

# **The Impact Of Corporate Social Responsibility Implementation Toward Company's Productivity: A Case Study of Tourism Industries in Indonesia**

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## **ABSTRACT**

*The main purpose of this paper is to explore further the dynamic and debatable relationship between corporate social responsibility (CSR) and economic performance of a company by analyzing the impact to company productivity or economic growth. Many previous studies in this topic mostly use the manufacturing or machine-based related industries. However, for developing countries like Indonesia, hospitality or service-based industries contributes significantly to the nation's economic development rather than other industries. Apparently, tourism industries have a slightly different mechanism compare to other industries in order to make the business sustainable and CSR plays a very important tool for its development. By looking first from some definition about CSR, the paper will then discover some long ongoing debate over CSR impact and divided it into two majors which are profit maximization and human resources management. The case will be taken from increasingly growing tourism industry in Indonesia which it has been considered as the best practice of CSR due to its high awareness to environmental and society issue. The paper later found out that despite the reluctance of some company to fully implement CSR and sign some codes of conducts for certain humanitarian issues, there is positive impacts especially toward the accountability of workers. Also, the so-called branding impact of CSR action will bring potential sustainability to the company despite some critics to its genuine purpose by company.*

**Keywords:** *CSR implementation, economic performance, company productivity, tourism industry*

*Tujuan utama dari makalah ini ditulis untuk mengeksplorasi lebih jauh mengenai hubungan yang dinamis dan dapat diperdebatkan antara tanggung jawab sosial perusahaan (CSR) dan kinerja ekonomi perusahaan dengan menganalisis dampaknya terhadap produktivitas perusahaan atau pertumbuhan ekonomi. Banyak penelitian sebelumnya, pada topik ini, cenderung menggunakan sistem manufaktur atau industri berbasis mesin terkait. Namun, di negara berkembang seperti Indonesia, industri keramahan atau berbasis layanan memberikan kontribusi nyata bagi pembangunan ekonomi bangsa daripada industri lain. Tampaknya industri pariwisata memiliki mekanisme yang sedikit berbeda dibandingkan industri lainnya demi menciptakan bisnis yang keberlanjutan dan CSR memainkan peran penting sebagai alat yang sangat penting untuk perkembangannya. Dengan melihat beberapa definisi tentang CSR, makalah ini kemudian akan menemukan beberapa debat panjang yang masih berlangsung terkait dampak CSR dan membaginya menjadi dua yang paling utama yakni maksimalisasi keuntungan dan manajemen sumber daya manusia. Kasusnya akan diambil dari industri pariwisata yang semakin berkembang di Indonesia yang telah dianggap sebagai praktek terbaik dari CSR karena kesadaran yang tinggi untuk isu lingkungan dan masyarakat. Makalah ini kemudian menemukan bahwa meskipun keengganan beberapa perusahaan untuk sepenuhnya melaksanakan CSR dan menandatangani beberapa kode etik untuk masalah kemanusiaan tertentu, ada dampak positif terutama terhadap akuntabilitas pekerja. Juga, yang disebut dampak branding dari*

*tindakan CSR akan membawa potensi keberlanjutan untuk perusahaan meskipun muncul beberapa kritik terkait ketulusan tujuan perusahaan dalam melaksanakan CSR.*

**Kata Kunci:** *Implementasi CSR, performa ekonomi, produktivitas perusahaan, industri pariwisata*

## **I. Introduction: Corporate Social Responsibility (CSR) as a Mechanism for Responsible Economic Activities**

### **I.1 CSR as an International Ethical Standard for Business Movement**

In our increasingly globalized society where global production brought the knowledge of complex business relationship, powerful transnational companies has emerged over the last thirty years, the impact of this evolution inevitably land within the society which they produce, operates and sell their goods and services. In response to the massive social impact of business activity, there comes a concept where companies integrate social and environmental concerns in their business operations including their interaction to their stakeholder on a voluntary basis (McLachlan & Binns, 2014;100).

