CHAPTER 2
THEORETICAL FRAMEWORK

2.1 History of CSR

Although CSR concept was not formally formulated until recently, researches showed that the history of CSR is as old as the history of the business itself. It is even emphasized by one of the research done by BRASS (Business Relationships, Accountability, Sustainability and Society) where the issue of social and environmental in business has started almost 5,000 years ago (Asongu, 2007).

Asongu (2007), in his writings for 'Journal of Business and Public Policy', gave example regarding to the issue of CSR that has happened before century:

> King Hammurabi of Ancient Mesopotamia in around 1700 BC is known to have introduced a code in which builders, innkeepers or farmers were put to death if their negligence caused the deaths of others, or major inconvenience to local citizens. Meanwhile, history has equally recorded the grumblings of Ancient Roman senators about the failure of businesses to contribute sufficient taxes to fund their military campaigns.

From his research done by interviewing thinkers and business people in Africa, Asongu (2007) found out that CSR concept becomes part of their business history. He gave example from hunters of Southern Cameroons and other parts of Africa who were "expected to bring part of their catch to the chief (traditional rulers)". Another example comes from doctors who were not allowed to charge ridiculous fees to their patients. They gave so nominal fees so their patients could not say they were unable to pay. Thus, he concluded that since traditional African societies' era, "businesses were seen first and foremost as providing benefits for the whole society, and the individual businessperson came only second place".

Meanwhile, Solomon (2005, p.234) wrote about the consciousness of CSR, which has grown stronger since the Industrial Revolution in Britain in the 18th century.

> The blast furnaces developed by Abraham Darby in Ironbridge and the cotton and woolen mills in the North of England were seen by visitors as inhuman environments for people to work in…. The poverty and appalling living conditions that millworkers suffered in Manchester horrified visiting academics and novelists.

Solomon (2005, p.234), Steiner and Steiner (2000, p.124) as well as Wherter & Chandler (2006, p.11) stated that massive social problems, such as child labor, political corruption, labor unrest, city slums, inequality and stock frauds, was encouraged by industrialization.

Thomas Carlyle (1795-1881) was one of the first writers who wrote novels to promote a social consciousness regarding to the suffered of the industrialized working class in the 1840s. Other writers were Elizabeth Gaskell (1810-1865) and Benjamin Disraeli (1804-1881) who encouraged social reconciliation and better understanding between owners and employees as well as between classes in society, as she observed miserable living conditions of industrial workers in Manchester.

Solomon (2005 p.234-235) and Asongu (2007) affirmed that Christianity brings influence to the development of CSR concept. “The Catholic Church in Latin America developed “Liberation Theology” in the 1960s to address the social needs of the ‘wretched of the earth’. Thus, it emphasized the fact that Christ had a ‘preferential option for the poor’” (Asongu, 2007). In addition, Solomon (2005, p.234) stated that “the founding of the Christian Socialist movement was a step in the direction of CSR”. Their philosophy was based on Christian principles and Christianity was the solitary foundation.

As written by Steiner and Steiner (2000, p.122), in the 18th century, CSR was also illustrated through generous actions done by wealthy businessmen. Steven Girard, a shipping and banking tycoon, donated $6million after he died in 1831 to a school that educated orphaned boys. Another one was George Peabody, a merchant and financier, who in the 1850s contributed $9million to promote education and provide housing for the poor (Parker.F, cited in Steiner & Steiner 2000, p.122). While in the 19th century, John D. Rockefeller gave more than $550million in his lifetime. Following him was Andrew Carnegie, who donated $350million during his lifetime.

Beside social issues, there were also parties who fought for environmental issues ever since the Industrial Revolution. For example, William Morris, a famous Pre-Raphaelite painter and poet, who lectured and wrote extensively about pollution. His effort to win against the tapping of a Surrey river, on aesthetic and environmental grounds became one of the earliest cases of environmental lobbying through the courts (Solomon and Thomson, 2006b). Hence, it can be concluded that back in the 18th and 19th centuries, CSR was still around individual donations and environmental issues.

The year 1920 was recognized as the beginnings of the “modern” CSR movement (ASongu, 2007). BRASS Centre (2007) cited that in 1929, the Dean of Harvard Business School, Wallace B. Donham, commented on the new concerns about the role of business in society:

> Business started long centuries before the dawn of history, but business as we now know it is new – new in its broadening scope, new in its social significance. Business has not learned how to handle these changes, nor does it recognize the magnitude of its responsibilities for the future of civilization.

According to Asongu (2007), the current emphasis on the role of businesses in society was due to increased sensitivity to and awareness of environmental and ethical issues, such as environmental damage, improper treatment of workers, and faulty production that inconveniences or endangers customers. Asongu also stated that these issues were highlighted in the media.

Moreover, in the 1920s, public relations, service, trusteeship, and public welfare were mentioned as the signals of development in the concept of corporate social responsibility (Steiner & Steiner 2000; Hoffman 2007). Since public relations informed management of the public needs as well as attitudes and became media for public to tell the 'business story', it was related to corporate social responsibility (Heald, as cited in Hoffman 2007). The term service meant that managers and companies were not only responsible to profit margins, but also responsible to the society and community (Lunden, as cited in Steiner & Steiner 2000; Hoffman 2007). Meanwhile, trusteeship represented that "corporate managers were responsible for maintaining and equitable balance among the various claims of employees, customers, suppliers, creditors, and the community as well as the stockholders"(Hay and Gray, as cited in Hoffman 2007).

However, some other resources stated that the development of CSR began in 1960s-1970s. One example is Lantos (2001, p.597), who wrote that business ethics were not major concerns in the business environment prior to 1960s, even though business ethics was associated with the concept of CSR. Another one was Rowe (as cited in Asongu 2007), who stated that year 1960s-1970s was the 'first wave' of public outcry over corporate malfeasance, such as corporate corruption, tax evasion, and involvement in clandestine political activities. Meanwhile, Alice and John Tepper Marlin (2003) also noted that the term CSR was commonly used in the early 1970s.

The Abt & Associates was claimed as the pioneer in CSR reporting, as it added an environmental report to its annual financial statements in 1972. Unfortunately, the report made was not linked with company's performance, lack of standard and framework, and as a result, it was called 'uninformative'. Based on Abt case, John Tepper Marlin (1973) wrote an article for the 'Journal of Accountancy' suggesting a model of environmental report where accountants could measure pollution. In 1989, Shell Canada, the Body Shop and Ben & Jerry's issued social report related with 1988's performances (Marlin & Marlin, 2003).

According to Matthews (1997), broad publications on environmental accounting took its place during year 1991-1995, including teaching programs, textbooks and journal articles. However, there was still lack of frameworks regarding to social and environmental accounting disclosures in any conceptual framework for financial statements. Fortunately, there were efforts from several countries to develop a clear regulatory framework. Also, it was noted that governments have formed better regulations and discharges for environment, such as New Zealand with its Resource Management Act 1991 (Milne, as cited in Matthews 1997), and Australia with its environmentally-related extensive requirements (Bates, as cited in Matthews 1997). After terrorist attack in September 11, 2001, the spotlight is focusing once more on corporations rather that corporate behavior, which obliges organizations to disclose CSR and brings government back into the marketplace to protect workers and the environment (Rowe, as cited in Asongu 2007).

The International Institution for Sustainable Development (IISD) has made a timeline summarizing the milestone towards sustainability development. See Table 2.1.

Table 2.1

Milestones – The Sustainable Development Timeline

Source: IISD, 2009

Year	Events and Programs
1962	**Silent Spring**, by Rachel Carson, brings together research on toxicology, ecology and epidemiology to suggest that agricultural pesticides are building to catastrophic levels, linked to damage to animal species and human health.
1967	**Environmental Defense Fund (EDF)** is formed to pursue legal solutions to environmental damage. The EDF goes to court to stop the Suffolk County Mosquito Control Commission from spraying DDT on Long Island's marshes. www.environmentaldefense.org
1968	**Biosphere**. Intergovernmental Conference for Rational Use and Conservation of the Biosphere (UNESCO) is held; early discussions occur on the concept of ecologically sustainable development. www.unesco.org. **Paul Ehrlich** publishes The Population Bomb, on the connection between human population, resource exploitation and the environment.
1969	**Friends of the Earth** forms as an advocacy organization dedicated to the prevention of environmental degradation, the preservation of diversity and the role of citizens in decision-making. www.foe.org **National Environmental Policy Act** is passed in the United States, making it one of the first countries to establish a national legislative framework to protect the environment. The law sets the basis for environmental impact assessment in the world. **Partners in Development and IDRC (1970).** Report of the Commission on International Development. This is the first of the international commissions to consider a new approach to development, focused on research and knowledge in the South. The report leads to the formation of the International Development Research Centre in 1970. www.idrc.ca
1970	**First Earth Day** held as a national teach-in on the environment. An estimated 20 million people participate in peaceful demonstrations across the United States. www.earthday.net. **Natural Resources Defense Council** forms with a staff of lawyers and scientists to push for comprehensive U.S. environmental policy. www.nrdc.org
1971	**Greenpeace** starts in Canada and launches an aggressive agenda to stop environmental damage through civil protests and non-violent interference. www.greenpeace.org **Founex Report** is prepared by a panel of experts calling for the integration of environment and development strategies. **Polluter pays principle.** Organisation for Economic Co-operation and Development (OECD) Council says those causing pollution should pay the resulting costs.

	International Institute for Environment and Development (IIED) is established in the United Kingdom to seek ways for countries to make economic progress without destroying the environmental resource base. www.iied.org **René Dubos and Barbara Ward write Only One Earth**, which sounds an urgent alarm about the impact of human activity on the biosphere, but expresses optimism that shared concern for the planet could lead humankind to create a common future.
1972	**UN Conference on the Human Environment and UNEP.** The Stockholm conference is rooted in the pollution and acid rain problems of northern Europe. It leads to the establishment of many national environmental protection agencies and the United Nations Environment Programme (UNEP). www.unep.org **Environnement et Développement du Tiers-Monde (ENDA)** is established in Senegal, in 1978 becoming an international NGO concerned with empowering local peoples, eliminating poverty, and promoting southern research and training for sustainable development. www.enda.sn **Club of Rome** publishes the controversial Limits to Growth, which predicts dire consequences if growth is not slowed. Northern countries criticize the report for not including technological solutions; Southern countries are incensed because it advocates abandonment of economic development. www.clubofrome.org
1973	**United States** enacts the Endangered Species Act, becoming one of the first countries to implement legal protections for its heritage in fish, wildlife and plants. **Chipko** movement is born in India in response to deforestation and environmental degradation. These women's actions influence both forestry and women's participation in environmental issues. www.rightlivelihood.org/recip/chipko.htm **OPEC** oil crisis fuels limits-to-growth debate.
1974	**Rowland and Molina** release work on chorofluorocarbons (CFCs) in the scientific journal Nature, calculating that continued use of CFCs at current rates would critically deplete the ozone layer. **Latin American World Model** developed by the Fundación Bariloche. It is the South's response to Limits to Growth and calls for growth and equity for the Third World. www.fundacionbariloche.org.ar/LP-mod-latinoam.htm
1975	**CITES.** The Convention on International Trade in Endangered Species of Flora and Fauna comes into force. www.cites.org **Worldwatch Institute** established in the United States to raise public awareness of global environmental threats and catalyze effective policy responses; begins publishing annual State of the World in 1984. www.worldwatch.org
1976	**Habitat, the UN Conference on Human Settlements**, is the first global meeting to link the environment and human settlement.
1977	**Green Belt Movement** starts in Kenya, using community tree planting to prevent desertification. www.greenbeltmovement.org **UN Conference on Desertification** is held.
1978	**Amoco Cadiz oil spill** occurs off the coast of Brittany. **OECD Directorate of the Environment** relaunches research on environmental and economic linkages. www.oecd.org
1979	**Convention on Long-Range Transboundary Air Pollution** is adopted. **Banking on the Biosphere**, IIED report on practices of nine multilateral development agencies including the World Bank, sets the stage for reforms that are still underway. **Three Mile Island** nuclear accident occurs in Pennsylvania, United States

