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# Journal of Corporate Social Responsibility

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# Determination of Motivation Factors Toward Corporate Social Responsibility in Small and Medium Enterprises in Indonesia

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## ABSTRACT

The economy of Indonesia is basically characterized by grass root SMEs that make up nearly 99.95 percent of the total number of enterprises. There are 41 million small economic units in the overall economy (including the agricultural sector), 60,000 medium-sized enterprises and more than 2,000 large enterprises. As of 2000, small enterprises accounted for 89 percent of total employments and medium-sized enterprises accounted for 10.55 percent. Conversely, small enterprises only accounted for 41 percent of GDP and medium enterprises 16 percent. Accordingly, the success in promoting SMEs is widely recognized as critical to long-term sustainable economic growth. This research has an aim to determine the motivation factors towards CSR in SMEs in Indonesia which is one of the social responsibilities of the existed SMEs. Exploratory factor analysis identified four underlying dimensions in the CSR motivation of SME managers. The SMEs motivations were grouped into four underlying dimensions: 'Caring for the customers and community', 'Profit through caring', 'Community orientation' and 'the business of business is business'.

**Key words :** CSR, SMEs, Motivation

## INTRODUCTION

In Indonesia, the Law No. 9 of 1995 defines small enterprises as those owned by Indonesian citizens; independent and unaffiliated with large enterprises; and individual businesses, with or without legal licensing, including cooperatives. Further classification by asset size and sales volume is as follows:

**Table 1. SME Classification**

SME	Assets	Sales
<b>Small Enterprise</b>	With assets of < Rp 20 million (excluding land and building)	Annual sales volume not more than Rp.1 billion
<b>Medium Enterprise</b>	With assets > Rp 20 million (excluding land and building) but < Rp.10 billion(US\$1.176 million)	Annual sales volume is > Rp.1 billion

The Indonesia economy is basically characterized by grassroots SMEs that make up nearly 99.95 percent of the total number of enterprises. There are 49 million

small economic units in the overall economy (including the agricultural sector), 106,000 medium-sized enterprises and more than 7,200 large enterprises. As of 7200, small enterprises accounted for 89 percent of total employment and medium-sized enterprises accounted for 10.55 percent. Conversely, small enterprises only accounted for 41 percent of GDP and medium enterprises 16 percent. Accordingly, the success in promoting SMEs is widely recognized as critical to long-term sustainable economic growth.

There is a need to increase the productivity of the SME sector. The productivity gap between the SME sector and large enterprises is so wide that the value added per worker in the SME sector is about 0.5 percent of that of the large enterprises on average. To make the SME-related projects more effective, the Indonesian government has chosen to dedicate itself to adopting a clustering approach with help from non-governmental organizations such as Business Development Services, members of which are spread throughout the nation. The social responsibility concept has emerged because of involving/engaging the civil society organizations, corporations and states all over the world in the community problems. During the last decades the social responsibility of institutions has

been subjected to intense debates, activities and academic research. There are numerous ways researchers and scholars conceptualize the corporate social responsibility (CSR). In principle, CSR refers to three main types of responsibilities that an organization has to fulfill which are economic, social and environmental (Elkington, 1977)

CSR has historically been associated with large corporations (Jenkins, 2004). SMEs are generally believed to heavily emphasize economic imperatives rather than social goals mainly because of their survival strategy and their relatively limited financial base. However, CSR participation of SMEs is reflected in their willingness and financial capability to play a significant role in discharging their social responsibility.

A role for management is relevant for large enterprises with its division of power between owners and managers with small enterprises having a greater likelihood of coincidence of power between owners and managers. Small enterprise owners usually have a more direct impact on the operations and activities of enterprises than those of large enterprises. A close and direct role of small enterprise owners may imply multi-dimensional goals; a commercial orientation as well as personal preferences, objectives, and ambitions such as desire for lifestyle, family and reputation in communities. Consequently, owners of small enterprises play a critical decision making role in determining CSR activities

The aim of this research is to identify the motivational factors for SME owners to engage in CSR domains.

## LITERATURE REVIEW

### The Role of SMEs in the Economy

In developing countries, SMEs have also a crucial role to play because of their potential contributions to improvement of income distribution, employment creation, poverty reduction, export growth and development of entrepreneurship, industry and rural economy. According to Levy *et al* (1999), there is no doubt that the performance of SMEs is extremely important for the economic development of most less-developed countries. For this reason, the governments in these countries have been supporting their SMEs extensively through many programs, with subsidized credit schemes as the most important component. International institutes such as the World Bank and the United Nation Industry and Development Organisation (UNIDO) and many donor

countries through bilateral co-operations have also done a lot, financially as well as technically, in empowering SMEs in developing countries. .

In developing Asia, SMEs have made significant contributions over the years measured in terms of their share in: (a) number of enterprises; (b) employment; (c) production and value added; (d) GDP; (e) enterprises set up by women entrepreneurs; and (f) regional dispersal of industry, among others. The contribution of SMEs is vital in as much as they, by and large: (a) make up 80-90% of all enterprises; (b) provide over 60% of the private sector jobs; (c) generate 50%-80% of total employment; (d) contribute about 50% of sales or value added (VA); (e) share about 30% of direct total exports (Narain, 2003).

### Corporate Social Responsibility

Corporate social responsibility or CSR is described as a concept on corporate performances that help create a better society and a cleaner environment, and these require the managing process of a willing interaction between corporate stakeholders (European Commission, 2001). CSR has been recognized all around the world as one of the suitable ways that should be applied in any business operations. It is believed that running a business ethically and responsibly will be able to construct a sustainable business success. In doing so, various benefits can be created abstractly and concretely, for example good images and brand valuation can be increased and good reputation of the organizations can be built as well (Bevan *et al.*, 2004; Schaltegger & Burritt, 2005; Weber, 2008). Apart from these, opportunity sources and innovation creation abilities can be expanded (Porter & Kramer, 2006; Stephenson, 2009; Weber, 2008). CSR also helps the organizations effectively deal with risks caused by social pressures and pressures from benefit groups (Bevan *et al.*, 2004; Schaltegger & Burritt, 2005). Nowadays, CSR is becoming a business standard for any business organizations to provide their society with ethic performances (Cheng & Ahmad, 2010). All in all, CSR plays a vital part in developing businesses to be sustainably successful in the word of increasingly intense competitions these days.

### Stakeholder engagement

Stakeholder engagement is defined as a process in which a context of dynamic interactions, mutual respects, conversations and changes is created so that trustworthiness on the basis of willing participation can be built (Andriof & Waddock, 2002).



Similarly, Manetti (2011) claims that it is a corporate process relevant to corporate stakeholders' decision making with the intention of encouraging them to take part in a business management. In the process, information is shared, conversation is increased and mutual responsibilities will be constructed. In conclusion, stakeholder engagement refers to an interaction process between the corporate stakeholders and the company in which both of the sections can participate in decision-making processes and mutual responsibilities and respects can be created on the basis of trustworthiness.

According to Arnstein(1969) and Friedman & Miles (2006), stakeholder engagement's elements can be grouped into two types: 1. participation levels in decision making which can be classified into a low level, a medium level and a high level and 2. conversation forms which is comprising of two-way communication and multi-way communication. Many conducted research studies found that stakeholder engagement is related to CSR operations (Kraisornsuthasinee & Swierczek , 2006; Prado-Lorenzo, et al, 2009; Manetti, 2011). Besides, Low & Cowton (2004) assert that stakeholder engagement, particularly the engagement in the group of corporate shareholders, affects the construction of corporate governance (Gifford, 2010).

Research in CSR has sought to identify diverse stakeholder groups (such as supplier, creditor, employees, and the community) and dimensions of CSR, such as narrow to wider perspective as well as costs to benefit-driven orientation of CSR (Quazi and O'Brien , 2000). Quazi (2003) further argued that perceived managerial views of CSR are positively linked with the managerial demographics (such as age, education, and international experience of managers) in Australian corporate sectors. These observations suggest that CSR participation has diverse facets. Accordingly, enterprise stakeholders' needs are interlinked, which in turn emphasises a need for SMEs to develop different strategies towards each group of stakeholders (Maignan, Ferrell, and Ferrell, 2005).

Mankelaw (2005) identified motivational aspects of SME CSR in the context of regional Australia. In particular, the study examined managerial perceptions of CSR participation and the driving forces shaping the status of SMEs in terms of their actual behavior in regard to their community involvement. An enterprise profit motive and CSR perspective of an enterprise was found to represent a range of views.

At one extreme CSR participation was viewed by SMEs as an extension of profit-making activities and, at the other extreme, CSR participation was undertaken with community stakeholders based on purely altruistic motives.

## METHODOLOGY

This research design builds on a survey of members of Small Medium Enterprises in Indonesia. A structured and refined questionnaire was mailed to them. After follow up, a total of 79 completed questionnaires were returned.

Principal component analysis using Varimax rotation was employed to identify the underlying dimensions of twenty statements drawn from the literature reflecting motivations influencing SMEs to engage in CSR practices. 16 strongly loading items (loadings  $\geq .5$ ) for factors having Eigen values greater than 1 were retained. The four resulting factors were named based on the themes captured in the items comprising that factor (see Table 1), with terms used consistent with the CSR literature.

## RESULT AND DISCUSSION

Exploratory factor analysis of the motivational data resulted in four factors. The underlying themes identified ranged from 'caring for society and customers' to 'the business of business is business'. This suggests that SMEs are diverse in terms of their commitment to themselves, their customers and the community overall.

The four factors that emerged (presented in Table 1 explained 85.48 % of the variance. The nature of the factors are described herewith:

**Factor 1:** *Caring for customers and the community.* This factor represents SMEs' willingness to ensure a reasonable financial return for their investment and, at the same time, addresses the views of their customers and the expectations of the community.

**Factor 2:** *Profit through caring.* This factor clearly illustrates SMEs' sincerity with regard to their obligations to the internal markets comprising the most valuable constituents, their employees. The view represented in this factor clearly shows a passion for balancing the economic and social obligations of SMEs.

**Factor3:** *Community orientation.* This factor shows that the SMEs care about the assessment that the community makes of the contribution that SMEs make

to the welfare of the community. This recognition is likely to further motivate the SMEs to be pursued more socially responsible practices.

Factor 4: *The 'business of business is business'*. This factor stresses the primary importance of making sufficient profits for the survival and growth of the business to be able to serve societal needs. This suggests that SMEs are interested in supporting community services if there is an industry-wide practice in CSR. This may stem from the fact that SMEs are driven by their willingness to match the activities of competing firms for strategic purposes

**Table 2 Motivations for SME CSR**

Item	Factor 1: Caring for the customers & community	Factor 2: Profit through caring	Factor 3: Community orientation	Factor 4: Business of business is business
Long-term survival	.862			
Customer approval	.864			
Customer loyalty maintenance	.774			
Enhancement of corporate image	.826			
Addressing recipient needs	.825			
Addressing community needs	.757			
Profit maximization		.872		
Enhanced staff morale		.765		
Staff welfare		.891		
Planned expenditure level		.846		
Better contribution to community			.834	
Community acceptance			.790	
Donations beyond tax implications			.848	
Business's interest in CSR				.637
Donations based on tax incentives				.597
Following industry standards in CSR				.689
<b>Eigen value</b>	<b>6.903</b>	<b>5.137</b>	<b>1.952</b>	<b>1.139</b>
<b>Percent of variance explained</b>	<b>38.350 %</b>	<b>28.536 %</b>	<b>10.842 %</b>	<b>6.33 %</b>

The factor analysis results reveal a diverse SME commitment, ranging from profit orientation to community and customer orientation. The importance of Factor 1 (explaining 31 percent of the total variance), suggests that SMEs are committed to profit for their survival, but, at the same time, they are not guided by selfish attitudes to 'the bottom line'. Rather, it signifies that SMEs are also serious about their

obligations to the broader stakeholders in the community. Factor 4 reflects the classical motivational doctrine of profit maximization; however, this is not a dominant factor in explaining SMEs' perceptions of their corporate and social commitments.

## CONCLUSION

The diverse motivations of SME owners are reflective of the pluralistic nature of people and the heterogeneous nature of SMEs. The SME motivations were grouped into four underlying dimensions: 'Caring for the customers and community', 'Profit through caring', 'Community orientation' and 'the business of business is business'. The findings have potential impacts on internal stakeholders, such as employees and customers, and external stakeholders, such as suppliers, community groups and government policy-makers. The concept of 'caring' is evident in

Factors 1, 2 and 3, whilst an emphasis on profitability is evident in Factor 4. SME owners take on different roles, such as running a business and being part of the community, which, in turn, impacts on SME CSR participation with internal and external stakeholders. Whilst government expenditures on local communities have been reduced as a partial consequence of a 'user pays' approach, the SME sector is both willing and able to make significant contributions to support predominantly local events and organizations in recognition of their community obligations and profit potential.

