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Acting Green: Theoretical Framework on Corporate Social Responsibility

[1]Yuniarti Hidayah Suyoso Putra, [2]Sri Yati, [3]Nanik Wahyuni

[1,3]Department of Accounting, Faculty of Economics UIN Maulana Malik Ibrahim Malang
[2] Department of Management, STIE Malangkucecwara Malang

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ABSTRACT

This study is aimed to explore the underlying theoretical framework and how and why the companies should conduct the corporate social responsibility. The analysis relies on processing and interpreting relevant professional literatures. The significance of the study positions the fact that attempting to find the connection between theoretical frameworks and the practices of corporate social responsibility. The practices of corporate social responsibility will be analyzed based on legal aspects, corporate accountability theory, stakeholder theory, legitimacy theory, corporate sustainability theory, political economy theory, justice theory, and signaling theory. The result indicates that the underlying theories are supported the implementation of corporate social responsibility.

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INTRODUCTION

Corporate social responsibility (CSR) has becoming a major consideration for accountants, chief executives, managers, policy-makers and community. This reporting places emerging environmental and social issues in the context of the company report. Research from Nielson in 2014 underline corporate social responsibility is also referred to as corporate citizenship or conscious capitalism, is practiced by companies dedicated to making a positive social or environmental impact on society (Nielson, 2014). More and more, consumers expect companies to do one or the other, if not both. Nielsen's global survey on corporate social responsibility found that, more than 55% of global respondents around the world which willing to pay extra for product and services from companies that are committed to positive social and environmental impact. This global average increases from 50 percent in 2012 and 45 percent in 2011. Regional data indicates, respondents in Asia-Pacific (64%), Latin America (63%) and Middle East/Africa (63%) exceed the global average and have increased 9, 13 and 10 percentage points, respectively, since 2011. While a willingness to pay extra for sustainable products is comparatively lower in North America (42%) and Europe (40%), both regions show an increase in purchasing sentiment from 2011, rising 7 and 8 percentage points, respectively (Nielson, 2014).

The survey results from Nielson in 20014 is strengthen the indication that in global perspective, corporate social responsibility is focused not only in economic, but also considering environmental, and social in their reporting. This triple bottom line is known as 3P consists of Profit, Plane and People. The triple bottom line is described as *an inevitable expansion of the environmental agenda* that *focuses corporations not just on the economic value that they add, but also on the environmental and social value that they add – or destroy* (Nielson, 2014; Elkington, 2004). The Association of Chartered Certified Accountants or ACCA defines corporate social responsibility as a company's obligation to all of its stakeholders across all of its activities with the aim of achieving sustainable development in the economic, the social, and the environmental dimensions (ACCA, 2014). Therefore, to apply sustainable development, the policy makers usually focus on three central issues: (1) economic aspects, for example financial flows and impacts on the local economy; (2) environmental aspects, for example, energy and water use, pollution and biodiversity, and (3) social aspects, for example human rights and treatment of workers and vulnerable groups (ACCA, 2014).

Methodology:

This study relies on processing and interpreting relevant professional literatures. The significance of the study positions the fact that attempting to find the

Corresponding Author: Yuniarti Hidayah Suyoso Putra, Department of Accounting, Faculty of Economics UIN Maulana Malik Ibrahim Malang
E-mail: yuniarti_hidayah@yahoo.com

connection between theoretical frameworks and the practices of corporate social responsibility. The practices of corporate social responsibility will be analyzed based on legal form of CSR, corporate accountability theory, stakeholder theory, legitimacy theory, corporate sustainability theory, political economy theory, justice theory, and signaling theory. Since the disclosure of corporate social responsibility in Indonesia is still a voluntary, thus, the exploration in point of view of theoretical framework in this paper will promote on how and why the corporate reports the practices of corporate social responsibility.

RESULTS AND DISCUSSIONS

The discussion to explore the theoretical framework how business practices perceive corporate social responsibility will be divided into two sections. First, it discusses the legal form of corporate social responsibility in Indonesia. Second, it will discuss the theoretical framework underlying on how and why the company should practice corporate social responsibility.

(i) Legal Form of Corporate Social Responsibility in Indonesia:

Capital Market Supervisory Agency Regulation required the disclosure on CSR activities in the annual report is required since 2005. Disclosure on CSR activities in annual report is also mandated by Limited Company Law No.40 Year 2007, Article 66 C and 74 (Limited Company Law, 2007). All Stated Owned Enterprises is mandated to allocate 1% - 3% of net profit after tax for financing the community development and partnership program and produce an audited stand alone community empowerment and partnership report.

