



## **The Implementation of Mandatory or Voluntary for Corporate Social Responsibility: A Systematic Literature Review**

**Cut Nurul Tasya Putri<sup>1\*</sup>, Finka Azzahra Utami Masse<sup>2</sup>, Sambas Ade Kesuma<sup>3</sup>**  
<sup>1</sup>[icut07nurul@gmail.com](mailto:icut07nurul@gmail.com), <sup>2</sup>[mfinkaazzahrautami@gmail.com](mailto:mfinkaazzahrautami@gmail.com), <sup>3</sup>[sambas.usu@gmail.com](mailto:sambas.usu@gmail.com)  
Universitas Sumatera Utara

\*Corresponding Author: Cut Nurul Tasya Putri  
Email: [icut07nurul@gmail.com](mailto:icut07nurul@gmail.com)

### **ABSTRACT**

*CSR (Corporate Social Responsibility) is the responsibility of a company for the impact of their decisions and activities on society and the environment through open and ethical behavior. The existence of companies in the midst of society contributes to the national problem of unemployment. The implementation of CSR in Indonesia is still not transparent whether it is voluntary or mandatory. However, this research does not only discuss the Indonesian side, but globally in several countries from 2007-2023. Therefore, this research aims to find out the implementation of mandatory or voluntary CSR in Indonesia and some countries. The method used is systematic literature review. The result of this research is voluntary CSR is still commonly used in various countries, including developing countries, even though some countries have regulated mandatory CSR by law. However, voluntary CSR is still practiced because the law is not enough for companies to implement mandatory CSR. Companies will be more stable if they implement mandatory and voluntary CSR in a balanced way in order to consider the interests of stakeholders, the company, the environment and society.*

**Keywords:** *Corporate Social Responsibility, Mandatory, Voluntary*

## INTRODUCTION

As the world has become more globalized, there have been changes in the corporate sector and the environment. This requires businesses and governments to collaborate to prevent environmental damage and exacerbate the globalization. The Brundtland Commission, which is critical in business environmental issues, states that it is important for every company to consider the environmental, social and economic consequences around the company's operations (Ackers & Eccles, 2015). Unfortunately, there are still some companies that unconcerned to this. As happened in China, the Sanlu Group company, which is a milk production company, went bankrupt because it did not concern to environment and social community relations (Noronha et al., 2013). Due to the misuse of product ingredients, this company destroyed the company and Chinese people's trust in China's own products. In addition, this phenomenon happened because there are no rules that concentrate on CSR practices in China (Noronha et al., 2013). Meanwhile, in South Africa, non-financial disclosures related to CSR have been socialized to organizations on a voluntary basis to increase the corporate accountability (Ackers & Eccles, 2015).

In Indonesia, the rules of Corporate Social Responsibility (CSR) are still unclear whether it is voluntary or mandatory for organizations. Based on Indonesian Company Law No. 40/2007 and Investment Law No. 25/2007, CSR has been made as a mandatory. However, according to Limited Liability Company Law No. 40/2007 in Article 74, only companies that utilize natural resources are required to disclose CSR (Safa'at, 2014). Based on the rules of Constitutional Court in Indonesia, it states that CSR is a flexible concept based on the rules in each country (Safa'at, 2014). In Indonesia, CSR has mandatory social, economic and legal characteristics that able to strengthen the Indonesian law enforcement (Safa'at, 2014). However, there are always issues with Indonesia's mandated labor laws, work safety regulations, and insufficient worker welfare protections (Safa'at, 2014).

The concept of CSR is interesting to many countries, and many previous researchers have contributed to the development of CSR including its definition, analysis and implementation. Furthermore, this research will discuss whether CSR in Indonesia is mandatory or voluntary and how it has evolved. This research is also based on other previous research that discuss voluntary and mandatory rules for CSR in Indonesian companies. Therefore, this research aims to find out the implementation of mandatory or voluntary CSR in Indonesia and some countries.