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# The Concept of Corporate Social Responsibility in Islamic Ethical Regime: Does the Time Need Revival?

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## ABSTRACT

*The purpose of this paper is to analyze the concept of corporate social responsibility in the modern world and to analyze whether this concept is consistent with the tenants of Islam. A descriptive approach is adopted in this research paper in order to find out required fallouts. As the concept of social responsibility is very much dependant on the personal moral values of employees and businesses as well, there can be a deep harmony of the concept with the tenets of Islam. As Islam is a universal religion, that addresses every aspect of life. This research work would provide some strong theoretical basis to the underlying concept in the field of research, because very little work is done so far in this area. The writers reached at a conclusion that no doubt the concept of corporate social responsibility is very much consistent with the tenets of Islam. Yet a wide indifference is present in the actual practices of CSR and Islamic teachings, as Islam does not only focus on the superficial things rather it moves way behind into deep inside.*

**Keywords:** CSR, Islamic ethical system,

## Introduction

Islam is a complete code of life. This is a religion, the laws of which are very close to natural processes and phenomenon's encountered by human beings in everyday life (IslamWeb English, 2013). Allah Subhana O Talla has provided mankind with comprehensive laws in all terms of life, either relating to ibadat or Muamalat. Sharī'ah<sup>1</sup> is comprised of laws, which are universal in nature; they can be applied in various walks of life, even fourteen centuries have passed for the process of revelation has stopped. Lest, some exceptional case arises in the matters of Muamalat which need some elaboration from the classical Fiqh literature and fuqha of the Deen sort out rules regarding that matter through Ijtihad<sup>2</sup>.

Since the last half of the preceding century, the Muamalat, regarding business matters has been revolutionized entirely (Usmani, 2008: 9). Technological advances, modern locomotive means, insurgent financial systems lead the fuqha to perform Ijtihad, extensively in order to test out Sharī'ah permissibility of assorted business/financial matters,

so that it gave rise to an inclusive and alternative financial and business system known as Islamic finance law, in particular (Ahmed, 2013).

In the past few decades much of the work by religious scholars have been done on the financing side of the business, in order to make the entire financial system Sharī'ah compliant, whilst, the other areas of business world e.g. Islamic management, Islamic corporate governance, Islamic business ethics and Islamic leadership styles etc has been deprived of such intense attention and exertion. Corporations, world over, are undergoing a cut throat competition and countenancing newer regulatory implication almost every other day, that are advocating corporations to offer their stakeholders some socially responsible perquisites (Bronn & Vrioni, 2001). If we take a momentary look at the conduct of corporations few decades ago, terms like CSR and corporate governance were not existent in the corporate world. Socially responsible behaviors

<sup>1</sup>Sharī'ah is Islamic law, including both the law and tenets of faith which has been derived by the Fuqha from the ultimate sources i.e. from the Holy Qur'an and Sunnah of the Holy Prophet ﷺ

<sup>2</sup>Ijtihad is the name of an activity in Islamic law, in which amujtahid (a competent scholar) uses all the resources of Islamic law (Sharī'ah) in order to derive some laws (Ahkam) regarding a newer case. Mujtahid perform extensive mental process either to extend the law of the cases mentioned in primary sources to sort out law for the new cases, or to discover the laws through literal interpretation, that have been impliedly mentioned in contextual sources.

were totally distinguished from the responsible behaviors of corporations or in corporations, but from the last 50 years the notion of social responsibility by corporate sector has been gaining momentum as it has become very prominent in recent times (Idowu, et.al, 2013). The credit can be given to the intensive debates regarding the responsible behavior between a society and business, in the late nineteenth century (Idowu, et.al, 2013: ix).

These initiatives changed some corporate concepts entirely, e.g. a shift from investment to socially responsible investment, community investment, social advocacy, philanthropy to strategic philanthropy, venture capital to social venture capital etc<sup>3</sup>. Nevertheless, the practice of CSR<sup>4</sup> has become a superficial mania. This has happened chiefly by most of the large corporations and multination firms and the current schema of all such organizations for CSR has failed, principally in resolving issues pertaining to governance and macro level effects produced by these firms in the host countries (Frynas, 2005).

It is frequently stated by many business analysts that most of the corporations indulge in the process of CSR in order to cater customer's attention and to make their businesses profitable. This view point is totally not accepted by the tenets of Islam. Islam lays stress on the well being of the whole society. The concept of profit maximization has not been paid any upheaval in Islam; rather Islam approves a holistic approach of value maximization, in which it is expected from any firm to incorporate integrity in its policies that upshot in the genuine well being of the whole society (Baig & Tarin, 2010).

This study will hold significance in the area of Islamic research regarding the substance of CSR in Islam. As scholars are extensively putting their eminent endeavors in order to revolutionize the whole business scenario in Islamic maneuvers, this research work will help corporation, willing to implement a *Shari'ah* compliant management and governance structure, a lot.

The first and foremost objective of this study is to evaluate the concept of corporate social responsibility. It is desired to explain that the modern concept of corporate social responsibility is nothing new; Islam presented the concept of social responsibility fourteen centuries back. The second objective of this study is to dig out the differences between the superficiality of the conventional concept of corporate

social responsibility and the pure and deep concept of social well being by everyone in Islam. The third and last objective of this study is to explain that how *Shari'ah* holds rules regarding corporations as juristic persons and apply all the obligations of socially responsible behavior on these juristic bodies.

## Theoretical Background

The concept of CSR had been through a number of evolutionary arenas. The most primitive academic work on the concept of CSR has been done by Adolf Berle and Dodd. Out of which the view hold by former professor was in favor of a responsible behavior towards the stakeholders of any organization, by its management (Berle, 1954) whereas, the latter scholar, Dodd, had written about the concept of CSR in a larger perspective. He had held the responsibility of managers toward the whole community (Dodd, 1931). Lately, Berle accepted that the holistic approach regarding responsibilities of a corporation by Berle is sounder (Berle, 1954: 169). Few decades ago, most of the businesses were used to run without any long term strategies, but shift from short to long term business orientations took place and firm started focusing on building relationships with its stakeholders (after the influx of Relationship Theory) (Morgan & Hunt, 1994). Afterwards, firms started paying focus in establishing good and long term relations with its customers, employees, suppliers and other key stakeholders (Polonsky & Ottoman, 1988). In the last decade of the previous century, huge criticism against the dreadful impacts on environment by various activities of business firms gave rise to a mature and well established code of corporate social responsibility in USA, which was never present formerly (Idowu, et.al, 2013: x).

CSR is often defined as commitment to improve the well being of its community by its corporate resources and efficient policies (Kotler & Lee, 2011: 3). CSR includes in itself the fulfillment of all those expectations (legal, ethical, moral etc.) that society keeps from a business and fulfillment of all claims of stakeholders (Jenkins, 2004: 39). Apart from defining and describing CSR in various ways, much has been written on CSR in different scenarios e.g. analysis from stakeholders perspective (Freeman, 1984), from the business strategy perspective (Kulick, 1999), competitive advantage orientation (Porter, 1987: 43-59), involvement of managerial ethical behaviors and personal values (Hemingway, Maclagan, 2004;

<sup>3</sup>Philip L. Cochran, "The Evolution of Corporate Social Responsibility," Business Horizons 50 (2007): 449-454.

<sup>4</sup>For the purpose of ease Corporate Social Responsibility will be abbreviated as CSR in the body of the text of this article



Quazi & O' Brien, 2000), especially to the financial performance perspective of a firm (McWilliams & Siegel, 2001; O' Brien, 2001; Roman, Hayibor & Agle, 1999) and impacts on customer loyalty (Maignan, Ferrell & Hult, 1999). The concept of CSR, often, is elaborated by the use of various dimensions and models. Elizabeth elucidated three different models of CSR in her research work, out of which the first model is “traditional conflict” of tradeoffs between society and businesses, second model “CSR brings into cash” hold the views that CSR is no more than responsible investment, while the third model “multiple firm goals, all created equal” takes numerous goals of firms into account (Redman, 2005). CSR will result in more productive results if it will be incorporated in various management models (Leonard & Mcadem, 2003). Multivariate theoretical model results in constructive social transformations through an effective use of CSR by firms (Aguilera, et. Al, 2007).

Empirical studies have been conducted in past in order to analyze the collision among the speckled terms of CSR and religion. Ethical values of firms and managers are considered as the key responsible measures of CSR. Religiosity<sup>5</sup> has a deep impact on the ethical values of any person, so religion reinforces the ethical behaviors of employees (Weaver & Agle, 2002). In one such study the affiliation of different religions with social responsibility have been scrutinized, Buddhism do not contain any such support for the social responsibility of corporations, whilst Islam lend its followers clear implication of a socially responsible behavior toward its society (Brammer, Williams & Zinkin, 2007). Due to the tangibility and ambiguity of the term, CSR has remained a topic of critique (Hopkins, 2003). CSR is frequently criticized for the lack of a clear ethical guidance and ambiguity due to the fact, that conventional ethical system is manmade, while Islamic ethical system is divine in nature and guidance (Khan & Karim, 2010). An analysis of western business ethics revealed that, contemporary business ethics are neglecting religious traditions (Calkins, 2000), whereas a strong relation exists between the work *persona* and religious *persona* of an individual (Epstein, 2002). Williams and Zinkin (2005) conducted an empirical research in order to investigate into the differences between the practices of CSR of Muslims and Non- Muslims, and finished off into the requirement of deeper and higher moral and ethical standards by Islamic law. A recent study has revealed that the principles of Islam are in complete

concord with the global pact of UN (Williams & Zinkin, 2010). Though, Islamic law encompasses elements of conventional corporate social responsibility, yet there are stark differences between both approaches (Dusuki, 2008).

Islam, unlike the conventional system, does not accept the superficial responsibility of individuals and firms toward their; rather it advocates a multi-fiduciary approach of stakeholders (Beekun & Badawi, 2005). This is the reason, that Islamic financial institutions are performing ideal ethics due to the divinity of the underlying strategy (Haniffa & Hudaib, 2007).

## Methodology

This is a descriptive study in which secondary data is analyzed from the available discourse on the concept of CSR both in Islamic and western context. Secondary data has been obtained by journals magazines published books etc.

As mentioned, the concept of CSR is suffering from ambiguity in terms of dimensions and definition, since it is claimed by many that as such no particular and comprehensive definition of the term exists in the academic literature. The practice of CSR is being exploited by most of the firms on every scale and serious concerns have been raised about its authenticity. The literature is critically analyzed and outstanding reasoning is provided within Quranic content, in order to evaluate the current concept of CSR in Islamic context, and in order to prove that Islam provides a wider area for the performance of socially responsible behavior in a holistic way.

## History of CSR

CSR in the form of philanthropic works and charities was present in the American society since late nineteenth century (Sethi, 1977). In the first half of the twentieth century, two scholars, Dodd (1931) & Berle (1954) wrote about socially responsible aspect of the corporate sector in *Harvard Business Review*. Whilst, the first apt literature on CSR began with the book of Bowen (1953) the basic theme of his book revolved around the power of influence and impact that most of the large business organizations keep on the societies surrounding them. Later on some academic contributions were made until 1990s, e.g. the work by Eell (1956), Heald (1957), and Selekman (1959). These were among the pioneer works on the emerging concept of a social responsibility by corporate sector.

<sup>5</sup>Religiosity can be described in term of religiousness of an individual. It describes how much a person is religious in matters like performance of the rituals, revering certain symbols, accepting the concepts like death and afterlife etc.

But there lies a significant difference in the earlier and modern approaches toward Corporate Social Responsibility; formerly it was derived by the stakeholders<sup>6</sup> approach rather than societal<sup>7</sup> approach (Marrewijk, 2003). The modern gesticulation of CSR started in 1990s, when multinational US firms were heavily criticized by development organizations, trade unions, NGO's, environmental groups and human right organizations for the exploitation of economies of host countries, followed by the emergence of a number of corporate scandals boycotts of various firms (Idowu, et.al, 2013:x). Eventually, the CSR has reached a point of substance, that a full fledge MBA degree in CSR started at Nottingham University (Cochran, 2007).

### Definition of CSR

CSR, the term, is suffering from obscure definitions and call for of lucidity as not many definitions of CSR are to hand, both, in corporate world and academic literature. The first formal definition in academic literature was given by Bowen (1953). Due to this prevailing ambiguity in CSR term, it is often used with identical terms interchangeably e.g. corporate responsiveness, triple bottom line, sustainability and corporate citizenship (Adapa & Rindfleish, 2013).

