

# Corporate Governance and Corporate Social Responsibility: A Sustainable Growth Story of Indian Banks

Neeraj Saxena<sup>1</sup>  
Priyanka Garg<sup>2</sup>  
Bindu Tyagi<sup>3</sup>

## ABSTRACT

*Corporate social responsibility is an important factor which is to be considered in the modern age, a vital strategy to serve the society in a perfect way. A company wants to earn a profit by implementing the profitability model but company's responsibility does not end here. Further company sees that which are the areas where it can serve the society in a better way. Other sectors like health, education and welfare where company can contribute for unprivileged people. It tries it level best to serve the society in this way.*

**Kye words:** Corporate, Commercial Bank, Development, Benefits, Regulator, Governance

## INTRODUCTION

Corporate governance are the policies and procedures which are followed by the companies for the overall growth of the parties which are concerned with the various activities of the companies. So, corporate governance and social responsibility go hand in hand. These two concepts are related to each other. In India Banks have established good norms for corporate social responsibility through corporate governance.

India is following a free market economy, capital market is working very well and it has touched new heights as far as growth of the economy is concerned. Now government and companies are working together to establish a good corporate governance system that leads to better corporate social responsibility. There are many potential benefits and advantages for India by improving corporate governance, including corporate social responsibility.

The most important advantage by enforcing code of conduct of corporate governance is likely to be understood at the national level with a global perception of good business procedures including enhanced ethical business practices. In turn this is a process of revitalization of Indian economy. If these code of corporate governance are fully implemented all the companies including private and public will be getting advantages in the global competitiveness.

Stock market in India is well developed. The market has good laws and regulation to govern the capital market. It provides a lot of protection for minority shareholders. There are a number of foreign Institutional Investors who are investing a lot of money in the market. These important rules and regulations give a growth to the entire economy. A lot of reforms has been done by SEBI for incentives to investors and a lot of things has been done for investor's protection. But here are still so many areas where market regulators have done a lot for the better governance of the company for the better governance of the companies and full protection of the stake holders.

As far as corporate governance is concerned the public sector is still facing a very gloomy state. The board of directors of the central bank, nationalized commercial banks, specialized financial institution do no appoint even efficient auditors, concerned ministry.

Even this job is done by concerned ministry. Moreover, the financial liberalization took place in India in 1991, has exposed many financial institutions to many challenges including sometimes serve credit risk and value fluctuations.

Indian stock market saw a rise in year 2008 when Indian BSE Index reached to all time high. But because of global meltdown share market full drastically. Many investors lost their money and became bankrupt. Even small investors lost their money and lost their faith into the stock market.

After this meltdown RBI took strong actions and issued many new guidelines for banking business to all commercial bank, subprime arised was on important factor which impacted the banking system a lot. This study has the following objectives. First, to understand and identify the nature of corporate social responsibility reporting in India. Next to improve the corporate responsibilities in the banks.

The remaining part of this paper proceeds as follows. In section two a review of relevant literature in the fixed of corporate governance and corporate social responsibility is examined. In section social responsibility is examined. In section three, research design is provided. In section four cases and results are discussed. In the last four cases and results are discussed. In the last a summary of the findings and important areas for further research is provided.

## LITERATURE REVIEW

We have a number of perspectives on corporate governance and corporate social responsibility frameworks for the explanations of corporate social responsibility disclosure in the report of various banks in India. Anderson discussed the utmost pressures which US based Multinational corporation faced from global competition and regulation specially in the EU and Japan. Anderson offered many principles for developing sustainability risk governance system and found their considerable advantage including decreasing risk cost, increasing competitive advantage, improved image of the community. And enhanced profitability and stock performance. Wattrick and Coehran depicted the evolution of the corporate

social performance model by paying attention on three challenges to the concept of corporate social responsibility, economic responsibility, public responsibility and social commitment. They also paid attention for social issues governance as dimension of corporate social performance. The corporate social performance model is valuable as it provides the beginnings of a paradigm for the field. It is of interest is our study to see whether corporate social responsibility disclosures made in Indian banking sector focus on economic responsibility. Public responsibility or social responsiveness. Further research of a similar nature might be able to four where India lies in terms of Cochrane's evolutionary model Wood defined corporate social performance and formulated a model to build a coherent integrative framework for business and society research. Principles of social responsibility are framed at the institutional organizational and individual levels. Processes of social responsiveness and shown to be environmental assessment, stake holders governance and outcomes of corporate social performance are posed as social impact, programs and policies. Following Wood, we expect that firm in the banking sector might make corporate social responsibility disclosures in broadly similar areas, that is, environmental, stake holders, social impact programs and policies. Batra, Kaur and Dangwal argue that in order to achieve high standards of corporate governance internal pressures such as peers and market competition should be more effective than enforcement by regulating agencies.

