

Mandatory Corporate Social Responsibility Explanation

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Abstract

This article describes the development of the implementation of Corporate Social Responsibility (CSR) around the world from several CSR published works. The development of global CSR implementation starts voluntary to mandatory. Based on the discussion, CSR is an obligation (mandatory) for companies in carrying out company operations and is part of the company's investment. Thus, its benefits can be enjoyed by the company in the long term.

Keywords: *Corporate Social Responsibility, Voluntary, Mandatory*



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INTRODUCTION

Indonesia in 2007 made a breakthrough related to Corporate Social Responsibility (CSR), which was marked by the issuance of two Laws concerning Corporate Social Responsibility, namely Law no 40/2007 on Limited Liability Companies (LLC) and Law no 25/2007 concerning Capital Investment (CI). The implementation of CSR is still a problem because there are several things, namely the absence of implementing regulations from the Limited Liability Company Law regarding supervision and sanctions for companies that do not implement CSR (Pujiyono et al., 2016). In addition, there are differences in the designation between Law no 40/2007 (LLC) and Law no 25/2007 (CI), the LLC law only requires corporate social responsibility reports for companies engaged in the area of natural resources, while the CI Law requires all companies investing in Indonesia to report their CSR. Indonesian Law number 40 is considered unfair because it does not require all limited liability companies to report their social responsibilities.

Along with the unclear regulations for implementing mandatory CSR with sanctions in Indonesia, there are several ministries such as the Ministry of Environment, Ministry of Social Affairs, Ministry of Energy and Mineral Resources, Ministry of Cooperatives, and Small and Medium Enterprises that have actively sought to develop guidelines for CSR implementation programs that are national and sectoral in accordance to the duties and responsibilities of each ministry - one as a form of constructive contribution in clarifying the implementation of CSR programs in Indonesia. However, the lack of synergy, synchronization, and harmonization between ministries makes it seem as if CSR policies run independently. Synchronization and harmonization are not only related to CSR policies but also synchronization and harmonization between government work programs, both central and regional, as

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DOI: <https://doi.org/10.31098/bmss.v1i3.315>

Research Synergy Foundation

well as the aspirations of the beneficiary communities (Wartini, 2017). In addition, there is no uniform form regulated in the Act for the form and amount of CSR costs. Currently, many companies only carry out CSR at will without clear guidelines. Hence, the implementation of CSR is currently less legally accountable. For this reason, it is necessary to formulate an accountability model for the implementation of CSR in order to fill the current legal vacuum in order to improve the welfare of the community. This article attempts to explain the concept of CSR has to be global, which initiated from voluntary CSR into compulsory or mandatory CSR.

RESEARCH METHOD

This study is based on library data collection method, or study in which various library information (books, scientific journals, encyclopedias, magazines, newspapers, and documents) was used as the research objects. Data used in this research are all secondary data collected through the documentation method. The selection of sources was based on four aspects, namely (USCS):

1. Provenance (evidence), which is aspects of the credibility of the author and evidence that support the author's opinion, for example, is the historical sources;
2. Objectivity, which is the point of view of the author's ideas that may have many uses or are detrimental;
3. Persuasiveness (degree of belief), which is the possibility of author's credible affiliation; and
4. Value (contributes value), which is convincing arguments of the author and its important impact on another research.

There are four stages used in this study. First is (1) Organize, which is organizing the literature to be reviewed/reviewed. The reviewed literature is literature that is relevant/in accordance with the topic. The literature is organized in stages of generating ideas, objectives, and conclusions from the literature by examining the abstract, introductory sections, and conclusions, as well as classifying information based on certain groups. Second is (2) Synthesize, which is combining the results of the organization of all information into a summary; hence it becomes unified-whole information by aiming the linkages between literature. Third is (3) Identify, which is to identify current issues that may be discussed in the literature. The current issues in question are issues that considerably very urge to be discussed or analyzed in order to get an insightful article to read. The last stage is (4) Formulate, namely formulating all questions that require further research.

An annotated bibliography was used for data analysis. This technique was done by searching, analyzing, interpreting, and generalizing the facts, which are the opinions of experts in a problem, using literature data that is used to produce inductive conclusions. This analysis aims to collect ideas or works that have been written by previous researchers who can provide interpretations and generalizations that are in accordance with the problem being studied. The data were analyzed in the form of research findings or results are then integrated with other research results to form a close relationship and contribute to a scientific discipline.

