

# **The Implementation of Corporate Social Responsibility in Indonesia: An Obligation or Strategic Competitive Advantage**

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## **ABSTRACT**

In the last decade, the issue of environmental sustainability is a serious concern of various parties, governments, organizations, academia, and society at large. Environmental sustainability demanding responsibilities of the various parties, including company or organization. For many companies, the implementation of corporate social responsibility (CSR) is an indication to the stakeholders that the company has a concern for social issues and environmental sustainability. The Indonesian government through Law No. 40/2007 and Government Regulation 47/2012 requires each company to conduct CSR in sustainable economic development to improve the quality of life and environmental sustainability is beneficial. A fundamental question in the implementation of CSR, whether the implementation is only used to fulfill any obligations? Or CSR can be used as a strategic competitive advantage that ultimately improve company performance? This abridge article seeks to provide the perspective of the implementation of CSR as a competitive advantage through the literature review.

Keywords: Sustainability, CSR, Obligation, Strategic Competitive Advantage

## **ABSTRAK**

Dalam dekade terakhir, berkembangnya isu mengenai keberlanjutan lingkungan hidup menjadi perhatian serius dari berbagai pihak, pemerintah, organisasi, akademisi, dan masyarakat secara luas. Keberlanjutan lingkungan hidup menuntut tanggung jawab dari berbagai pihak tidak terkecuali perusahaan atau organisasi. Bagi banyak perusahaan, penerapan *corporate social responsibility (CSR)* merupakan indikasi bagi para *stakeholders* bahwa perusahaan memiliki kepedulian terhadap isu sosial dan keberlanjutan lingkungan hidup. Pemerintah

Indonesia melalui Undang-undang No. 40/2007 dan Peraturan Pemerintah No.47/2012 mewajibkan setiap perusahaan untuk menyelenggarakan CSR dalam pembangunan ekonomi berkelanjutan guna meningkatkan kualitas hidup dan keberlanjutan lingkungan hidup yang bermanfaat. Pertanyaan mendasar dalam penerapan CSR selanjutnya adalah apakah penerapan CSR hanya digunakan untuk memenuhi kewajiban saja? Ataukah CSR mampu digunakan sebagai strategi keunggulan bersaing yang pada akhirnya meningkatkan kinerja perusahaan? Artikel ringkas ini berusaha memberikan perspektif penerapan CSR sebagai keunggulan bersaing melalui telaah literatur.

Kata kunci : keberlanjutan, CSR, kewajiban, strategi keunggulan bersaing

## **RESEARCH BACKGROUND**

The problems regarding environmental degradation and its impact to human life is one of the important issues to the attention of academia, government, and the world organization (Haytko & Matulich, 2008). Steg and Vlek (2009) argues that environmental quality is very dependent on human behavior patterns. Human behavior can cause serious damage to the environment of the earth and contribute threaten human life and other species in the future (Lehman & Geller, 2004). The issue of environmental sustainability is not only raising awareness of the community towards the environment (Mendleson & Polonsky, 1995), but also enhance the company's concern to share responsibility in maintaining the social and environmental viability (Mehralian, Nazari, Zarei, & Rasekh, 2016).

Company as an organization that is running the economy are required to participate in charge of sustainable economic development to improve the quality of life and environmental sustainability. Social responsibility is manifested in the application of CSR. In Indonesia, companies are required to implement CSR as stipulated in **Law No. 40/2007** and **Government Regulation 47/2012**. In a broader scale, currently more than 80% of the 500 companies listed in Fortune magazine to discuss the issue of CSR (Bhattacharya & Sen, 2004).

According to Hur, Kim and Woo (2014), CSR is an interesting concept that is emerging in which many companies invest greater efforts in order to implement CSR. CSR is also seen as part of the company's strategy because it can affect the performance of the company (Choi, Louie, & Choe, 2010; Porter & Kramer, 2006). Some studies (eg, Mehralian et al., 2016; Korschun, Bhattacharya, & Swain, 2014; Melo & Garrido-Morgado, 2012; Du et al., 2010) show that companies benefit by conducting CSR, which is not only apparent on the performance of the company (marketing, finance, and employees) is increasing but also establish a corporate image and good reputation in the long run.