The concept was later known as Corporate Social Responsibility (CSR) in which the civil society is also expected to become more concern about business accountability and ethics. The goals of CSR set out mostly in very challenging agenda such as global warming, human rights, economic growth and poverty reduction in which these are where CSR should bring an impact (Blowfield, 2007;689). John Ruggie (2010) added that the major motivation which led business sectors to apply the practice is due to the social expectations toward responsibility to respect that is imposed upon business sectors or shortly as a condition or social license of firms to operate the business<sup>1</sup>. This principle by Ruggie has been endorsed by UN Human Rights Council, adopted by the OECD, and influence the current design of several business operation standards such as ISO 26000 and IFC Environmental and Social Performance Standards (Wheeler, 2015;762).

In a broad sense, CSR takes as its premise that companies ought to justify their existence in terms of service to the community rather than mere profit (Crook, 2005;3-18). The stress is on the attitude or action in dealing with employees, suppliers and customers where the efforts are made to support local communities, doing charities and promote environmental sustainability. In terms of financial performance, according to Franklin (2008), it transpires that companies are expected to be committed to a business strategy that generates profits, while contributing to the well-being of the planet and its people (Franklin, 2008;3-22). The financial returns may be seen in its impact on consumer behavior as argued by Smith (2003) that CSR has helped companies to avoid boycotts of brands and increase consumer loyalty.

Due to the increasing acknowledgement toward social responsibility management

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<sup>1</sup> See the comments made by Ruggie to the UN General Assembly on 26 October 2010, <http://www.ohchr.org/documents/issues/business/2010GA65remarks.pdf> (accessed 15 June 2016). Promotion and protection of all human rights, civil, political, economic, social and cultural rights, including the right to development – protect, respect and remedy: A framework for business and human rights report of the special representative of the secretary-general on the issue of human rights and transnational corporations and other business enterprises. UN Doc. A/HRC/8/5 at para.54.

which affecting competitiveness value among firms, no wonder that CSR is now seen as a core business function that put as one of their business strategies and very fundamental for their success (Smith & Ong, 2015;489). John Elkington's Triple Bottom Line which consists of economic (profit), social (people) and environmental (planet). He basically suggested that in order to be sustainable, firms need to pay attention to social and environmental aspects and not merely on economic benefits.

The ongoing debate about the dynamic relationship between the nature of economy and social responsibility is still critically discussed among scholars, especially the true intention of implementing CSR. This paper tries to discover some issues related to the debates especially highlighting tourism industry as the subject and how it will influence the productivity.

## **I.2 Tourism, CSR, and Development**

The significant growing influence of tourism in this modern world has regarded tourism as a potential social and economic development driver especially for developing countries. In a world scale, it increasingly contributes as one of the world's largest industries to the world gross domestic product and world employment. Tourism industry contributes more than other industries such as manufacturing and mining. In 2015, total contribution from tourism industries reached US\$ 7.1 billion for world GDP (WTTC, 2016). Reflecting the potential of tourism industries, it is now seen as a tool for development practice. Its infrastructures drives significantly to open more job opportunities for local people and it further contributes to lift local economy and further contributes indirectly to empowerment tools for some vulnerable groups in a community.

For tourism sectors, such as travel and hospitality industries, CSR plays an important role for its business operations as the nature of tourism business lies on its direct and strong relationship with local communities in the area where they operate. According to Swarbrooke (2003), CSR in tourism has two unique areas which differentiate it from other sectors (Smith & Ong, 2015;489). First, as mentioned earlier, for some countries, tourism is the major economic sector while at the same time it is the active intervention by the public sector. The role of CSR is very significance to determine the success of tourism business as to engage with community such as local government, residents and local NGOs is very essential. However unfortunately, CSR is fairly new topic in hospitality management and relatively little research.

To see an example how CSR works in tourism areas, a case of the coastal areas like beach which has advantage in terms of geography for developing countries to increase the GDP through tourism may show how some local factors will influence different CSR actions in tourism industries. There is a need for compromising with local villagers if a firm wants to open a business in an area where the villagers are usually working such as fishing-farming village. By opening a tourism attraction, a mutual agreement to the local people must be achieved by considering the future of villagers who will lose their main job due to the construction.

Moreover in social context, CSR in tourism industry is often related to the issue of child labor or commercial sexual exploitation of children in particular. Even though tourism industry may not directly contribute to the sexual exploitation of children, but its developments creates an infrastructure to support the existence of the issue and thus there is a need of private sector to recognize its operation impact especially toward human rights. The relationship between tourism industry and CSR is often vague.

