

CORPORATE SOCIAL RESPONSIBILITY: A MERE CHARITY COST FOR COMPANIES?

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There are increasing interests from many corporations, especially among those having businesses in relation with natural resources world wide, towards Corporate responsibility (CR) or Corporate social responsibility (CSR). Occasionally, CSR would only be viewed as a mere philanthropic and image building activities. Yet CSR activities should actually be fully integrated with the company's strategy to acquire competitive edge to be the basis for business development and efficiency. In a comprehensive CSR, the company is involving all levels of the company and its stakeholders in a continuous and step-by step process. To increase support on CSR, it is very important that the government, chamber of commerce, the business sector, the accountants, and other stakeholders work together to create a favorable climate, policies and incentives to the business sectors to implement CSR in their operation.

Background

There are increasing interests from many corporations worldwide towards Corporate Responsibility (CR) or Corporate Social Responsibility (CSR) nowadays. The consciousness to make corporations become friendlier to social and environment has widened at the same time with the awareness that making the world better is everyone's duty. Corporations, in particular those who deal with the business having the basis on the utilisation of natural resources (such as mining, energy, fishery, forestry, pulp and paper, water, and palm-oil plantation, etc.), or those whose products affect the balance of nature (e.g. automotive industry, chemicals, plastics, etc.), can not keep on their single focus on profit to maintain its sustainability, but also to the wider aspects relating to the overall of their value-addition activities. In order

to be sustainable, i.e. to be able to continue over the long term, all critical components of its systems of activities must also be sustainable, while also recognizing the limits within which these systems must operate (*AtKisson*)

In the midst of huge environmental degradation, threats of natural disaster, conflict potentials with the community and the low absorption of labours into formal occupation, the need to see the matters surrounding company's operation should take into account social and environmental considerations. CSR becomes a very good entry point to improve company operation with the prime objective to sustain its capability to compete in its business environment.

Simply expanding company operation without a coherent strategy to integrate CSR activities into business on the one hand would create additional burden (i.e. "costs"). It is important that the CSR activities be fully integrated with the company's strategy to acquire competitive edge to be the basis for business development and efficiency. This means that the company is ensuring its sustainability through the integration of its operation (economy and well being) with its environment (nature, society).

Corporations can use CSR activities to improve their competitive context; i.e. the quality of the business environment in the location(s) where they operate. This means aligning social, environment and economical goals to improve the company's long term business prospects. It would, thus, enable the company not only to give money but also to leverage its capabilities and relationships in support to charitable causes.

CSR's Main Areas

Implementing good CSR programmes does not mean merely having good resource allocation for achieving corporation's objectives. What is more essential is to explore competitive edges by doing

something in innovative ways - in embracing new values - that have potentials to redefine industry and improve services to the market. After all, excellent CSR programmes might help a company to manage its value-addition chain more effectively and having new resources to respond market dynamism.

To make CSR programmes work well there are several main areas that a company should refer to:

1. Stakeholders,

A special emphasis in the involvement/ engagement of stakeholders (including the perspective of those affected by the company), is placed in CSR planning and decision making and monitoring phases). These stakeholders, include:

- employees,
- community,
- shareholders
- government,
- suppliers, contractors and buyers/consumers,
- broader society, etc.

2. Environment, which consists of all factors of environment directly and indirectly related to the operation of the company.

Key elements of the implementation are as follows:

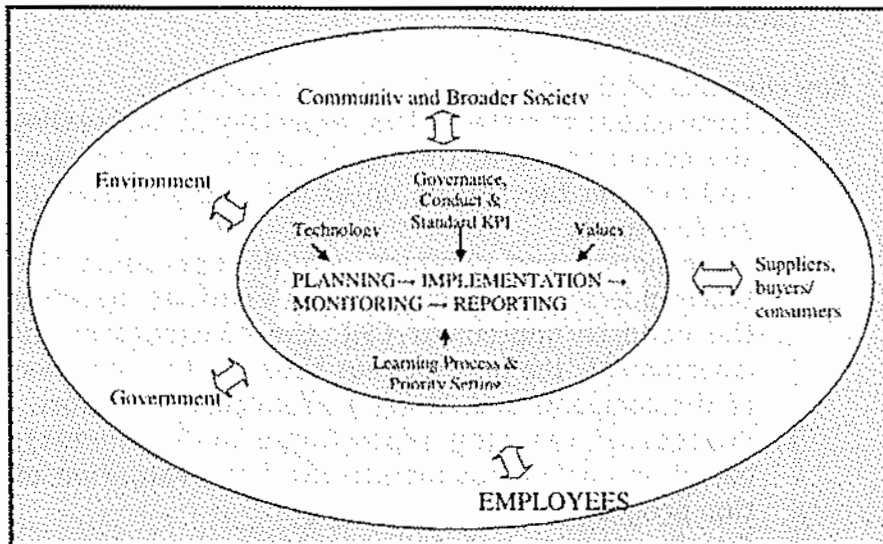
1. Involvement of stakeholders, especially in articulating the commitment to the needs of the stakeholders, and even in the setting up of indicators related to performance,
2. Governance and conduct, which represents the shareholders vis a vis management's policies regarding the need to implement CSR, the consideration of environment, the priorities set based on the condition of the company, and its key performance indicators,
3. Process of learning (knowledge management), based on continuous monitoring and evaluation of the progress,
4. Timely reports, not only regarding the extent of CSR implementation, but also the impact of its

implementation to each level of the operation. These internal reports are beneficial for learning process

5. Accountability and transparency, annual report beyond financial report. Take the initiative to lead the company toward Sustainability Report as part of the company accountability and transparency.

