Towards A New Framework for CSR: Renegotiating Ethics and Business in Indonesia

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ABSTRACT

Corporate social responsibility (CSR) aims to mediate between business interests and local communities. It consists of social, economic, ethical and environmental dimensions. Established studies, however, indicate that the economic profit remains to be the most visible objective of CSR activities, which in turn engenders massive disaffection and resistance to the programs. This article offers a new framework for CSR through which applicable policies can be formulated to renegotiate the disintegrative aspects of corporate and community interactions in an Indonesian context. The idea encompasses both regulatory and operational principles enabling for the enlargement of the ethical component of CSR.

Keywords: Indonesia, CSR, business profit, ethics, policy improvement.

I. INTRODUCTION

The relationship between business and ethics is an intriguing area of study. However, there is still no single paradigm or theory which is universally accepted by scholars and practitioners in the field of business ethics as their term of reference for doing research and analysis. As a result, debate revolves around knowledge and guidance of the application of social ethics for activities related to private business interests. A striking question arises as to what extent has the field of business ethics contributes in significant ways to developing communities and their environment, and in the wider context how business ethics enables the making of a just economic order for all which is regarded to be the primary aim of ethical studies.

Following one-year extensive literature review of the recent publications on business ethics – focusing reading on five academic journals, such as Journal of Business Ethics, Business Ethics Quarterly, International Journal of Business Governance and Ethics, and Business & Professional Ethics Journal – this study argues that there comes about a propensity of increasing intersection among the erstwhile separated discourse of corporate social responsibility, community development, public goods and trust, as well as clean governance. The developing conceptual integration sends a signal of the rise of the new epistemological approach to which it is more plausible undertaking scientific investigations into the underlying factors influencing the effectiveness of corporate social responsibility programs from the ethical side. The center of the trend is on how possible ethical elements in the corporate social responsibility activities are widen so that they promote and advance understandings about better connections between the economic and social aspects of business.

This study explains why since corporate social responsibility has been designed to meet the goal of ethical business behavior of private enterprise, in fact, the economic component remains to be dominating the implementation rather than its purported social one. Based on this explanation, the study is directed to discover the links between business economic value and practice and the core agenda of ethical action built upon general principles of justice. Thus, what is presented here is the issue concerned with the normative view on business-community interactions. In other words, the study aims to renegotiate the boundaries between the economically oriented business and the ethically acceptable impact of corporate operation.

II. METHODS AND MATERIAL

A study on Indonesia is conducted to look at the empirical ground on which multinational corporations make business in which corporate social responsibility is used to upholding harmonious relations between international economic actors and local communities. It has something important to do with Indonesian case because of two reasons. First, with the country’s large amount of natural and human resources, the Indonesian government always tries to boost foreign investments to help accelerate domestic economic performance. Nevertheless, the top down policies on luring external capital inflow are never suited with the necessity of protecting local people’s traditional interests and even basic needs. Consequently, incompatibilities driving conflict between corporate and community takes place everywhere throughout industrial sites. Second, the unpleasant situation resulted from corporate-community conflict is frequently exacerbated by the government’s attitudes leaning toward the corporate’s interests, ignoring the local’s complain and reasonable resistance. But this irony is set out to become the normal practice of corporate social responsibility.

Drawing on such an Indonesian portrait, this study intends to introduce a framework to comprehend idea and practice to narrow the gap between business and ethical conduct. It is important to note, however, that the study does not mean to construct general perceptions and theories about ethical business actions. Rather, it attempts to address the puzzle of how to bring closer ties between the business and the ethicist positions.

The main discussion is divided into two parts. The first section analyzes why corporate social responsibility programs in Indonesia fail to fulfill their ethical mission of uplifting community’s social welfare and justice. It offers an inquiry of two interrelated factors; social corporatism as the fundamental of business behavior and reciprocal justice which is the main characteristic of a fair economic order. The two factors are conceived from the synthesis of normative and communitarian theories of social work. The second part reveals the agenda of building the conceptual bridge between ethical business and social achievements in which corporate social responsibility is functioned to accomplish the morally-inspired objectives. In the conclusion, the study emphasizes on the important points leading to the Indonesian view of business ethics.

III. RESULTS AND DISCUSSION

1. On the Causes of the Problem

The concept of social corporatism is derived from an idea about the significance of social contracts between business and community. Every individual business, working group of professionals or consortium of businesses exists within societies whose foundation of living lies in particular cultures and norms containing moral values. This concept is quite reflexive to integrative social contracts theory which depicts and explains business-community relationships through deductive logics, allowing for the synergic coalescence between normative and theoretical considerations for the large scope of context. In the social corporatism conception, however, the meaning of social interaction and dialogic communications is deemed more important. For this reason, the conception of justice is understood as reciprocal between stakeholders involved. Hence, business and its tools like corporate social responsibility need authentic moral legitimacy provided by the extant community. Every business planning and implementation of corporate social responsibility must be legitimized by the local peoples who are the traditional stakeholder of natural resources and relevant activities associated with natural resource extraction and management.

