CHAPTER 5

ADAPTING THE UNITED NATIONS GLOBAL COMPACT PRINCIPLES IN MALAYSIA AND INDONESIA

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5.1 INTRODUCTION

Corporate social responsibility (CSR) is the practice of a company demonstrating its social responsibility by focusing on improving the quality of the company (profit), society (people), and the environment (planet). CSR represents a company's commitment to supporting the realisation of sustainable development (Widjaja & Pratama, 2008). To ensure that CSR implementation and activities are more systematic and well-focused, companies participate in the United Nations Global Compact (UNGC), which adheres to principles aligned with the spirit and mandate of CSR. The UNGC transformed the international relationship between the United Nations (UN) and the private sector (Rasche et al., 2013). It consists of Ten Principles divided into four core areas: Human rights, environment, labour standards, and anti-corruption.

The implementation of the UNGC in Indonesia reveals a profound correlation with CSR regulated by Law Number 40 of 2007 concerning Limited Liability Companies (Company Law). CSR was initially a moral responsibility of companies and was voluntary, but in the company law, CSR has become compulsory (Siregar, 2016). The government issued a tax policy to support companies in carrying out CSR that contributes to social welfare and environmental sustainability (Suparji & Machmud, 2017). Additionally, CSR increases company revenue through marketing to various segments of society (Sudiro, 2019).

Accordingly, the UNGC is a means for corporations in Indonesia to implement their CSR by becoming members of the Indonesia Global Compact Network (ICGN) (Darajati & Syafei, 2017). The ICGN is the local network of the United Nations Global Compact in Indonesia that facilitates businesses to align their strategies and movements to comply with the 10 principles of the UNGC to create stability and justice in the business world and human rights (Pally, 2013; Sinarmas, 2017).

In Malaysia, the government has taken significant steps to promote adherence to the UNGC principles by emphasising sustainable and responsible business practices. The government, through the National CSR Framework, promotes CSR practices in line with UNGC principles. In addition, the Bursa Malaysia Sustainability Reporting Framework (Bursa Malaysia, 2017) was established to guide listed companies in Malaysia on how to effectively disclose their sustainability practices and performance. The framework aligns with global best practices and encourages transparency in corporate governance, social responsibility, and environmental stewardship. Moreover, the Malaysian government also collaborates with the private sector to implement projects that adhere to the UNGC principles (Malaysian Global Compact Network [MGCN], 2021).

Furthermore, the establishment of the Malaysian Global Compact Network (MGCN) as the local chapter of the UNGC serves as a key platform for Malaysian businesses to collaborate, share best practices, and promote corporate sustainability in line with UNGC principles (MGCN, 2021; MGCN, 2019). In addition, the Malaysian government has integrated the UNGC principles into its broader efforts toward sustainable development. The ten principles of the UNGC, which cover human rights, labour, environment, and anti-corruption, align with Malaysia's national sustainability frameworks, including the Eleventh Malaysia Plan (2016–2020) which emphasises people-centred growth, and the Twelfth Malaysia Plan (2021–2025), which emphasises sustainable and inclusive economic growth. Furthermore, the National Policy on Climate Change and the Green Technology Master Plan align with UNGC environmental principles (Ministry of Energy, Green Technology, and Water Malaysia, 2017).

5.2 UNDERSTANDING THE UN GLOBAL COMPACT

The UN established the UNGC to enable corporations to integrate business practices with compliance with human rights standards (Pally, 2013). The UNGC is a corporate policy concept designed to uphold its four core pillars: human rights, labour standards, environmental responsibility, and anti-corruption, based on the Ten Principles of the UNGC as presented as:

(1) Pillar 1: Human Rights
   - (a) Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights.
   - (b) Principle 2: Make sure that they are not complicit in human rights abuses.

(2) Pillar 2: Labour
   - (a) Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
   - (b) Principle 4: The elimination of all forms of forced and compulsory labour.
   - (c) Principle 5: The effective abolition of child labour.
   - (d) Principle 6: The elimination of discrimination in respect of employment and occupation.