Although many studies have shown the positive impact of CSR, those that showed the opposite result. Research Shen and Chang (2009) showed that the social impact of CSR positive effect on performance, but also negatively impact the company's focus. The Economist (2009: 67) reported the results of a survey conducted by Business for Social Responsibility shows that one of the three companies with a global network reduces the funds used in CSR activities for the evaluation results that just do not have a positive impact on the company's main business, and rated it as a waste.

Various studies on the implementation of CSR have not shown conclusive results. Whether the implementation of CSR really benefit or just waste that must be done as a form of obligation. In other words, the implementation of CSR within an enterprise is still a long debate, whether organized as a form of CSR obligations as good citizens and obey the law or is the company realized that CSR if managed properly will increase the company's profits.

Referring to Falkenberg and Brunsael (2011), this simple article tries to show that CSR is able to provide a competitive advantage. For this purpose, the author refers to the work of Falkenberg and Brunsael (2011) that put CSR within the framework VRIO, which is the concept of the Resource Based View (RBV). A general idea behind this conceptual article writing is already the writer explained in sub-chapter Introduction. Furthermore, the authors will describe the sub-chapter

Research Methods, Assessing Library, Discussion, and finally closed with the conclusion.

## **RESEARCH METHOD**

As has been described at the beginning of the article, this study aims to give a literature review on the role of CSR in improving the company's competitive advantage. Basically this research is conceptual studies that weave various previous research to achieve the goal, namely the concept of CSR that bring competitive advantage. In the first step to achieve the goal of this research is done by collecting a variety of information derived from previous research related to the application of CSR. The second step after the information collected is then seen how these studies explaining the concept of CSR and its impact for the company and stakeholders at large. The final step is to do is weave the various perspectives of the literature review into a formula that is expected to provide insight for implementing CSR can bring strategic advantages in competition. Implementation of CSR as a strategic competitive advantage in this quick article mostly refers to Falkenberg and Brunsael (2011).

## **LITERATURE REVIEW**

### **CSR Definition**

Perspective on CSR was originally based on two contradictory opinions about whether the implementation of CSR in the company, Friedman (1970) and Freeman (1984). Friedman (1970) argues that the only responsibility of the company is to create profit through optimizing the use of resources of the company and are committed to activities designed able to increase profits for the company. Contradictory to the opinion of Friedman, Freeman (1984) to illustrate his point based approach *stakeholder perspective*. Based on the stakeholder perspective, Freeman (1984) explains that the company's obligation is not limited

to satisfying owners of the company and stockholders to provide maximum profit, but must also be able to contribute positively to the community, the public, and workers as stakeholders of the company.

At the end of the 20th century, Elkington (1997) revive the CSR concept by suggesting the company should increase attention on achieving social activities / ethical and environmental guarantees sustainability concepts, in addition to traditional financial performance. Elkington introduced the concept of the *Triple Bottom Line* (TBL) underlying the orientation of the company's business activities on the dimensions of *people*, *planet*, and *profit*. Furthermore, the concept of TBL is then identified with the implementation of CSR (Norman & MacDonald, 2004), which is in line with the perspective of stakeholders expressed Freeman (1984). Schwartz and Carroll (2003) proposes the implementation of CSR in the framework of conceptual approaches three main domains, namely the realm of economic, legal and ethical responsibilities of companies towards social community and environment. In the economic sphere, the construct of CSR is built on five dimensions: environmental, social, economic, stakeholder, and volunteer activities (Dahlsrud, 2008).