## LITERATURE REVIEW

### **Corporate Social Responsibility (CSR)**

Based on the legal theory of responsibility by Gray et al (2014), it states that CSR is organization's social responsibility from human rights violations caused by organizations or the environment. Moreover, CSR has many definitions from previous researchers, one of which is from Carroll (2021) which states that CSR is the company's responsibility and societal impacts that must have by the company as a result of its success. The development of CSR theory is based on corporate social performance (CSP) theory combined with responsibility and responsiveness, called stakeholder theory (Carroll, 2021; Freeman & Dmytriiev, 2017). According to Harrison and Wicks (2013), stakeholder theory focuses on business executives' ability to effectively produce the corporate welfare.

According to Carroll (2021), social responsibility includes economic, legal and ethical views for society towards the organizations. The economic component element explains how the company produces goods and services until they can be utilized by the community, while legal and ethical elements describe how the company has the responsibility in accordance with the laws and norms applied in society. According to Pfajfar et al (2022), CSR is a form of corporate obligation to stakeholders in accordance with the company's laws and rules that aims to reduce losses and increase long-term corporate benefits to society. CSR reporting is useful to emphasize the stakeholder accountability and legitimacy, and it is also important to convince the society or other parties of reported veracity of CSR performance (Ackers & Eccles, 2015).

According to Hamidu et al (2015), the research on CSR has evolved in two directions, including the analysis level that has changed from macro-social to organizational-level CSR which focuses on process goals and organizational performance, that in terms of theory, it has changed from explicit to implicit arguments, and from ethics-oriented to performance-oriented. According to Morsing and Spence (2019), CSR has two forms called explicit and implicit. In terms of explicit, CSR has a voluntary characteristic in strategies or operations related to personal issues and the implementation of CSR by the company. Implicitly, CSR is obligatory in maintaining good relations with society or the government, which is protected by the norms and values applied by the company in solving the problems. Although each country's laws determine in using these types, but there are more nations that use the CSR in an implicit form. This phenomena is become the basis of variety of CSR rules for organizations, whether it mandatory or voluntary.

**The implementation of CSR as mandatory or voluntary**

The obligation to implement CSR is stipulated in Limited Liability Company Law Article 74 No. 40/2007 for companies that use natural resources. However, despite this regulation, there is still much debate about whether CSR is mandatory or voluntary, including in Indonesia. This mandatory rule should have a very good impact on companies and can increase the level of disclosure for companies (Ackers & Eccles, 2015). However, mandatory CSR reporting can increase companies' production costs and weaken the competitiveness, then the government wants to increase the responsibility for this on companies (Gayo, 2012). Therefore, these mandatory rules are less effective because they are not reinforced by standardized rules and corporate frameworks (Ackers & Eccles, 2015). Although it is challenging to find a solution to global governance issue, CSR is supposedly very crucial in corporate sector. In Bangladesh, it is hoped that CSR rules can be mandatory in more specific areas like working conditions in supplying companies, not just in slavery eradication (Reza & Du Plessis, 2022).

In South Africa, many organizations are still implementing CSR voluntarily based on the King Code of Governance rules to improve Governance practices and increase corporate accountability (Ackers & Eccles, 2015). This illustrates how CSR is quite related to Corporate Governance (GC). Voluntary CSR may undermine the effectiveness of the disclosure system to the standards that can be applied consistently worldwide since voluntary CSR does not have a strong enough mechanism to enforce certain rules (Ackers & Eccles, 2015). In Indonesia, one of the reasons that many companies still implement CSR voluntarily is due to the absence of CSR implementation regulations in Law No. 40/2007 in Article 74 which causes the rules is still weak (Schneider & Scherer, 2015).