However, many human rights activists and scholars had proven the idea that in order to have commercial sexual exploitation to be adequately tackled, what needed is the cooperation from private sectors which in this case are travel and tourism companies.

## **II. Literature Review: Debate over CSR's Implementation Effect toward Firm's Productivity in Tourism Industry**

The objection toward the idea of CSR was initiated by Milton Friedman (1962) who argued that social responsibility actions taken by companies or firms would dilute their focus to maximize profit as it initially opposed to the nature of economy which is focusing on profit maximization. However, despite many critics toward his idea, it has inspired other scholars to revisit the definition of CSR that exclude legal and economic aspects previously (Mahyuni, 2013). Even so, CSR has not yet been achieved a universal agreement for its definition due to its evolving nature and diverse interpretation into company policies and practices (ICSADS, 2011;2)<sup>2</sup>.

Besides many critics toward definition, other debates have been raised in regard to what driven CSR action of a firm. It might be driven by different situation of the local community and cultures in which the businesses are operated. As mentioned earlier, CSR can be regarded as a condition or social license for firm's business operation. A research conducted by Gunningham et al. has identified four elements which brings major motivation for a company to put CSR mechanism on its operation (Wheeler, 2015;765). Those pressures are a possible damage to corporate reputation, fear of the increasing of enforcement in regulations, feat of the imposition of new regulation and fear of consumer's boycott (Owen & Kemp; 2013;31). This is critical as suggested by Bowe (2005) that what driven the implementation of CSR is for the sake of well-publicized PR actions which is to improve the image of the company rather than put stress on genuinely helping anyone.

As an effort to survive for long-term operation, the existing of CSR mechanism is very significant. However, the mechanism is still within the debate among scholars and economists especially if it touches the nature of economy and the concept of free economy as it will influences the productivity of a firm. Most of the criticism toward CSR impact lies on the environmental priorities where developing countries, in particular, criticized for too much adopting Western rather than local realities. For instance, reducing water usage is seen as positive impact on financial performance of a company, and investing in emission-reducing technology may cost more in investment but have long-term advantage in return. However, some scholars argues that it is not clear yet if they are genuinely implement or only for the sake of financial advantage. This is moreover led to more debatable issue toward social impact especially service-based industries like tourism.

Overall, in terms of the relation between CSR actions and productivity of a company or a firm, there are two major aspects that usually become the topic debates. First is how companies or firms manage their profit maximization including its financial management and the second aspect comes from human resources as they are one of the critical factor of a firm to increase its productivity.

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<sup>2</sup> Institute for Crisis Study and Alternative Development Strategy (ICSADS) or INKRISPENA is a social research institute based in Jakarta, Indonesia. It focuses on social scientific research around the economic crisis, alternative development and its social-political impacts on society.

## **II.1 Profit Maximization**

According to some economist scholars, CSR is unaccepted. Bakan (2004) argued that CSR brings an overt aversion to profit maximization which is supported by other arguments that CSR undermines the fundamental principle of the free-market economy (Beckerman, 2002; Friedman, 1970; Henderson, 2001). Fundamentally, obligations and restrictions related to protection and sustainable development on business is likely to have a negative impact on the operations and potentially, competitiveness (Henderson, 2001).

Nevertheless, it must be noted that CSR is basically a volunteer-based action. It depends wholly on company's willingness to manage its operations and activities considering the environment and social conditions in where their business take operate on. Apparently, the rising awareness programs by many environmental and humanist activist has driven public's attention toward companies operation or activity. Implementing CSR becomes very critical to gain trust from the local community where the business operates, particularly to maintain long-term operation, also for consumers who tend to choose a safe and enjoyable holiday (Kalisch, 2002). In other words, it wants to deal more its brand management rather than concerning the good cause to environment or society<sup>3</sup>. Bridging the correlation between these two arguments, the axiom from Friedman<sup>4</sup> may be highlighted the contrast to his first arguments about CSR that social responsibility of as business is actually to increase its profits (Friedman, 1970). This statement was supported by Leon et al. (2011) who argue that nowadays, the cost of ignoring CSR is higher than the benefits of implementing it, as tourists are now likely to consider their vacation options on the basis of attributes such as a company's CSR involvement.

