issues is due to the weak government system in terms of its capacity to implement the delivery of services for social well-being (Wartini & Heriyanto, 2014). The phenomenon is partly influenced by the belief that governments have failed in their attempts to overcome under-development, inequalities, and poverty (Banks et al., 2016).

As communities (the beneficiaries of a government's programs) look for more diverse sources of capital to boost local development (Fordham et al., 2017), in recent years, companies have shifted their policies from being profit oriented to acting as agents of development (Blowfield & Dolan, 2014).

In the Indonesian context, as government and society encourage companies to contribute to poverty alleviation and basic public services, some CSR practices have addressed these issues. CSR practices have been implemented in a broad range of sectors and activities, including education, health, community income generation, infrastructure, environment, religion and culture, disaster mitigation, and charitable donation.

Considering the CSR practices in response to both social and developmental issues in developing countries, this paper attempts to illuminate a company's motivations underlying such CSR activities. This paper aims to provide a framework for understanding CSR dynamics in developing countries by examining the Indonesian context, including the case of Sukabumi Regency.

## **II. Drivers of CSR Activities in Developing Countries**

In developing countries, many forces affect companies' implementation of CSR. Indeed, the companies carry out CSR because of the driving factors that make them do so. Due to the dynamic nature of a company's behavior toward CSR, this paper examines this phenomenon from the perspective of behavioral economics. This perspective provides insights into the influences of not only economic factors on the company's rational decisions but also ethical and social factors on the company's decisions beyond the rationality of economic behavior.

Referring to the neo-classical economic perspective, the general behavior of firms should be solely economic for profit, growth, and maximization of sales (Williamson, 1966). Based on this assumption, CSR activities may be considered basically business oriented. Such activities should ultimately generate profits for the company and its shareholders. There must be an ultimate economic goal of the implementation of the activities claimed by the company as CSR. Examples of these practices are activities associated with product marketing and public relation strategies (Kriyantono, 2015). Those activities are actually intended to increase consumer awareness of the existence of the company's products and inculcate a positive image of the company so that product sales are expected to increase. Therefore, CSR activities based merely on the company's economic interests are driven by market-oriented motives.

However, considering the work of Karl Polanyi (1944), an economic sociologist who classifies the forms of economic organization into three major types, namely, reciprocity, redistribution, and market exchange, instead of the dominance of market-driven behavior, modern society's interactions could also be determined by principles of reciprocity and redistribution driven by non-market motives.

Polanyi (1944) uses the term reciprocity to label the exchange of goods and services in a kin group, between separate kin groups, and among neighbors and friends, marked by symmetry among the exchanging parties. He demonstrates this kind of resource transfer only in tribal interaction, not in any large-scale and complex society (Hodgson, 2017). Nonetheless, understanding a company as a part of society (Kapur, 1995), with responsibilities attached to it, what it has been gotten economically then some portion of it should go back to the society. For instance, community around a company is one of the company's main stakeholders. When they get benefits from the company's CSR activities, they might convey their social license for the company to operate its business easily and smoothly in the region as a return (Achda, 2006). It illustrates corporate relations with society, enhanced by CSR activities, might be pinned to the concept of reciprocity.

The reality is that CSR activities referring to this concept tend to be more philanthropic for charitable causes (Sedyono, 2005; Gunawan, 2016). The activities are often characterized as instant, short-term, and offering less educational value to increase a community's self-reliance. Therefore, to provide greater benefits for society, governments in developing countries expect companies, through their CSR activities, to contribute to basic public services and poverty alleviation because those countries still struggle to do so for their citizens. Amran et. al. (2013) present the case of the Malaysian government, which ensures that companies pay attention to issues such as poverty eradication in their CSR activities. In this case, companies' CSR operations are directed by the government toward activities that actually constitute its redistributive function.

