

# Business and Entrepreneurial Review

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## **IMPLEMENTATION OF SUSTAINABILITY CONCEPT ON RETAIL INDUSTRY**

**Williy Arafah**

Master of Management, Trisakti University

### **ABSTRACT**

*The objective of this paper is to seek know how sustainability concept and implementation of retail industry in Indonesia based on sustainability theoretical framework. The research was conducted in Jakarta (Indonesia), the survey was carried out on the basis of questionnaire that was used as a support during the interviews. A total of 137 Indonesia retail enterprises were involved in the research. The results achieved highlight, how CSR does make business sense in Indonesia context. This process calls for new forms of collaboration involving firms along the supply chain, local authorities, international player and civil society. The conclusion of this research how CSR become a mandatory requirements for access to International market, transform it self into a new type of technical barrier to trade. CSR need to be fostered rather than imposed, through the creation of innovative partnership and locally rooted solutions.*

**Keywords:** *Company image, CSR, supply chain management.*

## INTRODUCTION

International trade environments have been made aware of issues such as human rights and labor exploitation in developing countries and requirements of sustainability are moving from northern consumers to suppliers in the south along the global supply chain (Bird and Smucker, 2007). The research findings suggest that CSR does make business sense for the enterprises big and rich enough to comply with international social standards even in developing countries such as Indonesia. However, the process through which sustainability is reaching Indonesia is proving to be unsustainable. The costs triggered by a top down imposed engagement to CSR are really prohibitive for many enterprises and the consequent incapability of meeting social and environmental standards is starting to mean for these firms impossibility of doing business in international markets. What was originally thought to be a way to light abuses and exploitation risks transforming it self into a new of protectionism (Tencati et al., 2009).

## THEORETICAL FRAMEWORK

As a developing country, the existence of corporation in Indonesia has an important role. Corporation is not only important for economic but also society. As it brings profit for the state and the surrounding community, it also brings some impacts for the environment as well as society. When it comes to impact, some problems often rising due to the existence of the corporation, for example; environmental pollution, unfair treatment to workers, minorities, and women, abuse of authority, problem of safety and product quality, and massive exploitation of energy and natural resources that cause damage to nature.

The transmission of CSR from developed to developing countries begins with the requirements deriving from ethical consumerism. Recent studies on ethical consumerism suggest that consumers increasingly care about the characteristics of business products and processes, encompassing the importance of non-traditional and social component such as environmental protection, elimination of child labor and so on (Auger et al., 2003; Pivato et al., 2008). Thus, ethical features have a substantial impact on the purchase intentions of consumers (Castaldo et al., 2009). MNCs must prove to northern societies the soundness of their manufactures' working places, otherwise their reputation could be ruined and sales will tend to decrease (O'Higgins, 2002; Weiser and Zadek, 2000).

Manufactures must prove to MNCs their capability of complying with the required social standards, otherwise they will lose their contracts, as MNCs are their main, and in most of the cases only, clients. The tools used by MNCs to export CSR practices are basically two: first, their own codes of conduct and independent monitoring schemes, second, international certifications. In the marketplace, there are at least more than 1,000 codes of conduct and standards (The World Bank Group, 2006). According to the traditional view of the corporation, it exists primarily to make profits. From this money-centered perspective, insofar as business ethics are important, they apply to moral dilemmas arising as the struggle for profit proceeds.

While these dilemmas continue to be important throughout the economic world, when businesses are conceived as holding a wide range of economic and civic responsibilities as part of their daily operation, the field of business ethics expands correspondingly. Now there are large sets of issues that need to be confronted and managed outside of, and independent of the struggle for money. Broadly, there are three theoretical approaches to these new responsibilities: (1) Corporate social responsibility (CSR), (2) The triple bottom line, (3) Stakeholder theory.

The title corporate social responsibility has two meanings. First, it's a general name for any theory of the corporation that emphasizes both the responsibility to make money and the responsibility to interact ethically with the surrounding community. Second, corporate social responsibility is also a specific conception of that responsibility to profit while playing a role in broader questions of community welfare. As a specific theory of the way corporations interact with the surrounding community and larger world, corporate social responsibility (CSR) is composed of four obligations:

The economic responsibility to make money. Required by simple economics, this obligation is the business version of the human survival instinct. Companies that don't make profits are in a modern market economy doomed to perish.

The legal responsibility to adhere to rules and regulations. Like the previous, this responsibility is not controversial. What proponents of CSR argue, however, is that this obligation must be understood as a proactive duty.