Another ongoing debate lies on cases where CSR implementation forces additional economic cost for a company which will decrease the profit. For instance, the CSR cost for Nike is about \$10 million to \$12 million year, just for the CSR staff and expenses, also travel expenses and accommodation to attend CSR meeting all over the world. In tourism industries, to fully implement CSR, training for staff is also needed. However, as the turnover in the hospitality is considered very high, a firm needs to holds the training regularly, either monthly or yearly. Besides, some CSR programs which initiated by mostly initiated by organization will require membership fees that need to be paid regularly by its company members and other fees that need to be paid to maintain as an active members of the program.

Even though most of critics above intended to label CSR as harm for firm's profit maximization, much of business community has performed it by arguing that it is good for business. The value lies over the long term effect by embracing ethical business behavior. CSR practices can significantly improve the long-term profitability of corporations and enhance benefits to individuals and society at large (Kanji & Chopra, 2010;122). In short, despite the pro and cons over profit issue, CSR is in fact a win-win solution for both firm and society.

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<sup>3</sup> As CSR implementation practices can mean many things, it is important to noted that it might be different from Crook's view (2005) which emphasized in good management because its concerns lies on the company's treatment to "insiders" such as employees, customers, and suppliers only, not to the surrounding society or environment.

<sup>4</sup> Friedman is one of the first prominent critics of CSR who asserted that it is wrong to believe that profit seeking, unless tempered and controlled by corporate responsibility, will works to fulfill public interest.

## **II.2 Human Resources Management (HRM)**

In this increasingly globalized and competitive business environment, the management of human resources holds a very important source for a firm's competitive advantage (Bohdnowicz & Zientara, 2008;276). Recently, research on the impact of innovative HRM management is increasing especially its effect on business outcome including productivity. As Osterman (2000) argues that innovative practices improve productivity which also means that there are additional gains to be shared out (Osterman, 2000). Relating the idea to CSR practice, as mentioned earlier, CSR management includes the fair treatment to employees which to achieve high labor standards. In tourism and hospitality industry, employees play a very crucial part to reach high productivity as the "products" include the services that they give to the customers.

Generally, it is expected that employees who are satisfied with their job will stay for a long time and give their best services. However, in tourism industry especially hospitality companies, has different perspectives on HRM. For example, the number of turnover staff is relatively high as the structure is flat and there is less chance for job rotation or promotion (Furunes & Mykletun, 2005). In regard to these peculiarities, CSR might play a decisive role.

Kirkman and Shapiro (2001) argued that if the organizational culture in company following the model of CSR culture, the employees will embrace certain values and attitudes. To put it into logical condition, if the company has a reputation to "genuinely" cares about society and environment, current employees, especially the environmentally sensitive, will have more willingness to commit themselves to such companies in which the company is well-positioned to retain such employees (Bohdanowicz & Zientara, 2008).

In addition, the company may attract more employees to work in their company which will help the productivity as the more employees in a firm also means the more services can be produced. It is also suggested that CSR support the working atmosphere to create a proud feeling as a worker and have something in common which bring pleasure as a human being (Bohdanowicz & Zientara, 2008)<sup>5</sup>.

## **III. Case Study: The Code Implementation in Indonesia**

### **III.1 The Development of Tourism Industry and Its Effect on Economic Growth in Indonesia**

Indonesia as the largest archipelago country has advantages from its geographical features. Having 17,000 islands with various cultures, religions and traditions, in addition to the beautiful natural features has been the characteristic of tourism attractions in Indonesia. Even though tourism industry in Indonesia had experienced a significant decline around 1998 to 1999 due to economic crisis, but it was increasing again in 2000 and currently reached 9,729,350 tourist arrivals in 2015 without fluctuation year by year (Statistic Indonesia, 20015).

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<sup>5</sup> Based on the result of interview done by Bohdanowicz and Zientara with some managers on their study on CSR implementation in Scandinavian hospitality industries.

Some areas in Indonesia have been well-known as popular among world's popular destinations. In terms of the number of foreign visitors, Bali is considered as the most popular destination for incoming tourist due to its culture and natural richness while surrounded by various natural environments like beaches, forests, rivers, mountains, caves, and lakes. The popularity of Balinese tourism contributes to foreign revenues earnings since 1950s to 1960s, and in 1970s the real boom began along with the development of hospitality industries such as luxurious hotels and bungalows. Following Bali, Jakarta is the second international destination as it is dominated by business visitors, yet it also contributes to increase GDP due to increasing services of hotels and other accommodation services. Other areas such as Sumatera, other Java areas also started to gain popularity in last decades.