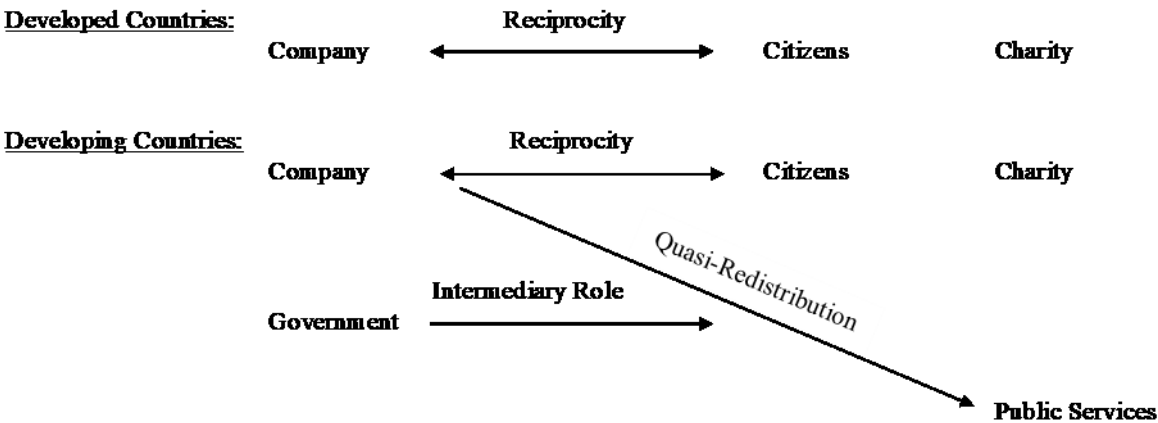
Redistribution is understood as involving government activities in pooling resources from individuals and corporations (i.e., through taxation) and then redistributing these resources to fulfill its functions and responsibilities. Such responsibilities include the delivery of public services (e.g., educational facilities, health facilities, and road infrastructure), improvement/increase in social welfare benefits, and poverty eradication. As characterized by Polanyi (1944), redistribution operates on the principles of centrality and asymmetry, with elements of power and authority. Power means the ability to compel others to act or refrain from acting by issuing directives, that is, by telling them what to do and what to avoid doing. Authority involves the right to tell others what to do, with certain limits that vary from case to case (McMahon, 1994).

A company's CSR activities are basically its independent and voluntary initiatives. How then can the element of government power intervene in the delivery mechanism of the company's activities without violating the voluntary nature of CSR? In this case, the government only urges (not forcefully imposes its power) the company to carry out CSR activities, which form part of the government's redistribution function. By doing so, the voluntary aspect of CSR activities could be maintained. Because of the government's intermediary role in directing the CSR activities, their

delivery mechanism could be reflected on the concept of redistribution. However, without using the element of government power, the mechanism could be named quasi-redistribution, as illustrated in Figure 1.

Due to the limited resources and the weak government systems in developing countries, issues such as poverty and poor public services remain widespread. Therefore, CSR practices addressing these issues have been typical as phenomena in developing countries (Frederick, 2012; Boulouta & Pitelis, 2014).

To strengthen the awareness and intensify the CSR practices regarding public services and poverty alleviation, besides giving charitable donations, companies are encouraged to undertake CSR activities on a voluntary basis, related to the issues that are believed to provide greater benefits for society.



**Figure 1. Comparison of CSR Phenomena between Developed and Developing Countries**

The CSR attached to the concept of reciprocity and redistribution might be considered contrary to a company’s economic interests and even regarded as activities beyond the rationality of economic behavior and market principles.

Overall, by using Polanyi’s tool maker, modified from Gregory’s (2009) work, this present paper explores what could drive CSR phenomena, especially in developing countries, as shown in Figure 2. Here, CSR activities driven by market-oriented motives are called money-making CSR, CSR activities associated with the concept of reciprocity are named reciprocal CSR, and the activities driven by government’s intermediary mechanism, with the kind of activities intersecting the government’s redistributive function e.g. for public services are labeled quasi-redistributive CSR. The illustration is limited to the conceptual level. In practice, it is difficult to clearly separate these aspects and determine whether a CSR activity is driven by money-making, reciprocity, or quasi-redistribution motives because such motives could be mixed.