FINDINGS AND DISCUSSION

Some researchers reported that the development of CSR starts from being voluntary to being an obligation for the company. One of which is Porter & Kramer (2011), with the theme of "The Big Idea Creating Shared Value how to reinvent capitalism-and unleash a wave of innovation and growth" in the Harvard Business Review. The concept of shared values which focuses on the relationship between social and economic growth has the ability to generate global growth. A growing number of companies such as

Google, Intel, IBM, Johnson & Johnson, Unilever, Nestlé, and Wal-Mart have embarked on these shared value initiatives. There are options for companies to create opportunities of the shared value: reorganization of products and markets, redefinition of value chain productivity, and creation of local clusters development. The decisions and opportunities in the company must be viewed through the concept of shared value. As a result, greater innovation and growth for the company, as well as greater benefits to society, can be obtained via new approaches.

Meanwhile, Afsharipour & Rana (2013) wrote about "The Emergence of New Corporate Social Responsibility Regimes in China and India" in the UC Davis Business Law Journal 14(2): 175-230. In an era of monetary crises, broadening earning gaps, and corporate-related natural and other catastrophes, requests for more noteworthy corporate social responsibility (CSR) are quickly rising around the world. Although CSR efforts are commonly perceived as voluntary actions undertaken by companies, the new model of CSR was emerged in India and in China. The differences in CSR, as they are known in the United States and as they have evolved through global norms, are both countries are moving towards obligatory CSR regimes. When both countries are experiencing enormous economic and social changes as they reorient to a more market-based economy and look to enter the position of the worldwide economy, they do so differently than they did at a time of extraordinary worldwide financial change. The researcher reports an analysis of the rising CSR regimes in India and China. The researchers investigate some of the most significant implications of the current CSR regimes in those countries. It raises questions about why the countries were changing into compulsory CSR when other major global players mainly were voluntary. In conclusion, the researcher looks to include the worldwide concern over corporate administration models by expanding understanding of the advancement and developments of corporate governance that is recently rising in India and China.

Mukherjee & Chaturvedi (2013) publishes "From CSR to MCSR: The Journey Towards Mandatory Corporate Social Responsibility in India" in the Golden Research Thoughts 3(2): 1-7. In their paper, corporate social responsibility was previously applied as corporate philanthropy and has been practiced in India for a long time. Moreover, it has been well praised by the roles of big companies in India (e.g., Tata, Birla) for a long time. However, philanthropy in globalized and current India did not accomplish the target, both in quantity and quality. On 18 December 2012, India's Lok Sabha approved an obligatory CSR Bill revising the 1956 Companies Act. The proposed bills for India's corporate sector have been suspended since August 2008. The Indian corporate world criticized the statement that 2009 parliamentary was prepared to ensure compulsory CSR spending for companies. The researcher's article analyzes the motives of the bill and the logic behind the resistance in India. They try to look at the history of CSR in India in line with current needs.

Singh's study (2014), "From Philanthropy to Mandatory CSR: A Journey towards Mandatory Corporate Social Responsibility in India," was published in the European Journal of Business and Management 6(14): 146-153. India has a lot of contradictions. On the other side, it has grown into one of the biggest economies in the world and is becoming crucial in the developing global system. On the other side, it still has homework for citizens who live in poverty and most children who are not well fed. The root cause of social unrest is a picture of the distribution of benefits of growth which many believe is the root of the problem. People's expectations will rise as the gap between the rich and poor becomes more apparent. Many companies have responded immediately, and others only when prompted. The paper attempts to present an overview of corporate social responsibility in India. CSR spending should become regulatory in a country like India.

Japhet et al. (2015) on "Debate on Mandatory Corporate Social Responsibility" (available at SSRN 2592880) underlines that Corporate Social Responsibility (CSR) is an old concept but full of debate. CSR is moving from fair corporate optional to a national request upheld by Law. This obligatory prerequisite started a new trend of contention around CSR. The contents of the paper follow a new course in the CSR talk by raising some offbeat avocations for requiring CSR. To add to the existing CSR arguments, this paper raises issues of killing of competitive spirit, taxation, multiplier effects, and deviations from the laws of nature for donations. Although this paper criticizes the practice of compulsory CSR, it recognizes the benefits of CSR, both compulsory and voluntary.

Meanwhile, Ramdhony's article (2018) of "The Implications of Mandatory Corporate Social Responsibility—A Literature Review Perspective" in the *Theoretical Economics Letters* 08 (03): 432-447 mentions that his paper aimed to discuss the implications of the mandatory corporate social responsibility (CSR) contribution: CSR levies. The report uses public interest theory as a theoretical lens, and this paper adopts a pro-regulation approach. The introduction of CSR charges is justified because of the prevailing economic and business environment at the time. The article raises further questions: Do CSR give competitive disadvantage and affect profits? The uniform amount and universal application of CSR charges do not harm companies but can attract Foreign Direct Investment and Socially Responsible Investment. CSR levies have a negative effect on profits but have the potential to provide greater returns if viewed as an investment. More studies need on the impact of CSR levies on companies and other sectors.