## RESEARCH DESIGN

We have conducted exploratory research and we have included three case studies related to corporate social responsibility in banking sector in India, we have studied the annual report to ascertain that whether these reports reflect a particular social responsibility perspective or not we have classified the disclosure into various social responsibility categories. These are six categories: environment energy, human resources product and safety. Community involvement and other, for any social responsibility research number of words used to showcase a particular issue. Our study is exploratory and limited to there of India's banks. Practical examples, of ethical practices in corporate social responsibility as a protection of consumers. Protection of creditors, establishment of rights of shareholders and enforcement of law and order situations are important indicator of corporate governance of any country mainly in developing countries such as India, we searched for some issues. Such as microfinance financing of industries associated with child labour and employment of woman and minority group as these are all issues commonly affecting developing nations.

## CASES AND FINDINGS OF INDIAN BANKS

### IDBI BANK

IDBI Bank Ltd. is today one of India's largest commercial Banks. For over 40 years, IDBI Bank has essayed a key nation-building role, first as the apex Development Financial Institution (DFI) (July 1, 1964 to September 30, 2004) in the realm of industry and thereafter as a full-service commercial Bank (October 1, 2004

onwards). As a DFI, the erstwhile IDBI stretched its canvas beyond mere project financing to cover an array of services that contributed towards balanced geographical spread of industries, development of identified backward areas, emergence of a new spirit of enterprise and evolution of a deep and vibrant capital market. On October 1, 2004, the erstwhile IDBI Bank converted into a Banking company (as Industrial Development Bank of India Limited) to undertake the entire gamut of Banking activities while continuing to play its secular DFI role. Post the mergers of the erstwhile IDBI Bank with its parent company (IDBI Ltd.) on April 2, 2005 (appointed date: October 1, 2004) and the subsequent merger of the erstwhile United Western Bank Ltd. with IDBI Bank on October 3, 2006, the tech-savvy, new generation Bank with majority Government shareholding today touches the lives of millions of Indians through an array of corporate, retail, SME and Agri products and services. Headquartered in Mumbai, IDBI Bank today rides on the back of a robust business strategy, a highly competent and dedicated workforce and a state-of-the-art information technology platform, to structure and deliver personalised and innovative Banking services and customised financial solutions to its clients across various delivery channels. As on March 31, 2012, IDBI Bank has a balance sheet of Rs. 2.91 lakh crore and business size (deposits plus advances) of Rs. 3.92 lakh crore. As an Universal Bank, IDBI Bank, besides its core banking and project finance domain, has an established presence in associated financial sector businesses like Capital Market, Investment Banking and Mutual Fund Business. Going forward, IDBI Bank is strongly committed to work towards emerging as the 'Bank of choice' and 'the most valued financial conglomerate', besides generating wealth and value to all its stakeholders.

### Glorious History

Information on the Constitution of IDBI Bank Industrial Development Bank of India Industrial Development bank of India (IDBI) was constituted under Industrial Development bank of India Act, 1964 as a Development Financial Institution and came into being as on July 01, 1964 vide GoI notification dated June 22, 1964. It was regarded as a Public Financial Institution in terms of the provisions of Section 4A of the Companies Act, 1956. It continued to serve as a DFI for 40 years till the year 2004 when it was transformed into a Bank. In response to the felt need and on commercial prudence, it was decided to transform IDBI into a Bank. For the purpose, Industrial Development bank (transfer of undertaking and Repeal) Act, 2003 [Repeal Act] was passed repealing the Industrial Development Bank of India Act, 1964. In terms of the provisions of the Repeal Act, a new company under the name of Industrial Development Bank of India Limited (IDBI Ltd.) was incorporated as a Govt. Company under the Companies Act, 1956 on September 27, 2004. Thereafter, the undertaking of IDBI was transferred to and vested in IDBI Ltd. with effect from the effective date of October 01, 2004. In terms of the provisions of the Repeal Act, IDBI Ltd. has been functioning as a Bank in addition to its earlier role of a Financial Institution.