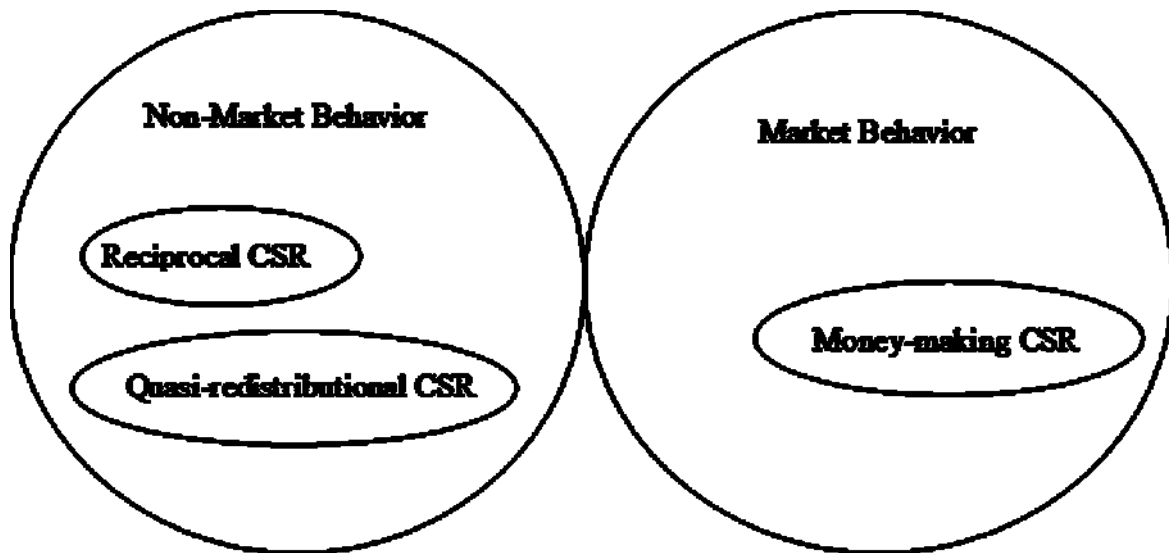


Figure 2. Drivers of CSR Activities in Developing Countries

### III. Quasi-redistributinal CSR in Indonesia

Indonesia is the world's fourth most populous country and currently experiencing rapid economic growth. It has 44,276 large and medium national enterprises (BPS, 2016), and multinational corporations (MNCs) with capital investments cover around 25,321 projects (BKPM, 2016). Indonesia ranks 38th worldwide on the UN's Competitive Industrial Performance Index (UNIDO, 2016). Despite its recent growth, Indonesia is still struggling to alleviate the poverty of 10.7% of its population of 258,705,000 people (BPS, 2017) and deliver basic public services for its citizens, especially in 122 under-developed regions out of 514 in total (Kementrian Desa, PDT, dan Transmigrasi, 2015).

The conceptualization of CSR in Indonesia is inseparable from the country's cultural and religious values. For example, the cultural concept called *gotong royong*, which means joint/shared responsibility, has shaped the understanding that social responsibility is relevant to all entities and stakeholders in a community, including companies (Sedyono, 2005). Moreover, religion plays an important role in the implementation of CSR among Indonesians. The Islamic practice of *zakat*, meaning to purify or justify through almsgiving, provides a foundation for philanthropy in Indonesia. These cultural and religious values influence the Indonesian perspective that companies should participate in addressing social problems, including local poverty and substandard living conditions in the surrounding communities. Therefore, many local Indonesian companies fulfill their CSR by engaging in philanthropic or charitable activities related to the alleviation of social problems (Fauzi, 2014; Gunawan, 2016).

Considering the differences in economic, cultural, and government roles in Indonesia, the extent of CSR practices in the country is distinctive (Gunawan, 2013). Concerns such as labor, consumer, and environment-related corporate behaviors, which form a dominant part of CSR in developed countries, are less prominent in Indonesia. Because those aspects are regulated by governments, company practices related to those issues are perceived as compliance to regulations

and are not considered CSR practices. What is considered CSR practices are voluntary corporate activities addressing issues such as local poverty and poor public services.

While this perception contributes to the common conceptualizations of CSR in other developing countries as constituting actions based on a voluntary basis, beyond a company’s interest, and not prescribed by law (Piacentini et al., 2000; McWilliams & Siegel, 2001; Rajko, 2012), Indonesia is unique in that its government has issued frameworks (Figure 3) for the CSR.<sup>1</sup>

The initial phase of the issuance of CSR frameworks was not without rejection from the business world (Fauzi & Idris, 2009) because companies worry if the frameworks violate CSR essence that was originally intended to be voluntary. However, after going through various debates, the frameworks are considered compatible with the current social, economic, and legal nature in Indonesia (Waagstein, 2011).