CSR is defined as a “concept whereby companies decide to voluntarily contribute a better society and a cleaner environment” ( Commission of the European Communities,2013). It is also defined as “a firm's commitment to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life” (Pomeroy & Dolnicar, 2006).

However the international organization for standardization (ISO) (2007) defines CSR as “a balanced approach for organization to address economic, social and environmental issues in a way that aims to benefit people, communities and society.”

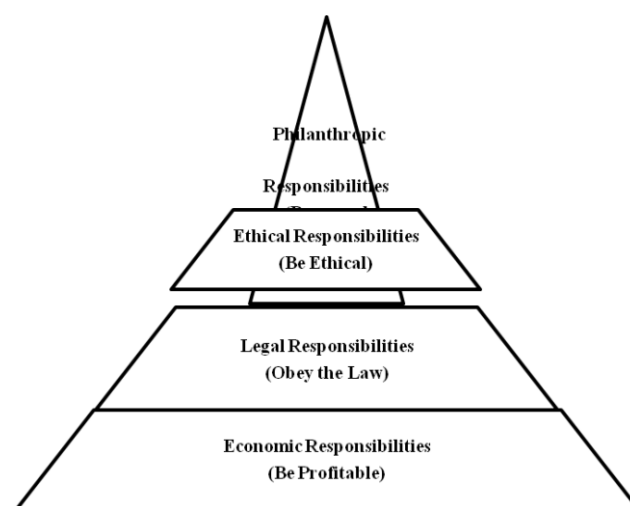
It is also defined as “as the business contribution to sustainable development, which has been defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs, and is generally understood as focusing on how to achieve the integration of economic, environmental and social imperatives” (Strategies, 2013).

## Dimensions of CSR and a Critical Analysis in Islamic Milieu

### 6.1. Carroll's model “the pyramid of CSR” (1991)

It will not be a wrong statement, if one states that, ambiguity in the description of the term CSR is innate. Carroll made an attempt in 1991 to help corporate sector understand the responsibilities of firms toward society. Carroll provided the corporate and academic world with four components of CSR in the form of a pyramid. Brief elaboration of each component is given below:

1. Maximizing earnings per share, being as profitable as possible, to be consistently profitable and maintenance of a strong competitive position are the parts of economic responsibilities of a firm.
2. Following all state, federal and other legal requirements, and following them up to the minimum possible level are the parts of legal responsibilities of a firm.
3. In order to be ethically responsible a firm should never compromise on ethical values and should act in accordance with the society's expectations.
4. The firm should involve itself in some of the charitable works in order to enhance the educational sectors of the society and to enhance the standard of living of the people residing in the society.



(Source: Carroll, 1991)

<sup>6</sup> This approach concerns the interests of its stakeholders instead of shareholders. So organizations while achieving their objectives should focus on the interest of their stakeholders. R. Edward Freeman. Pp. 1-276.

<sup>7</sup> Societal approach holds the views that corporations are responsible toward the whole society, they should serve constructively in order to satisfy the needs of people inhabiting around them. The pioneers of this approach were: Kenneth E. Goodpaster, and John B. Matthews. "Can a corporation have a conscience?" *Harvard Business Review* 60, no. 1 (1982): 132-141. Joseph William McGuire, *Business and society*. (New York: McGraw-Hill, 1963).

## Five Dimensions of CSR by Alexander Dahlsrud (2006)

Carroll provided the academic part with a series of works on the dimensions and characteristics of CSR, yet ambiguity, regarding CSR, prevailed in the system so much that some of the researcher's mentioned in their works that as such not even a single comprehensive definition of CSR exists in literature. Dahlsrud, eventually, tried to analyze thirty six definitions of CSR in order to construct comprehensive dimensions of the underlying concept, on the basis of these definitions. These dimensions along with suitable examples and coded wording are given below in the form of a table, which has been taken from the original work of Dahlsrud.

Dimensions	The Definitions is coded to the dimension if it refers to	Example phrases
The environmental dimension	The natural environment	'a cleaner environment' 'environmental stewardship' 'environmental concerns in business operations'
The social dimension	The relationship between business and society	'contribute to a better society' 'integrate social concerns in their business operations' 'consider the full scope of their impact on communities'
The economic dimension	Socio-economic or financial aspects, including describing CSR in terms of a business operation	'contribute to economic development' 'preserving the profitability' 'business operations'
The stakeholder dimension	Stakeholders or stakeholder Groups	'interaction with their stakeholders' 'how organizations interact with their employees, suppliers, customers and communities' 'treating the stakeholders of the firm'
The voluntariness dimension	Actions not prescribed by law	'based on ethical values' 'beyond legal obligations' 'voluntary'

Source: Alexander Dahlsrud

An analysis of these five terms revealed that except from environmental dimension, the rest four dimensions perform significantly while defining CSR. According to the views of the researcher it can be attributed that prior to 1999 (Carroll, 1999) environmental dimension was never considered a part of CSR or it was not present explicitly in the definitions of CSR.

## Analysis of Dimensions of CSR in Islamic Milieu

**CSR in Religious Thoughts** It is required by the corporations to follow some universal ethical codes while performing their routine activities e.g. obeying the law, maintaining the integrity etc (Schwartz, 2005). In 2006 a multivariate model was presented in order to illustrate the impact of multiple actors (employees, inside & outside stakeholders, governments, NGO's) in impeding the organization's CSR activities (Aguilera, et.al, 2007). It is been regarded, too, that managers of any firm are responsible for the socially responsible actions of firm by setting various policies and making decisions that fall out of the legal requirements (Mosley, Pietri & Leon, 1996 :141). Yet, it's also viewed that personal values of employees, through the discretion of individual, play a lot in the implementation and adoption of CSR policies (Hemingway & Maclagan, 2004). Whereas, it is well accepted by all that most of the prominent religions have a strong drive on the personal values and behaviors of their followers. Nearly all research in the field of psychology and sociology has accepted that personal values of individuals are highly influences by the level of religiosity of individuals (Saroglou, Delpieree & Dernelle, 2004) as religion stoutly affects ethical behaviors of individuals in organizations and corporations (Weaver & Agle,2002).

Islam, like all other divine religions pay attention at the ethical behaviors of its followers in every walk of life and it has been studied by many in the context of ethical behaviors of firms and in firms (Ali, 2005). Recent studies among 17,000 people from twenty different countries, has strongly augmented the supportive nature of Islam toward the ethical behaviors of firm because the teaching of Islam were highly consistent with the denominations of the study. It was found that Islam laid stress on the corporations to bring social welfare by the means of poverty alleviation, charitable errands (Brammer, Williams & Zinkin, 2007).

**Corporations “Juristic Persons”** In western law the companies hold the status of a legal entity. According to Pakistan's companies law “Companies ordinance, 1984” a company is a corporate body with the status of separate legal entity. As a separate legal entity, companies are supposed to bide by all the rules and regulations, they can sue, and can be sued.



Although the modern concept of limited liability companies is not found in Islam, yet the basic concept of separate legal identity is derived from Fiqh. Islam first introduced this concept centuries ago in the form of Waqf and Bait ul Mal. The concept of joint stock companies in some shape is present in the Fiqh of Imam Shafi as according to him Zakah would be levied on the partnership business (Usmani, 2008). The great contemporary scholar, Mufti Taqi Usmani in his renowned book has passed imperative remarks about the legal status of a company and limited liability concept from Islamic point of view, which are as (Usmani, 2008):

- A juristic person is to be treated as a human being in all legal consequences
- As a person after becoming insolvent, suffers from the liquidation of all of his assets; similarly a company has to undergo liquidation in case of becoming insolvent and it will carry the same status as a dead person.

**Ethical and Philanthropic Dimensions** According to a survey by The Economist (2013) about the practices of CSR by good companies, most of the CEO's of the large corporations had views that they need to make huge charities and involve in philanthropic activities, as their organizations might not have good reputation in their society. At the other end many managers attributed it a form of philanthropy with other people's money. The writers held capitalism responsible for the unfair and unjust economic and social progress. In short this survey refers corporate social responsibility nothing ethical and philanthropic, but a mere mean to maximize money and power. These flaws can be attributed to be the consequences of manmade laws.

But Islam holds a completely different aspect about such ethical and philanthropic activities of the society. As the Islamic law is divine in nature, and it clearly describes the purpose of creation of human being in the Holy Quran: "I have only created Jinns and men, that they may serve Me"<sup>8</sup> Then Allah, Subhana O Talla presented man with the rank of His vicegerent on this earth in all matters relating to life on this planet and made life a test for the mankind in order to check who perform good deeds and who go astray. "He who created Death and Life, that He may try which of you is best in deed: and He is the Exalted in Might, Oft-Forgiving,"<sup>9</sup>

<sup>8</sup> Al Qur'an, 51:56.

<sup>9</sup> Al Qur'an, 67: 2

<sup>10</sup> Al Qur'an, 5: 8

<sup>11</sup> Al Qur'an, 9: 71

<sup>12</sup> Al Qur'an, 49: 12

Afterwards, Allah Subhana O Talla provided mankind with divine guidance through revelation on Prophets in different eras. Muslims are blessed with the last Messenger of Allah, the exalted and the Holy book of Qur'an. The life of the Holy Prophet ﷺ is a complete role model for the people of this world till the end of time. So the modern word ethics or ethical is derived from the word Akhlaqin Fiqh terminology (Siddiqui, 1997). Islam expects all sort of ethical behaviors from a corporation in order to be socially responsible toward the inside and outside stakeholders e.g. following verses of the Holy Qur'an ask for the highest possible ethical values, one can represent. Islam does not allow its followers to sway from justice even in case of hatred and fight, too.

"O ye who believe! stand out firmly for Allah, as witnesses to fair dealing, and let not the hatred of others to you make you swerve to wrong and depart from justice. Be just: that is next to piety: and fear Allah. For Allah is well-acquainted with all that ye do."<sup>10</sup>

"The Believers, men and women, are protectors one of another: they enjoin what is just and forbid what is evil: they observe regular prayers, practice regular charity, and obey Allah and His Messenger. On them will Allah pour His mercy: for Allah is Exalted in power, Wise."<sup>11</sup>

Islam does not allow spying any one or keeping an eye on any one's affairs rather it promises reward on keeping a good view about others. This can be applied in assigning due privacy to the employees in side an organization. "O ye who believe! Avoid suspicion as much (as possible): for suspicion in some cases is a sin: And spy not on each other behind their backs. Would any of you like to eat the flesh of his dead brother? Nay, ye would abhor it...But fear Allah. For Allah is Oft-Returning, Most Merciful."<sup>12</sup>

The fifth dimension of Dahlsrud model "environmental responsibility" falls under the head of ethical responsibility of the firms. In the verse mentioned below there is a description of both good doers and evil doers. As the basic tenet of Islam is the faith on the Day of Judgment and accountability in front of Allah Subhana O Talla for every single act that man will commit on this earth. Hence in this verse the results of both types of deeds are clearly mentioned.

At this point of discussion it becomes evident that how much the personal value system of managers is important in order to perform the CSR related activities with due diligence as these are the decisions that corporations cannot take at their own.

“There is the type of man whose speech about this world's life May dazzle thee..... When he turns his back, His aim everywhere is to spread mischief through the earth and destroy crops and cattle When it is said to him, "Fear Allah., He is led by arrogance to (more) crime. Enough for him is Hell;-An evil bed indeed (To lie on)!And there is the type of man who gives his life to earn the pleasure of Allah. And Allah is full of kindness to (His) devotees.”<sup>13</sup>

“Do no mischief on the earth, after it hath been set in order, but call on Him with fear and longing (in your hearts): for the Mercy of Allah is (always) near to those who do good.”<sup>14</sup>

It would be a worth mentioning point here that the Islamic ethical system differs a lot from the conventional ethical system. There are numerous things that fall in the list of unlawful practices in Islamic context, while they are allowed in conventional ethical system e.g. intoxication, interest based financing and gambling etc. “O ye, who believe! Intoxicants and gambling, (dedication of) stones, and (divination by) arrows, are an abomination, - of Satan's handwork: eschew such (abomination), that ye may prosper”<sup>15</sup> “Those who avoid the greater crimes and shameful deeds, and, when they are angry even then forgive; Those who hearken to their Lord, and establish regular Prayer; who (conduct) their affairs by mutual Consultation; who spend out of what We bestow on them for Sustenance; And those who, when an oppressive wrong is inflicted on them, (are not cowed but) help and defend themselves.”<sup>16</sup>

Now if the second dimension of Carroll's pyramid is taken, which includes philanthropic and charity works beyond the legal requirements, Islam hold very strong views about it. Unlike the self-seeking capitalistic economic system, Islam does not hold the concept of private property in unbridle way. It is the firm believer of each and every Muslim that Allah, the Almighty is the real owner and creator of everything and wealth in the hands of mankind is His amanah. So it is the dire responsibility of each and every Muslim to give some part of their wealth to the deserving people in society as charity (Usmani, 2002).