In Indonesia, the implementation of social corporatism on the extant social contracts in smaller communities has often faced impediments. It usually merges into the practice of a less binding contract, forged in communities where cultural and context-specific learning about ethics cannot take place properly due to structural barriers. The less binding contract represents

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agreements or shared understandings about the moral norms relevant to certain economic interactions which many respect were confusing for the society members to follow in. Moreover, the majority of the local peoples may not want to bargain for some part of normative values appeared in the lexicon of the freedom represented by the ability to endorse their less binding contract. Both the companies and the peoples do not enjoy similar status for moral free space. In other words, if it is seen from the corporate side, the business can go even without difficulties when no social legitimacy is achievable in hands.

Local communities, for instance in industrial sites of the Java Island, never like to specify formal ethical norms for their members through the lack of social corporatism manner. In the business owners’ view, however, community means to be a self-defined, self-identified collectivity of individuals who interact in the context of shared tasks, values, or goals and who are capable of establishing norms of ethical behavior merely for themselves. Meanwhile, the business pursues everything regarding ethical conduct and perception in their own standpoint.

While not fully relying on the concept and policy guidance for upholding social corporatism, the Indonesian government introduced the idea that businesses may use a mediating institution to obtain social goals, especially reciprocal justice demanded under the law on private enterprise. The political actor – the government – and the economic actor – corporates – have agreed to transform the ground where morality is best socialized and imposed on business-community exchange. The mediating institutions would include a small group of people working together, such as representatives of local families, religious leaders, voluntary activists, and local bureaucrats. The small group mechanism gives both corporates and communities the opportunity and capacity to control the environment in which they work. By and large, the small group receives greater authorities, including designing directions of what projects and activities to be held for corporate social responsibility. They can designate items of the agenda platform, no exception for the preconditions of reciprocal justice. In this context, however, the concept of reciprocal justice is incrementally introduced, taught, and applied as to covering the most essential aspect of personal autonomous initiatives and the larger societal responses. It reflects imbalance, though not set to offer solution over the corporate-community unequal gain.

The situation has implications for both economic and social stakeholders. On the economic side, the ways corporate social responsibility has been thought of, regulated, and implemented render a nice atmosphere for individual and business groups to carry out whatever they might feel is beneficial as long as not contravening the laws and seem disadvantageous to the locals. Their responsibility is accordingly taken up by the political and legal authorities. None of the required so-called social corporatism and its community legitimacy has to be attained prior to undertaking business in the country. In turn, when the multinational corporations are able to develop sectors of strategic business, earn potential long-term benefits, receive little negative reactions of the locals, corporate social responsibility runs as pure part of business promotion with social faces. Nothing has really to do with true moral objectives.

In the community side, on the other hand, the locals usually protest to the state of inequality. They ask for nongovernmental organizations to talk on their behalf, unless some credible local figures are trusted to advocate. Many cases show when corporates – mainly the multinational ones – engaged in local dispute over share of resource management, unsurprisingly, they enjoy stronger legal standing. In the worse case, if any, the charge for violation of contracts and governmental rules is compensated through social donation and other material related social development projects. Law enforcement is frequently averted for the need to keep investment. Then, the connection to the question of why

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corporate social responsibility fails to be socially useful is clear. This is because the economic projection is regarded as more significant.

Scholars of business ethics raise a similar argument about the need to look at inside community realities before suggesting new legal mechanisms for the purpose of making corporate behavior more ethical. In using the concept of social corporatism as well as reciprocal justice to analyze what happens in Indonesia, for example, this study points out that current corporate constituency statutory aims quite generally and should be restricted especially to suppliers, stockholders and employees. More importantly, it can be argued furthermore that differing traditions of corporate governance and business structures in other cases such observable as in European, Japanese, and U.S. laws have effective influences on the degree to which big multinational corporations permit their stakeholder to express voices and make room for smaller groups within those corporations to produce moral norms.

Both social corporatism and reciprocal justice approach to business as an ethical activity give a reminder to scholars and practitioners of business ethics of how essential it is to grasp obvious contexts for establishing ethical norms. For an Indonesian context, this study endorses the importance of those reminders, and the notion that the backdrop is often invisible as what scholars like Park and Song mentions as a strategy to tame the wild corporate.

