Development of Corporate Social Responsibility Implementation (Study in Indonesia and Malaysia)

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Abstract: This comparative analysis explores the development and impact of Corporate Social Responsibility (CSR) in Indonesia and Malaysia, highlighting differences in their frameworks, developmental trajectories, and outcomes. Indonesia’s regulatory-driven approach, established through laws like Law No. 40/2007, mandates CSR activities for companies, particularly those in natural resources. While this has led to significant contributions from large corporations in community development and environmental sustainability, challenges in enforcement, resource limitations among SMEs, and a gap between policy and genuine practice hinder the overall effectiveness. Conversely, Malaysia’s blend of regulatory requirements and voluntary initiatives promotes corporate accountability and transparency. Policies such as the Silver Book and mandatory sustainability reporting by Bursa Malaysia have driven strategic integration of CSR into business operations. Malaysian companies, exemplified by Petronas, Maybank, and Nestlé Malaysia, align their CSR initiatives with the United Nations Sustainable Development Goals (SDGs), resulting in more consistent and impactful outcomes. The analysis underscores that while Indonesia ensures widespread participation through regulatory mandates, it faces challenges in enforcement and strategic depth. Malaysia’s approach fosters innovation and accountability, leading to more effective CSR practices. By learning from each other’s experiences, both countries can enhance their CSR efforts, contributing to sustainable development and fostering social and environmental well-being in Southeast Asia.

Keywords: Corporate Social Responsibility (CSR), CSR Frameworks, CSR Development, Indonesia, Malaysia

Introduction

Corporate Social Responsibility (CSR) has become an increasingly significant component of corporate strategy and operations globally. This paradigm shift reflects a broader understanding of the role businesses play in contributing to sustainable development beyond mere economic performance (Zhou & Xu, 2023). In recent years, CSR has gained considerable traction in Southeast Asia, particularly in Indonesia and Malaysia, where it is not only seen as a corporate obligation but also as a strategic opportunity to foster long-term growth, enhance corporate reputation, and contribute to societal well-being (Zheng et al., 2023).

The evolution of CSR in Indonesia and Malaysia can be traced back to the early 2000s when both countries began to experience rapid economic growth and industrialization. This period brought increased scrutiny on the social and environmental impacts of business activities.
activities (Poveda-Pareja et al., 2024). In Indonesia, the devastating environmental degradation and social upheaval caused by the rapid expansion of industries such as mining, palm oil, and textiles underscored the need for responsible corporate practices. Similarly, Malaysia faced mounting pressure to address the environmental consequences of its burgeoning industrial sector and the social challenges posed by its diverse and multicultural society (Trian Fisman Adisaputra et al., 2023).

Both nations responded by adopting policies and frameworks aimed at encouraging CSR practices. Indonesia's Law No. 40/2007 on Limited Liability Companies mandates that companies engaged in or related to natural resources must implement CSR activities (Monalisa & Serly, 2023). This legal requirement underscores the government's commitment to ensuring that businesses contribute to social welfare and environmental sustainability. Malaysia, on the other hand, has taken a more voluntary approach, with initiatives such as the Silver Book by the government-linked companies (GLC) Transformation Program, which provides guidelines for GLCs to engage in CSR activities. Additionally, Bursa Malaysia, the Malaysian stock exchange, has introduced sustainability reporting requirements for listed companies, further embedding CSR into the corporate fabric (Waworuntu et al., 2014).

The drivers behind the adoption of CSR in Indonesia and Malaysia are multifaceted. There is a growing recognition among businesses that CSR can enhance corporate reputation and brand value. In an era where consumers and investors are increasingly conscious of ethical practices, companies that actively engage in CSR can differentiate themselves and build stronger relationships with stakeholders (Mohammed & Rashid, 2018).

Regulatory frameworks and government policies have played a crucial role. In Indonesia, the mandatory nature of CSR for certain industries has ensured a baseline level of corporate responsibility. In Malaysia, the encouragement of voluntary CSR practices through guidelines and reporting requirements has fostered a culture of corporate accountability and transparency (Tarjo et al., 2022). The influence of global standards and multinational corporations (MNCs) cannot be overlooked. As MNCs operate in these countries, they bring with them global best practices and expectations for CSR (Leony et al., 2024). This has had a trickle-down effect, influencing local companies to adopt similar standards to remain competitive and attractive to international partners and investors.