CSR can be generally defined as an activity organized voluntary organization with the aim of improving the quality of economic, social, and environmental sustainability (Mehralian et al., 2016). The definition refers to the concept of reciprocal relationships (interdependence) between the organization and the social environment (McWilliams & Siegel, 2001). Referring to the literature on CSR can be shown that CSR is a concept that is common and widespread, there is no consensus on the definition and limits of CSR. The definition of CSR varies widely depending on the economic environment and the underlying business (Berger et al., 2007; Carroll & Shabana, 2010).

In the last decade, many companies are interested in adopting CSR as a business strategy to gain lasting benefits from the social community (Mory et al., 2015), in addition to the pressure from the government requiring companies conducting CSR (Hendarto, 2009). In general, CSR is often regarded as a management philosophy (Berger et al., 2007; Carroll & Shabana, 2010) which is

defined as a combination of social and environmental issues in operational activities and voluntary constantly interacting with the stakeholders of the company (Herremans & Nazari, 2016). CSR activity should have been attached to the culture of the organization and operations of the company on its core business to promote the image and reputation of the company (Porter & Kramer, 2006), which indirectly will also affect the company's financial performance (Wry, 2008). There are several reasons companies to implement CSR activities, which respond to the needs of stakeholders, improving the company's performance, enhance the good reputation of the company, improve customer loyalty, and avoid legal sanctions (Basu and Palazzo, 2008; Doh & Guay, 2006).

### **CSR as a Strategic Competitive Advantage**

The results were not conclusive research on the impact of CSR on company performance and Brunsael motivate Falkenberg (2011) to make a literature review that produce conceptual framework of the various possible outcomes based on the concept of CSR implementation in perspective VRIO RBV. There are four categories of results within the framework VRIO in CSR implementation, namely: *strategic disadvantage*, *strategic necessity*, *temporary strategic advantage*, *strategic competitive advantage*.

VRIO concept underlying research of Brunsael and Falkenberg (2011) is part of the proposed RBV perspective Barney (1991). VRIO concept consists of four dimensions: ***Value, Rarity, Inimitability, and Organization***. The following brief elaboration of the concept of the VRIO.

- *Value*: valuable resources or the skills of the company to respond to environmental threats and opportunities that arise; to exploit opportunities and neutralize threats.
- *Rarity*: refers to a resource that is scarce, which was controlled by a small number of companies compete.
- *Inimitability*: refers to a resource that can not be duplicated, acquired or developed by companies that do not have it.

- *Organization*: policies and procedures of the company that created the company to manage and utilize the resources that are valuable, rare, and difficult to imitate optimally.

A *strategic disadvantage CSR* is the implementation of CSR that do not provide value to the provider. In this condition, the CSR activity only impressed donation activities, handing out money, and is a waste. Surveys of the company's CSR activities organized by Business for Social Responsibility shows that one of the three global companies assess that CSR activities are activities that do not provide value to the company, just a waste of time and money (The Economist, 2009: 67). This could occur if the company does not attach and connect CSR with business strategy and operational activities of the company (Porter & Kramer, 2006).

CSR activities that are *strategic necessity* refers to the activity that gives value to the company, but it is not rare. CSR activities carried out because of pressure from external parties, such as government regulations, standardization of products, product certification, and more. The Indonesian government is requiring the implementation of CSR by companies through **Law No. 40/2007** and **Government Regulation No. 47/2012**, could force the company to carry out CSR activities are merely an obligation. Application of certifications such as: ISO, certified kosher, EIA certification and organic certification can increase the value of companies which are not rare, so that CSR activities limited to strategic necessity or obligation.

Implementation of CSR that is *temporary strategic advantage* refers to the implementation of CSR that provide value to the company, are rare, but can be replicated. Companies that use energy from renewable resources, such as solar, for example, is one of the CSR activities that provide competitive advantage while, because the competing companies can emulate although at high cost. Companies with CSR activity which gives a competitive advantage while receiving benefits by being the first to implement the activity by value are scarce, and the inimitable. This is known as the first mover advantage. The product of Unilever companies in Indonesia, **Molto Sekali Bilas** can be seen as a temporary

strategic advantage CSR activity. The product give attention to saving water for environmental sustainability.