Nevertheless, this is important to stress here that the roles of power of the global political economy remains unalienable. For one thing it is related to the fact of the vast majority of international trade and business is carried on by large multinational corporations whose pursuit of ever-increasing global market share is breaking down traditional patterns of local life and community, imposing a dynamic of rapid change on many segments of the national economies, mastering vital resources for the livelihood of most societies, yet severely degrading the natural environment on which business, communities, and human life ultimately depend. Ample cases in Indonesia demonstrate this kind of business-community relations. With regard to the program of corporate social responsibility, it again seems to perpetuate the unethical nature of the international economic actors.

How to cope with such a failure of the moral vision of business ethics is explored below. Because of limited space, not all of the extensive argumentation is discussed. The brief exposition of the view on social corporatism and reciprocal justice provides the theoretical foundation upon which core assumptions and prescriptions are built. But collectively, the evidence of what is going on with various projects of corporate social responsibility offers abundant alternatives, and their reflections are very much useful. If it is acceptable to criticize the idea and practice of global corporate capitalism, the framework offered in this conceptualization will be easy to read and adjust for empirical purposes. It is expected to nurture a better understanding – albeit in limited Indonesian context – about corporate social responsibility which is responsible. One way to materialize it is through education and public policy, an obvious alternative which has never been greater in its effect.

Reliance on the discourse of social corporatism and reciprocal justice as the stimulus of ethical awareness and production of moral norms in a particular context, however, can be misplaced if the basic thinking of business-community future relations continues to be trapped in the debate between economic or social ends. Many new aspects of those seemingly contrasted motives of business-communities interaction are coming and going too rapidly for scholars and professional ethicists to shape the unnecessary boundaries for ethical development. To be consistent with the primary objective of this conceptual inquiry, the study recommends that any perspective on business ethics in the age of post-industrialist world in which culture and community are eroded by rapid economic change, needs to be revised. This is so, at least one clear goal for business ethics scholars who care about business-community relations through corporate social

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responsibility is to conceive and advocate broad yet practical reforms that will enable corporations to transform into socially accepted institutions and also bring about greater accountability for the social and environmental consequences of their actions.

2. Bridging Two Dimensions of Debate

The analysis on the cause of the problem in an Indonesian context indicates that the defining terms of contemporary business ethics set up a conflict between two forms of value, economic and ethical. “Business ethics,” “business and society,” “social issues in management,” “corporate financial performance vs. corporate social performance,” “stakeholders vs. stockholders,” “corporate social responsibility,” and “corporate citizenship,” among other terms, each, fundamentally, pair an ethical interest with an economic modifier (or vice versa).

This tension is set forth in the work of contemporary free market economists, like Milton Friedman, to which the contemporary field of business ethics is a response. Free market economists, broadly speaking, suggest that economic value is the only form of value that matters (or the primary form of value in terms of which other forms of value can be measured), and in their work, business ethics tends to have the status of an uninvited guest that needs swiftly to be shown the door. Friedman, in his often-quoted “The Social Responsibility of Business is to Increase Its Profits,” seeks as much as possible to obviate the conflict by suggesting that the principal ethical duty of managers is to increase profit in support of owners’ economic interests. His opponents, also to speak in broad terms, contend that certain ethical obligations are uncompromising and that legitimate economic activity must balance economic and ethical value. The point where they meet, which also is the fundamental point of conflict, is where alleged market imperfections warrant consideration of a moderating force to correct for the imbalance between economic and ethical value.

It is on the above point where the business ethics debate focuses - whether seeking to weigh relative values, to achieve confluence between them, or to define the tolerance for variation without upsetting the balance. The debate is characterized by its defining terms, notwithstanding the breadth and importance of each topic to the human good, as a two-dimensional debate.

But the question salient for the case like Indonesia is that why should one place disproportionate emphasis upon ethics as a unique form of value, competing for attention with economic interest in free market capitalism? In practice, the judgments about the value of economic activity, even of this study’s ethical judgments, betray sensitivity to and awareness of aesthetic value. For example, in the familiar trade off between quantity and quality of production, the former is typically measured according to economic indicators (e.g., units of production, dollar value), whereas the latter can as easily be cast as an aesthetic issue (e.g., craftsmanship, absence of quality defects) or as an ethical issue (e.g., product safety, value to the customer). Moreover, in the course of product design and production, trade offs are routinely contemplated that involve a delicate balance between economic, social, and ethical interests. For instance, think of the automobile industry’s standard of three-pointed seat-belts as safer than two-pointed but more aesthetically palatable and less (economically) costly to the consumer than the six-pointed type that race car drivers wear, or the debates between skyscraper architects and engineers over the relative placement of emergency stairwells and elevator shafts in consideration of quantity of square footage and the quality of continuous interior space.