The mandatory and voluntary CSR relates to two hypotheses about it, called competitive advantage or disadvantage (Noronha et al., 2013). The disadvantage hypothesis states that mandatory regulation of CSR will cause losses to multinational companies since it will cause the unnecessary burdens. Meanwhile, the advantage hypothesis states that CSR can ensure the protection of human rights, the environment for employees and the environment outside the company. This can create long-term investments that lead to potential advantages for the company (Noronha et al., 2013).

**RESULT AND DISCUSSION**

Based on the results of a research review on the discussion of mandatory or voluntary CSR in several countries from 2007 to 2023, it was found that China is the most country that discussed about the issue of mandatory or voluntary CSR. This CSR legal issue also occurs more in developing countries than the developed countries.

**Table 1**

<b>No</b>	<b>Country</b>	<b>Author</b>	<b>Title</b>	<b>Result</b>
1	South Africa	(Ackers & Eccles, 2015)	Mandatory Corporate Social Responsibility Assurance Practices; The Case of King III in South Africa	Although the JSO already requires companies to report CSR, the King III remains to implement the CSR on a voluntary basis.
2	South America	(Berger-Walliser & Scott, 2018)	Redefining Corporate Social Responsibility in An Era Of Globalization And Regulatory Hardening	The changes in legal rules of CSR from voluntary to mandatory or known as legalizing CSR, may disrupt and undermine the main idea of CSR itself in shareholders' perspective. However, to strengthen it, CSR must have a firm commitment to company's social and ethical responsibility to society.
3	Bangladesh	(Reza & Du Plessis, 2022)	The Garment Industry in Bangladesh, Corporate Social Responsibility of Multinational Corporations and The Impact of Covid-19	There are still many gaps in Bangladesh since the law has specified broad requirements for obligations for national companies, but does not include the obligations in

				terms of corporate social responsibility including in companies supply.
4	China	(Chiang et al., 2017)	<i>Do Chinese State Subsidies Affect Voluntary Corporate Social Responsibility Disclosure?</i>	State subsidies and political cost considerations may determine the level of voluntary CSR disclosure of companies in Shanghai as government intervention is widespread in economic and business environment.
5		(Gong et al., 2018)	On The Value of Corporate Social Responsibility Disclosure: An Empirical Investigation Of Corporate Bond Issues In China	Investors believe that companies with voluntary CSR charge a lower risk and are less likely to have issues with information asymmetry.
6		(Wang et al., 2018)	Mandatory Corporate Social Responsibility (CSR) Reporting And Financial Reporting Quality: Evidence From A Quasi-Natural Experiment	The implementation of mandatory CSR by companies can limit the earnings management. This is more directed towards companies with a low scope of company analysis
7		(Huang & Wang, 2022)	Do Reputation Concerns Motivate Voluntary Initiation of Corporate Social Responsibility	Companies will implement the mandatory CSR after committing legal and security violations. This is more often experienced by non-

			Reporting? Evidence From China	SOE companies rather than state-owned companies, as they are more focused on political factors rather than economics factors
8		(Xue et al., 2023)	The Effect Of Voluntary And Mandatory Corporate Social Responsibility Disclosure On Firm Profitability: Evidence From China	Voluntary CSR has a stronger negative effect on companies than mandatory CSR. Companies with voluntary CSR tend to lower their profitability costs and increase costs on CSR to attract the investors since it attracts more institutional investors, higher stock returns and more debt.
9	European Union	(Hąbek & Wolniak, 2016)	Assessing The Quality Of Corporate Social Responsibility Reports: The Case of Reporting Practices in Selected European Union Member States	Mandatory CSR will improve the quality of company reports including CSR, as well as increase the credibility level of the company itself.
10		(Gatti et al., 2019)	Grey Zone In – Greenwash Out. A Review of Greenwashing Research and Implication For The Voluntary-Mandatory Transition Of CSR	Voluntary CSR can facilitate the diffusion of greenwashing. However, greenwashing can be prevented with the implementation of mandatory and voluntary CSR. In line with this, companies can design boundaries