The ethical responsibility to do what's right even when not required by the letter or spirit of the law. This is the theory's keystone obligation, and it depends on a coherent corporate culture that views the business itself as a citizen in society, with the kind of obligations that citizenship normally entails.

The philanthropic responsibility to contribute to society's projects even when they're independent of the particular business.

## METHODS

The research was conducted in Indonesia in 2013 with the support of the Retail Association in Indonesia, Association of CSR in Indonesia and the Indonesia Chamber of Commerce. The survey was conducted on the basis of a questionnaire that was used as a support during the direct interviews mainly to the chief operating officers or their representatives, and was sent electronically when the preferred method of onsite visits was not possible. The questionnaire was originally formulated in Indonesia, translated into English in a second moment and consisted of 35 questions. The research saw the involvement of 137 Indonesia's enterprises and agreed to collaborate either through direct interviews or by answering the questionnaire that was sent electronically. Regarding the other 137 companies, they were excluded from the final sample in that either it was impossible to conclude a direct interview or the questionnaire was incomplete.

In developed countries the acceptance of a positive correlation between profit and CSR is somehow growing, but it is still not totally or sufficiently proven (Margolis and Walsh, 2003; Orlitzky

et al., 2003; Rubbens and Wessels, 2004). In Indonesia such acceptance does not exist all. Several have been the attempts of defining a correlation between sound policies and a better economic performance, but the debate is still very open and characterized by different opinions (Barnett, 2007; Friedman, 1970; McWilliams and Siegel, 2000; Waddock and Graves, 1997). On the basis of our data, what can be affirmed is that the enterprises involved are starting to benefit from the recent implementation of more sustainable policies through the compliance with codes of conduct and international certifications.

In fact, what can be highlighted is the impact of CSR on variables such as productivity, quality of the final output, competitiveness, and retaining of skilled human resources. These results are also confirmed by the analysis of the direct interviews. As declared by the Chief of Quality Management of a garment company. "The Company now works like a system" and, with regard to the adoption of specific international standards, he recognized that "having the SA8000 certification, the company has noticed an increased facility in recruiting acknowledged and hard-working employees. This will positively affect the productivity in a medium – long term. Only in the last six months, 250 new people started working for our company. Especially according to the direct interviews with managers from the footwear and garment sector, once the whole.

## CONCLUSIONS

In this paper we investigated the impact that more sustainable sourcing policies by many MNCs are having on the suppliers located in developing countries such as Indonesia. In more detail, we looked for the impacts of the CSR strategies on the competitiveness of the enterprises that are managing to comply with imposed international standers and regulations. The results achieved point out, on the one hand, how CSR does make business sense even in a developing country such as Indonesia. On the other hand, data and direct interviews provide evidence of the difficulties related to the way requirements of sustainability are moving from northern consumers to suppliers in Indonesia. In light of he above results, implications for both practitioners and researchers emerge.

The gathered findings highlight that monetary and non-monetary costs of complying with international standards may turn out to be unsustainable and prohibitive for many enterprises, and especially for small-and medium – sized supplier. CSB is a long-term investment, expensive if considering the civil foundation and the reality within which the Indonesia's have always operated. The inability to meet social and environmental standards, though, could mean the impossibility of doing business in international markets. The increasing opening of the market and the recent access to the World Trade Organization (WTO) are making CSR an extremely important asset that cannot simply be imposed by foreign partners.

So, clear indications for future research as well as for public authorities "interventions emerge from this study. In more detail, a robust business case should be defined in order to spread more sustainable practices among the entrepreneurs; moreover, an on-field CSR educational agenda seems necessary and should address all the companies, including the smallest ones. However, a



methodology for demonstrating the business case in a comprehensive and rigorous way is still a challenge, considering that the question does not simply call for a one – size-fits-all solution (Spence, 2007).

Finally, it is not possible to generalize the Indonesia experience to all developing countries. In any case, this research shows that CSR could make business sense in countries such as Indonesia, but the efforts towards sustainable goals need to be fostered, rather than imposed, through the definition of innovative forms of collaboration involving companies, local authorities, international players and civil society at large and through the construction of locally-rooted solutions. Many experiences in other developing countries confirm the progressive role that this collaborative approach could play (Brugmann and Prahalad, 2007; Periini and Busso 2008; Porter and Kramer, 2006; World Economic Forum, 2008; Zadek, 2006).

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John F. Kennedy School of Government, Harvard University, Cambridge, MA.