One way to answer the question that this study poses in the previous paragraph is that “one should not,” and to suggest that social value belongs in a different conversation than the one about business ethics, which could be called “business social values.” If people were to settle for that answer, the study argues that they would quickly reach the conclusion, needing only the examples above, that to isolate consideration of economic and social value from other forms of value (particularly ethical) would be to leave out an important part of the conversation. That is to say that the trade offs and balances to be achieved between economic and social value have important ethical implications that cannot be ignored. Likewise for economic and ethical

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conflicts that have social implications and even social and ethical conflicts with economic implications. The path, therefore, that this study explores is how the ethical judgments about business might be influenced by the consideration of social value as a form of value related but not reducible to economic or ethical value.

The study might also ask why the social warrants special attention as an alternative form of value that deserves consideration in the ethics and economics debate. After all, there are many possible taxonomies of value, none of them universally accepted, and many other “pluralistic” accounts of value that assert that value judgments are complex and not reducible to one common unit of measure. The reasons for this study’s emphasis on social value are that, first, in contemporary philosophical value theory, ethics and social are the principal value classifications; second, and perhaps not coincidentally, social value has established tensions with questions of both economic and ethical value that suggest that it is often neither possible nor desirable to isolate or even distinguish them from one another.

The social value has not been given formal attention within the standard terms of a business ethics debate that have gone on informally for millennia (see, for example, Confucius’ teachings on the hierarchy of professions, or Aristotle’s discomfort with usury). This debate has its contemporary roots in the Friedmanesque property conception of the firm, which is a product of Western markets and corporate ownership structures and does not seem to make space for formal consideration of social value. In another sense, however, this interest in the “beauty of capitalism,” as this study is prone to say when it works well, is not at all new.

Inquiry along these lines will benefit from and contribute to the existing literature on questions about just business-community relations. The study offers John Rawls’ theory of justice as the principle foundation to develop a new framework for the more ethically-oriented corporate social responsibility.

In the philosophical literature, questions about justice have tended to be viewed almost exclusively as questions about the distribution of rights, goods, and opportunities among citizens. Recently, scholars such as Kwok Cheoung has called for expanding the scope of inquiry beyond this “distributive paradigm.” An investigation into what justice requires for the institutional arrangements that structure economic activity would be an important contribution to this expanded scope of inquiry.

In pursuing this line of inquiry, two points should be kept in mind. The first is the importance of empirical analysis and assumptions. Rawls makes clear that principles of justice do not uniquely specify the precise institutional arrangements governing economic activity. With regard to the choice of an economic regime on grounds of justice, Rawls writes that “there is presumably no general answer to this question, since it depends in large part on the traditions, institutions, and social forces of each country, and its particular historical circumstances.” The role of a theory of justice, according to Rawls, is to “set out in a schematic way the outlines of a just economic system that admits of several variations.” Hence, the inquiry into what justice requires of economic institutions will involve a substantial empirical component to specify the underlying conditions that help determine which set of institutional arrangements better realizes the principles of justice.

The second point to keep in mind is that a thorough application of Rawls’s theory of justice has the potential to call for fairly substantial reform of the institutional arrangements normally thought to structure business activity and frequently taken for granted in the normative study of business organizations. This point echoes a point raised by Richard Marens. According to Marens, Rawls’s theory has been applied somewhat selectively in contemporary business scholarship. Whereas Rawls’s method of the social contract is widely referenced, there is much less discussion about the requirements of justice. A fully articulated Rawlsian approach to business ethics, according to Marens, may have serious implications for how we practice business.

The discussion in the previous section on the cause of the problem happening in Indonesia helps to underscore this point. Although some form of worker participation is often thought to be desirable in normative accounts of business organizations, not all accounts regard a claim to participate on the part of workers to be an important right. Recognition of such a right is more commonly associated with regimes of corporate governance that stand as an alternative to Anglo-American models of shareholder capitalism. Consider, for example, the case of Indonesian regimes of co-determination. If the arguments in the previous section are correct, then it is not only the case that Rawls’s theory speaks to key questions in the normative study of business organizations, but also the case that a Rawlsian approach to the normative study of business organizations may require us to rethink fairly fundamental features of economic regimes often taken for granted.