The implementation of CSR in a company will be reflected in its budgeted action plan. The budgeted action plan shows considerations of input from stakeholders, the local environment that the company is facing in its operation, and the priorities set by the management of the company. The result of the company's operational activities will be shown in the reports. These results will then be measured against the budgeted action plan, and a set of agreed standards of performance, i.e. the monitoring and evaluation process, which enables the continuous learning mechanism for both the company and the stakeholders.

The relations of CSR's main areas with the implementation factors can be shown in the following exhibit:



Employees are the heart of a company's operation; throughout their daily activities, the employees will have vast interactions with community and broader society, while conducting the operation of the company (i.e. implementing the systems and procedures that reflect the governance and conduct, the expectation of stakeholders, the priorities set by the management, the process of learning and reporting).

The Step-by-Step CSR

Making a concise agenda for performing the building blocks of the above framework can not be done at once, in particular for companies that are new to this agenda:

1. Planning and Mapping :
 - a. Setting up target and objectives of doing CSR for the company
 - b. Establishing a set of performance indicators and status indicators of CSR
 - c. Identify innovation and/or intervention to the current system
 - d. Identifying the CSR issues relevant to the operation of the company,
 - e. Identify the level of CSR to be performed, either by the organization units, and/or by the depth of the CSR itself
 - f. Establishing the areas of operation of the company in which CSR actions are to be performed
 - g. Identifying the stakeholders of the company, and those relevant to be involved in designing CSR,
 - h. Setting up programs of CSR
2. Preparing the foundation of CSR activities :
 - a. Decision making and approval process on CSR programs
 - b. The management of change and its innovation diffusion

- c. The organization of CSR Programs, both internally and externally
 - d. Internal Resources of the Company (Human Resources, Money, etc.)
3. Implementing CSR:
- a. Stakeholders' engagement, of which the involvement will be decided based on the condition, priorities and budget of the company
 - b. Program implementation
 - c. Person(s) in charge
4. Monitoring & Evaluation:
- a. Monitoring method and tools
 - b. Evaluation method and tools
 - c. Continuous improvement mechanism
 - d. Person(s) in charge
5. Reporting and Communication:
- a. Internal and External Reporting System and Mechanism
 - b. Internal Communication and Coordination System
 - c. External Communication System
 - d. Verification of Reports

Impact of CSR Implementation for a Company

Once a company has decided to implement CSR, it recognizes that there would be additional work, or even additional number of staffs and persons in charge. This creates "costs" for the company, which will affect the company's profitability. Other than to be considered as "a good citizen" or to create a good image from the surrounding environment or society, there is basically no incentive for a company to implement CSR.

When the approach toward implementing CSR is more integrative, however, the programs on CSR will include management policies and decisions which strive for continuous innovations and optimum approach in all levels of operations of the company. Optimizing the inputs of raw materials (minimize input from nature) and labours (increasing their quality and well being of employees), combined with innovative production and processing technology (e.g. efficiency in using energy), in order to minimize (or reduce) waste, and to increase the quality of the end product (directly to its consumers, or indirectly to the society), is considered as an integrated CSR approach.

A comprehensive CSR is a continuous and step-by step process involving all levels of the company and its stakeholders, and usually takes a long time. In doing so, the company can expect material sustainable beneficial results (i.e. development of each of the indicators set in its initial phase), such as efficient use of materials and energy, tolerable waste, and other better environment conditions.

From the point of view of the company, the common factor in deciding whether or not to adopt a CSR activity is, again, the time frame and the costs of doing so. When CSR is considered as charitable acts, and is reflected in philanthropic activities within a short period of time, the costs incurred will immediately recognized as expenses for the company.

But, as CSR activity is performed more comprehensively, and within the time the company may obtain benefits, say, for example: more efficient operation and, perhaps, create better market for its end products, would it not be more appropriate (in terms of accounting policies) if the costs incurred to perform CSR be capitalized and is considered as "investments" rather than "expenses"? The capitalized expenditures on CSR could then be amortized and better matched with the resulted "revenue" (or reduced expenses).

Clear definition and description of CSR activities, will give a reasonable basis for accountants to issue policy guidelines on how to treat the costs. This will further provide basis for management to make decision

on any proposal to perform CSR for the company, especially on the financial impact of the decision toward the company.