The proposed final framework of Falkenberg and Brunsael (2011) is the CSR activities that are *strategic competitive advantage*. Strategic competitive advantage refers to the CSR activities that meet VRIO framework as a whole, that gives value, are rare, difficult to imitate, and well run by the company. CSR Activities in this phase are able to provide optimal impact not only on the company's performance, but also the image and reputation of the company. CSR Activities in this phase is designed in accordance with the vision, mission, strategy, and operational activities of the company so as to bring in high social license for companies (Mehralian et al., 2016; Porter & Kramer, 2006). CSR activities undertaken by the company Joger in Bali is one example of CSR that bring strategic competitive advantage. The company treats its employees as family. The salary given is called as pocket money, while the cost of living of workers and their families covered by the company include the cost of education of children of workers.

## **DISCUSSION**

Based on the existing translation in the introduction and literature review, the issues examined in the study related to theoretical issues and practical problems. The theoretical problem refers to the results of previous research is not conclusive about the benefits of CSR in the company. Salain, there is still at least research that discusses the impact of CSR alternative to the company so as to provide an explanation that does not always benefit the CSR only on the company's performance.

The practical problem of research is the phenomenon of CSR activity that limited on obligation fulfillment (Hendarto, 2009) and tend to be just a waste of time and money (The Economist, 2009: 67). CSR activities are not closely related to strategy and business operations of companies tend to be perceived by the social community as part of the company's obligation to the community (Basu &



Palazzo, 2008), so it was not able to improve the image and reputation of the company, which in turn indirectly increases the performance is good in terms of the financial, marketing, operational, and other fields (Wry, 2008; Porter & Kramer, 2006).

Referring to the theoretical and empirical phenomena described in the previous section, the conceptual framework proposed pemamparan Falkenberg and Brunsael (2011) on the four CSR activity results theoretically provide an alternative explanation of the impact of CSR in practice. CSR is not always a direct impact on performance, depending on the ability of the CSR activities to provide value to the company in the context of VRIO. Empirically, conceptual formula Falkenberg and Brunsael (2011) can be used as a reference for companies in designing CSR activities. Companies should consider carefully the resources and skills possessed to undertake CSR activities are capable of being competitive advantage strategy, as well as embed the CSR activities in strategy and business operations of the company.

## CONCLUSION

It is inevitable that companies require a substantial amount of funds in implementing CSR activities. Since the Indonesian government requires companies to conduct CSR activities through **Law No. 40/2007** and **Government Regulation 47/2012**, at least companies in Indonesia do CSR limited obligation to avoid legal sanctions (Hendarto, 2009). Such conditions may cause the company did not benefit from CSR activities whose implementation requires substantial funds, so that it becomes a waste of time and money. Companies should seek to organize CSR activities that can provide sustainability benefits for the company in the future, such as perningkatan image and reputation, which in turn will improve the company's performance.

The conceptual framework proposed by Falkenberg and Brunsael (2011) on the four CSR activity results theoretically provide an alternative explanation of the impact of CSR in practice. CSR is not always a direct impact on performance,

depending on the ability of the CSR activities to provide value to the company in the context of VRIO. In VRIO framework, the impact of CSR activities can be grouped into *strategic disadvantage, strategic necessity, temporary strategic advantage, strategic competitive advantage*. The conceptual framework of the impact of the CSR activities provide a theoretical explanation that CSR is not always a direct impact on company performance. Furthermore, the impact of the fourth framework CSR can be a reference for companies in designing CSR activities that provide optimal benefits for the company in accordance with the resources and skills of the company.

This simple conceptual article provides suggestions for companies to consider **CSR activities as a resource capable of generating sustainable competitive advantage strategy**. The relationship between CSR and corporate performance is a result of a complex concoction of resources and skills possessed and the ability to manage it well.

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