In the frameworks, a company’s CSR practices are oriented toward the government’s community programs to target poverty alleviation and the provision of basic public services, covering activities related to education, health, community income generation, infrastructure, the environment, religion and culture, disaster mitigation, and charitable undertakings. The phenomenon might be considered a typical quasi-redistributional CSR because it could not be found in other developing countries.



**Figure 3. CSR Frameworks in Indonesia**

The CSR frameworks promoted by Indonesian governments have emerged not only at national and provincial levels but also at regency and city levels. Indonesia operates under a decentralized system of government in which regions consist of provinces and regencies/cities (political subdivisions of a province) and wield significant power and autonomy. Since the national frameworks (Law 25/2007 on Capital Investment and Law 40/2007 on Limited Liability Companies [LLCs] addressing CSR) were enacted, some autonomous regions have attempted to synergize the implementation of companies’ CSR practices with their regional program priorities. During the

2007–2016 period, at least 60 regions issued the frameworks.

The government's priorities that can be implemented through CSR activities on a regency/city scale are usually offered to companies based in a particular regency/city. Meanwhile, the provincial programs are usually offered to companies that operate in several regencies/cities in one province. Likewise, national community programs that provide opportunities for CSR interventions are usually offered to companies that operate on a national scale and MNCs.

The companies carry out their CSR activities on a voluntary basis. The frameworks are intended as references for companies so that their CSR activities can provide maximum benefits for communities. If the companies implement those activities, they will certainly be appreciated by the government. As stipulated in regional CSR frameworks, appreciation is given in the form of recognitions such as certificates, placards, medals, or other forms in accordance with statutory provisions. However, even if they fail to do so, no strict regulations govern it.

Thus, the quasi-redistributional CSR in Indonesia pertains to a company's CSR activities that form part of the government's redistribution function, addressing social issues in the community and guided by the government's framework but carried out voluntarily by the company. At the very least, CSR frameworks have successfully increased awareness of Indonesian companies to deliver CSR activities (Setyorini & Ishak, 2012).

The quasi-redistributional CSR in Indonesia has also been fulfilled by state-owned enterprises (SOEs). Although these companies are unique in providing public goods or services, especially in areas that are not of interest to the private sector, these institutions are managed under the economic principle of pursuing profits so as to contribute to both national and regional incomes. This means that CSR activities could be equally burdensome for SOEs as for private corporations. Therefore, the SOEs' adoption of CSR represents the government efforts to encourage them to be role models for other companies in the implementation of quasi-redistributional CSR.

Guided by the Ministerial Regulation of SOEs Per-09/MBU/07/2015 on the Partnership Program and the Community Development Program, SOEs allocate up to 4% of their previous year's net profits to the community-oriented CSR, which they call the partnership program with small businesses and community development programs.<sup>2</sup> In the partnership program with small businesses, SOEs lend money to non-bankable small businesses and facilitate capacity building to increase these small businesses' ability to grow through the utilization of the partnership program fund. In the community development programs, the funds are utilized for assistance or donations related to natural disaster relief, education and training, health, development of public infrastructure and religious facilities, and nature conservation.

The SOEs' CSR is unique in terms of the ministerial regulation's different treatment of SOEs and semi-privatized SOEs (some of its shares are sold to the public but still dominated by the government). The use of regulatory terms in the ministerial regulation might be perceived as implying its compulsory function, with several sanctions for disobedience. However, sanctions stipulated for SOEs that do not comply with the regulations cannot be found. For them, the implementation of the partnership program with small businesses and community development programs becomes one of the key performance indexes of their top management/directors. Because

of the performance measurement, the SOEs' CSR could mean a quasi-voluntary form, whereas for semi-privatized SOEs, CSR is voluntary, similar to that of private companies.

### **Case study of Sukabumi Regency**

Companies in Indonesia are mostly concentrated in Java Island, especially in the provinces of Jakarta, West Java, Central Java, and East Java. West Java Province, with 18.9% or 8,382 of the total number of companies in the country (BPS, 2016), is the second largest after Jakarta Province (the capital city of Indonesia).