1980	**World Conservation Strategy released by the International Union for the Conservation of Nature (IUCN)**. The section "Towards Sustainable Development" identifies the main agents of habitat destruction as poverty, population pressure, social inequity and trading regimes. The report calls for a new international development strategy to redress inequities. www.iucn.org **Independent Commission on International Development Issues** publishes North-South: A Programme for Survival (Brandt Report), calling for a new economic relationship between North and South. **Global 2000 report** is released. It recognizes biodiversity for the first time as critical to the proper functioning of the planetary ecosystem. It asserts that the robust nature of ecosystems is weakened by species extinction.
1981	**World Health Assembly** unanimously adopts the Global Strategy for Health for All by the Year 2000, which affirms that the major social goal of governments should be for all peoples to attain a level of health that would permit them to lead socially and economically productive lives. www.who.org
1982	**World Resources Institute** is established in the United States. It begins publishing biennial assessments of world resources in 1986. www.wri.org **UN Convention on the Law of the Sea** is adopted. It establishes material rules concerning environmental standards and enforcement provisions dealing with marine pollution. www.un.org/depts/los **International debt crisis** erupts and threatens the world financial system. It turns the 1980s into a lost decade for Latin America and other developing regions. **The UN World Charter for Nature** adopts the principle that every form of life is unique and should be respected regardless of its value to humankind. It calls for an understanding of our dependence on natural resources and the need to control our exploitation of them. www.un.org/documents/ga/res/37/a37r007.htm
1983	**Development Alternatives** is established in India. It fosters a new relationship among people, technology and the environment in the South. www.devalt.org **Grameen Bank** is established to provide credit to the poorest of the poor in Bangladesh, launching a new understanding of the role of microcredit in development. www.grameen-info.org
1984	**Toxic chemical leak** leaves 10,000 dead and 300,000 injured in Bhopal, India. www.bhopal.net **Drought in Ethiopia**. Between 250,000 and 1 million people die from starvation. **Third World Network** is founded as the activist voice of the South on issues of economics, development and environment. www.twnside.org.sg **International Conference on Environment and Economics** held by the OECD concludes that the environment and economics should be mutually reinforcing. It helps to shape the report Our Common Future.
1985	**Responsible Care**, an initiative of the Canadian Chemical Producers, provides a code of conduct for chemical producers that has now been adopted in many countries. www.ccpa.ca **Climate change**. Meeting in Austria of the World Meteorological Society, the UNEP and the International Council of Scientific Unions reports on the buildup of carbon dioxide and other "greenhouse gases" in the atmosphere. They predict global warming. **Antarctic ozone hole** discovered by British and American scientists.
1986	**Chernobyl nuclear station accident** generates a massive toxic radioactive explosion.
1987	**Our Common Future (Brundtland Report).** Report of the World Commission on Environment and Development weaves together social, economic, cultural and environmental issues and global solutions. It popularizes the term "sustainable development." **OECD Development Advisory Committee** creates guidelines for environment and development in bilateral aid policies. www.oecd.org/dac

	Montreal Protocol on Substances that Deplete the Ozone Layer is adopted. http://ozone.unep.org
1988	**Chico Mendes**, a Brazilian rubber tapper fighting the destruction of the Amazon rainforest, is assassinated. Scientists use satellite photos to document what the Amazon fires are doing to the rainforest. www.chicomendes.com **Intergovernmental Panel on Climate Change (IPCC)** is established to assess the most up-to-date scientific, technical and socioeconomic research in the field. www.ipcc.ch
1989	**Exxon Valdez tanker runs aground**, dumping 11 million gallons of oil into Alaska's Prince William Sound. www.evostc.state.ak.us **Stockholm Environment Institute** is established as an independent for carrying out global and regional environmental research. www.sei.se
1990	**International Institute for Sustainable Development (IISD)** is established in Canada and begins publishing the Earth Negotiations Bulletin as the authoritative record of international negotiations on environment and development. www.iisd.org **UN Summit for Children** is held, an important recognition of the impact of the environment on future generations. www.unicef.org/wsc **Regional Environmental Centre for Central and Eastern Europe** is established to address environmental challenges across the region, with an emphasis on the engagement of business as well as governments and civil society. www.rec.org
1991	**The Canadian east coast cod fishery collapses** when only 2,700 tonnes of spawning biomass are left after a harvest of 190,000 tonnes. **Hundreds of oil fires burn in Kuwait** for months following the Persian Gulf War.
1992	**The Business Council for Sustainable Development publishes Changing Course**, establishing business interests in promoting sustainable development practices. www.wbcsd.ch **Earth Summit.** UN Conference on Environment and Development (UNCED) is held in Rio de Janeiro. Agreements are reached on the action plan Agenda 21 and on the Convention on Biological Diversity, the Framework Convention on Climate Change and the non-binding Forest Principles.
1993	**First meeting of the UN Commission on Sustainable Development,** established to ensure follow-up to UNCED, enhance international cooperation and rationalize intergovernmental decision-making capacity. www.un.org/esa/sustdev
1994	**Global Environment Facility is established**, restructuring billions of aid dollars to give more decision making power to developing countries. www.gefweb.org **China's Agenda 21**, a white paper on the People's Republic of China's population, environment and development, is published. China sets an international example for national strategies for sustainable development.
1995	**Execution of Ken Saro-Wiwa in Nigeria** brings international attention to the links among human rights, environmental justice, security and economic growth. **World Trade Organization (WTO)** is established, with formal recognition of trade, environment and development linkages. www.wto.org **World Summit for Social Development** is held in Copenhagen. It is the first time the international community expresses a clear commitment to eradicating absolute poverty. www.un.org/esa/socdev/wssd/index.html **Fourth World Conference on Women** is held in Beijing. Negotiations recognize that the status of women has advanced, but obstacles remain to the realization of women's rights as human rights. www.un.org/womenwatch/daw/beijing
1996	**ISO 14001** is formally adopted as a voluntary international standard for corporate environmental management systems. www.iso.org

1997	**Asian ecological and financial chaos.** Landclearing fires intensified by El Niño–induced drought result in haze blanketing the region and cause US$3 billion in health costs and fire-related damage. Concurrently, the market crashes, raising questions about currency speculation and the need for government economic reforms.
1998	**Controversy over genetically modified (GM) organisms**. Global environmental and food security concerns are raised, the European Union blocks imports of GM crops from North America, and farmers in developing countries rebel against "terminator technology," GM plants whose seeds will not germinate. **Unusually severe weather.** China experiences the worst floods in decades, two-thirds of Bangladesh is underwater for several months from monsoons, Hurricane Mitch destroys parts of Central America, 54 countries are hit by floods and 45 by drought, and the global temperature reaches the highest ever recorded. Http://lwf.ncdc.noaa.gov/oa/climate/research/1998/ann/extremes98.html
1999	**Launch of the Dow Jones Sustainability Indexes.** The first of its kind, the tool provides guidance to investors looking for profitable companies that follow sustainable development principles. www.sustainability-index.com **Third WTO Ministerial Conference held in Seattle.** Thousands of demonstrators protest the negative effects of globalization and the growth of global corporations. Along with deep conflicts among WTO delegates, they scuttle the negotiations. The first of many antiglobalization protests, the demonstrations signal a new era of confrontation between disaffected stakeholders and those in power. www.iisd.org/trade/wto/seattleandsd.htm
2000	**UN Millennium Development Goals.** The largest-ever gathering of world leaders agrees to a set of time-bound and measurable goals for combating poverty, hunger, disease, illiteracy, environmental degradation and discrimination against women, to be achieved by 2015. www.un.org/millenniumgoals **Miss Waldron's red colobus monkey is declared extinct**, the first extinction in several centuries of a member of the primate order, to which humans belong. According to the IUCN Red List, 11,046 species are now threatened with extinction.
2001	**9/11**. Terrorists representing anti-Western, non-state interests and ideologies attack the World Trade Center and Pentagon, marking the end of an era of unhindered economic expansion. Stock markets and economies stumble and the United States gears up for a war on terrorism. **Fourth Ministerial Conference of the WTO**, held in Doha, Qatar, recognizes environmental and development concerns in its final declaration. www.ictsd.org/ministerial/doha **China joins the WTO**, accelerating national structural economic changes. The accession signals China's emergence, together with India and Brazil, as major new forces in the global economy.
2002	**World Summit on Sustainable Development** is held in Johannesburg, marking 10 years since the UNCED. In a climate of frustration at the lack of government progress, the summit promotes "partnerships" as a nonnegotiated approach to sustainability. www.worldsummit2002.org **Global Reporting Initiative** releases guidelines for reporting on the economic, environmental and social dimensions of business activities. www.globalreporting.org
2004	**Wangari Muta Maathai** is awarded the Nobel Peace Prize. Founder of the Green Belt Movement in Kenya, she is the first environmentalist to be awarded a Nobel Prize. http://nobelprize.org/peace/laureates/2004 **HIV/AIDS pandemic in sub-Saharan Africa**. In 2004 alone, 2.5 million people in the region die of AIDS, and over three million become newly infected. With only 10 per cent of the world's population, the region is home to more than 60 per cent of all people living with HIV. www.unaids.org

2005	**Kyoto Protocol** enters into force, legally binding developed country parties to goals for greenhouse gas emission reductions, and establishing the Clean Development Mechanism for developing countries. **Millennium Ecosystem Assessment** is released. 1,300 experts from 95 countries provide scientific information concerning the consequences of ecosystem change for human well-being. www.milleniumassessment.org
2006	**Stern Report** makes convincing economic case that the costs of inaction on climate change will be up to 20 times greater than measures required to address the issue today. www.sternreview.org.uk **NASA reports** that the ozone layer is recovering, due in part to reduced concentrations of CFCs, phased out under the Montreal Protocol. http://science.nasa.gov/headlines/y2006/26may_ozone.htm
2007	**Public attention to climate change increases**. Former U.S. Vice President Al Gore's documentary, An Inconvenient Truth, wins an Academy Award, and the IPCC's alarming forecasts about the planet's health make headlines. The IPCC and Gore share the Nobel Peace Prize. www.ipcc.ch **More signs of ecosystem stress emerge**. In addition to an earlier prediction that fish stocks could disappear in 50 years, scientists say sharks and bee colonies are also at risk.
2008	**World food,** fuel and financial crises converge. Global food prices increase 43 per cent in one year; growing energy demand in China, India and elsewhere sends energy prices soaring; financial institutions falter over the collapse of mortgage lending in the United States and markets tumble, sending the world into recession. **Green economy** ideas enter the mainstream. National governments invest a portion of their economic stimulus in environmental actions, and a low-carbon economy and green growth become new objectives for the future economy. www.oecd.org/dataoecd/58/34/44077822.pdf **Increasing urbanization**. For the first time in history, more than 50 per cent of the world's population lives in towns and cities. www.unfpa.org/pds/urbanization.htm
2009	**Fire and ice headlines**. Multiyear sea ice all but disappears from the Arctic Ocean and the Australian drought that commenced in 2003 leads to the worst wildfires in history. **G20** promises phase out of fossil fuel subsidies. Experts estimate that annual subsidies could amount to $500 billion, equal to 1 per cent of world GDP. www.globalsubsidies.org/files/assets/I_policy_brief_on_G-20_Announcement_Oct_09-1.pdf **Connectivity throughout the world exceeds predictions.** About 60 per cent of world's people now have mobile phones, and 25 per cent are on the Internet. Social networking is directly influencing citizen engagement, from the Obama presidential campaign to the contested Iranian election. **Copenhagen climate negotiations.** The domestic targets and actions of large emitters such as the United States and China take centre stage, but the international process continues to be seen as critical to measuring whether those actions are meeting the global reductions that science demands. The outcomes of the Copenhagen negotiations are unclear: the process may be in trouble but the Copenhagen Accord itself may be a breakthrough in terms of engaging developing countries. www.iisd.ca/climate/cop15/

2.2 Definitions

There are numerous definitions of corporate social responsibility, for instance Commission of the European Communities (2001) defines CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”. Based on research done by Alexander Dahlsrud (2006) for Wiley InterScience, Commission of the European Communities’ definition is the best one for illustrating CSR. This is due to all dimensions – voluntariness, stakeholder, social, environmental and economic – covered by the definition. Also, it is the most frequent definition counted from Google. Dahlsrud (2006) illustrated the five dimensions, how the coding scheme was applied, and example phrases. See Table 2.2.