				and rules for their achievement for not violate the law during the implementation of excessive CSR.
11	India	(Gatti et al., 2019)	Are We Moving Beyond Coluntary CSR? Exploring Theoretical and Managerial Implications of Mandatory CSR Resulting From New Indian Companies Act	Many companies in India are inclined towards voluntary CSR reporting, while mandatory CSR is only a managerial tool for self-regulation or internal management.
12		(Nair & Bhattacharyya, 2019)	Mandatory Corporate Social Responsibility In India And Its Effect On Corporate Financial Performance: Perspektives From Institutional Theory And Resource-Based View	Both mandatory and voluntary CSR will change the CSR expenditure itself. However, mandatory CSR increases the firm's expenditure while voluntary CSR reduces it. Mandatory CSR also increase the firm intensity while voluntary CSR decreases it.
13		(Hickman et al., 2021)	The Effect of Voluntary And Mandatory Corporate Social Responsibility On Earning Management: Evidence From India And The 2% Rule	The Indian Companies Act provides insight into the relationship between voluntary or mandatory CSR with earnings management, but it reduces earnings management and increases the report transparency. The companies that implemented CSR before the regulation



				was stipulated were wise to consider the development of market companies in developing countries.
14		(Rajgopal, Shivaram., dan Tantri, 2022)	Does A Government Mandate Crowd Out Voluntary Corporate Social Responsibility? Evidence From India	The companies in India with voluntary CSR reduced their CSR spending before the mandate of 2%. The government interference in a company's CSR regulations may reduce its signaling value and reduce voluntary of CSR spending itself.
15	Indonesia	(Rosser & Edwin, 2010)	The Politics of Corporate Social Responsibility in Indonesia	CSR needs more promotion regarding its formulation steps such as mandatory reporting standards, environmentally friendly policies in organizations and governments, socialization of CSR and promotion of investment funds in order to turn into a mandatory application for companies.
16		(Waagstein, 2011)	The Mandatory Corporate Social Responsibility in Indonesia: Problems and Implications	The use of explicit and implicit CSR can provide a good understanding of CSR and the companies are able in determining the implementation of CSR, whether it is

				mandatory or voluntary.
17		(Gayo, 2012)	Mandatory and Voluntary Corporate Social Responsibility Policy Debates in Indonesia	In its implementation, voluntary CSR cannot accommodate the community's aspirations, then the company uses the reputation to community in order to be more socially responsible and uphold the human rights.
18	Japan	(Gupta & Kumar, 2022)	Corporate Social Responsibility Practices: An Empirical Study Of Voluntary And Mandatory Disclosure By NIFTY 100 Companies	Voluntary CSR disclosures regarding environmental and human resource activities have high value for companies. Companies that have high visibility are more involved in voluntary CSR disclosure practices.
19	Lebanon	(Jamali, 2007)	The Case for Strategic Corporate Social Responsibility in Developing Countries	CSR in Lebanon is still very much implemented on a voluntary basis as well as many developing countries. Based on Carroll's (1979) concept of CSR, CSR in Lebanon will still be examined to make it as a mandatory rule.
20	United Kingdom	(Mallin et al., 2014)	Corporate Social Responsibility And Financial Performance In Islamic Bank	Islamic banks are more focus on mandated CSR than voluntary CSR, and they are less

				concerned with the environment.
21		(Deltas & Wen, 2022)	Do Voluntary Corporate Activities Lead To Reporting Regulation? Evidence From Corporate Social Responsibility	Companies who implement CSR on a voluntary basis are gain more from investors' demand for products that meet competing requirements.