Located in West Java Province, Sukabumi Regency is the largest one in Java and Bali Island, with an area of 4,162 km<sup>2</sup>. The regency has a relatively strong industrial base, indicated by the existence of 312 large and medium enterprises (BPS, 2016). Contrary to its growing industrialization, the poverty rate in the region, which is 8.13% of its population of 2,516,461 people (BPS, 2017), remains one of the main issues to overcome. Besides, with its 0.28 fiscal capacity index (the region's financial capacity to deliver public services), categorized as low,<sup>3</sup> its public service delivery is still inadequate, especially in 111 under-developed villages out of the 381 in the region (Kementrian Desa, PDT, dan Transmigrasi, 2015).

Companies in the region have engaged in philanthropic or charitable CSR activities as reflected by the local cultural and religious values. Related to those, there are activities such as donation for orphan and elderly, for disaster victims, for worship facilities, and for commemorating religious events.

However, based on the consideration to provide greater benefits for the local citizens, Sukabumi Regency has become one of the regencies in Indonesia that has issued frameworks<sup>4</sup> to promote quasi-redistributional CSR. First, Local Regulation of Sukabumi Regency Number 6 of 2014 about Corporate Social Responsibility, Partnership and Community Development. Article 3 of the regulation states that CSR activities carried out by company should be coordinated and synergized with government development programs, prioritize the needs of the local community, and encourage the involvement of the beneficiaries. Furthermore, article 4 mentions the scope of CSR activities that should relate to social programs, which are directed at the implementation of social welfare activities through social security and empowerment; to educational programs, which are directed towards achieving zero drop out of primary and secondary education levels, the addition of new classrooms, new school units, scholarships or other activities that support skills improvement; to health programs, which are directed so that the regions have enough health facilities, adequate medical devices, and competent health workers; to environmental programs, which are directed at pollution prevention, sustainable use of resources, mitigation and adaptation to climate change, and environmental restoration; to income generation programs, which are directed at increasing community's income; to rural infrastructure programs, which are directed at improving rural facilities and infrastructure; to religious programs, which are directed at improving religious facilities.

Second, Regent Regulation of Sukabumi Number 2 of 2015 about Operationalization of Corporate Social Responsibility, Partnership and Community Development. This framework



encourages the formation of a facilitation team, consist of local government officials, which has function to synergize the implementation of CSR activities, whether conducted individually or by several companies with local government development programs. This framework also initiates the formation of CSR forum, consist of company's officials, which has function as a forum for CSR best-practices sharing among companies in the region.

Third, Regent Decree Number 050/Kep.72-Bappeda/2015 about Facilitation Team for the Implementation of Corporate Social Responsibility, Partnership and Community Development. Fourth, Regent Decree Number 050/Kep.441-Bappeda/2017 about Forum for the Implementation of Corporate Social Responsibility, Partnership and Community Development. These decrees detail the personnel of facilitation team and CSR forum. These two organizations should communicate so that the synergy of CSR activities with local government programs could be achieved optimally.

Overall, the frameworks attempt to increase the region-based companies' awareness about the need for CSR to address social issues by providing data to these companies about the local government's priorities that can be targeted by CSR activities.<sup>5</sup>

As a result, the quasi-redistributional CSR activities in the region have been conducted by local companies, SOEs, provincial government-owned enterprises, national corporations, and MNCs. The activities target poverty alleviation and the provision of basic public services related to education, health, community income generation, infrastructure, environment, religion and culture, disaster mitigation, and charitable endeavors.

In their attempts to be role models for other companies in the region, some SOEs and semi-privatized SOEs in Sukabumi Regency have undertaken CSR activities for educational purposes, such as the reconstruction of dilapidated school buildings. To improve access to healthcare services, they have carried out activities, such as the construction of a community's health center. To increase community income, the SOEs have facilitated projects, such as training for farmer groups to increase their productivity. In the basic infrastructure sector, some of the SOEs have built communal sanitation facilities for public bathrooms, public laundry, and public toilets. Several activities are related to nature preservation and environmental protection, such as conservation of primates. Additionally, charitable services and donations are usually delivered during religious and cultural events and when disasters occur in the region.

