

CHAPTER TWO

LITERATURE REVIEW

A. Corporate Social Responsibility Forum of Yogyakarta

Corporate Social Responsibility (CSR) Forum of Yogyakarta or *Forum Tanggungjawab Sosial dan Lingkungan Perusahaan* was established on April 16th 2018, CSR Forum is managed by the Regional Planning and Development Agency or in Indonesia known as *Badan Perencanaan dan Pembangunan Daerah* (BAPPEDA) which was given the task to help the Regional Government of Yogyakarta to alleviate social problems through CSR Programs.¹²

The establishment of CSR Forum as a manifestation of the concept of triple bottom lines is then transformed into the concept of economic prosperity, environmental quality, and the concept of social justice. The concept of triple bottom lines has the understanding that corporate responsibility includes all aspects such as economic objectives, environmental quality, and social justice so that each company is required to disclose information about corporate social responsibility (CSR). In this matter, the companies in Yogyakarta are not only required to think of the high profits that must be obtained but also make the priority on the social and environmental awareness against the company's production activities.

¹² Based on the interview with Doddy Bagus Jatmiko as the Head of The Community Welfare Sub-Field in BAPPEDA of Yogyakarta on November 11th, 2019.

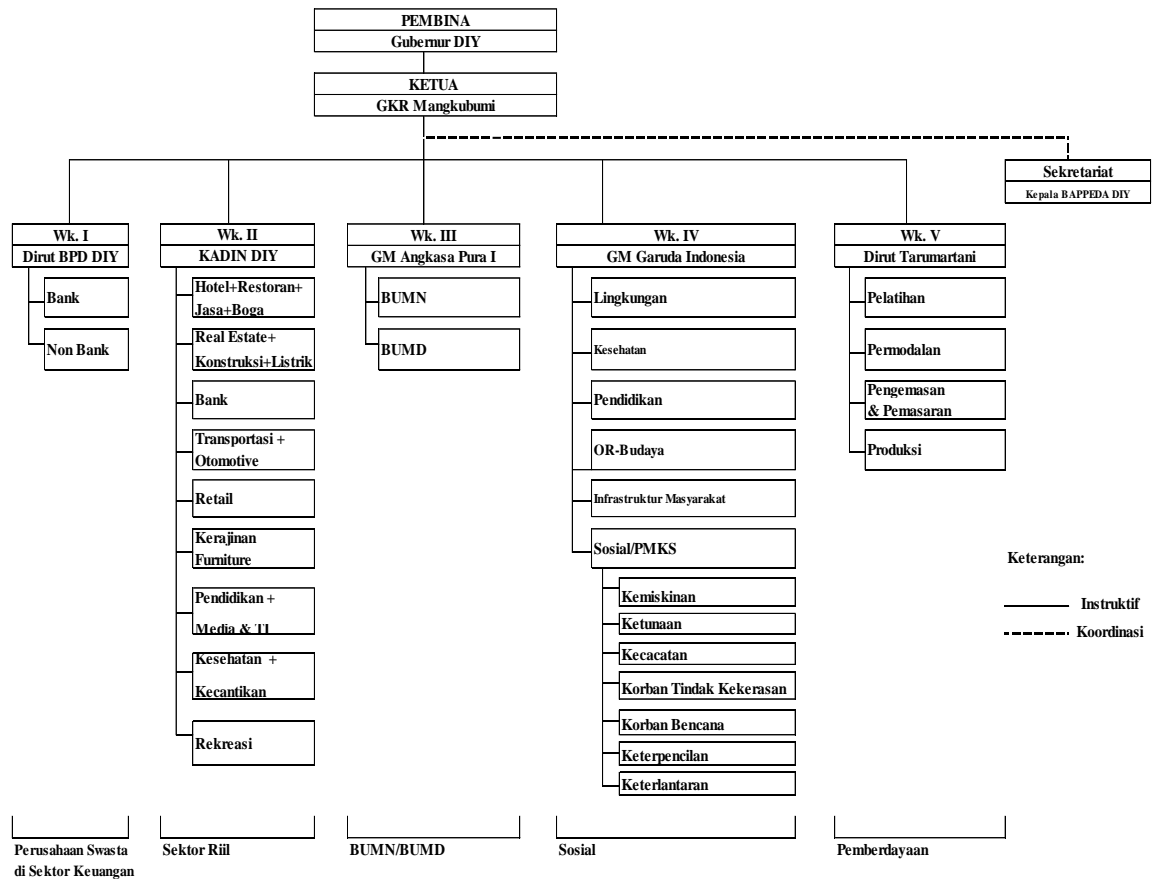
The establishment of CSR Forum is mandated by the Article 6 of Regional Regulation of Yogyakarta Province Number 6 of 2016 on The Implementation of Corporate Social and Environmental Responsibility and Governor Regulation of Yogyakarta Number 23 of 2018 on The Establishment of a Corporate Social and Environmental Responsibility Forum, in order to help the implementation of CSR programs that are harmonious, balanced and in synergy with development programs in the regions. Therefore, the main reason to establish CSR Forum under the BAPPEDA is to use the CSR program as a means of assisting the government to develop and prosper the people of Yogyakarta, so the programs that carried out are in line with what is planned by the government in alleviating poverty and fostering the advance the region.