<sup>13</sup> Al Qur'an: 2: 204-207

<sup>14</sup> Al Qur'an, 7:56

<sup>15</sup> Al Qur'an, 5: 90.

<sup>16</sup> Al Qur'an, 42: 37-39

<sup>17</sup> Al Qur'an, 51: 19

<sup>18</sup> Al Qur'an, 2: 195

<sup>19</sup> Al Qur'an, 64:16

“And in their wealth and possessions (was remembered) the right of the (needy,) him who asked, and him who (for some reason) was prevented (from asking)”<sup>17</sup>

“And spend of your substance in the cause of Allah, and make not your own hands contribute to (your) destruction; but do good; for Allah loveth those who do good.”<sup>18</sup>

“So fear Allah as much as ye can; listen and obey and spend in charity for the benefit of your own soul and those saved from the covetousness of their own souls,- they are the ones that achieve prosperity.”<sup>19</sup>

Holy Prophet ﷺ throughout his life settled the finest examples of philanthropy and well being of the mankind. Holy Prophet ﷺ passed on serious instructions regarding charitable works. He ﷺ said: “Every Muslim must pay Sadaqqah (charity)”

Apart from that Islam establishes a complete system of helping the needy in society and improving their standard of living by putting up a managed system of zakah and Bait ul Mal.

### Economic and Legal Dimensions

The legal and economic aspects of CSR as per the Carroll's description contradict a lot with the Islamic teachings of a responsible behavior. It can be stated that it is the unbridled profit maximization motive of the Capitalism that lead most of the CSR representatives of the firm to earn in exorbitant profits in the name of socially responsible activities. Islam upholds the rules of justice in each and every scenario and it does not allow its followers any type of fraudulent practices.

“Give full measure when ye measure, and weigh with a balance that is straight: that is the most fitting and the most advantageous in the final determination.”<sup>20</sup>

“Is it they who would portion out the Mercy of thy Lord? It is We Who portion out between them their livelihood in the life of this world: and We raise some of them above others in ranks, so that some may command work from others. But the Mercy of thy Lord is better than the (wealth) which they amass. Concentration of wealth in few hand sis highly disapproved in Islam”<sup>21</sup>

Islam lays much stress in observing all legal requirements stipulated by the state of the law. It prohibits unwanted practices like hoarding, stipulation

and monopoly. "Those who faithfully observe their trusts and their covenants,"<sup>22</sup>

## Conclusion

**"CSR is nothing new in Islamic View"** This paper evaluates the contemporary western concept of Corporate Social responsibility. Historical background of the emergence of CSR is presented in order to fully grasp the concept and most prevalent and most accepted dimensions of CSR are presented in order to realize the basic aim of this research work.

It is viewed since last century that few modern movements gave rise to relatively newer terms in the field of business and management in west. Despite their so many claims to be socially responsive and socially responsible, most of the firms are involved in the exploitation of these terms for the mere sakes of earning in exorbitant profits. This has been criticized severely in west, too, and many research scholars have tried to explain the real worth of such terms in Islamic context.

Islam is not a mere religion it is a complete code of life, a natural way of life that guides its followers in every aspect of life. The Islamic approach regarding corporate social responsibility is not a mere apprehension of the term; rather Islam provides a holistic approach and it is backed by a reinforcement mechanism of Sharī'ah by the concept of accountability on the Day of Judgment, as is mentioned in the Holy Qur'an:

'Everyman's fate we have fastened to his neck: On the Day of Judgement we shall bring out for him a scroll, which he will see spread open'<sup>23</sup>

The contextual analysis of normative business ethics of Islam and the evolving western terminologies revealed clear differences. Though, the requirement of a socially responsible behavior in regard of ethics, philanthropy, economic and legal justification is nothing new in Islamic context. The so called modern concept of companies/firms as a separate legal person originates from the very primitive concepts of Juristic person in Fiqh. It is also worth mentioning that many activities fall in the category of prohibition in Islamic law, while they are the active part of the western practices of Corporate Social Responsibility.

Some remarkable concepts are present in Islamic law, that help shaping up the personal values of individuals in their best form e.g. Tazkiya, Taqwa (piety), adal,

<sup>20</sup> Al Qur'an, 17: 35

<sup>21</sup> Al Qur'an, 43:32

<sup>22</sup> Al Qur'an, 23:8

<sup>23</sup> Al Qur'an, 17:13

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# Examining the Idea of Corporate Social Responsibility and Sustainable Development

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## **ABSTRACT**

*Philosophically, human beings are by birth corrupted, because, they inherently possess the tendency to exploit the nature, as it can be thought along with the Lacanian insight we get as revealed in psychoanalytic experience. Therefore, it is only at the face of a real danger of being terminated from this world, human beings have started to think of any alternative seriously apropos of the idea of a sustainable development. In this paper thus, I want to set an ethical tone for ourselves that speaks volume of a proper way of having any discussion in terms of a corporate social responsibility. I argue that it is the corporate world itself that has the capacity to discuss and think of a recovery, in the same way it can also destroy the very possibility of any such development that sustains.*

**Key Words (Social) responsibility, Lacan, Zizek, Sustainable Development**

## **Introduction**

There are three things about the term 'corporate social responsibility'. First is the 'responsibility' itself to which the other two are only adjuncts or predicates. The second is the concept 'social'. Thirdly the image we get from the word 'corporate'.

The first term i.e. responsibility as such has a lot to do with the issue what human being actually is. It can go with a definition of human being, or, it may render to what it means to be human. We know that without taking any responsibility we cannot say that we have done something of our own. Philosophically speaking, we are not agents if we do not have responsibility. And, if we do not have agency we have no freedom tout court.

Therefore, responsibility as understood through agency and freedom is an important ingredient of our ontology. Ontology means what actually is or what is the original. Whether we can talk or think of our ontological status does not affect the ontology. That means, what actually we are, what in fact is our true being, does not get tempered by what we become or what we make ourselves to be. In a way, that is why, by taking it for granted that we are responsible and thus free human being we also try to say that we can really talk of our ontological issues. But, are we really free? Can we take responsibility for everything we do?

That establishes us in the realm of the social. We do feel that we many a time take up no responsibility for actions we commit to, and, in that case responsibility is superimposed upon us. By what? What we can immediately say as an answer is that it is by the social structure what we cannot avoid when we commit ourselves to some unavoidable actions. For example, we do feel bad when we pass by a beggar, let's say in India, but we cannot help him/her in the sense that we are not so rich enough to do that.

The fact is; the social and the ontological cannot be equated. The social is a construction, a build-up, a set-up for human being where they can accommodate themselves. It is ruled by norms and regulations which are the super-structure of the social. The base of these structural normatively and regularity is the ideology working in disguised form as taboos. An ideology is that what influences us to do something and we unconsciously get motivated by it. On the other hand, ontology is that upon which the social is erected. The social tries to arrest the ontology as such but can do it never fully. Therefore negatively saying, ontology refers not only to what we are, but also to what we could have been. In that sense, only by repressing a part of our ontology human society has been inaugurated in a particular way.



From the social then we can talk of the corporate. We can understand the corporate as a very distinct and concrete way of looking at the social and arresting the virtuality of it. As such, the corporate plays the same kind of role in terms of imposing a particular developmental set-up for the social in the similar way the social does for the ontological. Thus, it tries to rule out the other possibilities of the social.

In itself the corporate is a concrete embodiment of the abstract social. The corporate has its own laws and rules; it is singular as a unit, and shared by the involvement of all the members that constructs its body. A good corporate, at the same time, can represent the beautiful mixture of the ideology of democracy as well as monarchy, in the sense that everybody can raise his/her hands up asking something or proposing something for the benefit of the unit as realized in a scale of hierarchy.

But, it seems that by the super-imposing character the corporate does much harm to the virtuality of the social, for anyway it cannot get rid of the definite intentionality of establishing itself in terms of profit and power – a profit that can strengthen itself and power that will weaken others. These two factors are also made important for the individuals belonging to the corporate because it gives them a higher standard of pleasurable life and once they start enjoying that they mould their responsibility in accordance with the unit. Thus the human individual loses his/her greater horizon of looking at the society.

But the fact is; only that individual who can have that kind of a horizon of looking at things coming out of the spectacular concrete look offered by the corporate regarding the pleasure oriented profit and power can be beneficial for the health of the corporate as such. Because the corporate has to establish itself through a competition and with an understanding of the mind-set of the people who are not member of the corporate but upon whom the corporate relies on to run its course. Otherwise the corporate loses its vision and collapses within itself.

Clearly enough then, the corporate has to acquire the virtual space of the social it ignored once in order to establish itself. That means it has to be liberal enough not to be selfishly profit-oriented and power-seeker. Does it mean that it should be selflessly profit gainer and power preserver? That seems contradictory.

But this contradiction is not at all impossible. Does this not mean exactly ironically enough when the corporate wants to discuss a sustainable development – a development that not only helps oneself but also makes others develop, and therefore it sustains? So, this is the understanding from the point of the corporate when there is an issue of sustainable development.

From the point of the individual, we can see then that a human being is doubly determinate when he/she comes under the concrete definition of the corporate. He/she gets determinate by the social reality first on which case he/she has to sacrifice a part of his/her ontological life, and then he/she is defined by the determination of the corporate world and eventually thus he/she loses the virtual possibility of a better social life.

Therefore the individual who commits him/herself to any kind of social action just merely repeats a history and any effort in terms of a sustainable development hence turns out to be a farce that makes a mockery of the human life, for instead of reaching the truth of ontological nature it often breaks the *whole* of nature and creates inassimilable residue in the margin of society. For example, a corporate body like Vedanta can hardly ever reasonably account for the people who were driven out of their land and thereby compelled to resort to a formality of Naxalbari or Maoism which can very easily categorized as terrorism.

This is but the reason then human beings start gradually coming away from his/her own being becoming corrupted by the lure of profit-power oriented motto of life. So, humans become slowly slaves of a determination, or definiteness, or a structure.

The fact is; this impossible sustainability that makes possible two contradictory things to get posited together – the selflessness and the profit – is a familiar story of the human life. The social which can be understood in a Lacanian way as the symbolic-imaginary reality of our culture co-adjusts with the ontological natural what it also tries to repress. This repression can be realized in the eventuality of taking up only a certain way of leading and understanding our life underestimating the other possible ways. These ways that have been so far ignored could have possibly been far better ways of life if ever celebrated.

And therefore a life which can embrace the all possibilities can only be a real life and a life that has lost something natural will keep incessantly running after a cause of desire, created by the loss, understood in a *objet petit a* as Lacan would say of it. And this will show our apparently contradictory nature of life as well.

Therefore, what we are doing by our effort of rationalizing things in a vision of development that sustains we may in fact be led by at least two things apparently. One is a super-egoic sense of guilt we all the time carry in our pre-conscious and unconscious mind apropos of a world which is changing so fast in terms of a worry that we won't be able to leave a beautiful enjoyable world to our future generations. The other follows from the first that the world is changing and we are losing that with what we could feel at home, we could feel a motherly shelter and thus we are feeling a nostalgic desire for that what we have already lost.

We ignore these two points from our individual side when we try to see things. Our best argument for looking for a sustainable development may be that we are facing a real danger of the meteoric change of environment and that may affect the people in such a way that it may leave us with no market where we can exercise our freedom lucratively having a discussion like we are having now.

What can we get as a warning from philosophers like La can is that while rationalizing things we are telling a lie to ourselves. It is in the sense that when we rationalize we do it consciously and therefore ignore the unconscious part of our being where the ontological feeling of our true being sustains. By trying to think rationally of everything we repress that ontological part; just like while trying to give ourselves an argument of not paying any heed to a sick person outside a big hotel room lying on the street begging for his survival when we just come out after a *profitable* discussion that it is due to his own faults, or, it is because of the social structure, or we have not the essential credibility to help him as such, we ignore that somewhere deep in our heart we feel a disturbing feeling. This example is a conscious example. What we actually do unconsciously is in fact a monster.

The ironical part is that though we are discussing these all things, that a global structure has been constructed by the corporate world's lucrative policies what we name as capitalism, that it has encroached our being in terms of the concrete, abstract, or the virtual; i.e. in terms of the corporate, the social, and the ontological respectively so much that we even cannot think of an alternative to it; we are doing it only by the means of a rationalization. Can then this rationalization account for a true sustainable development that cares for our feeling?