A review article was published by Sarkar & Pingle (2018) in the *South Asian Journal of Management* 25 (1): 1-28 with a title of "CSR Governance Addressing Social Issues: A Critical Review". They inform that governments that were facing major social challenges have been trying to involve businesses in overcoming these challenges by pushing Corporate Social Responsibility (CSR) as part of the Law for years. The social problems faced by developed, developing, and less developed countries (LDC) are different, so that what companies do as CSR is also significantly different. Their paper identifies and describes the existence of various social problems in developed, developing countries and LDCs. Secondary data have been used to explain CSR governance across the countries studied, and identifies various social problems, and highlights CSR initiatives that can be undertaken to address these social problems. Efforts have also been made for sharing cases on the impact of CSR arrangements in India.

"Are We Moving Beyond Voluntary CSR? Exploring Theoretical and Managerial Implications of Mandatory CSR Resulting from The New Indian Companies Act" by Gatti et al. (2019) in the *Journal of Business Ethics* 160 (4): 961-972. The *Journal of Business Ethics* is a journal. There is still confusion about defining CSR, despite the literature discussing the scope and meaning of CSR extensively. The changing legal status of CSR is a controversial issue. The idea is mandatory. Most reports lean towards voluntary CSR according to a review of CSR definitions and meta-studies. The notion of CSR as a self-regulation tool has been called into question by several recent regulatory amendments. In this paper, the author compares the evolution of CSR in India with the scientific literature discussing voluntary versus mandatory CSR to understand the recent shift towards a new conceptualization of CSR as a form of co-regulation that includes both voluntary and compulsory regulatory elements. An excellent example is The Indian Companies Act 2013, taking a bold step towards integrating voluntary and mandatory aspects of CSR implementation. The Indian case for the development of CSR theory, specifically the evolution of business and community relations from a voluntary legal approach to CSR to an increasingly harsh legal system and a temporary hybrid form of soft-hard Law and hard-soft Law, was considered.

Yan (2019) wrote "Corporate Social Responsibility versus Shareholder Value Maximization: Through the Lens of Hard and Soft Law" in the *Northwestern Journal of International Law and Business*

40 (1): 47-86. Many people still consider CSR an optional agreement even though the number of companies engaging in CSR has increased. This article uses hard and soft law concepts to reverse the standard that SVM and CSR are complex and soft law constraints. The first paper shows that board directors don't have to maximize investor value in Anglo-American countries. The article looks at the regime of enforceable administrations. This article summarizes the main structures of a complex law approach to CSR. The design of the hard law approach shows that enacting CSR regulations to promote the behavior of social responsibility straightforwardly and define minimum standards to prevent socially irresponsible behavior for corporate behavior and compulsory disclosure of any issues related to CSR. The CSR questions rationalize aligning CSR with SVM. The hard-law approach addresses the non-coercive weaknesses of soft Law.

The study by Hickman et al. (2020), titled "The Effect of Voluntary and Mandatory Corporate Social Responsibility on Earnings Management: Evidence from India and the 2% Rule", published in the *Emerging Markets Review* 46: 100750-100750, reported the relationship between CSR engagement and management of earnings based on a natural experiment conducted by 2013 India's Companies Act. The Indian Law incorporates arrangements outlined to make strides in budgetary administration and inspection, as well as a specific command requiring companies that meet estimate or benefits criteria to spend a minimum of 2% of detailed income on CSR initiatives. Authors study the income behavior of the company's management that optionally reported CSR spends before the implementation of the Act, as well as companies that began reporting CSR costs as instructed. The results show that companies that reported the spending on CSR voluntarily before the Act were also more involved in the management of revenue than other companies, which were persistent to CSR that manipulatively reported in the period before the Act. After the Act came into effect, it was proven that firms were involved in less revenue management on average. However, the results show that the commandment of CSR has not given a significant marginal effect on earnings alteration. In other words, the observed reduction in revenue management in the period after the issue of the Law is mainly because of other elements of the Act, for example, corporate governance-related factors.

CONCLUSION AND FURTHER RESEARCH

Based on the assessment of the articles above, it can be concluded that CSR is an obligation (mandatory) for companies in carrying out company operations and is part of the company's investment. Thus its benefits can be enjoyed by the company in a long term.

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