Table 2.2

The five dimensions, how the coding scheme was applied and example phrases

Source: Dahlsrud, A 2006

A. Dahlsrud

Dimensions	The definition is coded to the dimension if it refers to	Example phrases
The environmental dimension	The natural environment	‘a cleaner environment’ ‘environmental stewardship’ ‘environmental concerns in business operations’
The social dimension	The relationship between business and society	‘contribute to a better society’ ‘integrate social concerns in their business operations’ ‘consider the full scope of their impact on communities’
The economic dimension	Socio-economic or financial aspects, including describing CSR in terms of a business operation	‘contribute to economic development’ ‘preserving the profitability’ ‘business operations’
The stakeholder dimension	Stakeholders or stakeholder groups	‘interaction with their stakeholders’ ‘how organizations interact with their employees, suppliers, customers and communities’ ‘treating the stakeholders of the firm’
The voluntariness dimension	Actions not prescribed by law	‘based on ethical values’ ‘beyond legal obligations’ ‘voluntary’

Another definition comes from World Business Council for Sustainable Development (1999), which defined CSR as “The commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life”. Taken from its official website, World Business Council for Sustainable Development (which will be referred as WBCSD later on) stated that their work is based on the fundamental belief that a coherent Corporate Social Responsibility (CSR) strategy, based on sound ethics and core values, offers clear business benefits. They believe that “business is not divorced from the rest of society”. Business and society are interdependent, thus it must be ensured through mutual understanding and responsible behavior, that business’s role in building a better future is recognized and encouraged by society (WBCSD n.d).

Bloom & Gundlach (as quoted in Lantos 2001) defined CSR as:

> the obligations of the firm to its *stakeholders* – people and groups who can affect or who are affected by corporate policies and practices. These obligations go beyond legal requirements and the company’s duties to its shareholders. Fulfillment of these obligations is intended to minimize any harm and maximize the long-run beneficial impact from the firm on society.

From all the definitions mentioned above, it can be seen that there is repetition of words such as community, people, society, stakeholder, economic, social and environment. Hence, it can be concluded that business as well as company are being entitled by “social contract” to society (Lantos 2001). Also, it is necessary to concern about the society's long-run needs as well as considering the impact of actions to society; maximizing the positive effects while minimizing the negative ones.

2.3 CSR in Other Nations

European Nations

For developed nations of the West, the great depression in 1930s was the event which symbolized the importance of the economic function of business to the health of society, due to massive social problems happened in this era. In post-war Europe, the market failures were said as the main reason for many social and economic problems. Hence, governments were triggered to have closer control over companies to ensure they met economic goals as well as social goals, such as full employment and income equality. The nationalized industries in England, France and business belonged to Nazi collaborators were the examples. Another example came from Germany, where companies are required to have supervisory boards consisted members from labor, government and industry (Steiner & Steiner 2001, p. 142).

Through this kind of mixed economies, governments have greater responsibility regarding to improve societal problems. The governments' approach of charging high taxes to fund broad social programs and achieving social objectives through state-owned companies like what American firms did was resulted in low pressure on private European companies. Steiner & Steiner (2001 p. 142) then stated that:

> The development of an ideology of social responsibility similar to that in the United States has, therefore, been slower. European companies are more likely to believe that they have met their obligations by paying taxes and following regulations.

Labor issues, such as wages, working conditions and employment security, were taken into consideration more primarily in France, and to lesser extent in Britain, Germany and Italy. This was because in these countries conflicts between labor unions and employers are common. Thus, there were unique industrial regulations existed, for instance: In France companies must spend 1 percent of total wages on worker education programs. Meanwhile, in Germany workers receive benefits that would be considered as superior in the United States (Steiner & Steiner 2001, p. 142).

Due to global markets emergence in 1990s, nationalized firms were said to be inefficient because of its both social and economic objectives. This led to less faith towards governments, and as a result more companies were being privatized. Thus, business may be called on to assume greater voluntary programs as governments have taken less responsibility to promote social welfare (Steiner & Steiner 2001, p. 143).

According to CSR Europe, "since 1995 businesses and European policy makers have been engaged in a dynamic of reinforcing one another's efforts in developing initiatives on CSR and sustainable development". This was illustrated by the adoption and announcement of European Business Declaration against Social Exclusion, which enclosed the willingness of signatory businesses and business organizations to take part in the joint efforts to prevent and combat social exclusion.

China

Taken from an article written by Maria Lam for CSR Asia Weekly, it is stated that CSR movement in China was started by the Chinese government as an attempt toward a “harmonious” society. During September 2008, the Ministry of Commerce issued a draft titled “Guidelines on Corporate Social Responsibility Compliance for Foreign Invested Enterprises”. The Guidelines contained the government expectations for foreign multinational enterprises (which will be referred as MNEs later on) in China. ‘The Guidelines suggest that China intend to take a global lead in making CSR strategies a prerequisite for companies doing business within its borders. Moreover, the Guidelines have a decidedly Sino-centric focus, focusing on issues in China today and CSR programs with “Chinese characteristics”’ (Pearson, 2009). According to Zhu (2009), the Shanghai government then upgraded the guideline as the first local CSR standard in China, in November, 2008, which means that foreign MNEs are expected to adopt comprehensive CSR programs and foster the “harmonious society.” Furthermore, this step asked foreign MNEs to reprioritize their values and not overprotect their intellectual property at the expense of social development (Lam 2009).

Research done by Lam (2009), by interviewing 25 Chinese executives who represent 16 foreign MNEs as well as five Japanese expatriates plus more than 100 Chinese executives and students, showed that "the key challenge of managing CSR in China is the lack of integration of CSR programs in China in the management area". Also, there is still lack of consideration to CSR department as an important department. Moreover, CSR programs in China were considered to foster better relationships with the Chinese government.

Therefore, we may say that implementation of CSR in China is still in the early stage, as CSR is employed to encourage better relationships with the Chinese government. Also, "it is important to develop serious dialogues between CSR managers at headquarters and China in order to develop a process that supports more internal and external cooperation with various stakeholders in corporations in the journey of attaining universal values in the CSR activities" (Lam 2009).

Japan

According to Nobuyuki Demise (2004), CSR is currently popular in Japanese business society. In 2003, Keizai Doyukai, the Japan Association of Corporate Executives, published the 15th Corporate White Paper on "Market Evolution and CSR Management: Toward Building Integrity and Creating Stakeholder Value", which stated that CSR is one of the most important elements for companies in building trust and creating sustainable stakeholder value. Even media, for instance Nihon Keizaishinbun, published "CSR ranking" on various valuation bases.

However, it is not first time that CSR is noticed in Japanese business society. According to Steiner & Steiner (2001, p. 143), CSR in Japan grew slowly before 1800s which was due to historical circumstances and influence of Confucianism. After the government in Meiji Era (1867-1911) adopted the policy to form the industrial society and imported institutions from the West, such as the legislation system and the company system, CSR started to spread out. This era was called "the first period for the relationship between company and society" (Demise 2004).

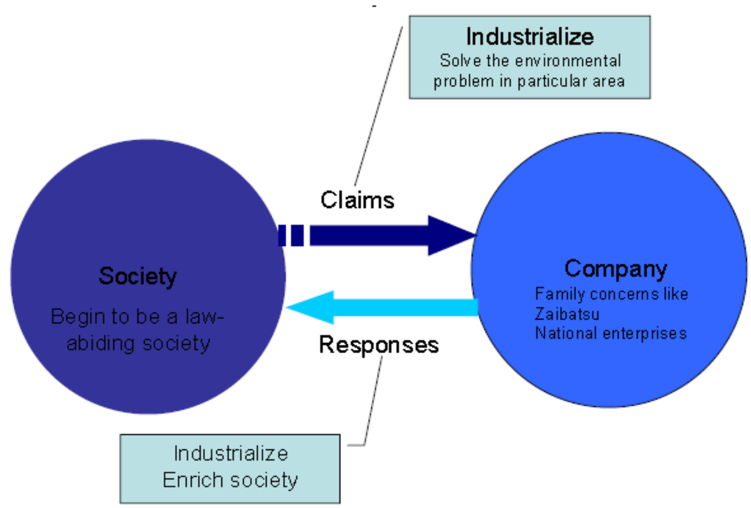

Figure 2.1

Relationships between Company and Society in Meiji Era

In this period, both society and company started to modernize and industrialize

Source: Demise 2004 p.5

The society started to democratize in pre-war period (1911-1945), which was indicated by the Movement for Democracy and Liberalism in the Taishou Era, and the Universal Suffrage Law legislated in 1925. These social movements included labor movements and human right movements. Moreover, Koyata Iwasaki, the leader of Mitsubishi Zaibatsu, presented the 'Three Corporate Principle of Mitsubishi', which later on became the foundation of the vision and strategy for Japan commitment to CSR (Demise 2004).

Corporate Responsibility to Society; "Shoki Hoko"

Strive to enrich Society, both materially and spiritually, while contributing towards the preservation of the global environment.

Integrity and Fairness; "Shoji Komei"

Maintain principles of transparency and openness conducting business with integrity and fairness.

International Understanding through Trade; "Ritsugyo Boeki"

Expand business, based on all encompassing global perspective.

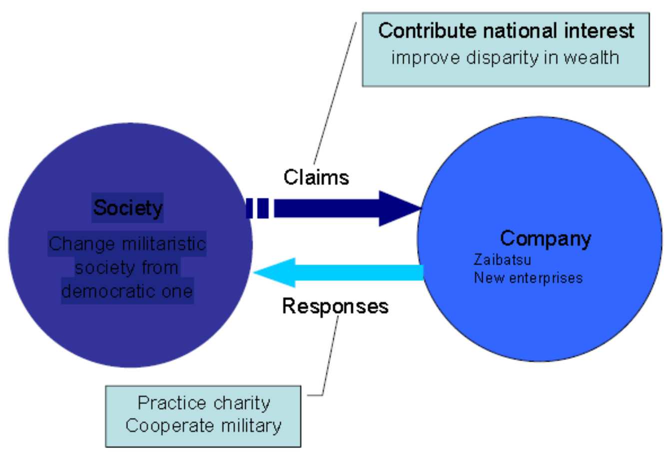

Figure 2.2

Relationships between Company and Society in Prewar Period

Company is larger organization than other organizations including university and hospital, in the Japanese society

Source: Demise 2004 p.8

During Postwar period (1945-1989), in 1947 precisely, the Antimonopoly Law was legislated. Thus, Japanese society was democratized to set the framework for Japan's postwar economic development. In this period also, many workers joined the labor union and labor movements. One of the strongest labor movements rose in the Toyota Motors, which then made Kiichiro Toyoda, the founder, resigned as president of the company. After these experiences, many companies adopted the capital-labor cooperation policy. Also, they gave priority to employees' interests and welfare over those of their stockholders. In 1956, the Japanese Association of Corporate Executives, Keizai Doyukai, issued the statement on social responsibility for corporate executives, which suggested that the corporation was a social institution and that corporate executives were stewards of shareholders as well as the society in which their companies operated. The goal was to develop economy in harmony with society. In the mid 1980s, Japanese companies that went to the United States learnt to do philanthropic activities, which then they introduced to Japan, for instance donations and volunteer activities (Demise 2004).

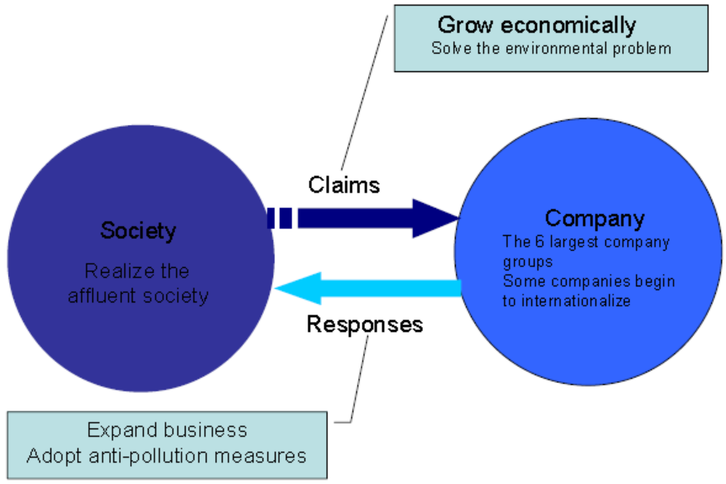

Figure 2.3

Relationships between Company and Society in Postwar Period

The Japanese society realized the affluent society and large companies internationalized. Some of them established the factories and offices in the United States. After some regulations on pollution, large companies adopted anti-pollution measures.