### Merger of IDBI Bank Ltd. with IDBI Ltd.

Towards achieving the faster inorganic growth of the Bank, IDBI Bank Ltd., a wholly owned subsidiary of IDBI Ltd. was amalgamated with IDBI Ltd. in terms of the provisions of Section

<sup>1</sup>Associate Professor, Gitarattan International Business School, Delhi E-mail: neeraj\_saxena20@yahoo.com

<sup>2</sup>Asst. Professor, Gitarattan International Business School, Delhi

<sup>3</sup>Research Scholar, Mewar University



44A of the Banking Regulation Act, 1949 providing for voluntary amalgamation of two banking companies. The merger became effective from April 02, 2005.

#### Merger of United Western Bank With IDBI Ltd.

The United Western bank Ltd. (UWB), a Satara based private sector bank was placed under moratorium by RBI. Upon IDBI Ltd. showing interest to take over the said bank towards its further inorganic growth, RBI and Govt. of India amalgamated UWB with IDBI Ltd. in terms of the provisions of Section 45 of the Banking Regulation Act, 1949. The merger came into effect on October 03, 2006.

#### Change of Name of IDBI Ltd. to IDBI Bank Ltd.

In order that the name of the Bank truly reflects the functions it is carrying on, the name of the Bank was changed to IDBI Bank Limited and the new name became effective from May 07, 2008 upon issue of the Fresh Certificate of Incorporation by Registrar of Companies, Maharashtra. The Bank has been accordingly functioning in its present name of IDBI Bank Limited.

IDBI Bank operates 'ethically and fairly within the governance framework provided by the regulators', and that it believes 'in integrity transparency and accountability.' IDBI Bank includes a separate section in its 2010 Annual Report entitled 'Corporate Leadership and Social Responsibility'. Disclosures included in this section and other disclosures in the nature of social responsibility reporting are summarized as follows.

**Corporate Leadership and Social Responsibility :** 'In line with the directives and guidelines of the Government and the IDBI Bank, our corporate leaders of tomorrow need to initiate and maintain a strong and effective corporate structure. We are very sensitive to the society that we operate within. We have a deep commitment, loyalty and a high sense of responsibility to our nation and its people. Our ethics are clear: not to earn excessive profits, but to operate in a rational and sensitive way. We confirm to all of the stringent regulations issued by the Government and the IDBI Bank. As part of our corporate social responsibility, we contribute greatly to the nourishment of the country's arts, crafts, culture and sports. We share all sorts of values and sentiments, irrespective of caste, creed or colour. Moreover, we uphold the concept of avoiding gender bias. We have established for women a fair and just share in matters of delegated power, promotion and placement, commensurate with their male counterparts.

As part of its strong commitment to upholding corporate social responsibility, the Bank distributed, like before, IDBI Bank Shishu Sahitya Award among the budding child competitors. In 2006, the Bank had set up a 500-bed cancer hospital in the capital. The Ahsania Mission will get from the Bank another Rs. 4.00 million in the next two years.' Given these important statements we continued our content analysis searching for corroborating disclosures. We found a number, which are summarised as follows :

- a. The IDBI Bank reports that it assisted in bringing a wide spectrum of people into the mainstream banking economy. Its customers are engaged in 'trade, commerce, industry and technology and include major business leaders, small and medium traders, marginal farmers, destitute women and unemployed youths.' The Bank reports that even hill-tribes and ethnic minorities have access to its institutional loan facilities.