## CONCLUSION

This research focuses on CSR development both in mandatory or voluntary rules in several countries since CSR is crucial, a sensible business practice, and a business-building strategy. The argument over whether CSR rules should be mandatory or voluntary implemented is still quite heated today since the local community and the world's companies have to apply the CSR principles and creating general guidelines. Although the laws have been enacted in some countries regarding the implementation of CSR, the strengthening guidelines for implementing CSR is still insufficient. The countries should establish more specific rules on CSR such as its implementation, ethics and principles for that it can be compulsory in all countries, including developing countries that mandatory and voluntary CSR rules are unclear. In addition, the mandatory and voluntary CSR should be balanced so that it can benefit the company, stakeholders and the environment. Unfortunately, this research is still not specific enough to discuss the CSR implementation, and the researchers hope that further research can discuss the history of CSR development and its derivatives for that people can understand more about CSR and its usefulness for companies, countries, the environment and society.

## REFERENCES

- Ackers, B., & Eccles, N. S. (2015). Mandatory corporate social responsibility assurance practices. *Accounting, Auditing & Accountability Journal*, 28(4), 515–550. <https://doi.org/10.1108/AAAJ-12-2013-1554>
- Berger-Walliser, G., & Scott, I. (2018). Redefining Corporate Social Responsibility in an Era of Globalization and Regulatory Hardening. *American Business Law Journal*, 55(1), 167–218. <https://doi.org/10.1111/ablj.12119>
- Carroll, A. B. (2021). Corporate Social Responsibility: Perspectives on the CSR Construct's Development and Future. *Sage Journals*, 60(6).
- Chiang, S., Kleinman, G., & Lee, P. (2017). Do non-staggered board elections matter to earnings quality and the value relevance of earnings and book value? *Review of Accounting and Finance*, 16(1), 46–66.
- Deltas, G., & Wen, H. (2022). Do voluntary corporate activities lead to reporting regulation? evidence from corporate social responsibility. *Applied Economics*, 54(56), 6510–6520. <https://doi.org/10.1080/00036846.2022.2070594>
- Freeman, R. E., & Dmytriiev, S. (2017). Corporate Social Responsibility dan Stakeholder Theory: Learning from Each Other. *Emerging Issues in Management*, 2, 7–15.
- Gatti, L., Seele, P., & Rademacher, L. (2019). Grey zone in – greenwash out. A review of greenwashing research and implications for the voluntary-mandatory transition of CSR. *International Journal of Corporate Social Responsibility*, 4(1), 6. <https://doi.org/10.1186/s40991-019-0044-9>
- Gayo, S. (2012). Mandatory and Voluntary Corporate Social Responsibility Policy Debates in Indonesia. *International Conference on Innovative Research and Development*.
- Gong, G., Xu, S., & Gong, X. (2018). On the Value of Corporate Social Responsibility Disclosure: An Empirical Investigation of Corporate Bond Issues in China. *Journal of Business Ethics*, 150(1), 227–258. <https://doi.org/10.1007/s10551-016-3193-8>
- Gray, R., Adams, C. A., & Owen, D. (2014). *Accountability, Social Responsibility and Sustainability Accounting for Society and the Environment* (1st Ed). Pearson Education Limited.
- Gupta, R., & Kumar, P. (2022). Corporate social responsibility practices: An empirical study of voluntary and mandatory disclosure by <scp>NIFTY</scp> 100 companies. *Journal of Public Affairs*, 22(S1). <https://doi.org/10.1002/pa.2748>
- Hąbek, P., & Wolniak, R. (2016). Assessing the quality of corporate social responsibility reports: the case of reporting practices in selected European Union member states. *Quality & Quantity*, 50(1), 399–420. <https://doi.org/10.1007/s11135-014-0155-z>
- Hamidu, A. A., Haron, H. M., & Amran, A. (2015). Corporate Social