In fact, a consistent Rawlsian approach to the normative study of business organizations may require ethicists to go even further. To be clear, Rawls notes that there is no general answer to the question of what justice requires for the choice of an economic regime. At the same time, the approach is clear that some regimes do not meet the requirements of justice. In Justice as Fairness, for example, Rawls considers five types of regimes: laissez-faire capitalism, welfare-state capitalism, state socialism, property-owning democracy, and liberal (democratic) socialism. Of these five regimes, only the latter two meet the requirements of justice. The latter two, however, represent fairly strong departures from the forms of capitalism normally taken as the background for contemporary normative studies of business. They depart much further from recognizing a right on the part of workers to participate in the management and governance of business organizations.

In the case of liberal (democratic) socialism, the means of production are owned collectively by members of society. In the case of property-owning democracy, although it does not involve common ownership of the means of production, a central feature is that “the background institutions work to disperse the ownership of wealth and capital, and thus to prevent a small part of society from controlling the economy, and indirectly, political life as well.”

Both dimensions – economic and ethics of corporate social responsibility - represent stark departures from the economic institutions taken for granted in the normative study of business organizations. In other words, a thorough-going Rawlsian approach to the normative study of business organizations may call for putting capitalism, at least as we know it, out of business altogether.

The framework developed in this study congealed with Sidgwick’s Methods of Ethics. It is the first influential work that consciously envisioned the need to capture morality in a simple set of projectable features and recognized that there were competing theories that hearkened to diverse nonmoral features as necessary and sufficient for the application of moral concepts. Sidgwick felt the sting of not being able to find the feature or features sufficient to eliminate all competitors in the ethical theory game. He was left with being unable to adequately determine whether or not utilitarianism or egoism best explained morality and which yielded the best moral decision-procedure. However, this apparent failure to definitively settle on the best theory did not dissuade others from accepting Sidgwick’s assumptions concerning what would constitute the proper structure of any adequate ethical theory. Sidgwick set the stage for ethical theorizing in the twentieth century.

In spite of Sidgwick’s and the rest of modern ethical theory’s failure to fulfill uncontentiously both social corporatism and reciprocal justice, ethical theorizing has been amazingly resilient. This is due to the fact that insofar as we pursue a theory that aspires to explain and/or to guide us, the conditions of generalism and simplicity tacitly come with the pursuit. In fact, McKeever and Ridge correctly diagnose that ethical theorists do tend to assume the constraints of generalism to be something akin to transcendental principles, i.e., the very conditions for thinking about morality. It is

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difficult for theorists to conceive of moral reasoning without the strictures of generalism, as well as simplicity, precisely insofar as theorists believe morality to be as systematic as other phenomena over which thinkers have created theories. However, the strictures of generalism and drive for simplicity may be more of a kind of intellectual hopeful- ness than they are binding requirements. The hope of systematizing morality keeps the project of ethical theorizing alive, in spite of its continual failure to produce a theory that has clearly and contentiously explained the bases of moral value (social corporatism) and/or provided tractable and determinate moral guides (reciprocal justice). As Anthony Skelton quite rightly argues, the mere fact that we have yet to find an ethical theory that reasonably fulfills both socials and economics does not - by itself - necessitate the conclusion that we should abandon the theoretical project. Just as moral disagreement does not necessitate moral relativism, a continued lack of closure on the project of ethical theory does not necessitate that the project is doomed in perpetuity. Past failure under relentless trials by “the best and the brightest” in conjunction with other theoretical, empirical, and practical considerations. This study argues, makes aspirations toward such ethical theorizing much less reasonable. We will return to this line of thinking below, but let us consider some more intricate moral theories that have arisen in the realm of business ethics.

IV. CONCLUSION

This study has analyzed why corporate social responsibility as a social instrument of the business is unable to achieve its more ethical goals rather than economic ones. It argues that two factors influence on the context of Indonesia; social corporatism and reciprocal justice. In an attempt to find out the way out to improve the ethical content of corporate social responsibility, the study relies on the normative theory, and tries to build knowledge about the use of Rawls’ theory of justice as the framework of thinking.

Rawls’s theory has much to say about key questions in the study of business ethics in particular with the way in which corporate social responsibility can be managed ethically.

If correct, it does not need just yet to develop an ethics specific to the case of Indonesia. Nor do it need to draw an analogy between states and business organizations in order to draw upon the insights of political philosophy in the normative study of business organizations in broader contexts.

This is not to suggest, however, that a Rawlsian approach can provide answers to all of the questions that arise in the field. No doubt there are normative questions about business organizations that are not amenable to a Rawlsian analysis, at least along the lines put forward in this study. Instead, the point of this study is to suggest that there is still much to explore in developing a new approach to the normative study of business ethics for a case like Indonesia.

There is, so to speak, much work to be done before Rawls can be said to be fully in business.

V. REFERENCES