Source: Demise 2004 p.11

In 1991, the Japan Business Federation, Nippon Keidanren, published the Charter of Corporate Behavior, which inspired many large companies to launch a code of ethical conduct. Two years later, the Japan Society for Business Ethics Study was established. Then, R-BEC, the Business Ethics & Compliance Research Center at Reitaku University published ECS 2000, Ethics Compliance Management System Standard in 1999. In ECS2000, business ethics are defined as “including all activities carried out within an organization in order to ensure fair and responsible behavior of the organization”. Meanwhile, legal compliance is defined as “all the internal activities of an organization made in order to comply with the laws and regulations applicable to their business and to the goods and services in which they deal”. Ethical-legal compliance is defined as “the compliance with applicable laws and regulations (including social values) and all internal activities made in order to implement the ethical standards which an organization has established upon its own volition” (Demise 2004).

Several cases were then rose into surface. Examples are: a large food company that poisoned some 15,000 people with bad milk, as well as large motor company car defect-cover up was exposed in 2000. Another case was a food company which re-labeled imported beef as domestic beef and committed malfeasance, getting money from the government by fraud in 2002. It was also found in the same year that Tokyo Electric Power Company managed for years to cover up defects in nuclear power plants (Demise 2004).

Demise (2004) figured three models of Japanese company, which are high, some and little transparency. The companies with high transparency are responsive to the expectations of stakeholders, where they will ensure corporate social responsibility positively. Meanwhile, the company with some transparency responds to large requests from stakeholders, such as the needs of customers, or claims of large shareholders. The company with little transparency exploits stakeholders for its own ends.

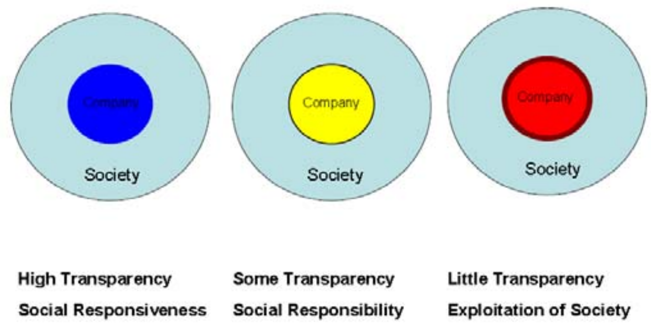

Figure 2.4

Three Models of Japanese Company

Source: Demise 2004 p.17

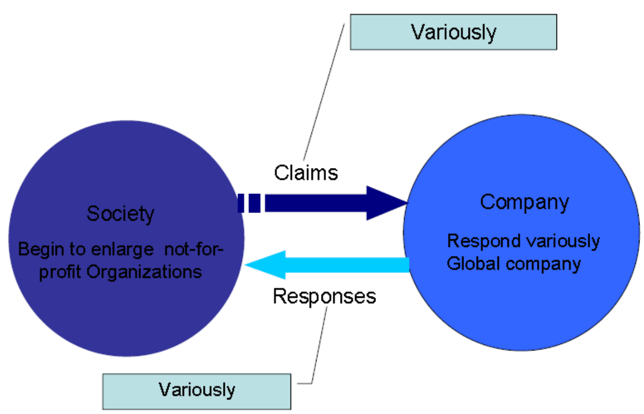

Figure 2.5

Relationships between Company and Society in the Present Time

Source: Demise 2004 p.17

Asia-Pacific

According to the Asia-Pacific Economic Cooperation (APEC) report on *Corporate Social Responsibility in the APEC Region: Current Status and Implications* (2005) that covers 14 countries in Asia-Pacific region, includes five ASEAN countries, namely; Indonesia, Philippines, Singapore, Thailand and Vietnam, there are similarities of CSR practices and activities in countries of the Asia-Pacific region:

- The origins and conceptualization of CSR are rooted in the historical and cultural traditions of each country and deeply influenced by ethical concepts and religious practice.
- CSR is gradually moving from its historical focus on business philanthropy to a broader set of activities that engage business with the full range of its stakeholders and integrate the practice of CSR into the core strategy of the organization.
- Efforts at measurement and reporting are growing rapidly in the belief that formal monitoring and evaluation of outcomes will enhance the credibility of CSR and make it easier to substantiate.
- CSR is evolving in response to profound external forces, including meeting legal and regulatory obligations and responding to the elite and broader public opinions that demand higher standards of accountability, for example, meeting environmental requirements and assuring appropriate labor standards throughout the supply chain.
- Companies are increasingly turning to partnerships with other stakeholders including both governments and non-government organizations in implementing CSR activities.

However, the differences also exist, especially between developed countries and developing countries. APEC (2005) noted that in *developed countries*, environmental stewardship and the strengthening of environmental management practices are important. Also, there is strong and active civil society involvement. For developed countries, the significant driver of CSR is management of supply chain, including links to production in developing economies, often in response to well-articulated consumer concerns or activism. There is also tendency to have strong traditions of community outreach including corporate community investment that in both concept and practice extends beyond pure charity or philanthropy. Thus, corporations in developed countries are engaged in strategic partnerships with stakeholders within communities in which they operate for mutual benefit. Whereas the major challenges faced related to CSR include:

- finding appropriate responses to globalization
- identifying and addressing gaps in CSR practices
- developing common standards of good practice throughout the supply chain, and
- assuring exemplary corporate behavior worldwide

(APEC 2005)

For *developing countries*, multinational companies play important roles regarding to CSR practices emulated by the local corporate community. The key drivers for CSR are the requirements of the global marketplace and their supply chains, such as the huge amount of incentives for exporters to adopt appropriate practices - human rights, labor practices, environmental practices and food safety - to access markets or to attract overseas investment. If the local regulatory frameworks are weaker or have more limited capacity to enforce legislation, there is tendency for global protocols to influence CSR practices in purpose of overcoming local weakness and promoting the capacity of local businesses to compete in global markets.

The major challenges faced by these developing countries generally relate to:

- raising further awareness of CSR
- building capacity within existing institutions that can drive the adoption of CSR
- making the case to the local business community to adopt CSR, and
- transferring competencies to individual companies.

(APEC 2005)

In its report, APEC (2005) illustrates some of CSR in ASEAN countries. It was reported that the birth of the CSR concept and its initial practice in *Philippines* can be traced back to the 1950s and has increased significantly with latest recorded corporate giving (2002-2004) increasing three-fold to P2.6 billion in a period of ten years. This was due to market forces, which required companies not only respond tactically to potential crises but also acknowledge the fact that businesses could not possibly thrive in an environment where the majority of the population are poor. Social problems which worsened the country's economic condition obliged the business practitioners to sustain the commitment to and resources available for CSR. CSR practiced in Philippines are philanthropic in nature with education and health as the main concentration.

Meanwhile, *Vietnam* CSR activities are regulated and supervised by the government. Companies then observe and outline the regulations in the annual plans. The examples of CSR activities in Vietnam are meeting the requirements of the import partners, operating in a favorable working environment, avoiding conflicts and disputes with local labor, and to some extent philanthropy. The promotion of CSR primarily done by enterprises and government, where enterprises determine the success of CSR and government promulgates policies, supervises the enforcement of regulations and provides information on CSR issues. Similar with Vietnam, *Singapore* government is the key architect of the economy, which then has significant influence over corporate behavior. The government-centric approach influences CSR approaches concentrating on compliance with legislative requirements as a means of achieving and regulating socially responsible behavior (APEC 2005).

2.4 Perceptions against CSR

One of the most famous opponents against the idea and concept of CSR is Milton Friedman, the winner of The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 1976 for "his achievements in the fields of consumption analysis, monetary history and theory and for his demonstration of the complexity of stabilization policy" (Nobelprize.org). He argues that "business" as a whole cannot be said to have social responsibilities, also he believes that company's responsibility is only to maximize profits to shareholders (Friedman, 1970). His argument is:

> There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud . . . Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of social responsibility other than to make as much money for their stockholders as possible. This is a fundamentally subversive doctrine.
>
> (Friedman, as cited in Steiner & Steiner 2001)

From Friedman's point of view, in free-enterprise, private-property system, a manager is an employee of the business' owners, who is also directly responsible to them. Since the owners' intention is to receive as much earnings as possible, it becomes manager's sole duty to fulfill while conforming to the basic rules of society in terms of law and ethical custom. Thus, corporate executive's primary responsibility is to the stockholders. If corporate executives spend company's money in public interest, they spend it without stockholders' approval and possibly in ways that they may oppose to. Moreover, they would also be faced with two taxation issues, which are first is they are in effect imposing tax, and second is they have to decide the ways of how tax should be spent, which is called by Friedman as 'taxation without representation' (Steiner & Steiner 2001).

Friedman (1970) also points that social responsibility plays important role of harming political freedom. CSR rose political questions on two levels: principle and consequences. He argues that government's systems of tax imposition and tax expenditure has the person-in-charge, who is appointed by the government and made into civil servant to serve the public. If then corporate executives practice CSR and then become civil servant, the justification of executive as an agent who serves the interests of stockholders would disappear.

> … it is intolerable that such civil ser-vants–insofar as their actions in the name of social responsibility are real and not just win-dow-dressing–should be selected as they are now. If they are to be civil servants, then they must be elected through a political process.
>
> (Friedman 1970)

These opinions then are further reinforced by the consequences that Friedman (1970) has stated earlier, on the ability of these corporate executives to discharge their alleged social responsibilities while in contrast, they do not have any foundation or basis in determining how the money must be spent as well as how the money could help governments in solving the social problems.

Furthermore, Friedman (as cited in Steiner & Steiner 2001) notifies that political freedom may be harmed by social responsibility and a company should not hold two powers of economic and political. The reason is due to great power created when these two are combined. Friedman (1970) argument was supported by Peter Drucker, who stated:

> Milton Friedman's position that business should stick to its business. . . is indeed the only consistent position in the society. Any other position can only mean that business will take over power, authority, and decision making in areas outside of the economic sphere, in areas which are or should be reserved to government or to the individual or to other institutions.
>
> (as cited in Steiner & Steiner 2001)

Friedman's argument was then countered in 1971 by Committee for Economic Development (CED), an old organization of prominent business leaders throughout the United States. They issue a milestone statement which stated that "business function by public consent, and its basic purpose is to serve constructively the needs of society- to satisfaction of society" (Steiner & Steiner 2001). Another statement countering the opposing arguments towards CSR was stated in 1981 by The Business Roundtable, a group of 200 leaders of the largest corporations, in its Statement on Corporate Responsibility, which mentioned:

> Economic responsibility is by no means incompatible with other corporate responsibilities in society. In contemporary society all corporate responsibilities are so interrelated that they should not and cannot be separated. . .
>
> A corporation's responsibilities include how the whole business is conducted every day. It must be thoughtful institution which arises above the bottom line to consider the impact of its actions on all, from shareholders to the society at large. Its business activities must make business sense.
>
> (as cited in Steiner & Steiner 2001)

2.5 CSR and Financial Performance

CSR as an important consideration for firms and their stakeholders is agreed by the majority of observers, but there is disagreement about the motivation for firms to take part in CSR behavior (Peters & Mullen, 2009). For CSR to be undertaken as a duty, with the basis of moral intentions, normative stakeholder model is used as theoretical foundation. It is defined as the model that premises business as moral agents which are "entrusted with direct obligations to all of society" (Donaldson & Preston; and Gibson, as cited in Peters & Mullen, 2009). Meanwhile, disagreement comes from Friedman (1970), as he asserts that firms' primary responsibility is "to make profits". Thus, "if individual firms bear differential costs of 'socially responsible' behavior, CSR will negatively impact firm financial performance". Hence, CSR should be done if it improves firm financial performance (Peters & Mullen, 2009). Derived from this background, there is an ongoing “need to uncover the link between social responsibility and firm performance” (Tenbrunsel, as cited in Peters & Mullen, 2009).

Peters and Mullen (2009) stated that recent researches, which examined relationship between CSR and firm financial performance, were based on the advice of Ullman (1985); regarding to relationships among social performance, social disclosure, and economic performance, and the stakeholder perspective of Donaldson and Preston (1995). Ullman (1985) pointed that in order to have more convincing and consistent results in CSR research, strategic framework and methodological improvements were necessary. Strategic framework according to Ullman (1985) was the framework “whereby social performance programs are tools for managing social demands”. On the other hand, based on the model proposed by Ullman (1985), methodological improvements could be done by having additional variables to correlate social performance, economic performance and social disclosure. Moreover, differentiation was also needed between mandated and voluntary social performance activities and related disclosures. Additionally, innovation in CSR might also influenced methodology used for future research.

