

## **CSR Practices in Indonesian Automotive Sector Companies: An Exploratory Study**

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### **Abstract**

*Sustainability is widely regarded as the key to a successful business in today's changing business environment scenario. Sustainability, Corporate Social Responsibility, Business Ethics and Corporate Governance practices both internally and externally plays an important role in managing a cordial interface with the various communities especially in the emerging economies. Indonesia is one of emerging economy which is on the top list of direct foreign investment. It would be attracting more and more multinational companies to invest their capital in Indonesia. With new multinational trying to enter into the economy, calls for greater ethical and social responsibility. This paper talks about the state of the Social Responsibility activities undertaken by the top automotive companies in Indonesia. The paper analyses the initiatives based on the framework from the literature. There are some areas where the sample companies can strategies their investments or can expand their horizons in making some innovative social policies both internal and external stakeholders in the future.*

**Keywords:** Corporate Social Responsibility, Indonesia, Emerging Economy, Automotive Sector.

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## **Introduction**

Over the last decade Corporate Social Responsibility (CSR) has become an important subject around the globe. To survive in today's competitive market, it no longer the only profitability factor that plays a critical role but how a company takes care of the societal needs by creating an environment to address the economic, social and environmental aspects. The discussion of CSR whether it should be mandatory or voluntary was started from the basic purposes of cooperation between the business and society. Basically, a corporation was formed in order to get profit for the sake of shareholders only and it remained as a dominant perspective for the long time. Meanwhile, CSR pretend to push the corporate to be aware toward the society's needs based on the various societal issues. Firms are believed to be a part of larger economic system and tries to develop good relationship to its stakeholders (Greenwood, 2007). That's why the CSR has become a powerful tool not just because it depicts the behavioural model of a company but also the strategies to communicate with legitimacy (Waddock and Smith, 2000). Basically, the CSR may be considered as the social, ethical and moral responsibility of a company to get connected with the local community and give it back to them in one way or the other. However, some companies face challenges to create long time and sustainable impact on the local community around them (Carroll.1999). Researchers, practitioners, lawyers have contributed in defining and analysing the content and impact of CSR implementation. Debates over the definitions of CSR and sustainable development have evolved over a period of time in developed and developing economies. With the development of International frameworks for corporate social responsibility, Corporate sustainability and Social Reporting, research into prominent and efficient implementation has aiming to reduce corruption and bringing transparency around the subject (Hills et al., 2009). There has been a change in the corporate practice in the area of formulating policies, implementation and reporting, even the consulting companies like KPMG and Deloitte. In the last decade, various regulatory bodies such as governments, financial experts, and legislators across the globe had issued several regulations which tend to improvise some initiatives to improve CSR practices. Even in the emerging economies, like India the Ministry of Corporate Affairs in 2007 introduced the voluntary guidelines for the state-owned companies then 2011 again another extended guidelines. It was in the year 2014 the CSR Legislation came into effect for the selected companies. It gave a

comprehensive framework to the companies for undertaking their corporate social responsibility initiatives in a strategic manner. The same way other emerging economies because of the globalisation impact started adapting the various frameworks in economic, social and environmental aspects for business excellence.

### **1) Literature Review**

The World Business Council for Sustainable Development describes sustainable development as: “continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large”. It includes the three pillar approach given by Elkington in 1994 of sustainable development which includes consideration of economic, social and environmental aspects - the Triple Bottom Line approach to sustainability at a holistic level. The understanding of social and environmental responsibilities in corporate strategy has shifted from a narrow perspective of maximizing shareholder value at any cost, to a broader objective of considering the interest of other stakeholders too (Welford, 2004).

Debates over the definitions of CSR and sustainable development have evolved over a period of time in developed and developing economies. Some defines CSR as “the moral obligation to do good for their community and others talks about the social, environmental and economic impacts, been concerned with stakeholders. There is not a single definition which clearly defines it rather there is biasness towards special interests (Jackson and Hawker, 2001). The World Business Council for Sustainable Development (WBCSD, 2000) defined Corporate Social Responsibility as “the Continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large. European Commission (2001) defines CSR defined as a concept whereby companies decide voluntarily to contribute to a better society and cleaner environment. The scope of CSR may vary, ranging from the company’s code of conduct, sensitivity towards environmental issues, and community service among others. In fact, the organizations are expected to contribute beyond the local community and should not limit themselves just a job creation (Chapple and Moon,2005).but also engage in social initiatives to support and solve other social problems at least in the location they operate. Another important issues in this context is regulated CSR efforts. How to create the ethical, social and environmental boundaries for the businesses to enhance their responsibility towards the society. CSR reporting patterns have finely emerged and has also increased in Asia

as the number of companies publishing CSR reports (KPMG, 2016) and this increase has also motivated the research to explore the reporting practices in these economies.