Despite the region-based companies' voluntary adoption of the frameworks since the latter's enactment in 2014, the phenomenon of companies harmonizing their CSR practices with the local government's redistributional function in the community has increased from 23 companies in 2014 to 31 in 2015 and then to 39 in 2016.<sup>6</sup> The local government acknowledges the companies' contributions to local development because they have referred to the frameworks in their CSR activities. Despite its insignificance because the total number of large and medium enterprises in the region is far more than that of the contributing companies, it can be considered that the quasi-redistributional CSR has become one of the driving forces behind the dynamics of CSR activities in the area.

#### **IV. Conclusion**

The differences between developed and developing countries in terms of societal norms and stages of economic and social development induce varying expectations of governments and societies regarding CSR. The CSR literature that abstracts cases from developed countries seems incapable of explaining trends in developing countries where companies that fulfill their CSR act as agents of development. In this regard, the framework of the drivers of CSR activities reflecting on Polanyi's (1944) three major forms of economic organization, as formulated in this paper, might help in understanding the motivations of corporations performing CSR activities in developing countries.

The delivery mechanism of CSR activities, especially for overcoming poverty and poor public services in developing countries, is driven not only by money-making and reciprocity principles but also by the government's intermediary role. For this reason, the CSR phenomenon in developing countries could also be explained by the concept of redistribution. Considering that government power in the concept of redistribution could potentially violate the voluntary nature of CSR, this element of power does not appear when the governments of developing countries play the intermediary role in the delivery mechanism of CSR practices to avoid contradicting the voluntary nature of CSR. By such uniqueness, the phenomenon could be called quasi-redistribution.

Whereas the intermediary role of the governments in other developing countries is not accompanied by the issuance of CSR directives, Indonesia is distinct in that its government institutions have issued frameworks for the quasi-redistributional CSR at national, provincial, and local levels. Nonetheless, these frameworks still emphasize the voluntary nature of CSR. As Indonesia operates under a decentralized system of government, some autonomous regions have attempted to offer CSR frameworks to companies in their regions as a joint effort to address social and developmental issues. Furthermore, the government's efforts to endorse SOEs as role models for other companies in the implementation of CSR practices addressing social and developmental issues have added to the peculiarities and the dynamism of CSR practices in the country.

In particular, this paper has examined the case of Sukabumi Regency, although it is difficult to clearly determine whether a CSR activity in the region is driven by money-making, reciprocity, or quasi-redistribution motives because the motives could be mixed. The increasing phenomenon of companies harmonizing their CSR activities with the local CSR frameworks, coupled with the CSR practices addressing poverty and poor public services undertaken by some SOEs and semi-privatized SOEs as role models for companies in the region, may show that quasi-redistributional CSR has become one of the driving forces behind the dynamics of CSR practices.

From this stand point, future research could illuminate why and how can private companies' voluntary CSR activities harmonize actual distribution with the local government's priorities in poverty and poor public services by only providing data of CSR frameworks and role models (without government power) and compare motivations and targets of CSR activities between SOEs and private companies in the case of Sukabumi Regency.

[Notes]

- 1) Despite the use of regulatory terms that imply a compulsory function with several sanctions for disobedience, sanctions stipulated in any of those laws and regulations for companies that do not refer to such legislation cannot be found. For this reason, this paper calls it a framework instead of a regulation.
- 2) The percentage of fund for CSR activities of SOEs is stipulated in article 8 of the Ministerial Regulation of SOEs Per-09/MBU/07/2015 on the Partnership Program and the Community Development Program about source of funds for the Partnership Program and the Community Development Program. Refer to <http://infopkbl.bumn.go.id/> for more information about CSR activities of SOEs.
- 3) See Indonesia's Minister of Finance Regulation Number 37/PMK.07/2016 about Fiscal Capacity of Regions.
- 4) Documents are provided by the Development Planning Agency of Sukabumi Regency.
- 5) Despite the use of regulatory terms that imply a compulsory function with several sanctions for disobedience, sanctions for the region-based companies that have not addressed the priorities cannot be found.
- 6) As registered by the Development Planning Agency of Sukabumi Regency, all of those companies are the recipients of the local government's CSR award for their effort in harmonizing their CSR activities with the local CSR frameworks.

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