The organization structure of CSR Forum of Yogyakarta was inaugurated directly by Sri Sultan Hamengkubuwono X¹³ on May 24th 2018. In the structure, it is written that the vice chairman of CSR Forum is divided into 5 sectors: financial sector, real sector, state and regional-owned enterprises, social sector, and empowerment sector. Here is the figure that shows the structure organization of CSR Forum Yogyakarta:

¹³ Bendara Raden Mas Herjuno Darpito or Sri Sultan Hamengkubuwana X was born in Yogyakarta, April 2, 1946; age 73 years, is the king of the Sultanate of Yogyakarta since 1989 and the Governor of Yogyakarta Special Region since 1998.

Figure 4.1

Structure Organization of CSR Forum



In the membership and management of the CSR Forum, there is a governor's decree which serves as the legal basis of the action, activity, condition, or function of something or someone. Hence, CSR Forum has a legal aspect to determine or maintain something that has been decided. The structure of management and membership of the CSR Forum are written in the Decree of the Governor of the Special Region of Yogyakarta Number 152 / KEP2018 concerning Membership Structure of the Corporate Social and Environmental Responsibility Forum of 2018-2020.

The CSR Forum was established based on several synchronization frameworks of the local government in improving community welfare, aimed at helping to address the strategic issues of development in the Special Region of Yogyakarta because of the high poverty and social inequality that occurs in the people of Yogyakarta. Based on the Article 4 of Governor Regulation of Yogyakarta Number 23 of 2018 on The Establishment of a Corporate Social and Environmental Responsibility Forum, CSR Forum has the following roles;¹⁴

- a. Informing and educating companies about CSR.
- b. Exploring and expanding the company's social and environmental responsibility resources.
- c. Striving to achieve the goals of local governments in efforts to reduce poverty and reduce inequality of community income.

The Government of Yogyakarta Province in terms of overcoming social problems focuses on poverty alleviation problems since the poverty rate on March 2019 reached 11.70% of 3,657,700 people, or about 428 thousand people. Because the Government of Yogyakarta Province has the target to drop the figure into 7% in 2022 and it is expected to improve the quality of life of the citizens of Yogyakarta, therefore the local government is trying to establish a synergistic relationship with companies by establishing the

¹⁴ See Article 4 of Governor Regulation of Yogyakarta Number 23 of 2018 on The Establishment of a Corporate Social and Environmental Responsibility Forum.

CSR Forum as a partner in regional development and improving community welfare.

B. Corporate Social Responsibility

Corporate social responsibility has become the brainchild of policy makers for a long time ago. Even in the Code of Hammurabi¹⁵ (around 1700 BC) which contains 282 laws, they have made sanctions for entrepreneurs who are negligent in maintaining the comfort of citizens or cause death for their customers. In the Code of Hammurabi, it is stated that the death penalty is given to people who abuse licenses to sell drinks, have poor services and carry out sub-standard building construction, causing the death of others.¹⁶

After the industrial revolution,¹⁷ most companies still focused themselves as a mere profit-seeking organization. They consider that sufficient contribution to the community is the provision of employment, fulfilling the needs of the community through their products, and payment of taxes to the state. However, over time the community began to do a

¹⁵ The Code of Hammurabi is a well-preserved Babylonian code of law of ancient Mesopotamia, dated to about 1754 BC (Middle Chronology). It is one of the oldest deciphered writings of significant length in the world. The sixth Babylonian king, Hammurabi, enacted the code. The Code of Hammurabi is the longest surviving text from the Old Babylonian period. The code has been seen as an early example of a fundamental law, regulating a government – i.e., a primitive constitution. The code is also one of the earliest examples of the idea of presumption of innocence, and it also suggests that both the accused and accuser have the opportunity to provide evidence. (Gabriele Bartz & Eberhard König, *Arts and Architecture—Louvre*, (Köln: Könemann, 2005), ISBN 978-3-8331-1943-9).