CSR application in Indonesia

For companies whose business is dealing with natural resources as its raw materials, the use of parts of environment which contribute a significant portion to create revenue have never been accounted for as cost of production. Costs are the accumulative actual amount of money spent in the process of production. When there is a factor of natural resources in the cost of production, the amount of amortization represents only a portion of total amount of money to acquire permits to exploit the natural resources. There is no accrual for the required amount of money to recondition of the depleted natural resources, because there is no real action, or even effort, to do so. There is also no clear regulation regarding the liability of business sector in natural resources to recondition the area it has exploited. The most common example is in the forest timber industry, in which the holder of the permit is required to set aside and pay a certain percentage of the revenue for reforestation. Once the fund is paid to government, there is no other obligation by the forest timber industry related to the environment, which in turn, lead to the over exploitation of the forest.

There is no valid data regarding any example of an integrated CSR in Indonesia. CSR is still widely considered as either environmental issues (in its technical terms) or more toward community development activities. Standard measurement of pollution have been set and monitored by the Ministry of Environment through its PROPER program. Every year the Ministry will issue a list of companies considered as Applying Good Standard ("Green"), which is the highest to those considered as Bad ("Black"), as the lowest. The incentive for those listed as 'green', is still being developed by the Ministry so as to encourage others to apply a similar standard.

The Indonesian Institute of Accountants has initiated the Indonesia Sustainability Reporting Award in 2005, i.e. to give awards to

companies on the Environment and Social Reporting in 2005, based mainly on the Annual Reports from publicly listed companies. In June 2006, the Institute with CSR Asia hold one CSR Training to give a more comprehensive understanding of CSR to local businesses through a series of sharing experience and lessons learned by several distinguished speakers representing local and international organizations and businesses.

In 2005 the Corporate Forum for Community Development (CFCD) has also given awards on CSR to several companies, based on their community development activities.

The government of Indonesia, through its PKBL (Program Kemitraan dan Bina Lingkungan) has encouraged its business units, i.e. State Owned Enterprises, to set aside a certain portion of their annual profit and dedicate them to build the capacity of community surrounding the enterprises through the provision of fund for micro and small entrepreneurs, and certain training and monitoring activities. A smaller portion of the fund will be provided to support the community, such as provision of scholarships, build and rehabilitate education facilities, religious buildings, infrastructures etc. The performance of these activities is to be reported periodically, and will be monitored closely. Success is when a particular enterprise can fully disburse the allocated fund to as many SMEs as possible during a particular period of time, and to other charitable activities as planned/ budgeted in its annual plan. The need to gauge the effectiveness of the programs, e.g. whether the company can recruit better qualified and educated workers due to the schools which had been built by the company, etc., has not been performed.

All the above support the general impression from the stand point of the companies that actions related to CSR (environment and community development, in particular), are mainly for the purpose of image building, i.e. charitable and philanthropic gestures which will basically reduce the profit of the company. That is why in most companies, the action plan and implementation of CSR is held under the responsibility of the Corporate Communication/ Public Relation or Community Development Department.

Moreover, there is no specific guideline and regulations issued (and even effective monitoring) by the Government regarding all the above, and on how much is sufficient for doing this. As for PKBL, there is also no specific guideline on the sustainability of the community development and environment effort (e.g.: what will state owned enterprise do if it is not performing well in terms of financial profit?).

The idea of sustainability and effectiveness of the CSR is still in its early stage, and needs favourable incentives and clear and timely monitoring efforts to ensure its growth in Indonesia.

Conclusion

CSR is a very broad term which is often used to define an organization's activities outside its core business, and related to environment and social behaviour (AtKisson). With a long term span in nature, plus a major change in business decision making process and activities, the image of CSR among business sectors is always associated with costs rather than investment. "CSR is relevant only for big companies having businesses with foreigners" and "If we implement CSR, our product will be more expensive, so that we will loose our market", are some valid opinions from the local business players in Indonesia.

The challenge is how to change the paradigm that any CSR action is not a mere charitable and philanthropic gesture (and thus creating additional costs), but a form of responsibility from the business practitioner to the environment where the business is operating, which will ensure material benefits to the company when being done comprehensively and integrative with the nature of the operation of the business. At the same time, CSR also reflects initiative from stakeholders of any business sectors to return a portion of what was taken from the environment back to the environment.

One of the major considerations of CSR, is the possibility to treat costs incurred as "investment" rather than "expenses" if the approach of CSR is integrated with the long term goal of reaching

a sustainable operation and balance of the businesses with its environment. If this is possible, more and more business players may be interested to adopt CSR in its operation, because the expenditures can be "matched" with the revenue (or cost savings) that the CSR may create in the future.

To increase support on CSR, it is very important that the government, chamber of commerce, the business sector, the accountants, and other stakeholders work together to create a favourable climate, policies and incentives to the business sectors to implement CSR in their operation, and perform clear and timely monitoring for them. Each will be set according to the relative nature, location, size, and impact of the business to the stakeholders, including environment.

It is time for us all to start realizing that every action that we take will affect others, directly or indirectly. It is not only the duty of the government to keep things better; it is the responsibility of every individual as mankind. (***)

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Negara terbesar dalam hal jumlah limbah per penduduk adalah Kanada, dimana penduduknya rata-rata meng-hasilkan 1,8 kg limbah per hari.