(ii) Theoretical Framework on Corporate Social Responsibility:

The companies must be concerned that the implementation of corporate social responsibility will increase their value in term of the responsibility not only in economic but also responsible for the environment and social commitment. The upcoming corporate social responsibility implementation will be reinforced by looking at the approach of theoretical framework as following.

Corporate Accountability Theory:

The company should be responsible for all the consequences arising either intentionally or unintentionally to stakeholders. The theory stated CSR activities not only generosity (charity) or the activity of mutual love (stewardship) which are voluntary action which are understood by businessmen so far, but it involved an inherent and fundamental obligation and has becoming a "spirit of life" in systems and business practices. The underlying reason implies that CSR is a logical consequence of the existence of human rights issued by the state to the company to live and thrive in certain environment. If there is no harmony between human rights and obligations of the company in that environment, there will live two parties, the company as gainers and society as the losers (Dellaportas, 2005).

Stakeholder Theory:

This theory states that the success and sustainability of a company depends on its ability to balance the various interests of the stakeholders. If able, then the company will achieve ongoing support and enjoy a growing market share, sales, and profits. Stakeholder theory is a theory that describes to any parties (stakeholders) who is responsible for the company. Stakeholder theory assumes that the existence of the company requires the support of stakeholders, therefore the activity of the company is also considering the approval of stakeholders (Freeman, 1984; Garriga, 2004). The theory also advises that the company is not the only entity that operates for its own profit, but should provide benefits to its stakeholders for example shareholders, creditors, customers, suppliers, government and public, analysts (Freeman, 1984; Garriga, 2004; Wilson, 2003).

Legitimacy Theory:

The original definition of legitimacy theory is *a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions* (Suchman, 1995). Legitimacy theory perceives that the company and the surrounding community have close social relations as both are bounded in a *social contract*. The theory of the social contract states that the company's presence in certain area because of politically supported and guaranteed by government regulation and parliament which is also a representation of the community. Thus, there is indirect social contract between the company and the community in the costs and benefits, for the sustainability of a corporation (O’Donovan, 2002). Therefore, CSR is a fundamental obligation of a company that is not voluntary and the disclosure practices of corporate responsibility should be implemented in such a way that the activities and performance of the company can be accepted by society.

Corporate Sustainability Theory:

The theory underlines that in order to live and grow sustainably, corporations must integrate business goals with social and ecological objectives as a whole. Business development should be based on three main pillars, i.e. economists, social, and environment in an integrated manner, and does not sacrifice the wellbeing of future generations to live and meet their needs. Corporate sustainability theory perceives society and the environment is the main pillar and foundation that determines the success of a business enterprise, therefore it must always be protected and empowered. The theory identifies that the corporate growth and profitability are essential. However, it also involves the corporation to pursue societal goals, specifically those relating to sustainable development which include environmental protection, social justice and equity, and economic development (Wilson, 2003).

Political Theory:

The economic domain cannot be isolated from the environment in which economic transactions carried out. A financial statement of company is a document of social and political as well as economic documents. Since they cannot be isolated from the community and the environment, companies must consider and implement CSR. Political theory focuses on a responsible use of business power in political arena. The theory implies that social responsibilities of businesses occur from the amount of social power that they have (Garriga, 2004).

Justice Theory:

The theory implies in a free market capitalist system, profit or loss is highly dependent on the inequality of rewards and privileges contained in earnings and compensation. Profit or loss reflects inequality between parties who enjoyed or suffered by the existence of company. Therefore, the company should be fair to the community and environment that endured the external impact of companies through CSR programs (Freeman, 1984; Garriga, 2004).

Signaling Theory:

The theory discusses how the company signals the external parties in providing information. The impetus was due to the information asymmetry between management and external parties. To reduce the asymmetry of information, the company must disclose information, both financial and non financial. Manager generally is motivated to deliver good information about the condition of the company to the public because it can convince people to invest in the company. On the other hand, the external parties would only have minimal information about the reliability of the information delivered. If the manager can provide a convincing signal to the public which must be supported by the underlying data, then the public will respond positively. One of the mandatory information to be disclosed by the company is information about corporate social responsibility. This information can be integrated in a company's annual report or a separate corporate social report. The company discloses Corporate Social Responsibility in conjunction to improving the reputation and value of the company (Johnston, 2005).

Summary:

Legal forms and the underlying theories support the company to conduct corporate social responsibility. Although disclosing CSR report in Indonesia is still voluntary, this green action will be benefited for company in terms of increasing transparency, accountability, communication, improving business strategy such as financial rewards, competitors challenge, global practices, good image, investor attraction, award and recognition and ready for regulations (Gunawan, 2013). Referring as green action, corporate social responsibility also has to consider the balance between economic, environment and social values.

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