According to Freeman (as cited in Peters & Mullen, 2009), CSR can be treated as a moderator to strategy-performance relationship through strategic stakeholder management. Evan and Freeman (as cited in Peters & Mullen, 2009) states that stakeholder management is important as stakeholder groups influence the efficiency of a firm’s strategy either directly or indirectly. Thus, CSR can be used as a strategic asset

(Amit & Schoemaker, as cited in Peters & Mullen, 2009), which helps in increasing performance through efficacy of firm's strategy.

CSR in terms of strategic asset is expressed in three CSR competencies (Peters & Mullen, 2009), which are:

- Attaining a Quality Workforce

  According to Moskowitz (1972), CSR helps firms to be socially responsible entity, which then increases the possibility of firms to attract prospective employees. Davis (1973) stated that positive firm reputation could lead to greater accessibility of workers as well as enhanced quality of candidates. Moreover, Turban and Greening (2000) affirmed that CSR also increased "the tendency of candidates to actively pursue socially responsible firms that are closely aligned with personal values and accentuates new employee commitment" (as cited in Peters & Mullen, 2009).

- Enhancement of Firm Reputation

  Fombrun (1996) stated that firms' reputation was tied intrinsically to stakeholder management and sustainability, where effects of CSR were dependent on firm reputation. In promoting firm reputation, environmental marketing was proposed by Miles and Covin (2000). Research done by McGuire; Strudivant and Ginter; Forum and Shanley; Verschoor; as well as Waddock and Graves (as cited in Peters & Mullen, 2009) showed that firm reputation was positively related to firm financial performance.

- Lowering Financial Risk

  Investigation done by Spicer (1978) proposed that firms with limited CSR activity were riskier in investors' perspective, due to cost increment of lawsuits. It was affirmed by studies done by McGuire et al. as well as Orlitzky and Benjamin (as cited in Peters & Mullen, 2009) that "CSR was highly negatively correlated with firm financial risk". Awareness and relationship management increment could promote goodwill and psychological contracting among stakeholder groups and organization, which led to costs and risks decrement (Dyer & Singh; Donald & Dunfee, as cited in Peters & Mullen 2009).

Graves and Waddock (as cited in Peters & Mullen 2009), who in 1994 developed corporate social performance (CSP) index, found no direct effect of firms' CSR on institutional holdings. However, the results showed a strong risk aversion among institutional investors, implying a preference for CSR. Modifying the 1994's results, Graves and Waddock investigated the relationship between CSR and firm financial performance using KLD data to measure and assessed CSP in 1997. The result showed a positive, bidirectional relationship between CSR and firm financial performance with one year time lag.

Another study examining the effects of CSR on financial performance was done by Murray and Vogel (1997). In the research, they emphasized the use of longitudinal data as the most powerful one in testing CSR effects, as "only when data samples are collected over time with respect to attitude and behavior, for example, can one fully determine the predicative value of prior effects in terms of latter ones" (Murray & Vogel 1997). They suggested future research to estimate the longitudinal effects of CSR.

According to Peters and Mullen (2009), longitudinal study is preferred more due to only short-term value of CSR emphasized through cross-sectional study of CSR-firm performance outcomes. Also, there is ignorance on sustainability issue and long-term organizational investment. Thus, without measures on longitudinal effects, the questions such "whether past CSR performances affect future financial performance and whether the relationship is strengthened over time" cannot be answered.

> CSR is a dynamic process which depends not only on current practices but also on past investments. Incorporating time into study of this relationship allows for consideration of both short-term and long-term benefits. … demonstrating its long-term benefits can provide evidence of a link between CSR and firm sustainability giving managers a reason to remain committed to CSR policies and initiatives.
>
> (Peters & Mullen, 2009)

In their journal examining the cumulative effects of CSR on financial performance, Peters and Mullen (2009) found that time-based, cumulative effects of CSR on firm financial performance were positive and strengthen over time. It was emphasized that beside acknowledged dynamism and process-oriented nature of CSR, longitudinal examination could demonstrate long-term and cumulative benefits to be derived from CSR commitment.

2.6 Stakeholder Theory

Evan and Freeman (as cited in Peters & Mullen, 2009) states that stakeholder management is important as stakeholder groups influence the efficiency of a firm's strategy either directly or indirectly. Thus, it is important to understand stakeholder theory.

Mercier (as cited in Pesqeoux and Ayadi 2005) defined stakeholders as "all of the agents for whom the firm's development and good health are of prime concern". Donaldson and Preston (as cited in Pesqeoux and Ayadi 2005) then defined stakeholders according to their legitimate interest in organization, which implied that:

- claimants are groups or persons with legitimate interests; that they are known; and that they have been identified; and
- all stakeholder groups' interests have at least a modicum of intrinsic value

The group of stakeholder was divided by Caroll (as cited in Pesqeoux and Ayadi 2005) into two broad groups, namely:

- "primary" stakeholders, referring to those actors who entertain a direct and contractually determined relationship, as the name indicates, with the company (and who are sometimes still called "contractual" stakeholders); and
- "secondary" stakeholders, combining actors who are situated at the borders of a firm and who may be impacted by its action without having any contractual connection to it (a group that is still described as "diffuse" sometimes).

Pelle Culpin (as cited in Pesqeoux and Ayadi 2005) further distinguished stakeholders into:

> … institutional stakeholders (those involved in laws, regulations, inter-organizational entities, plus professional organizations that may be specific to given industry); economic stakeholders (actors operating in the markets of the company n question); and "ethical" stakeholders emanating from ethical and political pressure groups (a group whose figuration may be more difficult to define).

According to Pesqueoux and Ayadi (2005), the stakeholder issue raised questions on the way to count stakeholders. Thus, Lépineux (as cited in Pesqeoux and Ayadi 2005) classified them into different categories of actors:

- Shareholders;
- Internal stakeholders (employees; labor unions focused on issues such as employees' direct and indirect participation – via their pension funds – in the firm's capital structure, and on issues pertaining to union representation and/or to a shareholder activism that can be implemented either working alone or else with other investors who also want to get their resolutions adopted);
- Operational partners (customers; suppliers – including subcontractors; banks acting as creditors but also as parties that expect stability and solvency; and insurance companies having to contend with classes of risk currently undergoing a substantive and in-depth renewal, i.e. "greater" catastrophes related with climatic changes today); and
- The social community (state authorities; specialized organizations like trade unions; non-governmental organizations; and civil society).

The appeal of stakeholder theory for management theorists is both empirical and normative (Cragg, as cited in Pesqeoux and Ayadi 2005). It is empirical, in the sense that stakeholder theory "rests n an observation or what we might call a fact" (Cragg, as cited in Pesqeoux and Ayadi 2005). Meanwhile, it is considered as normative, if it "conveys the notion that fundamental moral principles may influence corporate activities" (Cragg, as cited in Pesqeoux and Ayadi 2005).

Stakeholder theory in the eyes of Donaldson and Preston (1995) has three aspects, which are descriptive accuracy, instrumental power, and normative validity. Stakeholder theory is descriptive as it presents a model describing what the corporation is. It describes the corporation as a constellation of cooperative and competitive interests possessing intrinsic value". It is instrumental in the sense that

> it establishes a framework for examining the connections, if any, between the practice stakeholder management and the achievement of various corporate performance goals. The principle focus of interest here has been the proposition that corporations practicing stakeholder management will, other things being equal, be relatively successful in conventional performance terms (profitability, stability, growth, etc).
>
> (Donaldson & Preston, 1995)

Normative validity is the fundamental basis of stakeholder theory (Donaldson & Preston, 1995), which involves acceptance of the following:

> (a) Stakeholders are persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity. Stakeholders are identified by their interests in the corporation, whether corporation has any corresponding functional interest in them. (b) the interests of all stakeholders are of intrinsic value. That is, each group of stakeholders merits consideration for its

> own sake and not merely because of its ability to further the interests of some other group, such as the shareowners.

It is also normative as the stakeholder theory “is used to interpret the function of the corporation, including the identification of moral or philosophical guidelines for the operation and management of corporations” (Donaldson & Preston, 1995). The research done by Donaldson and Preston (1995) concluded that the three aspects (descriptive, instrumental, and normative) were mutually supportive with normative as the base of the stakeholder theory.

There are two principles of stakeholder theory, which balance the rights of the claimants on the corporation with the consequences of the corporate form. The first one is the principle of corporate effects. It states that “the corporation and its managers are responsible for the effects of their actions on others” (Evan & Freeman, as cited in Pesqeoux and Ayadi 2005). This concept was said to be drawn from modern moral theory of utilitarianism by Jeremy Bentham (1748-1832) and John Stuart Mill (1806-1873). The theory holds that “moral worth of actions or practices is determined solely by their consequences” (Pesqeoux and Ayadi 2005). Thus, a company is called responsible, for its impact in all areas that would necessary include its social impact.

The second principle is the principle of corporate rights. It states that “the corporation and its managers may not violate the legitimate rights of others to determine their own future” (Evan & Freeman, as cited in Pesqeoux and Ayadi 2005). This concept was drawn from the deontological ethical theory by Imannuel Kant (1724-1804). According to Kant, persons should be treated as ends and never only as means. “Respect for human beings is demanded because human beings possess a moral dignity and therefore cannot be treated as if they merely have conditional value” (Kant, as cited in Pesqeoux and Ayadi 2005). Thus, “corporation must treat stakeholders as rational beings with a right to pursue their own interests without undue interference” (Pesqeoux and Ayadi 2005).

Regarding to interest, Provis (as cited in Pesqeoux and Ayadi 2005) referred it as “the purposes of particular individuals or parties”. It can be distinguished from values, in that values “conceptualize needs and desires … as valid claims” (Provis, as cited in Pesqeoux and Ayadi 2005). Rokeach (as cited in Provis 1996 and as cited in Pesqeoux and Ayadi 2005) mentioned:

> Interest is obviously a narrower concept than value. It (an interest) cannot be classified as an idealized mode of behavior or an end-state of existence. It would be difficult to argue that an interest is a standard or that it has an ‘ought’ character.

In order to work together, employees and management should have significant common interest. As Pesqeoux and Ayadi (2005) stated that “it is necessary for individuals to shared values to construct a group identity, but it is not necessary for them to do so in order for them to interact in the process of production”.

Moreover, it was also stated by Pesqeoux and Ayadi (2005) that stakeholder theory is fundamentally based on pluralist ideology. Labor is claimed to be more than a commodity or factor of production. It is common for employers and employees to have different goals and conflicts, however employee voice is important in a democratic society (Budd, as cited in Pesqeoux and Ayadi 2005).

Robert Phillips (2004) claimed that organization is part of the society, so that they bear legal as well as moral obligation. One example is stakeholder fairness – "that is organizations become obligated to their contributors when they accept the benefits of mutual co-operation, although only a small portion of this obligation is codified in laws" (Phillips 2004). Even though shareholders are significant contributors to organization, in the sense that they give capital, the only obligation due to shareholders is dividends. It is claimed by Phillips (2004) that "there is no special obligation due to shareholders that supercedes the firm's obligations to lesser stakeholders".

Thus, Phillips (2004) wrote:

> Company executives are responsible for administering the affairs of the organization, including the moral obligations entailed in stakeholder fairness… But stakeholder communication is more than good for the organization. It is a matter of moral obligation. Individual and groups who contribute to the organization should be permitted some say in how that organization is managed.

2.7 Sustainable Development theory and Its Application in Indonesia

According to Puspasari (2008), sustainable development is closely linked with environment, for instance: The United Nations, in its Agenda 21 of the World Summit on Sustainable Development year 2002, urged its members to include environment issues in their development program plan. There are some definitions of sustainable development:

> maintaining a delicate balance between the human need to improve lifestyles and feeling of well-being on one hand, and preserving natural resources and ecosystems, on which we and future generations depend.
>
> (Global Development Research Center, as cited in Puspasari 2008)

> Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.
>
> (Brundtland Report of World Commission on Environment and Development (WCED), as cited in Puspasari 2008)

Puspasari (2008) emphasized that the Brundtland definition implies a very important shift from an idea of sustainability; from primarily ecological to a framework that also underlines the economic and social context of development. In line with the definition, Elkington (as cited in Ricart et al. 2005) mentioned that the firm's ultimate objective is not only to create value for its shareholders (singular) but rather three-fold; create economic, ecological, and social value. Furthermore, researchers have proposed that for future life, building sustainable enterprises and an economic reality that connects industry, society, and the environment are needed (Hart, 1997; Senge and Carstedt, 2001, as cited in Ricart et al. 2005). In addition, the researchers also provided the competitive advantages firms might gain from sustainability strategies, which are: efficiency cost savings and product stewardship (Hart and Ahuja, 1996; Porter and van der Linde, 1995; Shrivastava, 1995 as cited by Ricart et al. 2005), acquisition of strategic resources and capabilities (Hart, 1995; Rodríguez et al., 2002 as cited by Ricart et al. 2005), and development of learning and dynamic capabilities (Hart and Sharma, 2004 as cited by Ricart et al. 2005).