This is the question that tells us to think about rationalization itself. We can very easily say that capitalism is bullshit, for it hinders our freedom, creates uncontrollable hierarchy, exploits nature in such a way that nature itself seems to get offended and showing the threat of the destruction of the world. We can relate capitalism to the corporate by a definition that may say that it is the intentionality of the corporate. But this also asks us to think why only this can be the intentionality of the corporate? Are we trying to suppress something?

The fact is that, our conscious rationality circles around an imaginary ego by what we look to the world. This ego gives us the sense of our self, an *i-ness*. Therefore we get seduced by it in such a way that we now can identify ourselves only through this self, this *i-ness*. So, whenever we try to do something selflessly it means only that we do not have any sense of *i-ness*. But paradoxically enough it is this *i-ness* which gives us an identity in the social. Therefore, when we talk of a social responsibility we are doing it only for our own sake; we are dealing with the matter narcissistically.

This only shows that how a reality of the social is constructed. People with their own egos are participating in it and it is therefore inevitable that whatever becomes out of it as a consequence must be satisfying in terms of the egoistic imagination. And the egoistic imagination gets satisfied with the orientation of profit and power in the conscious level of human being.

This is the reply in fact to the Zizekian question apropos of our inability to find out an alternative to the global capitalistic order at the face of the real danger of the destruction of the earth when we can very easily think of an alternative abode outside otherwise than

the earth. The corporate is not the problem therefore; the problem is the human being itself. Until and unless, human beings keep emphasizing only on a definite way of life the problem will *sustain*. It is the case, because, one problem's elimination does not suggest that other problems will not take over. In fact, we need problems to see things clearly and search for a solution in terms of a balanced approach. We need what we already have, but we have to change our attitude. We have to have space for everything. Garbage is created by the determined approach. That has to be checked. We must keep in mind that if something is repressed deliberately in the name of profit it will hit us back in turn. A determinate answer for determinate action. A Tit for Tat.

This again brings us back to the story of the purloined letter as analyzed by Lacan. The secret love letter can be handled only by the queen, who also holds the power. If someone steals it then he/she will face the curse of holding the power. That is why; the wound can be healed only by the spear that smote it. It is only the corporate who can therefore heal the wound without sacrificing the power. The individual can exercise his/her agency only in that set-up and realizing this means that he/she already has recovered his/her freedom and therefore being responsible.

A phenomenology of psychoanalytic experience says that human beings are ontologically split between the natural and the social, a natural that appeals us to think in terms of a sustainable *feeling* and a social that always talks of a profitable *thought* of development. This splitness has to be realized in the corporeal body of the corporate that embodies a social form. A visionary outlook that can truly think of a sustainable development in the feel of natural well-being then must go beyond any corporeal contextualization and formalization. Thus, the true approach of the corporate would actually be acquiring a reflection over the contextualization of a Freudian manifest dream story and formalization of any repressed feeling like anger or frustration of day-to-day life, i.e. to say contextualization of attaining an *ideal* status and formalization in terms of profit or competition as realized in the advertise-mental attitude of today's global seduction. This will be called a contextualization of the former two that gives a real vision. *Nobody* can have a definite boundary. For example, human body is only culturally can be

defined, by not realized. What can we say about the excretes or wastes that comes out of our body? We can neither include them nor exclude them. The body of the corporate is like that only. The waste it produces cannot be taken not to be within its own territory. In a way, this is good, because it confirms the multi-dimensionality of the social in the formalization as well as virtuality of the natural in terms of contextualization. If the corporate can feel what the individual inside and outside its body needs then it can contextualize its policy accordingly and only the corporate then can do it as such.

This can actually be equated with the presence-absence game of the signifier as devised by Lacan of the Freudian game of fort-da. The signifier is the unconscious intentionality of the corporate, that oscillates between a presence-absence. When it becomes conscious, i.e. when it is made significant in terms of a definite ambition of profitable gain it loses henceforth its dynamicity and gets arrested in the static unavoidable and unalterable structure of capitalism. Capitalism therefore cannot be flexible like the signifying chain, the rich cannot become the poor or the poor become rich. Thus it fits into the Hegelian picture of the master-slave dialectic. The master would always remain the master though he has to depend on the slave for his position of mastery and thus he will always make the slave remain as slave. Thus, a communism of Marx would have to argue against this framework suggesting that the master is not free but the slave is because for his slavery he needs not to depend on the master. On the other hand, in the level of signifier, i.e. in the virtuality of the social the corporate could have been actually fluid, because there is no question of fixation there. Thus, a real sustainable development to take place; this fluidity must have come through the indefinite definition of a corporate work policy.

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## Endnotes:

1. Baudrillard, J. (2010). *Carnival and Cannibal, Ventriloquous Evil*, trans by Chris Turner. London, New York, Calcutta: Seagull Books. p.3.
2. "This paradoxical, unique, specified object we call the *objet a*...I love you, but, because inexplicably I love in you something more than you – the *objet petit a* – I mutilate you." Lacan, J. (1981). *The Seminar of Jacques Lacan, Book XI, The Four Fundamental Concepts of Psychoanalysis*; ed. by Jacques-Alain Miller and trans by Alan Sheridan. New York and London: W.W. Norton & Company. p. 268. I have taken this *objet a* which is the missing point Culture sacrificed in order to be Culture.
3. Zizek, S. (2007). *The Ticklish Subject: The Absent Centre of Political Ontology*. New Delhi: ABS Publishers & Distributors. P.213
4. Lacan, J.(2006). *Ecrits: The First Complete Edition in English*. Trans. by Bruce Fink. New York and London: W. W. Norton & Company. pp. 75-81.
5. Zizek, S. (2010). *Living in the End Times*. London: Verso. p. 10.
6. "Our detour is thus validated by the very object which leads us into it: for we are quite simply dealing with a *letter* which has been *detoured*, one whose trajectory has been *prolonged*, or, to resort to the language of the post office, a letter *en souffrance* (awaiting delivery or unclaimed). Here then, the letter's singularity, reduced to its simplest expression, is "simple and odd," ...and the letter is, as the title indicates, the *true subject* of the tale. Since it can be made to take a detour, it must have a trajectory which is proper to it – a feature in which its impact as a signifier is apparent here. For we have learned to conceive of the signifier as sustaining itself only in a displacement comparable to that found in electronic news strips or in the rotating memories of our machines-that-think-like-men, this because of the alternating operation at its core that requires it to leave its place, if only to return to it by a circular path." Lacan, J. (2006). *Ecrits: The First Complete Edition in English*. Trans. by Bruce Fink. New York and London: W. W. Norton & Company. pp. 20-21.

7. It is realized in the same spirit of the multi-dimensional machine Deleuze and Guattari talk of. Deleuze, G. and Guattari, F. (2005). *Anti-Oedipus: Capitalism and Schizophrenia*. London and New York: Continuum.
8. "For the signifier is a unique unit of being which, by its very nature, is the symbol of but an absence. This is why we cannot say of the purloined letter that, like other objects, it must be *or* not be somewhere but rather that, unlike them, it will be and will not be where it is wherever it goes." Lacan, J. (2006). *Ecrits: The First Complete Edition in English*. Trans. by Bruce Fink. New York and London: W. W. Norton & Company. p. 17.

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# Corporate Social Responsibility Disclosure Impact on Financial Performance of Manufacture Companies

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## **ABSTRACT**

*Corporation Social Responsibility is a form of corporate concern for the welfare of employees, social and environment. This research aimed to assess the impact of CSR disclosure on the financial performance of manufacture companies listed in Indonesia Stock Exchange (IDX). This research used secondary data from manufacture companies' annual report period 2009 to 2011 who present CSR information. The analysis model used to test the hypotheses is simple linear regression analysis. Data analysis began by compiling descriptive statistics, tested the classical assumptions and hypothesis testing. The results of this research indicate CSR disclosure period 2009 and 2010 has positive significant impact to the company's ROA and ROE period 2010 and 2011. While, CSR disclosure period 2009 and 2010 has negative significant impact to leverage period 2010 and 2011.*

**Keywords** CSR, ROA, ROE, Leverage

## **Introduction**

Environmental issues and global warming which lately more prevalent among the people of the world have an impact on the sensitivity of society on the environment. Some methods are used to create a better living environment. The impact of environmental issues not only in the community, but also in the corporate environment. The growing of world's economy that marked by increase in some industries, lead the sharp of industrial competition. However, competition of companies are increasing to social unrest because of the exploitation of natural resources and waste generated by the activities of the companies which resulted in the destruction of nature that naturally disturb human life. The phenomenon like that give a new accounting concept of Corporate Social Responsibility (CSR).

CSR is a form of social responsibility for employees, communities, and the environment. CSR is not just a social trend but as for the companies ongoing efforts to create economy more environmentally. Companies whose business related in natural resources should pay attention to the surrounding environment, as any activity undertaken by the company either directly or indirectly have an impact on the environment. Given the tradeoffs between the company and its environment, communities are expected to be received both the companies' presence and provides a variety of benefits for the companies and the environment. In addition, CSR operated by the companies is expected to give feedback on positioning the companies to build brands, increase sales, expand market share, increase employees' loyalty, and improve corporate attractiveness to investors (Kottler and Lee, 2005).

Today, CSR is no longer seen as a necessity, but as an investment that will give a great benefit to the company. CSR can be broadly dedicated to environmental protection as human rights and the company is required to participate actively in the development of social welfare in the surrounding environment. It was taken by the Indonesian government with the enactment of UU No. 40 Tahun 2007 on Limited Companies and requires the company in its business in the field of or related to the field of natural resources to implement social and environmental responsibility.

Nowadays people tend to be more intelligent, critical, and selectively assess the level of companies' awareness to CSR. This affected the increasing number of companies that disclose CSR information in annual financial statements. One of this is manufacturing company sector. It also encouraged many benefits that can be obtained from the companies' CSR disclosure. One of them is to push up the image and sales of the companies, then this will have an impact on improving the companies' financial performance. Based on this background, the authors are interested in doing research on Corporate Social Responsibility Disclosure Impact on Financial Performance of Manufacture Companies.

## **Objectives and Benefits of the Research**

The purpose of this research was to determine how the influence of CSR on financial performance of manufacturing companies listed in Indonesia Stock

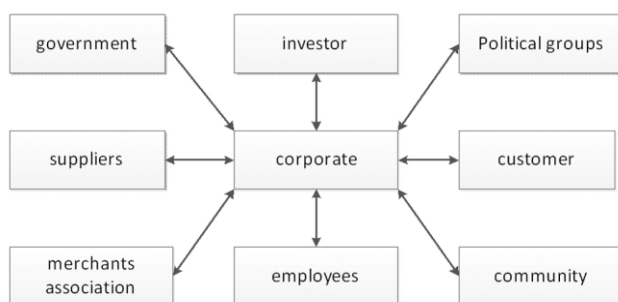
Exchange period 2009-2011. This research is also expected to be useful both theoretically and practically, especially in economics and accounting. Theoretically, this research is expected to add knowledge about CSR. In addition, the results of this research can be used as a reference for future research. Practically, the results of this research are expected to give consideration for companies to disclose CSR in its financial statements. As for the external users, this research can provide an overview of the companies' CSR activities as well as for make the economic decision.

## Literature Review

### Definition and Concept of CSR

According to Darwin (2004) in Aggraini 2006, "Corporate Social Responsibility (CSR) is a mechanism for an organization to voluntarily integrate social and environmental concerns into its operations and its interactions with stakeholders, which exceeds the organization's responsibilities in law, while the World Bank defines CSR as a commitment of business to contribute to sustainable development working with employees, their families, local communities, and society at large to improve their quality of life that are both good for business and good for development."

The concept of CSR is closely linked to sustainable development. In its reporting, CSR is divided into three categories: economic performance, environmental performance, and social performance. With the CSR, orientation of the company is expected to not only focus on profit but also preserves and contribute to society and the environment (Darwin, 2004 in Anggraini 2006).



Sources: Budiman et al, 2004 in Artipratiwi (2007)  
Figure 1. Company's Cooperation Model

In practice, CSR is not only provides benefits to society and the environment but also provide benefit to the company. Many benefits can be gained from CSR activities include increasing sales and market share, strengthening brand positioning, enhance the

corporate image, reduce operating costs, and enhance the attractiveness of the company in the eyes of investors and financial analysts. Moreover, by implementing CSR consistently on a long term of course the surrounding community will receive the company's presence.

### CSR Disclosure in Indonesia

Corporate social responsibility disclosure is a process of communicating the social and environmental impacts of an organization's economic activities for special group who having an interest and for society as a whole. According to Wibisono (2007), CSR disclosure in the annual report is intended for the evaluation for the company. In addition, its report also became a means of communication with shareholders and stakeholders.

