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PA CSR's Current Understanding of CSR

Academic Round Table
28 June, 2010

Presenters: Rio D. Praaning Prawira Adiningrat, PA CSR
Margareth Gfrerer, FEUI

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Overview of the Presentation

- PA CSR's Emerging Definition for CSR
- CSR Understanding of Academics, Politicians and NGOs
- Social Responsibility & CSR in Europe and Asia
- Scientific Approach
- CSR as a Management Approach
- Discussion

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PA CSR's Emerging CSR Definition

"Corporate Social Responsibility starts where all existing laws and regulations end; it is an organic link between enterprising, profit-making and social development that is conducted as a win-win solution in areas where a company requires something from society that cannot be bought and requires investment through a 'double' business plan."

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CSR Understanding of Academics

- *Milton Friedman (1970)*: Social responsibility can be taken by individuals only and not by corporations. An executive of a corporation acts on behalf of the employer. The action radius of the executive is given by the contract and binds the executive's responsibility towards the employer (shareholders), the employees and the customers.
- *Jeremy Moon (2002)*: CSR contributes voluntarily to governmental causes and excludes "activities directly related to firms' production and commerce".

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CSR Understanding of Politicians

- *The Government of Indonesia*: The Limited Liability Company Law Number 40/2007 Article 74 (1): Companies doing business in the field of and/or in relation to natural resources must put into practice Environmental and Social Responsibility.
- *The Indonesian Ministry for State Owned Enterprises*: The Ministerial Decrees Kep-236/MBU/2003 and Per-05/MBU/2007 refer to community development and partnership programmes.

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CSR Understanding of NGOs

- *The World Business Council for Sustainable Development (WBCSD)*: CSR "... 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".
- *Irish Congress of Trade Unions (2006)*: "CSR refers, in sum, to the responsibility of companies, large and small, towards the greatest question facing humankind: sustainable development for the people and the planet."

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CSR Understanding of NGOs

- *Socio-Economic Council (2007)*: "One can speak of socially responsible business if the social dimension is an integral part of business operations and accordingly leads to an active or pro-active approach from the company".

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CSR in Europe

A historic review:

- In the late 19th and early 20th century many European capitalist / traditional companies introduced company owned welfare systems. In some of the traditional companies these welfare systems are still in place - complementary to the mandatory systems.

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CSR in Europe

Déjà-vu effect in the CSR discussion:

- Parts of the self-concept of traditional companies have been legalized and became mandatory for all companies.
- The self-concept of the traditional companies does respect people and the planet by focusing on the profit. This concept has partly been reinvented for/by companies to overcome difficulties with their stakeholders.

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CSR in Europe

Déjà-vu effect in the CSR discussion (2):

- CSR Europe's Toolbox tools are used to change companies images towards environment, human resource and customers, whereas traditional companies continue with their cooperation at community level as before.
- The CSR approach of national institutions and organisations is not adapted to non-European environments and accepts as a 'given' that Governments enforce (social and environmental) laws.

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CSR in Asia

- The Indonesian law and the Ministerial Decrees from the Ministry for State Owned Enterprises are precursors for CSR in Asia;
- Other SOEs and major companies in Asia mostly consider CSR in terms of community support of any nature;
- There are no clear guidelines how the government and the relevant Ministry(ies) want companies to practice CSR;
- Most Asian Governments see CSR as non-mandatory community service projects by industries that can afford this;
- Several EU Governments see CSR in Asia as potential element in their diplomatic industrial support policy;

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CSR in Asia

- Traditional European companies operating in Asia like Unilever and Nestle continue with their 'food chain based' CSR projects while adapting to certain reporting methods;
- Low levels of expectation and dedication in Asia refer to CSR as the implementation of existing laws and regulations topped up with community projects.

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Scientific approach

- The CSR-discussions in Europe as well in Asia are lacking of academic support. Practitioners manoeuvre the CSR-discussion. There are no generally recognised benchmarks mainly because there is no agreed definition or yardstick for implementation;
- Some of the theoretical bases for CSR issues come from sustainable business and business ethics theories;
- No references are could be found to economic literature from the first half of the 20th century;

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Scientific Approach

- *Joseph Schumpeter* did not mention the term CSR, but analysed the attitudes of a capitalist/traditional entrepreneur by referring to the social behaviour of a marshal, who leads an army.

"In capitalist society, social recognition of performance or social prestige carries a strongly economic connotation both because pecuniary gain is the typical index of success and because of the paraphernalia of social prestige have to be brought."

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Scientific Approach

"The role - social position of the capitalist entrepreneur ... also is or was just another form of individual leadership acting by virtue of personal force and personal responsibility of success. His [entrepreneur's] position ... is threatened as soon as this function in the social process loses its importance, and no less if this is due to the cessation of the social needs it served than if those needs are being served by other, more impersonal, methods."

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Scientific Approach

Is CSR equal to the discipline of business ethics?

- The school of ethics in Western philosophy recognises three approaches:
 - *Aristotle*: justice, charity and generosity are dispositions providing benefits for the giver and the society
 - *Kant*: the concept of duty is central to morality.
 - *Utilitarianism*: guiding principle of conduct should be the greatest benefit for the society.

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Scientific Approach

Does the school of ethics accommodate CSR principles?

- The CSR-Europe recognises the implementation of Code of Conduct as a CSR-activity. It is not considered that CSR might come up besides the legal frame and the Code of Conduct (Utilitarianism).
- The traditional entrepreneurs have been focusing especially on justice towards all stakeholders (employees, customers, suppliers, the community, government and the society at large) and generosity (Aristotle's approach).

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CSR as Management Approach

- Joseph Schumpeter's holistic approach to describe a capitalist entrepreneur as
 - sees himself as a Marshal and treats the given human resource, environment, community and assets with the most possible care to win the battle;
 - social prestige satisfies the counterparts / stakeholders and encourage them to trust and to follow the Marshal;
 - the won battle is the success of all – but caused by leadership.

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CSR as Management Approach

Criteria to define CSR as a management approach:

- decision making process as a holistic process: the best for the company, the environment and the community through a sustained process including an *organic relationship* between the company's profitability and society's successful human and economic development;
- taking financial and social responsibilities within the given frame; responsibility will not be transferred to supra- or subordinates;

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CSR as Management Approach

Criteria to define CSR as a management approach (2):

- Transparency of actions and documents;
- Accountability towards all stakeholders;
- All resources are handled with the most care, such as those would be the owns.

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Recalling PA CSR's Emerging CSR Definition

"Corporate Social Responsibility starts where all existing laws and regulations end; it is an organic link between enterprising, profit-making and social development that is conducted as a win-win solution in areas where a company requires something from society that cannot be bought and requires investment through a 'double' business plan."

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Discussion

- Legal requirement for CSR definition?
- What key elements must be in to guarantee efficacy and appropriateness vis-à-vis other laws and regulations?
- *In a larger perspective: how can appropriately defined CSR as an element of billions of dollars in trade and investment be turned into a key element of development cooperation?*

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