These challenges also present opportunities for growth and innovation. The increasing use of technology and digital platforms can enhance CSR reporting and monitoring, making it easier for companies to track their progress and engage with stakeholders. Furthermore, there is a growing trend towards strategic CSR, where companies align their CSR activities with their core business objectives, leading to more sustainable and impactful outcomes.
Research Method

The research methodology for this study is a literature review, which involves systematically identifying, evaluating, and synthesizing existing research and publications on the implementation and development of Corporate Social Responsibility (CSR) in Indonesia and Malaysia. This approach includes an extensive search of academic journals, government reports, industry publications, and credible online sources to gather a comprehensive understanding of the historical evolution, regulatory frameworks, driving factors, challenges, and opportunities associated with CSR in these countries. By analyzing and comparing the findings from various sources, the study aims to provide a coherent narrative on the current state of CSR practices, highlight significant trends, and identify gaps in the existing literature, thereby offering insights and recommendations for future research and policy-making.

Result and Discussion

The findings indicated that the ESG portfolio outperformed the LQ45 in terms of Sharpe ratio. However, the regression analysis demonstrated a negative correlation between the ESG score and financial performance. Specifically, an increase in the ESG score was associated with a decline in financial performance, attributed to the higher investment and opportunity costs involved. Consequently, this study offers several recommendations concerning the implementation of ESG practices at the corporate level (Nareswari et al., 2023).

Only 9% of companies choose to reveal sustainability reports. The Coal and Mining sector leads in terms of economic application level, while the Financial Services industry lags behind. Financial service companies predominantly focus on disclosing community-related, product and customer, and human resource activities. They exhibit a stronger emphasis on social indicators compared to environmental indicators (Rusmanto & Williams, 2015).

The research identifies a rising trend in CSR reporting subsequent to the introduction of the Bursa Malaysia CSR framework and the mandatory requirement to disclose CSR information by Bursa Malaysia. Although the study does not delve into pinpointing the precise factors driving these changes, it suggests that the increased reporting of CSR information signifies the commitment of the five banks to legitimizing their societal standing. This is evident in their efforts to disclose information in line with regulatory requirements, thereby demonstrating a proactive approach towards corporate social responsibility (Abdillah & Husin, 2016).

The study's findings indicate a shift in the nature of corporate social responsibility (CSR) initiatives from being altruistic to becoming integral to the core competency of businesses. Moreover, the revised CSR agenda has been identified as contributing to the socio-economic development of the state, aligning with the principles proposed by the Father of Social Responsibility regarding the business's social obligations (Hamid et al.,...
This study seeks to contribute by investigating the motivations behind corporate social responsibility (CSR) initiatives of local hotels, focusing on social and societal issues. Given the unique nature of CSR, a qualitative approach was employed, involving semi-structured interviews with the general managers of 10 local Malaysian hotel chains. Our findings carry implications for redefining CSR in developing nations, offering insights into the specific types of CSR activities undertaken, along with their underlying motivations. The study concludes by discussing the implications of the findings, acknowledging limitations, and suggesting directions for future research (Abaeian et al., 2014).

**DISCUSSION**

**Development of CSR Implementation in Indonesia**

The early 2000s marked the beginning of formal CSR practices in Indonesia, primarily driven by increasing awareness of environmental and social issues. Companies began to realize the importance of incorporating CSR into their business strategies to address the negative impacts of rapid industrialization. A significant milestone in the development of CSR in Indonesia was the enactment of Law No. 40/2007 on Limited Liability Companies (Sarmawa et al., 2021). This law mandates that companies involved in natural resources must implement CSR programs. This legislative framework established a baseline requirement, compelling companies to engage in activities that benefit the community and environment.

PT Freeport Indonesia, a major mining company, has been actively involved in CSR initiatives since the early 2000s. Post-2007, the company intensified its efforts, focusing on community development, education, health, and infrastructure projects in Papua. These initiatives have significantly improved local living standards and showcased how legislative requirements can drive meaningful corporate contributions to society (Rahman et al., 2024).