In Indonesia, CSR is popular since the 1990s. Some companies actually have been doing CSA (Corporate Social Activity) or social activities of the company. Although the application of CSR began to grow, but to date CSR disclosure in annual reports still voluntary. In PSAK (Standards Accounting in Indonesia) No.1 Paragraphs Nine declare the industry which the environment has an important role can to present additional statements about the environment and value added statement. However, it does not explicitly required companies to report their social responsibility. Grouping, measurement, and reporting are not also regulated. Social responsibility reporting was submitted on each company and the CSR's items who company disclosed still become an voluntary information.

The importance of CSR has also received the attention of governments and companies in Indonesia. UU No. 40 Tahun 2007 (law in Indonesia) about Limited Liability Companies (Article 74 paragraph 1a) requires companies whose business on field and or related with natural resources to commit CSR. CSR in Indonesia only required for certain areas of the company related to the severity of the environmental damage that occurred in Indonesia and the world, ranging from deforestation, air and water pollution, and climate change (Utama: 2007). Now corporate social responsibility report has gained more attention from the company, it is seen from the increasing number of companies which presenting environmental responsibility report in their annual report or in the supplemental report and a separate special report.



This is caused by high public appreciation of the company that is friendly to the environment.

### CSR Disclosure Index

One way of to measure CSR disclosure is with measure CSR disclosure index. CSR disclosure index is an indicator that shows the completeness of the presentation or disclosure of CSR. There are several types of disclosure index of corporate social responsibility, one of which is the GRI (Global Reporting Index) of the Global Reporting Initiative. Global Reporting Initiative is an organization created to promote the standards which provide guidance for companies to issue sustainability reports on social responsibility. GRI reporting's framework have a purpose as a framework that can be generally accepted in the reported economic performance, environmental and social from an organizations. This framework is designed to be used by various organizations of different sizes, sectors, and location.

Indicators in the GRI covering performance economy's indicators, environmental performance's indicators, labor practices and decent work, human rights and product responsibility. However, because of the GRI indicators not assessed in accordance with the CSR disclosure in Indonesia who is still common then there are a few adjustments and the elimination of some items. Another indicator that can be used to measure CSR disclosure is to use the items contained in the journal of Sembiring, 2005, which uses seven categories: environment, energy, health, labor safety, labor, product, and community involvement and public. Its seven categories are divided into 90 items of disclosure which adopted from Hackston research and Milne (1996). These categories tend to be properly used in CSR activities by the company in Indonesia.

According to Bapepam's regulations No. VIII.G.2 about the suitability of the annual report and the item to be applied in Indonesia, so did adjustments. Twelve items are written off because inappropriate to applied with conditions in Indonesia so the remaining 78 items of disclosure. Measurement scale used for measuring the CSR disclosure is checklist method that every item in the CSR instrument was give score 1 if disclosed and the score 0 if it is not disclosed. Then, the scores of each item are summed to obtain the overall score for each firm (Haniffa et al, 2005) in Indrawati (2009).

### Company's Financial Performance

Company's financial performance is one of the aspects that are considered by the users of financial statements to take economic decisions. The financial performance of the company can be used as a benchmark of achievement or success of a business entity. Some ratio that can be used to measure the performance of the company is the following ratio:

#### Return on Asset (ROA)

Return on Assets commonly referred to the return on investment (ROI). This ratio measures the efficiency of use of company's resources or assets to generate net income. ROA shows a company's ability to get profit from their assets used. The greater ROA shows the better company's performance, because the rate of return increases. ROA can be measured by:

$$ROA = \frac{\text{net income}}{\text{Total Assets}} \quad (1)$$

#### Return on Equity

Return on Equity (ROE) indicates the company's ability to generate earnings based on a particular equity. This ratio is a measure of profitability from the point of shareholders' view. ROE can be measured by:

$$ROE = \frac{\text{net income}}{\text{equity}} \quad (2)$$

#### Leverage

Leverage is also referred to as debt to equity ratio is a financial ratio that can be used to measure the financial performance of the company. This ratio can be used to measure how much the company depends on the creditors to financing company's asset. The higher leverage ratio of a company indicates higher capital financed by debt. Companies that have good financial performance tend to have low leverage ratios because it shows that only a small portion of corporate assets are financed with debt. Leverage can be measured by:

$$\text{Leverage} = \frac{\text{liabilities}}{\text{equity}} \quad (3)$$

### RESEARCH METHODOLOGY

The population in this research is a manufacturing companies listed in Indonesia Stock Exchange in the period 2009-2011.

While the sample selected by purposive judgment sampling method. The sample selection criteria are the companies publish annual financial reports in 2009-2011 and companies disclose the information of CSR in the financial report in 2009-2011. Based on the criteria, it gained 15 manufacturing firms as the object of research. The data used in this research is secondary data. Secondary data is taken from the companies' annual financial statements of the object in this research.

Independent variable used in this research is the disclosure of CSR in the companies which is the object of research. CSR disclosure in this study was measured by CSDI (Corporate Social Disclosure Index). The dependent variables are ROA, ROE, and leverage. Techniques data analysis of hypothesis testing using simple linear regression using SPSS 15.0. Steps taken in hypothesis testing is to test descriptive statistics, classical assumption test, and test hypotheses. In this research, there are three models to test the hypothesis. This test is performed to analyze the effect of independent variables on the dependent variable, with the following model:

$$ROA_{(t+1)} = a + CSDI_{(t)} \quad (4)$$

$$ROE_{(t+1)} = a + CSDI_{(t)} \quad (5)$$

$$LEV_{(t+1)} = a + CSDI_{(t)} \quad (6)$$

## Result and Analysis

### Result of Descriptive Statistic

The result is obtained from the analysis data using SPSS, while descriptive statistic is presented in table 1. Descriptive statistic shows the observation amount of the research (N), minimum and maximum values, average, and deviation standard of each variable which is used in the research. This is table of descriptive statistic result.

Table 1. Result of Descriptive Statistic

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
ROA(t+1)	30	,0189	,2330	,120857	,0633283
ROE(t+1)	30	,0135	,3030	,189620	,0784269
LEV(t+1)	30	,0947	3,2357	,867897	,7044720
CSDI(t)	30	,1795	,5769	,367950	,1086862
Valid N (listwise)	30				

From the table of descriptive statistics result above, we can see that the research object of  $ROA_{(t+1)}$ ,  $ROE_{(t+1)}$ ,  $LEV_{(t+1)}$ , and  $CSDI_{(t)}$  does not show negative value. It means that the company which became the object of

research does not suffer loss during research period. In addition, it also can be seen that the minimum value of CSDI which describes the level of CSR disclosure in company of object research amounts 0,1795 and maximum value is just about 0,5769 with average 0,3679. This illustrates that the disclosure of CSR in Indonesian companies is relatively low when compared with CSDI maximum value that is-1. The low of completeness CSR disclosure level in Indonesian manufacturer company which being the object research is caused by the less attention of CSR disclosing in the annual financial report. Moreover, the characteristic of CSR disclosure which is voluntary also causing the less CSR disclosure in Indonesia. Therefore, the company does not provide complete items in *GRI (Global Reporting Index)*.

### Result of Classical Assumptions Test

Before conducting trial regression hypothesis with double regression, researcher did test of four classical assumptions first; normality test, autocorrelation, heteroscedasticity, and multi-co-linearity. The result of normality test shows that all three models of data spread around the diagonal line and follow the direction of the diagonal line so that the regression model fulfill the assumptions of normality. Autocorrelation test was conducted by the Durbin-Watson method is concluded that there is no autocorrelation in this research. In heteroscedasticity test, obtained scatter diagram shows no pattern it means no heteroscedasticity. The assumptions test of classical multi-co-linearity shows that serious problem in the existence multi-co-linearity is not proven.

### Result of Hypothesis Test

#### Analysis of First Regression Model

Based on the result of hypothesis test of first simple linear regression model, be obtained a table 4.2. The result test of table T shows a connection between independent and dependent variable. Here are the results of T hypothesis test and regression equation for the first model:

Table 2. The Result of Hypothesis Test of the First Regression Model

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,024	,038		,636	,530
	CSDI(t)	,263	,098	,452	2,681	,012

a. Dependent Variable: ROA(t+1)

$$ROA_{(t+1)} = 0,024 + 0,263 CSDI_{(t)}$$

Regression model above shows that every increase of 1 CSDI variable unit will impact on the increasing of  $ROA_{(t+1)}$  about 26,3 %. Based on table above, we can see that beta coefficients are positive, it means there is a positif effect between independent and dependent variable. Besides, CSDI asymptote sig of 0,012 which is smaller than 0,05 indicate that  $CSDI_{(t)}$  has significant positive impact of  $ROA_{(t+1)}$ . So, the researcher concludes that the first hypothesis is accepted, it means that CSR disclosure in t year has a significant positive effect on  $ROA_{t+1}$ . These results are consistent with the study result by Daniel Janrian Sihotang (2012). These results indicate that the increase in CSR disclosure by a company can improve a company's ROA of the following year. CSR which is undertaken by the company gives a feedback to company to build brand positioning, increase sales, expand market segment, increase the loyalty of employee, and improve the company attractiveness to the investors (Kottler and Lee, 2005).

### Analysis of Second Regression Model

The result of hypothesis test of the second simple linear regression model is derived the following table and regression equation:

Table 3. The Result of Hypothesis Test of the Second Regression Model

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,067	,046		1,452	,158
	CSDI(t)	,332	,121	,461	2,746	,010

a. Dependent Variable: ROE(t+1)

$$ROE_{(t+1)} = 0,067 + 0,332 CSDI_{(t)}$$

Regression model above shows that each increase of 1 CSDI variable unit will impact on the increase of  $ROE_{(t+1)}$  about 33,2%. Based on table above, we can see that beta coefficients are positive, it means there is a positif effect between independent and dependent variable. Besides, CSDI asymp sig indicates that  $CSDI_{(t)}$  has significant positive impact of  $ROE_{(t+1)}$ . So, the researcher concludes that the second hypothesis is also accepted, it means that CSR disclosure in t year has a significant positive effect on  $ROE_{t+1}$ . These results are consistent with the study result by Danu Candra Indrawan (2011) and Daniel Janrian Sihotang (2012).

### Analysis of Third Regression Model

Based on the hypothesis test for the third model, then we get the following table and regression equation:

Table 4. The Result of Hypothesis Test of the Third Regression Model

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,528	,451		3,389	,002
	CSDI(t)	-1,795	1,177	-,277	-1,525	,138

a. Dependent Variable: LEV(t+1)

$$LEV_{(t+1)} = 1,528 - 1,795 CSDI_{(t)}$$

Based on the table above, it can be seen that the beta coefficients are negatives, it means that there is a negative effect between dependent and independent variables. In addition, the asymptote sig CSDI amounted 0,138 greater than 0.05 indicates that  $CSDI_{(t)}$  has a significant negative effect on  $LEV_{(t+1)}$ . It can be concluded that the third hypothesis is rejected. It can be concluded that the third hypothesis is rejected. It means the CSR disclosure in t-year has negative insignificant impact to leverage  $_{(t+1)}$ .

## Conclusion and Implication

### Conclusion

According to research result and analysis above, the researcher can draw a conclusion as follows: (1) the disclosure of CSR information that measured by CSDI in the annual report of the t-year impacts significantly positive to  $ROA_{(t+1)}$ , (2) CSDI of the t-year impacts significantly positive to  $ROE_{(t+1)}$ , and (3) CSDI in the annual report of the t-year impacts negative but does not significant on the company leverage  $_{(t+1)}$ . This research shows that increase disclosure of CSR on corporate financial statements will impact the company's improved financial performance. This is illustrated by an increase in corporate profits and declining leverage ratio of the company.

### Implication

Implicitly this research suggested that the increase disclosure of CSR can improve the image of the company, so company's sales can be increased. Then it can increase its profit, it is also an impact on improving the company's ability to repay its debts so that the leverage ratio decreased. The results of this research are expected to be a consideration for companies to disclose CSR information in its financial statements. In addition the company is expected to pay more attention to the completeness of the items presented in the CSR disclosure in accordance with the GRI standards applied.



Due to this CSR disclosure can provide many benefits for the company. In terms of investors, expected results of this research may be one of the considerations for investing in a company. While for the reseacher, the results of this study are expected to add insight about the company's CSR disclosure.