The paper underlines the framework which is based on the legitimacy theory especially Suchman's (1995), where the companies in the emerging markets because of regulatory pressure started adapting various social and environmental mechanism to report their initiatives (Gunawan, 2007). The institutional legitimacy offers a strategic framework for the companies to build a legitimate relationship with their local community for benefits of both the social actors. It provides social stance to the company to interact with both internal and external stakeholders to address their social expectations. Legitimacy theory has been used by many academicians and practitioners as a framework to analyse corporate disclosure both from the social and environmental aspects (Deegan *et al.*, 2002).

Indonesia is one of the emerging economy which is on the top list of direct foreign investment. It would be attracting more and more multinational companies to invest their capital in Indonesia. On the Social front, it plays an active role in social responsibility implementation. Many scholars stated that CSR is done based on voluntary principle (Herrmann,2004). CSR in Indonesia too started with philanthropic principle (Kotler & Lee, 2004) among various companies but later on the purpose and it's range has been widened as extended responsibility: Hence, CSR Corporate social responsibilities is firmly regulated in Indonesia. There are regulatory laws such as Law No.25, year 2007 concerning Investment, Law No.40 year 2007 concerns Limited Liability Company (LLC Act, 2007) and Law No.19 year 2003 concerning State Owned Corporation (SOC Act, 2003) which are formulated by the Indonesian government for social excellence. Even Badan Usaha Milik Daerah (BUMD Netwok) suggest to set aside some part of the company's net profit to develop the small business/koperasi and development of society surrounding government business organization. Typically, every country has different characteristics from other countries that may influence differently the social practices have been discussed and adopted by the companies. In Indonesia too the listed companies have their social and environmental disclosures based on their legal perspectives (Guthrie and Mathews, 1985).

## **2) Research Objectives**

The primary objective of this paper is to understand the portrait of CSR state of affairs in Indonesia, an emerging economy to sustain their high economic growth in tuff economic

times with such level of ethnic diversity and cultural heritage. Secondly, the author has tried to review the thematic areas of corporate social responsibility activities in this relatively open and competitive industrialized market economy's (Albareda,et.al, 2007 and Raar ,2002) framework of Indonesia .

### 3) **Research Methodology**

The current study is basically an exploratory study in nature. For the purpose of this study, CSR activities of top five companies in automotive industry were studied under the thematic areas/activities of corporate social responsibilities as defined by Albareda, et.al, 2007 and Raar ,2002. From Indonesia Automotive Industry Outlook Report, 2019 top five companies has been taken as sample for in-depth review of practices. The names of these companies are Toyota, Daihatsu, Honda, Mitsubishi and Suzuki. The secondary data regarding their social responsibility and sustainability activities have been taken from their websites and annual reports. In additions to information from the secondary sources on the activities, the insights from the discussion regarding the understanding of the frameworks of CSR initiatives of these companies with one academic expert (who has the knowledge about Indonesian companies' CSR activities) and one practitioner (Who in the past has worked with an Indonesian company) have been discussed. The unstructured instrument was used to understand the existence of various CSR initiatives of the sample companies.

### 4) **Results and Discussions**

Similar to other emerging economies, European Union put forwarded a framework regarding social and environmental responsibilities of the companies not only towards their stakeholders but also for the societal welfare at large. CSR practices in Indonesian companies has been initiated from the charity principle (community services) and transformed into sustainable action for community and environmental considerations.

In the refined CSR guidelines set forth by the Indonesian government as well as in the past a considerable focus has been given to the stakeholder dialogue, sustainability measures and employee welfare so as to pass on the social benefit in the form of CSR to society as a whole.

The Indonesian way of doing CSR activities implies a collective approach in dealing both internal and external social responsibility approach. The BUMN in Indonesian time to time helps the companies via connecting them with various stakeholders so that the timely attention should be paid to the CSR issues by the companies (McWilliams and Siegel, 2001).