¹⁶ Muhammad Iqbal, 2009 “Pengawasan Implementasi Corporate Social Responsibility (CSR) PT Inalum Terhadap Masyarakat dan Lingkungan Sekitar Perusahaan”, *USU Repository*, p. 17.

¹⁷ The Industrial Revolution was a period between 1750-1850 in which there were massive changes in agriculture, manufacturing, mining, transportation, and technology and had a profound impact on social, economic and cultural conditions in the world. The Industrial Revolution began in Great Britain and then spread throughout Western Europe, North America, Japan, and spread throughout the world. (Reisman, George (1998). *Capitalism: A complete understanding of the nature and value of human economic life*. Jameson Books. p. 127. ISBN 978-0-915463-73-2.)

protest, because there is an economic imbalance between the business activity and the surrounding community; the company's operational activities mostly had a negative impact on the company's environment.¹⁸

Then CSR has emerged in the early 19th century in the United States, and developed to other countries including Indonesia. In Indonesia, CSR began to develop in the 1980s. CSR is a corporate social program to provide assistance and empower communities and also for the environment preservation around the company as a form of social responsibility or compensation for things that are lost from surrounding environment due to the company's operation.¹⁹

CSR is an approach where companies integrate social care in their business operations and in their interactions with stakeholders based on the principle of volunteerism and partnership. Some other names that have similarities or even are often identified with CSR include Corporate Charity, Corporate Philanthropy, Corporate Relations and Community Development. These four names can also be seen as dimensions or CSR approaches in the context of Corporate Social Investment (Investing) which are driven by a spectrum of motives that range from the motives of "charity" to "empowerment".²⁰

¹⁸ Yusuf Wibisono, 2007, *Membedah Konsep dan Aplikasi CSR*, Fascho Publishing, Gresik, p. xxiii.

¹⁹ Hartini Retnaningsih, *Op.Cit.*, p. 178.

²⁰ Bing Bedjo Tanudjaja, 2006, "Perkembangan Corporate Social Responsibility Di Indonesia" *Jurnal Desain Komunikasi Visual Nirmana*, Vol.8 (2), p. 93.

Understanding Social and Environmental Responsibility is the commitment of a company to participate in sustainable economic development in order to improve the quality of life and the environment that is beneficial for the community around the company, for the Company itself, and society in general.²¹

Corporate social responsibility (CSR) is one part of the company's long-term business strategies. Corporate social responsibility is a concept that an organization, especially a company, has a responsibility to the consumers, employees, shareholders, the community, and the environment in all aspects of the company's operations such as issues affecting the environment such as pollution waste, product safety and labour. CSR is not only limited to the concept of providing financial assistance to the social environment, but also how companies treat their employees in a non-discriminatory manner, maintaining good relations with suppliers.²²

The concept of CSR in companies should be implemented in a sustainable manner since the programs bring benefit to the company and all its stakeholders. Through CSR social welfare and socio-economic life, the local community and the wider community will be guaranteed. This condition will in turn guarantee the smooth implementation of the entire production process or activity of the company. While maintaining the

²¹ See Article 1 (3) of Law Number 40 of 2007 on Limited Liability Company.

²² Binus University, 2019, "Memahami Corporate Social Responsibility (CSR)" <http://accounting.binus.ac.id/2019/05/14/memahami-corporate-social-responsibility-csr/>, Accessed on Monday, 2 September 2019 at 22:03.

preservation of the environment and nature besides to ensure the smooth process of production, the company also ensures the availability of supply of raw materials produced from nature.

Social responsibility is the obligation of companies to formulate policies, make decisions, and implement actions that benefit the community.²³ What is meant here with social responsibility the company is the moral responsibility of the company towards society. Corporate moral responsibility can certainly be directed to many things: to company itself, to employees, to other companies, and so on. Social responsibility is moral responsibility towards the community in which the company carries out its activities, whether the community in a small prespectives such as the environment around a factory or the wider community.²⁴

The implementation of corporate social responsibility activities is based on many reasons and demands, as a combination of internal and external factors. As explained further by Frynas (2009) who saw that the company's considerations for carrying out CSR activities were generally due to the following reasons:²⁵

1. To fulfill the regulations
2. As a social investment company to get a positive image
3. Part of the company's business strategy

²³ Amin Widjaja Tunggal, 2007, *Corporate Social Responsibility (CSR)*, Harvarindo, Jakarta, p. 1.

²⁴ K. Bertens, 1999, *Pengantar Etika Bisnis*, Kanisius, Jakarta, p. 292.

²⁵ Meilanny Budiarti S. & Santoso Tri Raharjo, 2014, "Corporate Social Responsibility (CSR) dari Sudut Pandang Perusahaan", *Share Social Work Journal*, Vol 4 (1), p. 14.