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## Author's Profile

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Ayu Mulyaningsih is currently an accounting student at Gunadarma University Jakarta, Indonesia. Ayu has been active student in paper competitions and has some research papers. She has achievements at the national paper competition finalist on Corporate Social Responsibility & Sustainable 2013 in Andalas University, Indonesia. She has also successfully got scholarship in her campus and successfully to qualifying paper of the Global Academic Network on Fraud in ASEAN at International conference events to be held in Portugal

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### Sartika



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# The Triple Bottom Line: An Approach to Sustainability

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## **ABSTRACT**

*Urwick says “earning of profits cannot be objective of any business any more that the eating is the objective of living”. This research paper has tried to focus on the nature of CSR and the sustainability of corporate. According to H.R. Bowers the Corporate Social Responsibilities as 'Obligation (of Managers) to pursue those policies, to make those divisions or to follow those lines of actions which are desirable in terms of the objectives and values of our society'. John Elkington strove to measure sustainability during the mid-1990s by encompassing a new framework to measure performance in corporate America. This accounting framework, called the triple bottom line (TBL), went beyond the traditional measures of profits, return on investment, and shareholder value to include environmental and social dimensions. By focusing on comprehensive investment results—that is, with respect to performance along the interrelated dimensions of profits, people and the planet—triple bottom line reporting can be an important tool to support sustainability goals. The paper highlights that the Interest in triple bottom line accounting has been growing across for-profit, nonprofit and government sectors. Many businesses and nonprofit organizations have adopted the TBL sustainability framework to evaluate their performance, and a similar approach has gained currency with governments at the federal, state and local levels. This paper reviews the TBL concept, explains how it can be useful for businesses, policy-makers and economic development practitioners and highlights some current examples of putting the TBL into practice by different companies.*

**KEY WORDS :** *CSR, Sustainable Development, TBL- Triple Bottom Line, People, Planet, Profit, John Elkington.*

## **Introduction of CSR**

The concept of Corporate Social Responsibility (CSR) is not new in India. It emerged from the 'Vedic period’ when history was not recorded in India. In that period, Kings had an obligation towards society and merchants displayed their own business responsibility by building places of worship, education, inns and wells. Although the core function of business was to create wealth for society and was based on an economic structure, the business community with their rulers believed in the philosophy of “Sarvalokahitam” which means "the well-being of all stakeholders.

As the CSR refers to the obligation of the business towards the various government and social institutions there are many corporate who are playing the role towards the society directly and indirectly even some of the corporate personalities and

the industrialist playing role for CSR by remaining behind the curtain and are very far away from the media – publicity. Now let us see the role of various corporate and the various form of 'Helping Hands' for the society and the development of Nation as the basic motto of any corporate in these days so as to maximize the company's overall impact on the society and the stakeholders.

The CSR Policies and the practices and programmes are being fully integrated by an increasing no. of companies through their business operations and the process. Now a days the existing and upcoming corporate are of opinion that the activity of CSR is not just form of unproductive expenditure but it is very much important and essential for the protecting the goodwill and the reputation and tool of the defending attacks and increasing the business competitiveness.



Indian society is witnessing a market in rapid transition, characterized by a growing degree of liberalization, privatization and globalization. The acceptance of social responsibility is redirecting Indians to their cherished values and teachings of their ancestors and their religious scriptures in the field of business. There are different ways through which a firm can exert positive social change in society and collaborate with partners who have the explicit power to trigger such change. With the growing power and authority vested with the corporations, corporations are now answerable for a wider range of issues and are held responsible for their actions to a multiple level of stakeholders.

### Statement of Problem

The question arises that when the companies are running well, then why there is a need for a C.S.R and triple bottom line reporting? The current need, emergence of CSR and also TBL has become very crucial if the companies have to survive in the market.

### Relevance of the Study

This study highlights that the effectiveness and the power of CSR and TBL are not only limited up to philanthropy, but also it is becoming an eminent place on the part of corporate sector too. As this research paper focuses the light on the TBL- its whole scenario and the current parts which are involved in screening and safeguarding People, Planet and Profit.

### Objectives of the Study

The objectives of the present study are as follows:

1. To study important aspect of CSR.
2. To study the concept of Triple Bottom Line.
3. To study the importance of TBL reporting.
4. To understand the working of TBL in corporate houses to move towards sustainable development.
5. To study the implementation of TBL by various Corporatist at Domestic and at International Level.

### Research Methodology

The data is secondary in nature. It is collected through various research publications, journals – online & printed, magazines, web sites. The literature is checked and validated to gives the latest and accurate information.

### The Triple Bottom Line

"Independence begins at the bottom... A society must be built in which every village has to be self-sustained and capable of managing its own affairs... It will be a free and voluntary play of mutual forces... In this structure composed of innumerable villages, there will be ever widening, never ascending circles. Life will not be a pyramid with the apex sustained by the bottom. But it will be an oceanic circle whose center will be the individual. Therefore the outermost circumference will not wield power to crush the inner circle but will give strength to all within and derive its own strength from it." - Mahatma Gandhi

The triple bottom line (abbreviated as TBL or 3BL, and also known as people, planet, profit or "the three pillars") captures an expanded spectrum of values and criteria for measuring organizational (and societal) success: economic, ecological, and social. In the private sector, a commitment to corporate social responsibility (CSR) implies a commitment to some form of TBL reporting. This is distinct from the more limited changes required to deal only with ecological issues. For reporting their efforts companies may demonstrate their commitment to CSR through the following:

- Top-level involvement (CEO, Board of Directors)
- Policy Investments
- Programs
- Staffing resources
- Signatories to voluntary standards
- Principles (UN Global Compact-Ceres Principles)
- Reporting (Global Reporting Initiative)

Triple Bottom Line (TBL) accounting expands the traditional reporting framework to take into account social and environmental performance in addition to financial performance. In 1981 Freer Spreckley first articulated the triple bottom line in a publication called 'Social Audit - A Management Tool for Co-operative Working'. In this work, he argued that enterprises should measure and report on social, environmental and financial performance. The phrase was coined by John Elkington in his 1997 book *Cannibals with Forks: the Triple Bottom Line of 21st Century Business*. Sustainability, itself, was first defined by the Brundtland Commission of the United Nations in

1987. The concept of TBL demands that a company's responsibility lies with stakeholders rather than shareholders. In this case, "stakeholders" refers to anyone who is influenced, either directly or indirectly, by the actions of the firm. According to the stakeholder theory, the business entity should be used as a vehicle for coordinating stakeholder interests, instead of maximizing shareholder (owner) profit.

The concept behind the triple bottom line is that companies are responsible first and foremost to all their stakeholders, and these include everyone that is involved with the company whether directly or indirectly, as well as the planet we're all living on. This approach sees shareholders as part of the stakeholder group, but only as part of it. The triple bottom line is made up of "social, economic and environmental" factors.



"People, planet and profit" succinctly describes the triple bottom lines and the goal of sustainability. The phrase, "people, planet, profit", was coined by John Elkington in 1995. "**People**" pertains to fair and beneficial business practices toward labour and the community and region in which a corporation conducts its business. A TBL company conceives a reciprocal social structure in which the well-being of corporate, labour and other stakeholder interests is interdependent.

In concrete terms, a TBL business would not use child labour and monitor all contracted companies for child labour exploitation, would pay fair salaries to its workers, would maintain a safe work environment and tolerable working hours, and would not otherwise exploit a community or its labour force. A TBL business also typically seeks to "give back" by contributing to the strength and growth of its community with such things as health care and education. Quantifying this bottom line is relatively new, problematic and often subjective.

The Global Reporting Initiative (GRI) has developed guidelines to enable corporations and NGOs alike to comparably report on the social impact of a business.

"**Planet**" (natural capital) refers to sustainable environmental practices. A TBL company endeavors to benefit the natural order as much as possible or at the least do no harm and minimize environmental impact. A TBL endeavor reduces its ecological footprint by, among other things, carefully managing its consumption of energy and non-renewables and reducing manufacturing waste as well as rendering waste less toxic before disposing of it in a safe and legal manner. "Cradle to grave" is uppermost in the thoughts of TBL manufacturing businesses, which typically conduct a life cycle assessment of products to determine what the true environmental cost is from the growth and harvesting of raw materials to manufacture to distribution to eventual disposal by the end user. A triple bottom line company does not produce harmful or destructive products such as weapons, toxic chemicals or batteries containing dangerous heavy metals, for example.

Often environmental sustainability is the more profitable course for a business in the long run. Arguments that it costs more to be environmentally sound are often specious when the course of the business is analyzed over a period of time. Generally, sustainability reporting metrics are better quantified and standardized for environmental issues than for social ones. A number of respected reporting institutes and registries exist including the Global Reporting Initiative, CERES, Institute 4 Sustainability and others. The eco bottom line is akin to the concept of Eco-capitalism.

"**Profit**" is the economic value created by the organization after deducting the cost of all inputs, including the cost of the capital tied up. It therefore differs from traditional accounting definitions of profit. In the original concept, within a sustainability framework, the "profit" aspect needs to be seen as the real economic benefit enjoyed by the host society. It is the real economic impact the organization has on its economic environment. This is often confused to be limited to the internal profit made by a company or organization (which nevertheless remains an essential starting point for the computation). Therefore, an original TBL approach cannot be interpreted as simply traditional corporate accounting profit *plus* social and environmental impacts unless the "profits" of other entities are included as a social benefit.

## What is Corporate Sustainability?

Corporate sustainability essentially refers to companies' efforts to reduce the negative effects they have on people, the environment, and on the economies where they operate. The three components - economic, environmental and social are commonly referred to as the triple bottom line (TBL) framework and are interlinked. The idea is that companies have an effect on the people where they do business, on the local environment, as well as the economy and so companies should take action and commit to reducing negative effects. Examples of each component of the triple bottom line are explained below:

- **Social** This refers to companies' commitment to gender equality; diversity; workplace health and safety; retention initiatives; human rights; etc.
- **Economic** This refers to profitability, job creation, expenditures on outsourcing and human capital, etc.
- **Environmental** This refers to companies' efforts to decrease the negative impacts their products / services have on air, water, land, biodiversity, peoples' health; their commitments to increase energy efficiency; reducing waste; etc. Environmental initiatives such as reducing carbon footprint are generally considered "low-hanging fruit" which showcase company's efforts to "go green" and help improve organizational reputations.

With an increasing amount of stakeholders - including employees, investors, and customers paying attention to companies' corporate sustainability efforts, companies are re-engineering their supply chains to make them "greener" and are increasingly supporting social causes within communities.

## Effect of Corporate Houses and Changes in Society

Massive investments of corporate bring huge changes in any geographical location effecting on life style, culture, thinking process, economy and so on. But they remain away from taking the responsibility of the changes which bring several disturbances in environment, micro to macro economy; culture, poverty reasons, unhealthy & unknown effects on life and vegetation. The speed with which the corporate grow never matches with the growth or changes of people displaced, affected and live in close vicinity of industry or mines. People suffer a lot because the changes caused by the giant profit making units and sacrifice their peace and healthy life.

We people in corporate claim that there is a positive economic change across the industrial area. It is true that corporate try to build up huge infrastructures, physical facilities and bring many other people benefiting programs. The underneath aim is to keep people silent over the large scale changes they make while operate on forest, agriculture land, streams, rivers which are mostly revered as, Mother nature-natural resources . With those the culture and emotion of local people are attached. Their livelihood, life style, food, traditional knowledge, medicines, religion, language and thinking process are inter-winged. Neither any progressive Govt nor any profit making business house can value it. Because the priority and mission motive is to move forward to make physical infrastructure, profit and facilities as the urban facility is a single point focus for them.



## CALCULATING THE TBL

The TBL is an accounting framework that incorporates three dimensions of performance: social, environmental and financial. This differs from traditional reporting frameworks as it includes ecological (or environmental) and social measures that can be difficult to assign appropriate means of measurement. The TBL dimensions are also commonly called the three Ps: people, planet and profits. We will refer to these as the 3Ps.

Before Elkington introduced the sustainability concept as "triple bottom line," environmentalists wrestled with measures of, and frameworks for, sustainability. Academic disciplines organized around sustainability have multiplied over the last 30 years. People inside and outside academia who have studied



and practiced sustainability would agree with the general definition of Andrew Savitz for TBL. The TBL "captures the essence of sustainability by measuring the impact of an organization's activities on the world ... including both its profitability and shareholder values and its social, human and environmental capital. The trick isn't defining TBL. The trick is measuring it.