*“The companies face challenges sometimes at the agenda building level and sometimes in impact assessment level. In my previous company, they were focusing on improved labour practices, human rights, employees satisfactions, product safety etc. We used to do two hours voluntarily service a week which used to create a sense of belongingness towards the company as well as society. I think as per my understanding, the companies should also train their employees to contribute in this social domain as well as properly monitoring could be done by involving more volunteers with implementing organization. There have been many challenges, the major challenge is lack of funding as companies have their limited budget for CSR and Sustainability. In real sense the companies need to give a higher priority to, and assign appropriate resources to planning and incorporating CSR practices into business operations so that the sustainable development should be the next vital step after effective implementation of the CSR policy. The way forward for Indonesian companies especially in automotive sector is to link their sustainability initiatives with SDG’s”*

*-Industry Expert*

The current evaluation (i.e. 2018-19) of CSR disclosures on the websites, Sustainability reports and annual reports of the sample companies have shown that companies working on twenty thematic areas such as Training Activities, Safeguarding Employee Health, Local Community Involvement, Support of Cultural Activities etc. (See Table 1). In Case of ENI, the company is having all the CSR activities under the thematic areas as per the Albareda, et.al, 2007 and Raar, 2002 framework. In case of Toyota, the company has a deep focus on all twenty activities and it means the company can have a diversified framework of addressing the CSR thematic areas like fair trade initiatives, support to cultural activities etc. In case of second company in the sample which is Daihatsu, five activities are not there in company’s CSR policy or sustainability report. The company otherwise has a fairly good description of CSR framework of their companies. The company might be focusing on these five missing activities but not been properly communicated or been missing on the reports. In case of Mitsubishi, the CSR and Sustainability issues need to be diversified as per the community demand

and their perception. The missing thematic areas could be focused upon by the company.

**Table:1**

**Corporate Social Responsibility activities in top 5 Companies in Automotive Industry**

<b>CSR Initiatives</b>						
S.No.		Toyota	Daihatsu	Honda	Mitsubishi	Suzuki
1.	Training Activities	√	√	√	√	√
2.	Occupational Health and Safety	√	√	√	√	√
3.	Local Community Involvement	√	√	√	√	√
4.	Support to Cultural Activities	√	-	√	√	√
5.	Product Safety	√	√	√	√	√
6.	Controlling Environmental Impact of products	√	√	√	√	√
7.	Support of Sports Activities	√	-	√	-	√
8.	Employee Volunteering	√	√	√	-	√
9.	Environmental Protection Activities	√	√	√	-	√



10.	Customer Satisfaction	√	√	√	√	√
11.	Anti-Fraud and Corruption Policies	√	-	√	-	√
12.	Initiatives for Disadvantaged Persons	√	√	-	√	√
13.	Controlling the Ethical and Social Aspects of Products	√	√	√	√	√
14.	Initiatives for Protected Categories	√	√	-	-	√
15.	Initiatives for Equal Opportunities	√	√	√	√	√
16.	Fair Trade Initiative	√	-	√	-	√
17.	On-site Child-Care facilities	√	-	√	-	-
18.	CSR Awards	√	√	√	√	√
19.	CSR Communication Campaigns	√	√	√	√	√

20	Promote Transparency Mechanisms	√	√	√	√	√
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## Conclusion

CSR is a corporate activity that can be obligated by law based on several things. The financial and banking sectors are a particularly important driver of CSR movement in Indonesia (Muller, 2006). In the automotive sector, the companies showcased varieties of the social responsibility towards their internal and external stakeholders. The most important information and focus in the selected sample Indonesian companies is on “products”, especially on “product safety”. This is considered one of the important and crucial social responsibility of these companies towards their customers. The companies are very cautious and sensitive towards the before and after sale safety mechanisms. Similarly the ethical responsibility enclosed with the product has been considered another crucial responsibility on the part of the company both for internal and external communication strategies. At present, all companies have their own way to adopt a framework for their activities keeping in the background the National Action Plan, 2013 of Indonesian. In the current vibrant economies, the various companies around the globe are under tremendous pressure to design their CSR initiatives, policies and reporting practices so that they can utilize CSR as a strategy not only to maximize revenue but also for sustainable development of themselves and the country as a whole (Aaijaz and Ibrahim, 2012). The scenario at the Indonesian automotive sector is very promising. All the sample companies are very passionately involved in one way or another in discharging the social responsibility towards different stakeholders. This could also serve a learning and sharing platform for other existing and new entrants who are gearing up for their social responsibility activities. If, we take a closer look at the list of activities proposed by the European Commission on the development of CSR policies, an intensive discussion is required to understand the relationships between different models of public policies and the frameworks within different industries in Indonesia. (Companies which do not make an effort to address the issues of CSR and sustainability within the corporation or outside). Policy makers are required to take out the open discussion with the Business houses, NGO’s as well chambers of commerce to implement the policy in an effective way.

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