- b. Under a section entitled 'Employee relations' the IDBI Bank reveals that it has been providing financial assistance to distressed employees. 'During 2010, a sum of Rs. 3.22 million was given to employees concerned and their spouses for medical treatment. A total number of 356 children of the employees were granted scholarship of Rs. 1.63 million in recognition of their outstanding results in S.S.C. and H.S.C. examinations. The Bank also discloses various contributions it has made to sporting organisations.
- c. The Bank has been active in supporting the Small/Medium Enterprise sector of the economy for many years and provides disclosures about its individual and collaborative efforts in this area. 'Beyond conventional banking, IDBI Bank, since 2001, has also been participating in several SME programmes through its own efforts and in collaboration with different national and international agencies. These are aimed at reinforcing efforts of the Government to meet strategic objectives of alleviating poverty of the rural poor, supporting small and micro enterprises/entrepreneurs, increasing output, easing unemployment problem and strengthening the rural financial market. So far, the beneficiaries under the 14 programmes implemented by the SME & Micro Credit Division include 506247 persons of different sectors.'
- d. The IDBI Bank is also active in supporting India's Agricultural sector and reports its activities in the 2010 annual report. 'The Bank kept financing one of the country's priority sectors – agriculture. Since 2001, it started accommodating millions of the rural poor with the mainstream development activities in areas of livestock, fishery, poultry, nursery as well as many off-farm projects and their likes in line with the government policies. Poverty alleviation through income generating activities is one of the strategic priorities that the Bank has kept pursuing to make the institutional help available to marginal farmers, small entrepreneurs, distressed and destitute women as well as unemployed youths. 'So far a number of targeted programmes with loan limits from Rs. 5000 to Rs. 50000 have been continued. In 2010, the Bank implemented 54 programmes among 3097759 borrowers, totalling Rs. 25.21 billion.'
- e. Finally, we reviewed the composition of the Board of Directors and noted that of a board comprising eight members, none were women. In the case of IDBI Bank the corporate social responsibility disclosures were clustered around the issues of community involvement and responsiveness; economic support for disadvantaged sectors specifically agriculture, and the SME sector including micro financing; and support for working women. Environmental matters and issues related to sustainability were not mentioned. Issues related to child labour, an area where India have experienced criticism at an international level, were not reported.

#### ICICI BANK LTD.

ICICI Bank is India's second-largest bank with total assets of Rs. 4,736.47 billion (US\$ 93 billion) at March 31, 2012 and profit after tax Rs. 64.65 billion (US\$ 1,271 million) for the year ended

March 31, 2012. The Bank has a network of 3,121 branches and 10,486 ATMs in India, and has a presence in 19 countries, including India. ICICI Bank offers a wide range of banking products and financial services to corporate and retail customers through a variety of delivery channels and through its specialised subsidiaries in the areas of investment banking, life and non-life insurance, venture capital and asset management.

The Bank currently has subsidiaries in the United Kingdom, Russia and Canada, branches in United States, Singapore, Bahrain, Hong Kong, Sri Lanka, Qatar and Dubai International Finance Centre and representative offices in United Arab Emirates, China, South Africa, Bangladesh, Thailand, Malaysia and Indonesia. Our UK subsidiary has established branches in Belgium and Germany. ICICI Bank's equity shares are listed in India on Bombay Stock Exchange and the National Stock Exchange of India Limited and its American Depositary Receipts (ADRs) are listed on the New York Stock Exchange (NYSE).

Similar to the IDBI Bank, ICICI includes in its annual report, separate sections addressing Corporate Social Responsibility, SME-Financing and Agri-Financing.

- a. **Corporate Social Responsibility :** Under this section the Bank discloses its donations to various charitable, sporting and educational organizations. It also provides details of educational scholarships it has provided to talented but distressed students. 'Besides, financial support were given to the children of our employees who obtained GPA-5.00 in S.S.C and H.S.C examinations of 2007 to encourage them and others.' The Bank 'distributed educational materials to poor students.'; and Books ... 'have been distributed to educational institutes of remote areas of the country on occasion.'
- b. **SME-Financing and Agri-Financing :** The ICICI Bank discloses that it has diversified into the SME and Agro-sector on a priority basis. Specific mention is made of various projects within the agriculture industry made as part of boosting its activities in this sector. For example: 'We have extended credit facility to fisheries project as a part of our agro financing, which received satisfactory response from the target group.' 'We have a separate SME wing to meet the demand of the small and medium entrepreneurs. Under this wing, we could disburse nearly Rs. 2500.00 crore up to 2010. We are considering to extend credit facility under SME financing to cover a large number of potential borrowers to create new entrepreneurs.'

In regards to the ICICI's support of the agricultural industry, it also disclosed information about credit facilities it had extended to help people living in the northern part of the country. The Bank provided flexible terms in regard to finance supporting the cultivation of maize.