**The 3Ps do not have a Common Unit of Measure. Profits are measured in Dollars. What is Social Capital measured in? What about Environmental or Ecological Health? Finding a Common Unit of Measurement is one Challenge.** Some advocate monetizing all the dimensions of the TBL, including social welfare or environmental damage. While that would have the benefit of having a common unit—dollars—many object to putting a dollar value on wetlands or endangered species on strictly philosophical grounds. Others question the method of finding the right price for lost wetlands or endangered species. Another solution would be to calculate the TBL in terms of an index. In this way, one eliminates the incompatible units issue and, as long as there is a universally accepted accounting method, allows for comparisons between entities, e.g., comparing performance between companies, cities, development projects or some other benchmark. An option would do away with measuring sustainability using dollars or using an index. If the users of the TBL had the stomach for it, each sustainability measure would stand alone. "Acres of wetlands" would be a measure, for example, and progress would be gauged based on wetland creation, destruction or status quo over time. The downside to this approach is the proliferation of metrics that may be pertinent to measuring sustainability. The TBL user may get metric fatigue.

## WHAT MEASURES GO INTO THE INDEX?

There is no universal standard method for calculating the TBL. Neither is there a universally accepted standard for the measures that comprise each of the three TBL categories. This can be viewed as a strength because it allows a user to adapt the general framework to the needs of different entities (businesses or nonprofits), different projects or policies (infrastructure investment or educational programs), or different geographic boundaries (a city, region or country). Both a business and local government agency may gauge environmental sustainability in the

same terms, say reducing the amount of solid waste that goes into landfills, but a local mass transit might measure success in terms of passenger miles, while a for-profit bus company would measure success in terms of earnings per share. The TBL can accommodate these differences. In addition, the TBL is able to be case (or project) specific or allow a broad scope—measuring impacts across large geographic boundaries—or a narrow geographic scope like a small town. A case (or project) specific TBL would measure the effects of a particular project in a specific location, such as a community building a park. The TBL can also apply to infrastructure projects at the state level or energy policy at the national level. The level of the entity, type of project and the geographic scope will drive many of the decisions about what measures to include. That said, the set of measures will ultimately be determined by stakeholders and subject matter experts and the ability to collect the necessary data. While there is significant literature on the appropriate measures to use for sustainability at the state or national levels, in the end, data availability will drive the TBL calculations. Many of the traditional sustainability measures, measures vetted through academic discourse, are presented below.

## Economic Measures

Economic variables ought to be variables that deal with the bottom line and the flow of money. It could look at income or expenditures, taxes, business climate factors, employment, and business diversity factors. Specific examples include:

- Personal income
- Cost of underemployment
- Establishment churn
- Job growth
- Employment distribution by sector
- Percentage of firms in each sector
- Revenue by sector

## Environmental Measures

Environmental variables should represent measurements of natural resources and reflect potential influences to its viability. It could incorporate air and water quality, energy consumption, natural resources, solid and toxic waste, and land use/land cover. Ideally, having long-range trends available for each of the environmental variables would help organizations identify the impacts a project or policy



would have on the area. Specific examples include:

- Sulfur dioxide concentration
- Selected priority pollutants
- Electricity consumption
- Fossil fuel consumption
- Solid waste management
- Hazardous waste management

### Examples of Companies Adopting Triple Bottom Line

Southern Energy Management: Solar Power, Energy Efficiency, Green Building -- Working Together!

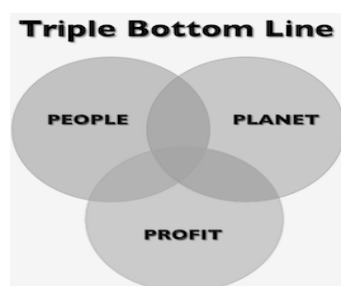
Southern Energy Management is a sustainable energy services company serving the Southeast and Mid-Atlantic from our headquarters in North Carolina. Our services include the design and installation of residential and commercial solar power systems, residential energy efficiency testing, and green building certification for home owners, builders, companies, non-profits, and government clients.

Our goal is to make it as simple and cost effective as possible for everyone to invest in sustainable energy solutions for a better future. Please **Choose from the Options Above** to learn how we can help you integrate sustainable energy solutions into your home or organization.

“This is a company whose mission is to reduce carbon emissions that contribute to climate change and to build a sustainable, triple-bottom-line company that values people, the planet and profit. These folks believe they can help change the world for the better and we couldn't agree more.” — U.S. Secretary of the Interior Ken Salazar

### People, Planet, Profit

We're committed to providing our clients with sustainable energy solutions that help them save energy, save money and reduce their carbon emissions over the long-term. We're equally committed to creating a sustainable NC triple bottom line company that is positioned to thrive for a long time to come.



This section of our website is dedicated to explaining what exactly we mean by the triple bottom line (people, planet, profit), and how we're working toward that part of our mission each and every day. Instead of aligning our daily operations with the traditional "single bottom line" -- profit -- the triple bottom line approach is a sustainable business philosophy that also takes into account people and the planet. As a company, we're deeply committed to this framework and believe that by approaching business through this lens we can provide our highest possible value to our clients, team, and communities.

### Being a Sustainable Business is so important to us, that it's part of our Two-Pronged Mission

- 1) To improve the way people make and use energy.
- 2) To build a prosperous company that supports people and the planet.

### And we Became a Certified B Corporation

Visit our fellow B Corp. We found that the B Corporation standards align perfectly with our mission and the direction we're heading in. We're proud to be a Certified B Corporation since November 2009. We joined B Corp because we wanted to be transparent about what we're doing and to help us identify areas for improvement. One step we took was to write down our guiding principles for community service, environmental sustainability and local purchasing.

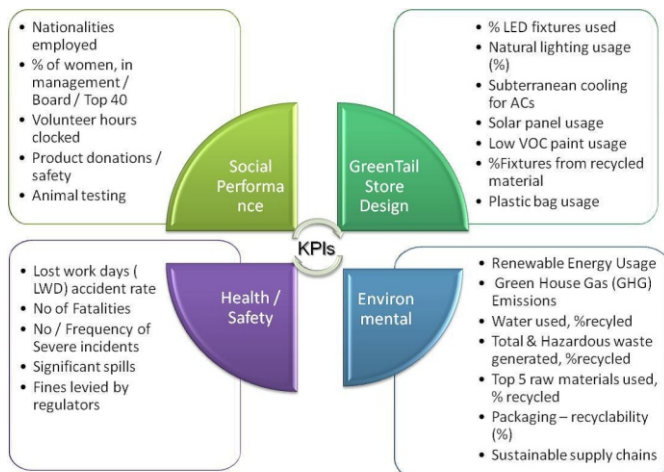
### Idea

The idea enjoyed some success in the turn-of-the-century *zeitgeist* of corporate social responsibility, climate change and fair trade. After more than a decade in which cost-cutting had been the number-one business priority, the hidden social and environmental costs of transferring production and services to low-cost countries such as China, India and Brazil became increasingly apparent to western consumers. These included such things as the indiscriminate logging of the Amazon basin, the excessive use of hydrocarbons and the exploitation of cheap labour.

### Companies In Retail Sector - Sustainability in Retail-A "Triple Bottom-Line" Approach

Do good values make for good business? This panel showcases examples of successful sustainability initiatives globally and in Indian Retail. Retailers are an intrinsic part of their local communities – and a natural aggregator of community opinion. In this role they are capable of setting and driving/ amplifying

local themes and concerns around sustainability. Globally retailers such as Carrefour S.A., M&S, IKEA, Starbucks, Timberland, M&S, Puma and Consumer Product companies have adopted a “triple bottom line” approach – People, Planet & Profit. This panel will discuss global trends driving sustainability across the retail sector, the type of initiatives being undertaken and also share the practices that have helped business maximize profits, mitigate risks, while managing environmental impact. As the infographic overleaf shows, companies are beginning to develop metrics to measure sustainability initiatives. Some pioneers have also translated the metrics into savings or “Cash Value Add” – i.e. the dollar amount of savings (net of the cost of the initiatives) generated from adopting sustainability, as compared to a past baseline. It is clearly explained in the following diagram.



Source: © RAI. Compiled from Reckitt Benckiser 2011 sustainability report, Stora Feb 2013 & Green marketing: The competitive advantage of sustainability @ <http://www.ehp.qld.gov.au/register/p01860aa.pdf>

The objective of the above diagram is to highlight global trends driving sustainability – with relevance to the retail sector, and the type of initiatives being undertaken. There are several similar approaches to secure stakeholder participation and input in designing the TBL framework: developing a decision matrix to incorporate public preferences into project planning and decision-making using a "narrative format" to solicit shareholder participation and comprehensive project evaluation, and having stakeholders rank and weigh components of a sustainability framework according to community priorities. For example, a community may consider an important measure of success for an entrepreneurial development program to be the number of woman-owned companies formed over a five-year time period. Ultimately, it will be the organization's responsibility to produce a final set of measures applicable to the task at hand.

**KEA** – The legendary maker of assemble-it-yourself furnishings lowered its supply-chain costs by dramatically reducing the environmental impact and financial costs of its product distribution. The company strives for “flat packaging” that squeezes every cubic inch out of every box. That lets IKEA pack its trucks and trains much more compactly and increase its fill rate as much as 50 percent. The result: decreases in fuel consumption by as much as 15 percent. In one instance, the company trimmed three centimeters from a box for a sofa, enabling it to fit four more sofas on a trailer.

**Hewlett-Packard** – Customers of the dominant printer manufacturer were increasingly reluctant (or unable) to dispose of old toner cartridges for its acclaimed laser printers. Nimble competitors selling reconditioned cartridges were also eroding the lucrative after-market of a key HP business. In response, HP launched “Planet Partners,” a high-margin, \$100 million recycling and remanufacturing business that recycles 11 million cartridges each year.

**General Electric** – As part of its groundbreaking “Eco imagination” campaign, GE set forth an ambitious list of goals: reducing greenhouse gas emissions, ramping up R&D investments in environmental technologies, and more. The company monitored its campaign using scorecards to assess the environmental strengths and weaknesses of 17 key products it concluded were the best candidates to improve customer operating and environmental performance – from jet engines to solar panels. As Esty and Winston note, “With a focus on specific products, Eco imagination is as much a product play as a committed effort to go green: GE wants to sell those jet engines, not just have environmentalists admire them.”

**McCall Security**- McCall Security believes all security businesses should adopt the principles of *Triple Bottom Line* as part of their doctrine, especially those engaged to help deliver safer and more secure Communities via their commercial contracts. Security companies providing commercial services to communities via Local and State Government contracts should be fully engaged in Community Safety and Local Priority Policing programs to ensure they are delivering services appropriately and in line with community expectations.

## CONCLUSION

John Elkington in 1997 in his book "Cannibals With Forks: The Triple Bottom Line of 21st Century Business" explained the concept of triple bottom line that continues to measure profits, but also measures the organization's impact on people and on the planet. The triple bottom line is a way of expressing a company's impact and sustainability on both a local and a global scale.

In this paper, The TBL concept has been explained in detail which mentioned that without TBL approach, companies cannot survive in the market. TBL demonstrates responsibility to stakeholders in terms of economic, social and environmental impact. The idea behind TBL reporting is sustainable success which will benefit the organizations. Benefits include better reputation and increased confidence, benchmarked performance, increased operational efficiency, stakeholder satisfaction, as well as improved risk management of the business. TBL reports may have different representations in the business and government sectors, and each of the sectors has different interpretation of TBL. TBL reporting is one way organizations can add value to their daily practices of their business. In terms of sustainable development and construction, TBL is the union of the three constituent parts – social, environment, and economic. TBL is commonly used to prove corporate performance on sustainability as it covers accountability in an economic, social and environmental sense. The management must hire heads and senior people at decision making process of corporate house who must understand that their passionate attitude towards people and planet will bring a lot of changes in environment, people and business of the organization. Thus the face value of corporate will gain blessings of Govt. It strengthens the business too. Other aspect is becoming passionate towards growth of own people is a divinity we practice and become part of good happenings around us. We all wish to be recognized, patted and rewarded for our good works. Trade objective is to gain profit. CSR is the human face of trade. Anything befitting human and related areas is appreciated. Thus corporate houses are very much appreciated and recognized for leaving aside their greed and contributing for society and nature. It is also a spiritual aspect of trade.

There are challenges to putting the TBL into practice. These challenges include measuring each of the three categories, finding applicable data and calculating a

project or policy's contribution to sustainability. These challenges aside, the TBL framework allows organizations to evaluate the ramifications of their decisions from a truly long-run perspective. The Triple Bottom Line is essentially a reporting system. Of itself, it doesn't actually improve the company's impact on people or the environment, any more than the action of producing a set of management accounts would affect profits. In some senses the TBL is a particular manifestation of the balanced scorecard. Behind it lies the same fundamental principle: what you measure is what you get, because what you measure is what you are likely to pay attention to. Only when companies measure their social and environmental impact will we have socially and environmentally responsible organizations.

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