4. To obtain license to operate from the local community
5. Part of the company's risk management to reduce and avoid social conflict.

Furthermore, in implementing CSR there are various benefits that can be obtained in the perspective of the company, namely:²⁶

- a. Reducing the risks and accusations of improper treatment received by the company.
- b. Protecting and helping companies minimize the adverse effects caused by a crisis.
- c. Motivating the employee to take part because they will feel proud to work at a company that has a good reputation, this consistently makes efforts to help improve the welfare and quality of life of the community and the surrounding environment. CSR which carried out consistently will be able to improve and strengthen the relationship between the company and its stakeholders.
- d. Increasing sales as revealed in Roper Search Worldwide research, namely that consumers will prefer products produced by companies that consistently carry out their social responsibilities so that they have a good reputation.

²⁶ A.B. Susanto, 2009, *Reputation-Driven Corporate Social Responsibility: Pendekatan Strategik Manajemen dalam CSR*, Esensi, Jakarta, p. 14-15.

There are also the external and internal benefits which can be obtained by the company from the application of CSR such as:²⁷

1. External benefits

- a. The implementation of CSR will enhance the company's reputation as a legal entity that carries social responsibility. This concerns the provision of good services to external parties or external stakeholders.
- b. CSR is a good form of product differentiation, meaning a product that meets environmentally friendly requirements and is the result of a socially responsible company. There is a need for compatibility between various social activities with typical company characteristics. These characteristics have expectations from stakeholders about how the company should act.
- c. Conducting the CSR activities publicly can be an instrument for good communication with the public and it will help create a better reputation for the company. This will help the company and its employees in building a more comprehensive and integrated engagement with the community.
- d. Contributions of CSR to company performance will be realized in at least two forms. First, the positive effects that arise as incentives (rewards) for positive behaviour from the company. These contributions are often referred to as opportunities. Second, the

²⁷ Mursitama, N. Tirta, et. al, 2011, *Corporate Social Responsibility (CSR) di Indonesia: Teori dan Implementasi*, INDEF, Jakarta, p. 27.

company's ability to prevent the emergence of consequences from bad actions or known as safety nets for the company.²⁸

2. Internal Benefits

- a. Development of activities related to human resources. These activities need social responsibility of labour practices.
- b. The existence of pollution prevention, the reorganization of the management of the production process, the flow of raw materials, and the relationship with suppliers are going to be well. The estuary is improving the company's environmental performance.
- c. Creating a corporate culture, human resource capabilities, and good organization.²⁹

C. Company

The company is an activity that is carried out continuously with the aim of seeking profit. According to Molengraff, the company is an act carried out continuously, an act to earn income by demonstrating goods or entering into trade agreements.³⁰

The detail meaning of company can be found in The Law Number 3 of 1992 concerning Compulsory Company Registration and Law Number 8 of 1997 concerning Company Documents. According to Article 1 (b) of Law Number 3 of 1982, a company is any form of business that is permanently

²⁸ *Ibid*, p. 30.

²⁹ *Ibid*.

³⁰ H.M.N. Purwosutjipto, 1981, *Pengertian Pokok Hukum Dagang Indonesia*, Djambatan, Jakarta, p. 9.

and continuously established within the territory of the Republic of Indonesia for the purpose of obtaining profits.³¹

Article 1 point 2 of Law No. 8 of 1997 defines companies as forms of business that carry out activities permanently and continuously with the aim of obtaining profit, whether organized by individuals or business entities in the form of legal entities or non-legal entities, which established and domiciled in the territory of the Republic of Indonesia.

There are other terms related to companies, namely business actors. The term business actor is the same as the term economic actor.³² Business actors are subjects who carry out business activities or conduct economic activities. Business actors are subjects who conduct business activities together with economic actors. Economic actors are subjects who carry out economic activities, which can be in the form of producing goods and or services, or distributing goods or services.³³

The following are detail classifications of the company based on their main field of businesses:

1. Extractive companies are companies engaged in extracting natural resources.
2. Agricultural company is a company that works by cultivating land or fields.

³¹ Zainal Asikin Dan Pria Suhartana, 2016, *Pengantar Hukum Perusahaan*, Prenadamdia Group, Jakarta p. 5.

³² Sri Redjeki Hartono, 2007 *Hukum Ekonomi Indonesia*, Bayumedia, Malang, p.97.

³³ *Ibid.* p.98.

3. Industrial companies are companies that produce raw and semi-finished goods into finished goods or increase their value.
4. Trading company is a company engaged in trading.
5. Service Company is a company engaged in the service sector.