- c. **Other contribution:** The annual report contains information about various other contributions the ICICI Bank has made to destitute groups within society. These contributions occur through a foundation set up for such purposes, the NCC Foundation. With a view to assist destitute people in treatment, the Bank, through the Foundation, extended subsidy to a City Hospital. Moreover, the Bank has distributed blankets to the destitute people of northern part of the country to help them in coping with severe cold wave.

- d. ICICI has a directorate numbering 14 people. Of these, three are women. Corporate social responsibility disclosures were also focused on supporting economically disadvantaged sectors specifically agriculture and small business. ICICI is also a strong supporter of disadvantaged constituents within its national community with a strong focus on programs providing assistance for destitute and underprivileged people. No mention in the annual report was made of environmental or sustainability issues, or of matters relating to the financing of industries utilizing child labour.

#### HDFC BANK LTD.

The Housing Development Finance Corporation Limited (HDFC) was amongst the first to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in the private sector, as part of the RBI's liberalisation of the Indian Banking Industry in 1994. The bank was incorporated in August 1994 in the name of 'HDFC Bank Limited', with its registered office in Mumbai, India. HDFC Bank commenced operations as a Scheduled Commercial Bank in January 1995.

HDFC is India's premier housing finance company and enjoys an impeccable track record in India as well as in international markets. Since its inception in 1977, the Corporation has maintained a consistent and healthy growth in its operations to remain the market leader in mortgages. Its outstanding loan portfolio covers well over a million dwelling units. HDFC has developed significant expertise in retail mortgage loans to different market segments and also has a large corporate client base for its housing related credit facilities. With its experience in the financial markets, strong market reputation, large shareholder base and unique consumer franchise, HDFC was ideally positioned to promote a bank in the Indian environment.

HDFC Bank recognizes the importance of good corporate governance, which is generally accepted as a key factor in attaining fairness for all stakeholders and achieving organizational efficiency. This Corporate Governance Policy, therefore, is established to provide a direction and framework for managing and monitoring the bank in accordance with the principles of good corporate governance.

Our bank has won the 'Best Corporate Social Responsibility Practice' award at 'The Business for Social Responsibility Awards 2007' function held on Friday, January 18, 2008, presented by the Bombay Stock Exchange and Nasscom Foundation. Our country Head-HR, Mandeep Maitra, received the award on behalf of our bank from Mr. Ketan Sheth, Chairman and MD of IT People at a function held in Mumbai.

The 'Business for Social Responsibility Awards 2007' recognises best practices in business for social responsibility and is judged by an independent jury comprising leaders in Corporate HR, Corporate Communications and Marketing as also NGO representatives. Our bank won in the category 'Best Corporate Social Responsibility Practice'. Other categories being, 'Organisation that Offers the Best Return to Investors,' 'Organisation that Offers the Best Return to Consumers' and 'Organisation that Offers the Best Return to Channel Partners / Ancillary Development.'

There were over 200 entries in the four categories. Twenty-six corporate houses were short-listed in the CSR category.

Other winners in this category are Dr. Reddy's Laboratories, Designmate, Mahindra & Mahindra, SKS Microfinance, Yes bank and Financial Technologies.

FINDINGS

We found evidence of economic and public responsibility and social responsiveness emerging in the corporate social responsibility disclosures contained with the annual reports of India’s banks. The focus was on social impacts, programs and policies. We found no evidence of environmental disclosures. There was no direct evidence that corporate social responsibility disclosures are occur in response to peer and/or regulatory pressure. If this was occurring, the pressure is arguably weak, as in one of the cases examined no disclosure at all occurred. More likely, the disclosures are an attempt by the firms to convey their corporate conscience. We searched for evidence of the inclusion of women within the boards of directors of the firms as an indicator of a firm’s attitude towards corporate social responsibility to women. We found evidence of the inclusion of women at this level of corporate management within two firms – one being a long established bank. In the newest bank examine (IDBI Bank), women were not represented at all on the board of directors.

SUMMARY AND POTENTIAL FUTURE RESEARCH

Adequate corporate social responsibility disclosure has important implications for the credibility of the capital markets in transition economies. We see a role for the corporate regulators to promote the improvement of such disclosure in the annual reports of Indian firms. Mandating of corporate social responsibility disclosure would provide better transparency of corporate activity. This, in turn, will promote ethical business processes, which can have an important role to play in the mitigation of social obligations. In this study we did not investigate the levels of institutional or large shareholdings in the cases examined. However, as Gunit Chaddha (2007) suggest, the role of large institutions in corporate governance is particularly important in transition economies. This is an area, which is likely to yield important information if examined in the context of the Indian banking sector. If corporate social responsibility disclosure is made obligatory there is a strong case for it to follow international benchmarks. This would include the triple-bottom-line reporting method, which is increasingly being accepted as a useful method of conveying information on a firm’s social performance.