During this period, Indonesian companies began to expand the scope of their CSR activities, integrating them more deeply into their business operations. This shift was partly influenced by global CSR trends and the increasing expectations of stakeholders. PT Pertamina, the state-owned oil and gas company, launched several CSR programs focused on environmental sustainability and community development. Their "Pertamina Goes Green" initiative aimed to reduce carbon emissions and promote renewable energy. Additionally, Pertamina’s community development programs in education and healthcare have had a lasting positive impact on local communities.

The period from 2015 to 2020 saw a significant shift towards strategic CSR, where companies began aligning their CSR initiatives with their core business strategies and goals. This alignment was driven by a growing recognition that CSR could enhance corporate reputation, stakeholder trust, and long-term profitability (Astri, 2012). Unilever Indonesia exemplifies strategic CSR through its Sustainable Living Plan, which aims to improve health and well-being, reduce environmental impact, and enhance livelihoods. The company has focused on sustainable sourcing, waste reduction, and community programs. Unilever's
initiatives, such as the Lifebuoy Handwashing Program, have reached millions of people, improving hygiene and health outcomes across the country.

The COVID-19 pandemic accelerated the digital transformation of CSR activities in Indonesia. Companies have increasingly utilized digital platforms to deliver and monitor their CSR initiatives, ensuring continuity and effectiveness even during lockdowns and social distancing measures. Gojek, the Indonesian tech giant, has leveraged its digital platform to implement innovative CSR programs. During the pandemic, Gojek launched the "Gojek Swadaya" program to support drivers and small businesses affected by COVID-19. This program provided financial aid, health services, and digital tools to help beneficiaries navigate the economic challenges posed by the pandemic.

The development of CSR in Indonesia has been driven by several key factors, including regulatory frameworks, stakeholder expectations, and the influence of multinational corporations. However, challenges such as inconsistent enforcement of regulations, limited resources for small and medium-sized enterprises (SMEs), and a gap between policy and practice persist. Despite these challenges, there are significant opportunities for enhancing CSR practices in Indonesia. The increasing use of technology can improve CSR reporting and transparency, making it easier for companies to engage with stakeholders and demonstrate their impact. Moreover, aligning CSR initiatives with the United Nations Sustainable Development Goals (SDGs) can provide a framework for addressing global and local challenges in a cohesive manner.

Development of CSR Implementation in Malaysia

The concept of Corporate Social Responsibility (CSR) in Malaysia began gaining traction in the late 1990s and early 2000s. During this period, Malaysian companies started recognizing the importance of social and environmental responsibilities alongside their economic pursuits. This shift was influenced by increasing global awareness of corporate ethics and sustainability issues.

Sime Darby Berhad, one of Malaysia’s oldest and largest conglomerates, began its CSR journey during this initial stage. The company focused on environmental conservation, education, and community development. Sime Darby’s early initiatives included reforestation projects and scholarships for underprivileged students, setting a precedent for other Malaysian companies (Qoyum et al., 2022).

The mid-2000s marked a significant turning point for CSR in Malaysia with the introduction of more structured and institutionalized practices. The Malaysian government and various organizations began promoting CSR more actively, recognizing its importance for sustainable development. In 2006, the Malaysian government launched the Silver Book under the Government-Linked Companies (GLC) Transformation Program. The Silver Book provided guidelines for GLCs to enhance their social and environmental contributions. This initiative emphasized the need for companies to integrate CSR into their core business strategies and operations (Abaeian et al., 2014).

Petronas, Malaysia’s state-owned oil and gas company, is a prime example of a GLC that embraced the Silver Book’s guidelines. Petronas implemented numerous CSR programs
focusing on education, community well-being, and environmental stewardship. The company’s education initiatives, such as scholarships and the Petronas Education Sponsorship Programme (PESP), have supported thousands of students, particularly in engineering and technology fields.