As noted from National Development Planning Agency (Bappenas) document written by Puspasari (2008), Indonesia in the regime of second president, Suharto, was noted to have its first long term development plan. It was a 7-phase plan, of which each phase consists of a 5-year comprehensive plan for all development sectors, which was accomplished up to the 6th phase, and ended with the changing of administration during reformation era in early 2000. Including in the 7-phase plan was Indonesia’s participation in the 1992 Rio Declaration on Environment and Development (Nazech 2001), where Indonesia also committed to the “Agenda 21” setting the global environmental agenda for the twenty first century. Following this event was the participation of President and CEO of Indonesia conglomerate companies in signing the Declaration of the Business Council for Sustainable Development during the same year (Nazech 2001). In addition, there was establishment of Indonesia Council for Sustainable Development in August 1993 by a group company member of the prominent

Prasetya Mulia Institute. It suggested a new focus on environmental issues across key business processes within the business and industries.

> Through the institute, these industry and business could provide leadership in the move toward sustainable production and consumption through:
>
> - understanding fundamental customer needs and how these can be delivered through much more eco-efficient services and products.
> - creating the preventive technologies that are critical to sustainable development.
>
> (Nazech 2001)

Based on United Nations Industrial Development Organization (2001), Indonesia made a national commitment to minimize waste generated during the production process in 1995 by implementing “cleaner production” principles, which was illustrated by the Cleaner Production program coordinated by BAPEDAL. Technical guidelines regarding to this program was established, mainly for industries such as textile, electroplating, tapioca, leather tanning, pulp & paper, palm oil and gold mining. There was also Audit guidelines, namely “Standard Operating Procedure” which is encouraged to be used for the audit by the private sector. Additionally, BAPEDAL also launched training programs, seminars and workshops for industry, the public sector and NGOs in relation with Cleaner Production. Currently, BAPEDAL is working in developing a Cleaner Production Information System and Incentive Program as an economic instrument.

It was noted by Nazech (2001) that the Ministry of Environmental Indonesia had prepared Agenda 21 – Indonesia ‘a national strategy for sustainable development’ in

March 1997. The purpose of Agenda 21 – Indonesia, according to the Ministry was to guide stakeholders to a collaborative effort to further promote sustainable development in Indonesia.

Government efforts in sustainable development were also illustrated in the second long term development plan, namely RPJPN 2005-2025, which was endorsed through Act No. 17 Year 2007. As noted by Puspasari (2008), the fight against corruption as national priority has contributed significantly to the sustainability of development in Indonesia. Through Anti-Corruption Committee (Komisi Penanggulangan Korupsi – KPK) powerful people, who used to be untouchables, are put under arrest and face trials by the Anti-Corruption Court. As more corruptors are found guilty and arrested as well as less corruption occurs in Indonesia, the more effective and sustained development programs will be. One of the most popular initiatives after the economic crisis in 1998 is good governance initiative. Puspasari (2008) stated that good governance encourage community and civil society to actively participate in development efforts, such as: the use of community participatory approach in the implementation phase, as well as requirement of women participation in particular to support women empowerment and gender equality in development.

According to Nazech (2001), Indonesia has a substantial capital investment in industry, which was generated by exporting natural resources, mainly fossil fuel, some mineral, and wood/forest products. However, most industry in Indonesia is environmentally inefficient and heavily polluting. This condition was due to improper treatment in managing waste and the lack of care from industries. It was even emphasized by Nazech (2001) by stating ‘more production, more pollution’ as the norm for Indonesia industry during the no-holds- barred growth of the past three decades. But power of the market, particularly globalization, is finally coming to the aid of the environment. As leading Indonesia companies cooperate and export overseas, they clean up their acts to bolster their bottom lines and survive in competition. Example of industry’s awareness and care for environment is the statement of Chairman of Indonesia Leather Industry Association that most of its members recognized the cleaner industrial production approaches by following guidelines for environmentally practices prepared by UNIDO. Another example is the recycling of lead as part of cleaner production. The President of Indonesian Foundry Industries Association stated that its members implement the technical guidelines of "Technical Guidelines for the Environmentally Sound Management of Lead-Acid Battery Wastes" by UNEP to prevent environmental degradation caused by recycled lead battery manufacturing process (Nazech 2001).

Environmental Non Governmental Organization had a one year (1999) collaborative agreement with United States – Asian Environmental Program in responding to the economic turmoil in Indonesia, in particular to support small and medium enterprises. There were two activities focused on:

(1) Eco-productivity Outreach

This program provided technical assistance to 116 companies spread out in four regions in Java. Its objectives are “to assist small and medium enterprises to improve their efficiency, productivity and competitiveness, and quality of products, by implementing cleaner production technology”. The activities include: preparation, listing of industries, data collecting, assessment, presentation of recommendations, and implementation of recommendations, monitoring and verification. It was noted that the cumulative target achievement was 88% by the end of April 1999; however it only reached cumulative progress of 55.72%. This low progress achievement was due to the lack of basic economic and technical data reluctant of some company owners and non-available records in small-scale industries (Nazech 2001).

(2) Waste to Product Partnership

This program consisted of developing a waste exchange system and a recycling venture study for waste match-making program. The information was collected on the identified wastes through site visits combined with secondary data collection, focusing on the non-hazardous and solid wastes. There were three categories of waste identified:

- Wastes produced by the industry: waste of textile industry, tire industry and sawmill industry
- Wastes collected by the scavengers: PET bottles, glass container and scrap metal.
- Organic wastes: tofu mill solid waste, harvest waste from rice field.

Besides contributing to the country’s development, firms which consider economic, social and environmental in its sustainability strategies might gain competitive advantages, which are: efficiency cost savings and product stewardship, acquisition of strategic resources and capabilities, and development of learning and dynamic capabilities (Ricart et al. 2005).

2.8 Frameworks

For years, the efforts of developing the best suitable framework to standardize the company's CSR activities, or also known as sustainability reporting have been performed by organizations and business.

According to Gray et al (1988), the attempts were expressed in literatures written in accounting and many others from outside the accounting context. The basis of the literatures is to develop the ideas of the "organizational legitimacy, social contract, democracy and accountability and the implications of CSR". In order to have justified and structured CSR, accountability is needed. Thus, it is necessary to recognize the importance of law, where it is viewed as the terms of social contract between society and the companies (Gray et al 1998).

These writings then led Gray et al (1988) to propose a "compliance-with standard report" to be the core of CSR. They explained that contextually the report would disclose the extent to which the company has met the responsibilities it carries and it must be acceptable to society-at-large. Moreover, in this way CSR would be established as legitimate and ensuring that the society is the one to determine the rules of accountability.

Other than frameworks mentioned below are G3 GRI Sustainability framework, Sigma GEMI, Sigma PROJECT, etc. In this section, there are only four frameworks that will be discussed into details, which are AA1000, ISO26000, SA8000 and G3 GRI Sustainability framework.

Table 2.3

Overview of CSR Related Standards

Source: Castka, et al (2004)

Name	Produced by	Description	Reference
AA1000	Institute of Social and Ethical Accountability	Aims to improve the accountability and overall performance of organizations through management of the system, individual behaviors and the impact on stakeholders. AA1000 is a basic standard of responsibility, aiming at providing quality to the accounting, auditing and ethical and social reporting process, in order to favor a sustainable development path	AA 1000 (1999)
SA8000	Social Accountability International	SA8000 deals with workers' rights and working conditions, and child labor. This standard specifies requirements for social accountability to enable a company to develop, maintain, and enforce policies and procedures in order to manage those issues which it can control or influence and to demonstrate to interested parties that policies, procedures and practices are in conformity with the requirements of this standard.	SA 8000 (2001)
Australian Corporate Social Responsibility draft standard DR03028	The Standards Australian Committee MB-004, Business Governance	DR 03028 provides essential elements for establishing, implementing and managing an effective CSR program within an organization.	DR 03028 (2003)
SII10000	The Standards Institution of Israel	A draft standard on social responsibility and community involvement; requires organizations to comply with all rules and regulations of the Israeli government related to the employment of workers as well as those pertaining to health and safety; to fulfill all the requirements of SA8000 and ISO14001, to have in place an ethics code or have in preparation and to publish a social report. It is also recommended that the report is in accordance with the GRI guidelines (GRI, 2002) and with the principles of AA1000	
ISO CSR management system standard	International Organization for Standarisation	A draft standard under development	ISO COPOLCO (2002)

2.8.1 AA1000

AccountAbility1000 (AA1000) was launched as the new voluntary process standard in 1991 by the Institute of Social and Ethical Accountability. Taken from zipcon.com, a webpage that contains explanation regarding to CSR report, AA1000 is “one of the first organizations to emerge to help businesses implement CSR into their practices”. Beckett and Jonker (2002) defined AA1000 as a quality framework which purpose is to provide transparency and responsive sustainability accounting framework. It illustrates who has been included in the information gathering process and its design. Moreover, it tries to provide a methodological framework to connect stakeholders’ demands of accountability and transparency. With AA1000, these demands are linked through consultation and measurement in order to build new understanding of sustainability in organization performance. Zipcon sums up by stating that:

> the AA1000 is heavily built on incorporating stakeholders into an iterative process of setting goals, performance and gathering data… The AA1000 incorporates a depth of stakeholder interaction in which stakeholders are active in goal decisions, measuring performance and report formation. Under the AA1000, stakeholders contribute to decision about the content of a report.

Beckett and Jonker (2002) mentioned three benefits of using the AA1000 standard, which are:

1. As an independent system for improving organization accountability-sustainability measurement which is done by continuously improving model aimed at securing the quality of information through engagement with stakeholders and the design of systems.
2. As a foundation means of assessing how organizations works with other standards and processes.
3. AA1000 may also be used as a standard which partnerships and other organization exchanges may be assessed in terms of their effectiveness and quality.

(as cited in Margareth 2007)

There are 12 quality principles which represent the information values of the AA1000 standard (Beckett & Jonker 2002), which include:

1. Inclusiveness, as the most important and key to other principles	
2. Completeness 3. Materiality 4. Regularity and timeliness	Relate to nature and scope of the organization process
5. Quality assurance 6. Accessibility	Relate to meaningfulness of information
7. Comparability 8. Reliability 9. Relevance 10. Understandability	Relate to information quality
11. Embeddedness 12. Continuous improvement	Relate to the management of the process on an ongoing basis

(as cited in Margareth 2007)

Beckett & Jonker (2002) see AA1000 as a unique standard in its character as it connecting the internal and external organization relationship. Furthermore, it recognizes consultation is gradually being included in the design of ISO14000 standard series, and empowers other standards, through an emphasis on consultation models that establish a significant standard for engagement, particularly relating to the needs of stakeholders and also the issue of sustainability (as cited in Margareth 2007).

2.8.2 ISO26000

The International Organization for Standardization (ISO) has decided to develop an International Standard to provide guidance on social responsibility (SR). The guidance standard is expected to be launched in 2010. It is intended for use by organizations of all types, in both public and private sectors, in developed and developing countries. ISO 26000 is established to assist companies in operating their business with socially responsible manner that society increasingly demands. Since it is voluntary, it contains guidance, not requirements, and therefore will not be for use as a certification standard like ISO 9001:2000 and ISO 14001:2004 (ISO 2008). ISO stated that the purpose of producing a social responsibility guidance framework is to"…encourage voluntary commitment to social responsibility and will lead to common guidance on concepts, definitions and methods of evaluation".

Based on 1 July 2008 data, 80 countries and 39 organizations with liaison status were participating in the WG SR under the joint leadership of the ISO members for Brazilian Association of Technical Standards (ABNT) and Swedish Standards Institute (SIS). It is stated by ISO that the detailed content of ISO 26000 will evolve throughout its development process.