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The Impact of Corporate Social Responsibility on Workers and Trade Unions in Indonesia

Ayudya FajriAnzas<sup>1</sup> Elizabeth Koesrini<sup>2</sup> Irwansyah<sup>3</sup>  
Khamid Istakhori<sup>4</sup> Muhammad Ridha<sup>5</sup> Ruth Indiah Rahayu<sup>6</sup>  
Tommy Ardian Pratama<sup>7</sup>

ABSTRACT

*Though the concept of corporate social responsibility (CSR) has been evolving for decades, no single all-encompassing meaning has as yet been achieved. The worker and the trade union, both stakeholders in the company, are certainly affected by a company's CSR pollycy and its implementation. The focus of this chapter is on the implementation of CSR and its effect on workers and trade unions with the assumption that the content of a corporate CSR programme is everything that the company contributes towards the workers' welfare other than that which is already included in the labour laws or in the working agreement or collective labour agreement, reinforcing the belief that the leitmotiv of CRS programmes is to divert workers' demands or weaken, and gradually eliminate the trade union.*

*By investigating the CSR activities in four companies, this chapter shows that CSR is a subtle means by which the company management can showcase its concern for the workers' welfare and thereby arm itself with the tools to persuade the trade union to cooperate with the management The CSR's effective influence varies from no impact or minimum impact to the busting of Unions, when the company's CSR plans fail. The result of this initial research shows that the formation and development of trade unions is necessary for the workers to avoid a violation of their rights, and to control the company's CSR implementation with a collective labour agreement*

INTRODUCTION

The evolution of the concept of "Corporate Social Responsibility" (CSR)" derives its present status from the 1980's -1990's dramatic global political and economic changes. These are associated with the rise of libertarian values in Western politics and the collapse of collectivist ideologies aided with the improvement in communications and electronics technology, which made the dissemination of information quick and easy. It led to a radical re-thinking of the respective roles of the state and businesses in the Western society. The dominant idea in political thought at the time was to shrink the role of the state and to place greater responsibiitiy on individuals and the business houses. Though the rise in anti-corporate activism over environmental and human-rights issues registered a growth in this period, effective corporate lobbying undermined these attempts to regulate their activities at a global level. CSR, which promised protection from protests against the industries, it itself became an established industry in the marketplace. During this period, a plethora of voluntary initiatives and codes of conduct were developed by the individual companies as well as international organisations, and these became the initial guidelines for CSR implementations.<sup>1</sup>

This chapter uses the World Business Council for Sustainable Development's (WBCSD) concept of CSR-, and is essentially based on two dements that are frequently used in the definition of CSR3, making a dear distinction between a company's obligations and a company's CSR activities.

In the absence of a standard, universal set of guidelines and principles for the practice of CSR, many companies in Indonesia have made their own interpretation of the CSR concept, and thereby adopted a CSR concept, which is suitable for their own purpose and implemented it as a part of their business strategy. In CSR implementation, the scope of CSR coverage (i.e., responsibility) is identified as all corporate stakeholders. In 1971, the Committee for Economic Development (CED) introduced the three-tiered model of CSR, which is still considered valid in determining the stakeholder relationship with the company.<sup>1</sup> The CED's three-tiered model of CSR can be described as follows:

- The Inner Circle is the basic responsibility of a company to make efficient economic decisions related to a company's profit and growth. This circle includes shareholders, management and workers. In the managerial arrangement, the relationship with the stakeholders in this circle is managed through the financial and human resource management departments.
- The Intermediate Circle is the responsibility of a company to be sensitive with the changing social contract that exists between the business and the society, when it pursues its economic interest. This circle includes suppliers, customers, and the competitors. In the managerial arrangement, the relationship with the stakeholders in this circle is managed mostly through operation and

<sup>1,2</sup>Research Team, Institute for Crisis Study and And Alternate Development Strategy (Inkrispena), Indonesia  
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