Between 2010 and 2015, CSR practices became more mainstream in Malaysia. Companies began adopting comprehensive sustainability reporting frameworks, driven by regulatory requirements and market expectations. Bursa Malaysia, the Malaysian stock exchange, played a crucial role by introducing mandatory sustainability reporting for listed companies. Maybank, Malaysia’s largest financial services group, stands out for its commitment to CSR during this period. The company’s sustainability efforts are outlined in its annual sustainability reports, which detail initiatives in areas such as financial inclusion, community empowerment, and environmental management. Maybank’s “Cahaya Kasih” program, which encourages employee volunteerism, has been instrumental in fostering a culture of community service within the organization.

The period from 2015 to 2020 saw a shift towards more strategic CSR, where companies aimed to create shared value by aligning their CSR initiatives with business objectives. This approach not only enhanced corporate reputations but also contributed to business success (Tarjo et al., 2022). Nestlé Malaysia exemplifies the strategic CSR approach through its Creating Shared Value (CSV) framework. Nestlé’s initiatives focus on nutrition, water, and rural development, which are directly linked to its core business. For instance, the company’s “Nutritional Compass” labeling provides consumers with clear information about the nutritional content of its products, promoting healthier choices. Additionally, Nestlé’s partnership with local farmers to improve agricultural practices has strengthened its supply chain while boosting the livelihoods of rural communities.

The COVID-19 pandemic significantly impacted CSR practices in Malaysia, accelerating digital transformation and highlighting the importance of inclusive growth. Companies have increasingly turned to digital platforms to implement and monitor their CSR activities, ensuring they remain effective and impactful even during challenging times. Telekom Malaysia (TM), the national telecommunications company, has leveraged digital technology to enhance its CSR efforts. During the pandemic, TM launched the “Stay Strong Malaysia” campaign, providing free internet access and digital learning resources to support remote education. TM’s initiatives have been crucial in bridging the digital divide, particularly in rural and underserved areas, ensuring that education remains accessible to all students.

The development of CSR in Malaysia has been driven by several key factors, including regulatory frameworks, market forces, and societal expectations. The Malaysian government’s proactive role in promoting CSR through policies and guidelines has been instrumental. Additionally, the influence of multinational corporations and global standards has pushed local companies to adopt best practices.

However, challenges remain. Ensuring consistency and depth in CSR practices across different sectors and companies can be difficult. Small and medium-sized enterprises (SMEs), in particular, may lack the resources and expertise to implement comprehensive
CSR programs. Moreover, the need for more robust and transparent reporting mechanisms persists to ensure accountability and measure the actual impact of CSR activities. There are significant opportunities for enhancing CSR practices in Malaysia. The growing emphasis on Environmental, Social, and Governance (ESG) criteria in investment decisions provides a strong incentive for companies to improve their CSR efforts. Additionally, integrating CSR with the United Nations Sustainable Development Goals (SDGs) offers a clear framework for addressing both local and global challenges in a cohesive manner.

The increasing use of digital technology can further enhance CSR reporting and stakeholder engagement, making it easier for companies to demonstrate their impact and for stakeholders to hold them accountable. Furthermore, fostering partnerships between the private sector, government, and civil society can lead to more comprehensive and effective CSR initiatives.

**Comparative Analysis of CSR In Indonesia & Malaysia**

Corporate Social Responsibility (CSR) has become an integral part of corporate strategy worldwide, reflecting the growing recognition of businesses’ roles in contributing to sustainable development. In Southeast Asia, Indonesia and Malaysia have made notable strides in implementing and evolving their CSR practices. This comparative analysis explores the frameworks, impacts, and developmental trajectories of CSR in these two countries, highlighting both commonalities and distinctions.

Indonesia’s approach to CSR is characterized by a regulatory-driven framework. The cornerstone of Indonesia’s CSR legislation is Law No. 40/2007 on Limited Liability Companies, which mandates that companies involved in natural resources implement CSR programs. This law establishes a legal obligation for such companies to allocate funds and resources toward community development and environmental sustainability. Additionally, the Indonesian government has introduced various regulations and guidelines to support CSR activities, such as the Ministry of Environment and Forestry’s Regulation No. P.16/MENLHK/SETJEN/KUM.1/2/2016.