The latest working (1 July 2008) on ISO 26000 resulted in document covers the following:

1 Scope

2 Terms and definitions

3 Understanding social responsibility

4 Principles of social responsibility

5 Recognizing social responsibility and engaging stakeholders

6 Guidance on social responsibility core subjects

7 Guidance on implementing practices of social responsibility

Annex A – Social responsibility initiatives

2.8.3 SA8000

Social Accountability International (SAI) published the first standard of SA 8000 in 1999. The second edition was then published in 2004 followed by its third in 2008. SAI states that SA 8000 is the benchmark for companies and factories measure their performance in relation with workers condition. Thus, companies seeking to comply with SA8000 have adopted policies and procedures that protect the basic human rights of workers.

In detail, it is defined as:

> …an auditable standard for a third-party verification system, setting out the voluntary requirements to be met by employers in the workplace, including workers' rights, workplace conditions, and management systems.
>
> (SA8000 2008)

Although it only concentrates on labor, the standard is based on international workplace norms of International Labour Organisation (ILO) conventions, the Universal Declaration of Human Rights and the UN Convention on the Rights of the Child. Taken from the official website of SAI, the summary of SA 8000 elements are as follows:

1. **Child Labor**: No workers under the age of 15; minimum lowered to 14 for countries operating under the ILO Convention 138 developing-country exception; remediation of any child found to be working
2. **Forced Labor**: No forced labor, including prison or debt bondage labor; no lodging of deposits or identity papers by employers or outside recruiters
3. **Health and Safety**: Provide a safe and healthy work environment; take steps to prevent injuries; regular health and safety worker training; system to detect threats to health and safety; access to bathrooms and potable water
4. **Freedom of Association and Right to Collective Bargaining**: Respect the right to form and join trade unions and bargain collectively; where law prohibits these freedoms, facilitate parallel means of association and bargaining
5. **Discrimination**: No discrimination based on race, caste, origin, religion, disability, gender, sexual orientation, union or political affiliation, or age; no sexual harassment

6. **Discipline**: No corporal punishment, mental or physical coercion or verbal abuse
7. **Working Hours**: Comply with the applicable law but, in any event, no more than 48 hours per week with at least one day off for every seven day period; voluntary overtime paid at a premium rate and not to exceed 12 hours per week on a regular basis; overtime may be mandatory if part of a collective bargaining agreement
8. **Compensation**: Wages paid for a standard work week must meet the legal and industry standards and be sufficient to meet the basic need of workers and their families; no disciplinary deductions
9. **Management Systems**: Facilities seeking to gain and maintain certification must go beyond simple compliance to integrate the standard into their management systems and practices.

2.8.4 G3 GRI Sustainability Reporting Standard

> The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide.
>
> (Global Reporting Initiative, n.d)

It is stated in the GRI website, that the idea of a disclosure framework for sustainability information is conceived by the Boston-based non-profit CERES during 1997-1998. It started a "Global Reporting Initiative" project division, which began with staffing, fundraising and network development. Simultaneously the board was formed and named GRI Steering Committee.

In 1999, United Nation Environment Programme, the United Nations system's designated entity that addresses environmental issues, joint as a partner, which secured a global platform for GRI. In the same year, exposure draft of GRI Sustainability Reporting Guidelines is released, and 20 organizations published sustainability reports based on the Guidelines. GRI's first Sustainability Reporting Guidelines was released in 2000. This event was outreached to South America, North America, Australia, Europe, South Asia, and Japan. Also, there were 50 organizations released sustainability reports based on the Guidelines.

CERES Board decided to separate GRI as independent institution in 2001, as recommended by the GRI Steering Committee. In this year, the development was focused on drafting articles of incorporation and recruiting Board members. The Structured Feedback Process on the Guidelines engaged 30 companies, which resulted in recommendations to update the Guidelines. There were 37.5% increased compared to last year in the number of organizations issued sustainability reports based on the Guidelines.

2002 was the year when Provisional GRI Board appointed, and announced. Judy Henderson was elected as Chair, while Steering Committee was dissolved. Additionally, GRI Institution was publicly inaugurated at the United Nations in New York City and it relocated and incorporated as a Stichting (Foundation) in the Netherlands. Thus, operations and assets were transferred from CERES. Moreover, the second iteration of Sustainability Reporting Guidelines was released in

Johannesburg, South Africa, at the World Summit for Sustainable Development. Also, Ernst Ligteringen was appointed as Chief Executive of the GRI Secretariat and as a Member of the GRI Board. The number of companies issuing the sustainability reports based on the Guidelines increased into 150.

GRI solidified its position as independent by appointing 60 Stakeholder Council (SC) members in year 2003. The SC held its first annual meeting, and Linda Funnel-Milner elected as Chair. At the same time, Organizational Stakeholder (OS) membership program was launched and Structured Feedback Process commenced. During this time, Tour Operators' and Telecommunications Sector Supplements were completed. It was noted that 325 organizations published sustainability reports based on the Guidelines. In 2004, Sector Supplements completed for Mining and Metals, and Financial Services. It was reported that 500 organizations released sustainability reports based on the Guidelines, which resulted in around 53% increment.

Major technical revisions process commenced in 2005, which engaged 100 people worldwide in working groups to produce the third generation of GRI Guidelines (known as "G3"). Moreover, Boundary Protocol, Logistics, Transportation as well as Public Agencies were completed. It was also noted the rapid increase in number of companies that issued sustainability reports based on the Guidelines; from 500 to 750.

In 2006, 300 partners and sponsors convened “Sneak Peek” events in 28 cities globally, introducing the draft G3 Guidelines to over 3000 participants. During this time, the outcomes of engagement and analysis were assessed by GRI’s governance bodies (Board, Technical Advisory Committee and Stakeholder Council) and integrated into the final G3, which passes for release by a majority vote. In order to anticipate the increase demand in digital reporting, a Technology Partnership was convened with software providers. G3 Guidelines was launched at a world-class conference in Amsterdam. More than 850 organizations published sustainability reports based on the Guidelines.

“Reporting the Business Implications of Climate Change in Sustainability Reports”, "Biodiversity Resource Document” and “Making the Connection” were issued in year 2007. Furthermore, GRI launched the Readers’ Choice Awards and Survey. GRI also initiated certified local training program, which called for partners in USA, Brazil and India. “The GRI sustainability reporting cycle: A handbook for small and not-so-small organizations” was published in English, Spanish, Brazilian Portuguese, German and Portuguese.

In 2008, KPMG International Survey of Corporate Responsibility Reporting announced that reporting has become the norm for large companies globally, where most of them use the GRI Guidelines. Also, the Financial Services Sector Supplement was launched, the Global Action Network for Transparency in the Supply Chain, Airports, as well as Construction and Real Estate were established. In purpose of developing better guidance for human rights, GRI partnered with Realizing Rights: The Ethical Globalization Initiative, and the UN Global Compact. During this year, GRI Training Partners was certified in several countries. Moreover, GRI established Governmental Advisory Group - a high-level advisory group to provide the GRI Board, the GRI Chief Executive and the members themselves with ideas, information and questions from the government sector. The components of G3 GRI Sustainability Reporting Guidelines will be discussed in the nest sub-chapter.

2.9 Disclosures in Sustainability Reporting

The vision of GRI is "…reporting on economic, environmental, and social performance by all organizations is as routine and comparable as financial reporting". This is accomplished through continuous development, improvement as well as establishment of capacity around the use of the GRI's Sustainability Reporting Framework.

The Guidelines is intended to be used the basis for all reporting. It contains principles and guidance as well as standard disclosures, including indicators, which outline a disclosure framework that organizations can voluntarily, flexibly, and incrementally, adopt. The Framework consists of Sustainability Reporting Guidelines ("the Guidelines"), Protocols and Sector Supplements.

> The Framework is developed through a process … the process is open, inclusive and takes a global perspective on the growing understanding of good reporting on key sustainability issues. … Protocols are the "recipe" behind each indicator in the Guidelines and include definitions for key terms in the indicator, compilation methodologies, intended scope of the indicator, and other

technical references. … Sector Supplements complement (not replace) use of the core Guidelines by capturing the unique set of sustainability issues faced by different sectors such as mining, automotive, banking, public agencies and others.

(GRI n.d)

Figure 2.6

The GRI Reporting Framework

Source: Global Reporting Initiative (2010)

GRI Guidelines are divided into two board section. Part 1 is the G3 principles and guidance as stated in the Sustainability Reporting Guidance of GRI:

- Principles to define report *content*: materiality, stakeholder inclusiveness, sustainability context, and completeness.
- Principles to define report q*uality*: balance, comparability, accuracy, timeliness, reliability, and clarity.
- Guidance on how to set the report *boundary*.

(GRI n.d)

Part 2 consists of three Standard Disclosures, which purpose of appliance is to identify information that is relevant and material to most organizations and of interest to most stakeholders:

1. *Strategy and Profile*: Disclosures that set the overall context for understanding organizational performance such as its strategy, profile, and governance.
2. *Management Approach*: Disclosures that cover how an organization addresses a given set of topics in order to provide context for understanding performance in a specific area.
3. *Performance Indicators*: Indicators that elicit comparable information on the economic, environmental, and social performance of the organization.

(GRI n.d)

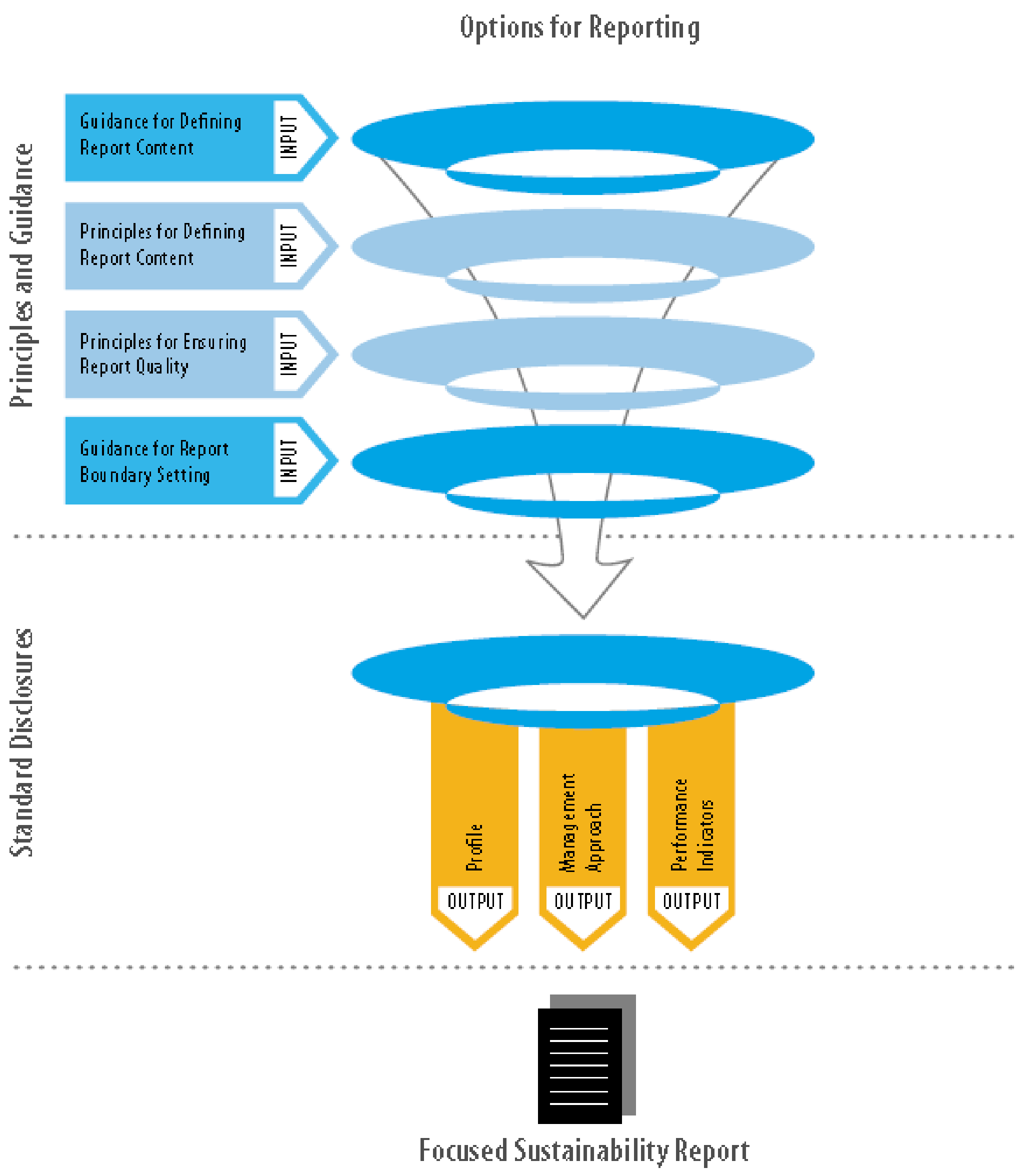

Figure 2.7

Overview of the GRI Guidelines

Source: Sustainability Reporting Guidance (2010)

2.9.1 Performance Indicators

Economic Performance Indicators

These indicators concern the organization's impacts on the economic conditions of its stakeholders and on economic systems at local, national, and global levels. The Economic Indicators illustrate:

- Flow of capital among different stakeholders; and
- Main economic impacts of the organization throughout society.