According to Statistic Indonesia in 2000, the population in Bali was 3.15 million whom 90% are foreign visitors who stayed in hotel. This is indicated how much tourism affects local regional economics as it also can be seen how GDP per capita in Bali was changed from Rp 16,000 (around \$1.2) in 1969 to Rp 2,400,000 (around \$200) in 2001. In addition, foreign visitors in Indonesia prefer to stay in classified hotels<sup>6</sup> because it is affordable for them and it is influencing visitor expenses per visit and benefiting economically.

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Due to the rising popularity of tourism, hospitality sectors such as hotel and restaurant play a very significant role in the national investment. These sectors have been regarded in the top ten firms of domestic and foreign investment in Indonesia (Suparwoko, 2012). This potential has urged Indonesian government to invest more on tourism Industry as a driver for local economy as well. Nowadays, many locals in Indonesia are depending their lives on tourism business, especially in hospitality industry or opening their own business through local creative or home industries.

Tourism industry in Indonesia depends heavily on the natural beauty and the richness of cultural resources. Therefore in order to preserve that nature's wealth, sustainable tourism becomes one of development subjects and responsible business practices are becoming very essential to achieve the object. Despite of the growing negative impact of tourism industry infrastructure toward the safety of local people especially children, many travel and tourism companies have shown willingness to support advocacy and prevention programs through the implementation of their CSR policies.

### **III.2 CSR's Impact toward Tourism Industries' Economic Performance in Indonesia**

The first campaign that affected significantly for CSR driving force in Indonesia was started toward the criticism toward some sweatshop industries such as Nike and Levi Strauss<sup>7</sup>. Since then, CSR movements started to gaining awareness especially toward

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<sup>6</sup> Refers to an accommodation that meets specified standards regarding physical requirements such services, manpower qualifications, number of rooms available, etc. Mostly it also refers to big or luxury hotels.

<sup>7</sup> The campaign force came from outside Indonesia which is started around 1992/1993 when the head of American Center for International Labor Solidarity (ACILS) and Jakarta Urban Mission made

the labor issues and environmental damage from factories' activities. Every company must have its code of conducts to address CSR forces and supported by local and international NGOs for its monitoring and evaluation of the implementation.

Due to its high awareness, Indonesia can be considered as one of the leading countries in the world<sup>8</sup> in regard to the level of CSR's implementation. The regulation toward companies highlighted the business ethics has been mentioned in Indonesian law and it is now a mandatory for a company to implement CSR<sup>9</sup> even though the nature of CSR implementation is volunteer-based mechanism. The law also obligates the company that using natural resources for their services or production to pay 3-5 percent of their profit to the government. Due to its vague definition and misperception, many companies in Indonesia consider it as a mutual agreement between government and companies rather than CSR action (Hendeberg & Simon, 2009; 35).

One of the concerned issues due to the tourism development in Indonesia has been the emerging of sex tourism especially children at worst. As an attempt to address the phenomenon, another code of conduct to fight against sexual exploitation in tourism was made which is later well-known as The Code<sup>10</sup> and currently regarded as the one of the best practice of CSR in tourism industry (Sakulpitakphon, ECPAT International, 2012;24). The implementation of The Code program in Southeast Asia was pioneered by ACCOR which is the biggest hospitality company and owned several affiliate big hotels such as J.W Marriot and has been spread their branches all over the world including Indonesia.

The impact mostly goes to the pride of the employees as stated by employees that trainings provided by The Code helped improve staff motivation in their job, encourage teamwork and increased retention. Nevertheless, The Code implementation has faced debate among scholars especially in terms of economic performance. It was found after the reluctance of some companies who declined to be a member of the code to the fear that it might bring a negative impact to the business. Even though the major consensus of CSR is to build a positive image of a company which can contribute to its marketing or branding, apparently tourism industry has different perspective for this issue.

Travel and tourism company as a part of hospitality industry offers services to gain profit where dealing and fulfilling consumer request to give them relaxing and enjoyable trip is very crucial. For a big company like ACCOR, the implementation of CSR action like The Code may help to build more positive image in additional to the

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contact with Nike workers. The criticism pointed out when the profit of Nike rose significantly over \$180 million per year but the workers earned less than \$270 per year and other criticism to the working conditions. Other criticism also subjected toward Levi Strauss which was alleged for human rights violation as the workers had been slapped and abuse if their pace did not meet production targets.