Malaysia’s CSR framework is a blend of regulatory requirements and voluntary initiatives. The Malaysian government actively promotes CSR through policies like the Silver Book under the Government-Linked Companies (GLC) Transformation Program, which provides guidelines for GLCs to enhance their social and environmental contributions. Bursa Malaysia, the Malaysian stock exchange, has played a crucial role by mandating sustainability reporting for listed companies, compelling them to disclose their CSR activities and impacts.

The development of CSR in Indonesia has been significantly influenced by its regulatory framework. The mandatory nature of CSR for certain industries has ensured a baseline level of CSR activity. Over the years, Indonesian companies have increasingly recognized the strategic importance of CSR, integrating it into their core business strategies. However, the implementation faces challenges, particularly in enforcement and compliance. SMEs often struggle with limited resources to effectively implement CSR initiatives, and there is a gap between policy and practice.
In Malaysia, CSR development has been more progressive and market-driven. The combination of voluntary initiatives and regulatory requirements has fostered a culture of corporate accountability and transparency. Malaysian companies, especially GLCs and large corporations, have embraced CSR as a strategic tool to enhance corporate reputation, stakeholder trust, and long-term profitability. This approach has encouraged innovation and best practices in CSR, with companies aligning their activities with the United Nations Sustainable Development Goals (SDGs).

The impact of CSR in Indonesia is evident in various sectors, particularly community development and environmental sustainability. Companies like PT Freeport Indonesia and PT Pertamina have made significant contributions. For instance, PT Freeport Indonesia’s initiatives in Papua have improved local living standards by providing education, healthcare, and infrastructure. However, the overall impact varies widely across companies, and the effectiveness of CSR initiatives is sometimes undermined by inadequate monitoring and evaluation mechanisms.

In Malaysia, CSR impact is marked by greater consistency and strategic alignment. Companies like Petronas, Maybank, and Nestlé Malaysia have implemented comprehensive CSR programs addressing education, environmental conservation, and community empowerment. For example, Petronas’ education sponsorship programs have supported thousands of students, contributing to the development of a skilled workforce. The mandatory sustainability reporting required by Bursa Malaysia has enhanced transparency and accountability, ensuring that companies not only implement CSR but also measure and report their impact effectively.

While Indonesia relies heavily on regulatory mandates to drive CSR, Malaysia employs a combination of regulations and voluntary guidelines, promoting a culture of transparency and innovation. Indonesia’s CSR development is driven by compliance, with significant contributions from large corporations but challenges in widespread adoption and effective implementation. In contrast, Malaysia’s CSR landscape is characterized by strategic integration and innovation, supported by robust reporting and accountability mechanisms. Consequently, the impact of CSR in Indonesia is significant in specific sectors but varies across companies, whereas in Malaysia, the impact is more uniformly positive due to strategic initiatives and effective reporting.

Conclusion

The comparative analysis of Corporate Social Responsibility (CSR) in Indonesia and Malaysia reveals distinct approaches and outcomes shaped by their respective frameworks. Indonesia’s regulatory-driven approach, mandated by laws such as Law No. 40/2007, ensures that companies, particularly those in natural resources, engage in CSR activities. This has led to significant contributions from large corporations like PT Freeport Indonesia and PT Pertamina in areas such as community development and environmental sustainability. However, the effectiveness of CSR in Indonesia is hindered by challenges in enforcement, resource limitations among SMEs, and a gap between policy and genuine
practice, leading to inconsistent impacts across different sectors.

In contrast, Malaysia combines regulatory requirements with voluntary initiatives, fostering a culture of corporate accountability and transparency. Policies like the Silver Book and mandatory sustainability reporting by Bursa Malaysia have encouraged companies to strategically integrate CSR into their core business operations. Malaysian companies, such as Petronas, Maybank, and Nestlé Malaysia, have demonstrated consistent and impactful CSR initiatives aligned with the United Nations Sustainable Development Goals (SDGs). This strategic and transparent approach has resulted in more uniformly positive outcomes, highlighting the potential for both countries to learn from each other's experiences. Moving forward, leveraging these insights can enhance the effectiveness of CSR practices, driving sustainable development and fostering social and environmental well-being in both Indonesia and Malaysia.

References