(GRI n.d)

Table 2.4

G3 GRI Framework Economic Performance Indicators

Source: Global Reporting Initiative (2010)

Economic Performance Indicators		
Aspect: Economic Performance		
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	CORE
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	CORE
EC3	Coverage of the organization's defined benefit plan obligations.	CORE
EC4	Significant financial assistance received from government.	CORE
Aspect: Market Presence		
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.	ADD
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	CORE
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.	CORE
Aspect: Indirect Economic Impacts		
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, inkind, or pro bono engagement.	CORE
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	ADD

Environmental Performance Indicators

These indicators concern the organization's impacts on living and non-living natural systems, including ecosystems, land, air, and water. Environmental Indicators cover performance related to inputs (e.g., material, energy, water) and outputs (e.g., emissions, effluents, waste). In addition, they cover performance related to biodiversity, environmental compliance, and other relevant information such as environmental expenditure and the impacts of products and services (GRI n.d).

Table 2.5

G3 GRI Framework Environmental Performance Indicators

Source: Global Reporting Initiative (2010)

Environmental Performance Indicators		
Aspect: Materials		
EN1	Materials used by weight or volume.	CORE
EN2	Percentage of materials used that are recycled input materials.	CORE
Aspect: Energy		
EN3	Direct energy consumption by primary energy source.	CORE
EN4	Indirect energy consumption by primary source.	CORE
EN5	Energy saved due to conservation and efficiency improvements.	ADD
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	ADD
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	ADD
Aspect: Water		
EN8	Total water withdrawal by source.	CORE
EN9	Water sources significantly affected by withdrawal of water.	ADD
EN10	Percentage and total volume of water recycled and reused.	ADD
Aspect: Biodiversity		
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	CORE
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	CORE
EN13	Habitats protected or restored.	ADD

EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	ADD
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	ADD
Aspect: Emissions, Effluents, and Waste		
EN16	Total direct and indirect greenhouse gas emissions by weight.	CORE
EN17	Other relevant indirect greenhouse gas emissions by weight.	CORE
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	ADD
EN19	Emissions of ozone-depleting substances by weight.	CORE
EN20	NO, SO, and other significant air emissions by type and weight.	CORE
EN21	Total water discharge by quality and destination.	CORE
EN22	Total weight of waste by type and disposal method.	CORE
EN23	Total number and volume of significant spills.	CORE
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	ADD
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization’s discharges of water and runoff.	ADD
Aspect: Products and Services		
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	CORE
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	CORE
Aspect: Compliance		
EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.	CORE
Aspect: Transport		
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization’s operations, and transporting members of the workforce.	ADD
Aspect: Overall		
EN30	Total environmental protection expenditures and investments by type.	ADD

Social Performance Indicators

These indicators concern the impacts an organization has on the social systems within which it operates, including **labor practices, human rights, society, and product responsibility.**

The items under the category of **Labor Practices** are based on internationally recognized universal standards, including: United Nations Universal Declaration of Human Rights and its Protocols; United Nations Convention: International Covenant on Civil and Political Rights; United Nations Convention: International Covenant on Economic, Social, and Cultural Rights; ILO Declaration on Fundamental Principles and Rights at Work of 1998 (in particular the eight core conventions of the ILO); and The Vienna Declaration and Programme of Action. The Labor Practices Indicators also draw upon the two instruments directly addressing the social responsibilities of business enterprises: the ILO Tripartite Declaration Concerning Multinational Enterprises and Social Policy, and the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises (GRI n.d).

Table 2.6

G3 GRI Framework Social Performance Indicators

Labor Practices and Decent Work Performance Indicators

Source: Global Reporting Initiative (2010)

Social Performance Indicators		
Labor Practices and Decent Work Performance Indicators		
Aspect: Employment		
LA1	Total workforce by employment type, employment contract, and region.	CORE
LA2	Total number and rate of employee turnover by age group, gender, and region.	CORE
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	ADD
Aspect: Labor/Management Relations		
LA4	Percentage of employees covered by collective bargaining agreements.	CORE
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.	CORE
Aspect: Occupational Health and Safety		
LA6	Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs.	ADD

LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region.	CORE
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	CORE
LA9	Health and safety topics covered in formal agreements with trade unions.	ADD
Aspect: Training and Education		
LA10	Average hours of training per year per employee by employee category.	CORE
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	ADD
LA12	Percentage of employees receiving regular performance and career development reviews.	ADD
Aspect: Diversity and Equal Opportunity		
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	CORE
LA14	Ratio of basic salary of men to women by employee category.	CORE

Human Rights Performance Indicators require organizations to report on the extent to which human rights are considered in investment and supplier/contractor selection practices. Additionally, it covers employee and security forces training on human rights as well as non-discrimination, freedom of association, child labor, indigenous rights, and forced and compulsory labor. Generally recognized human rights are defined by the same conventions and declarations used as the basis for Labor Practices (GRI n.d).

Table 2.7

G3 GRI Framework Social Performance Indicators

Human Rights Performance Indicators

Source: Global Reporting Initiative (2010)

Social Performance Indicators		
Human Rights Performance Indicators		
Aspect: Investment and Procurement Practices		
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	CORE
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	CORE
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	ADD
Aspect: Non-discrimination		
HR4	Total number of incidents of discrimination and actions taken.	CORE
Aspect: Freedom of Association and Collective Bargaining		
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	CORE
Aspect: Child Labor		
HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	CORE
Aspect: Forced and Compulsory Labor		
HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor.	CORE
Aspect: Security Practices		
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	ADD
Aspect: Indigenous Rights		
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	ADD

Society Performance Indicators focus attention on the impacts organizations have on the communities in which they operate, and disclosing how the risks that may arise from interactions with other social institutions are managed and mediated. Specifically, information is sought on the risks associated with bribery and corruption, undue influence in public policy-making, and monopoly practices (GRI n.d).

Table 2.8

G3 GRI Framework Social Performance Indicators

Society Performance Indicators

Source: Global Reporting Initiative (2010)

Social Performance Indicators		
Society Performance Indicators		
Aspect: Community		
SO1	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	CORE
Aspect: Corruption		
SO2	Percentage and total number of business units analyzed for risks related to corruption.	CORE
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures.	CORE
SO4	Actions taken in response to incidents of corruption.	CORE
Aspect: Public Policy		
SO5	Public policy positions and participation in public policy development and lobbying.	CORE
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	ADD
Aspect: Anti-Competitive Behavior		
SO7	Total number of legal actions for anticompetitive behavior, anti-trust, and monopoly practices and their outcomes.	ADD
Aspect: Compliance		
SO8	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations.	CORE

Product Responsibility Performance Indicators address the aspects of a reporting organization's products and services that directly affect customers, namely, health and safety, information and labeling, marketing, and privacy, which are essentially covered through disclosure on internal procedures and the extent to which these procedures are not complied with (GRI n.d).

Table 2.9

G3 GRI Framework Social Performance Indicators

Product Responsibility Performance Indicators

Source: Global Reporting Initiative (2010)

Social Performance Indicators		
Product Responsibility Performance Indicators		
Aspect: Customer Health and Safety		
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	CORE
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	ADD
Aspect: Product and Service Labeling		
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	CORE
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	ADD
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	ADD
Aspect: Marketing Communications		
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	CORE
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	ADD
Aspect: Customer Privacy		
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	ADD

Aspect: Compliance		
PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services.	CORE

2.10 Sustainability Reporting in Other Nations

According to survey of public and private companies conducted by the State of Sustainability Reporting in Australia on sustainability report (as cited by Welford 2004), there 116 of the companies (23%) produced sustainability reports, or sustainability sections in their annual reports or websites, where forty companies out of the 509 used Global Reporting Initiative guidelines. The most common reasons for producing a sustainability report were reputation; gaining the confidence of investors, insurers and financial institutions; operational and management improvements; and improved management of risks.

In 2007, a Beijing-based CSR/SRI consulting firm, SynTao, released a research report on Sustainability Reporting in China. The report, which was entitled "A Journey to discover values: Study of Sustainability Reporting in China", reviewed the development of sustainability reporting in China. Based on some surveys conducted, the primary drivers of sustainability reporting in China are the raising enterprise image, supporting government policies, and increased enterprise management consciousness and media pressure. Moreover, the research claimed that sustainability reporting allow enterprises to promote their images, enhance communications, stimulate implementation of corporate social responsibility, attract investment, raise their risk management capability, and potentially increase overall enterprise performance (Ho, 2007).

SynTao (as cited in Ho 2007) stated that most of sustainability reports published followed the guidelines set by the Global Reporting Initiative (GRI) and the triple-bottom-line principle, both spelling out the relevant strategies, policies, governance, and achievement, from economic, social, and environmental perspectives. Furthermore, SynTao (as cited in Ho 2007) noted that after adopting the G3 GRI Guidelines, Chinese sustainability reports did relatively well in terms of their presentation of performance, governance, and strategy. Thus, the guidelines might become the main framework for reporting, though most enterprises will find it difficult to apply all indicators. The result suggested enterprises to use sustainability reporting in promoting dialogue with stakeholders. Consecutively, stakeholders need to learn how to identify and utilize relevant information from reports, which will encourage corporations to put more efforts on reporting affairs thus lead to a better development of sustainability reporting (SynTao, as cited in Ho 2007).

Derived from these researches, the author would like to seek for the benefit of disclosing sustainability report based on G3 GRI Guidelines for Indonesian listed companies in terms of financial performance.

2.11 Financial Ratios

Financial ratios are tools to interpret and explain financial statements (Gibson, as cited in Gibson 2007, p. 490). The interpretation is related with company's liquidity, debt position, and profitability.

In 1988, McGuire et.al analyzed the relationships between perceptions of firms' corporate social responsibility and measures of their financial performance by using Fortune magazine's ratings of corporate reputations as the sample. From the results, corporate social responsibility was claimed to be closely related with company's financial performances. Tsoutsoura (2004), in her applied financial project titled "Corporate Social Responsibility and Financial Performance" examined the relationship between CSR with companies' financial performance through financial ratios, namely return on assets (ROA), Return on Equity (ROE) and Return on Sales (ROS). The result showed that positive relationship between CSR and financial performance existed, and statistically significant. Moreover, based on the research on 27 manufacturing firms listed on Jakarta Stock Exchange (2005-2006), Yuniasih and Wirakusuma (2009) found that ROA have a positive effect on corporate value, with CSR as the moderating variable. Another research done by Peters and Mullen (2009) showed that 'cumulative effects of CSR on firm financial performance are positive and strengthen over time', where in their model, the financial performance is expressed in ROA as it is 'a viable indicator of firm financial performance' (Wiggins & Ruefli, as cited in Peters & Mullen, 2009).

2.11.1 Return on assets

Gibson (2007, p.285) stated that return on assets (ROA) "measures the firm's ability to utilize its assets to create profits by comparing profits with the assets that generate the profits. As stated in Reference for Business (2nd ed., n.d) database, ROA helps bankers, investors, and business analysts in assessing the use of resources by a company as well as illustrating financial strength of the particular company. Moreover, according to Kristy and Diamond (as cited in Reference for Business 2nd ed., n.d), ROA is a useful ratio in examining the internal management's performance of a company as it measures profit against all of the assets a division uses to make those earnings. "Hence, it is a way to evaluate the division's profitability and effectiveness. It's also more appropriate here because division managers seldom get involved in raising money or in deciding the mix between debt and equity" (Kristy and Diamond, as cited in Reference for Business 2nd ed., n.d). The formula (My Stock Market Power n.d) is:

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Total Assets}}$$