<sup>8</sup> Institute for Crisis Study and Alternative Development Strategy Indonesia (2011), *The Impact of Corporate Social Responsibility on Workers and Trade Unions in Indonesia*, CSR Research Paper Series No.4, Asia Monitor Resource Centre, p6

<sup>9</sup> See Indonesian Under Law No.40/2007 section 74, No.25/2007 section 15 article (b), and No.25/2007 section 34

<sup>10</sup> The Code of Conduct for the Protection of Children from Sexual Exploitation in Travel and Tourism is originally created by ECPAT Sweden in 1998 and currently has become an independent organization called The Code. The Code is an industry-driven, multi-stakeholder initiative which seeks to increase protection of children from sex tourism and currently regarded as the most efficient CSR action to address sexual exploitation against children.



existing good image they have built based on their high-class services. Also, to spend some money to pay membership for CSR program, provide training and its materials for employees might not be a big deal despite of the high turn-over human resources in tourism industries. In contrast, for small and medium enterprises, to implement all objectives is a big challenge which is almost impossible to be fulfilled. Most of small and medium scale tourism companies tend to neglect the criteria of The Code.

Raising awareness activities are indeed bring some impacts to society and most of perpetrators are now “moving” to less-recognized places like smaller hotels or travel agencies. For those companies which are still “unstable”, there is a fear that by fully implementing The Code might bring negative to the development of their business. It must also be noted that sex tourism as a small part of human trafficking is also closely related to organized crime where can be controlled by some powerful group such as mafia or even government officials and to fight against those group might bring great damage to the business if the power is not balance enough to go against it.

#### **IV. Conclusion**

The actual effectiveness of CSR is still in questions and its impact on the productivity on economic growth in one firm is still unclear. However, as suggest by Carroll (2004), she pointed out that ethical responsibility has a major impact for a long-term growth of a firm. There is a demand for a company to operate their business in a such manner that moral and ethical behavior takes hold and believes that ethical behavior can affect the company as much as or even more that legal responsibility does. CSR then has been seen as an critical tool or a guidance for a company to make sure all its activity are not based on merely profit, but justifying to what they can contribute to all their stakeholders.

A case of Indonesia can be considered as a good practice which accommodate the principle of west CSR and indeed accommodate the basic principles of human rights. Yet in reality, the political structures that also dominated by endemic corruption culture may ensure that the implementation in Indonesia is merely cosmetics (Kemp, 2001;36). However, most of companies in Indonesia agree that CSR is very vital for productivity which influences the long economic growth. Through CSR, a company can increase its relationship with the society to avoid possible disturbance from society criticism that would be very costly and potentially bring a negative brand image at worst.

In case of tourism industry, CSR plays very critical role as well. Tourism industry is currently still considered as one of significant development tool especially for developing countries like Indonesia. It opens more job opportunities and help to empower local society. It also greatly contributes for nations' GDP. In order to keep the business a long-term, strong and good relationship with local society where the business operates is very important. They have to make sure the business operations or activity will not bring any harm to local people such as the trend of sex tourism. Moreover, as a service-based industry, the role the human resources are very vital and the management must be well-maintain despite the infamous high-turn over.

Nevertheless, the implementation of CSR in Indonesian tourism industry is less-monitored and unclear. Some companies are still reluctant to apply CSR code of conducts, as there is still confusion to justifying between fulfilling customer's request and protecting local environment and society. By fully implementing CSR, there is fear that it might bring negative impact to the society, reducing the trust and profits coming

from customers. Yet, despite of those fears, based on some evidence brought by scholars, CSR is indeed very potential to keep the sustainability of a company. The positive impact experienced mostly by workers as it will indulge their prides; strengthen teamwork, and having trust to the company where they work in. Workers are one of very essential parts to increase the productivity of a company and this is where CSR play a very significant part.

Finally, despite of some positive impact found in this paper. How CSR and economic performance related and its connection to the stakeholders are still vague as every country has different mechanism and situation, socially and culturally. There is still a need for further research in this area, especially on how CSR action being monitored and how it will further affect the company.

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