- Responsibility: A Review on Definitions, Core Characteristics and Theoretical Perspectives. *Mediterranean Journal of Social Sciences*, 6(4), 83–95.
- Harrison, J. S., & Wicks, A. C. (2013). Stakeholder Theory, Value, and Firm Performance. *Business Ethics Quarterly*, 23(1), 97–124.
- Hickman, L. E., Iyer, S. R., & Jadiyappa, N. (2021). The effect of voluntary and mandatory corporate social responsibility on earnings management: Evidence from India and the 2% rule. *Emerging Markets Review*, 46, 100750. <https://doi.org/10.1016/j.ememar.2020.100750>
- Huang, K.-C., & Wang, Y.-C. (2022). Do reputation concerns motivate voluntary initiation of corporate social responsibility reporting? Evidence from China. *Finance Research Letters*, 47, 102611. <https://doi.org/10.1016/j.frl.2021.102611>
- Jamali, D. (2007). The Case for Strategic Corporate Social Responsibility in Developing Countries. *Business and Society Review*, 112(1), 1–27. <https://doi.org/10.1111/j.1467-8594.2007.00284.x>
- Mallin, C., Farag, H., & Ow-Yong, K. (2014). Corporate social responsibility and financial performance in Islamic banks. *Journal of Economic Behavior & Organization*, 103, S21–S38. <https://doi.org/10.1016/j.jebo.2014.03.001>
- Morsing, M., & Spence, L. J. (2019). Corporate social responsibility (CSR) communication and small and medium sized enterprises: The governmentality dilemma of explicit and implicit CSR communication. *Sage Journals*, 72(12).
- Nair, A. K. S., & Bhattacharyya, S. S. (2019). Mandatory corporate social responsibility in India and its effect on corporate financial performance: Perspectives from institutional theory and resource-based view. *BUSINESS STRATEGY & DEVELOPMENT*, 2(2), 106–116. <https://doi.org/10.1002/bsd2.46>
- Noronha, C., Tou, S., Cynthia, M. I., & Guan, J. J. (2013). Corporate Social Responsibility Reporting in China: An Overview and Comparison with Major Trends. *Corporate Social Responsibility and Environmental Management*, 20(1), 29–42. <https://doi.org/10.1002/csr.1276>
- Pfajfar, G., Shoham, A., Malecka, A., & Zalaznik, M. (2022). Value of corporate social responsibility for multiple stakeholders and social impact – Relationship marketing perspective. *Journal of Business Research*, 143, 46–61.
- Rajgopal, Shivaram., dan Tantri, P. (2022). Does A Government Mandate Crowd Out Voluntary Corporate Social Responsibility? Evidence From India. *Journal of Accounting Research*, 61(1), 415–447.
- Reza, N., & Du Plessis, J. J. (2022). The Garment Industry in Bangladesh, Corporate Social Responsibility of Multinational Corporations, and The Impact of COVID-19. *Asian Journal of Law and Society*, 9(2), 255–285. <https://doi.org/10.1017/als.2022.9>
- Rosser, A., & Edwin, D. (2010). The politics of corporate social responsibility in

- Indonesia. *The Pacific Review*, 23(1), 1–22.  
<https://doi.org/10.1080/09512740903398314>
- Safa'at, M. A. (2014). Corporate Social Responsibility: A Constitutional Perspective. *Jurnal Konstitusi*, 11(1), 1–17.
- Schneider, A., & Scherer, A. G. (2015). Corporate Governance in a Risk Society. *JSTOR: Journal of Business Ethics*, 126(2), 309–323.
- Waagstein, P. R. (2011). The Mandatory Corporate Social Responsibility in Indonesia: Problems and Implications. *Journal of Business Ethics*, 98(3), 455–466. <https://doi.org/10.1007/s10551-010-0587-x>
- Wang, X., Cao, F., & Ye, K. (2018). Mandatory Corporate Social Responsibility (CSR) Reporting and Financial Reporting Quality: Evidence from a Quasi-Natural Experiment. *Journal of Business Ethics*, 152(1), 253–274. <https://doi.org/10.1007/s10551-016-3296-2>
- Xue, S., Chang, Q., & Xu, J. (2023). The effect of voluntary and mandatory corporate social responsibility disclosure on firm profitability: Evidence from China. *Pacific-Basin Finance Journal*, 77, 101919. <https://doi.org/10.1016/j.pacfin.2022.101919>