Challenges for Appropriate CSR Implementation Program: Empirical study on State Owned Enterprise CSR Managers in Indonesia

Muafi*
Economic Faculty, Management Department, Universitas Islam Indonesia

Ratna Roostika
Economic Faculty, Management Department, Universitas Islam Indonesia
ratna.roostika@uii.ac.id

Zainal Mustafa El Qadri
Economic Faculty, Management Department, Universitas Islam Indonesia
823110205@uii.ac.id

Hendy Mustiko Aji
hm.aji@uii.ac.id

(Corresponding Author muafi@uii.ac.id *)

Abstract

According to Indonesian Government Act 40 of 2007 on Limited Liability Company (LLC), especially in Chapter V Article 74, all enterprises in Indonesia must allocate their budget to Corporate Social and Responsibility (CSR) programs. The cost for Social and environmental responsibility program is calculated as the cost of the company's implementation with regard to the appropriateness and reasonableness. The implementation of CSR program in State Owned Enterprise (SOE) is not always smoothly run as planned since CSR managers often do not equipped with better mapping strategy to targeted CSR programs as well as standard operating procedure (SOP) in line with the enterprise' s core business. A clear SOP is necessary for CSR executions since it involved significant amounts of fund, report and responsibility mechanism as well as the effective impacts to the communities. CSR managers are often in dilemma due to lack of clarity in terms of ineffective program targeting and merely responsive to the philanthropy activities or/and natural disaster charity programs. Many current CSR programs are implemented based on managers' intuitive responses. A good and sustainable CSR program should be well planned and strategically organized.

This study is intended to offer appropriate criteria and programs in line with enterprise core business objectives, where the CSR funding provided could also be properly allocated. More specifically, this study goes further to identify CSR programs matches with the needs of targeted regions under the SOEs business' operations. This study aims to determine the appropriate criteria for determining the allocation of CSR funds in each of the state-owned companies target areas and the targeted program priorities. The type of the study is survey on managers of the largest state-owned food companies throughout Indonesia from Sabang (Sumatera) to Merauke (Papua). Sampling technique is using purposive sampling that is collecting decision makers preference and corporate CSR manager as much 66 responders consist of respondents from head office and regional division representative all over Indonesia who has worked as CSR manager at least 5 years.

Primary data are managed by delivering questionnaires, interviews and Focus Group Dicussions (FGD). In order to offer the most effective /appropriate CSR criteria and programs, Analythical Hierarchical Process (AHP) is used. The results revealed that CSR funding allocation should consider the following criteria: raw material contribution, absorption of the product contribution, business opportunity, reputation, conflict potency, poverty alleviation, environmental damage and industry center existence.

The originality of this research is the rarity of research that study about determination of program criteria and CSR activities associated with the company's business processes by using AHP statistic technique. The contribution for CSR theory is that in determining the CSR fund allocation, there are eight criteria that must consider, which are; raw material contribution, absorption of the product contribution, business opportunity, reputation, conflict potency, poverty alleviation, environmental damage, and industry center existence. These criteria can be used for the determination of CSR programs and activities that are more targeted and fit with community needs that are focused on SME partnerships and community development.

While, for the implementation, several CSR programs can be developed by considering these priorities: community empowerment, training and education, technology support, public facility, environmental conservation, place of worship and health improvement.

The practical implication is this can give clear directions and policy for the manager in executing the funds, program, and criteria in the implementation of CSR so that the manager is no longer make mistakes. CSR implementation can be prioritized as the predefined program and criteria in accordance with the vision, mission, and business processes of the company. It is necessary to coordinate the planning of CSR programs and activities periodically so that the CSR program can be planned, proactive, and can be implemented well.

Keywords: CSR implementation, funding allocation, CSR criteria, CSR program.

Introduction

BUMN in Indonesia as a State-Owned Enterprise (SOE) always strives to present in the middle of society. BUMN has a "Present for the State" tagline which makes State-owned Enterprises committed to synergize in providing assistance in the field of tourism, education, infrastructure, and others with the aim to improve the wheels of economy towards prosperous Indonesia. "From the beginning, the purpose and objective of the establishment of SOEs not only to pursue profit, but also provide anactive guidanceand assistance to weak economic entrepreneurs groups, cooperatives, and society. SOEs continue to realize the unity of vision and mission to build the country through the spirit of SOEs present for the state "(Rini, Minister of State Own EnterprisesIndonesia, (http://infopkbl.bumn.go.id/index.php/home/detail/2-Komitmen-CSR - BUMN-untuk-Indonesia-Digdaya, accessed on December, 17, 2017).

Therefore, it is proper for the SOEs to consider the importance of CSR for the stakeholders because the stakeholders have a big and important affect in influencing the CSR policy which implemented by the SOEs. This excuseis reasonableconsidering that they are individual or groups who can influence and/or be affected by the organization as a result of company activities (Freeman, 1984).Generally, the results of observations and interviews with some CSR managers say that they are not provided with clear mapping and SOP strategies. They do not have a CSR strategy that can be used as guidance and direction for execution in the field. The results also prove that CSR managers of SOEs in Indonesia tend to be faced with high stress because burdened with the time target and targeted of funds allocation. While the area covered is very wide and complex (Muafi,

2016). Suparyono (2012) proves that the determination of CSR criteria and programs needs to conduct so that the company is well targeted in allocating funds to the community and can provide benefits to society (Suparyono, 2012). Therefore, companies need to have clear criteria on the funds allocation which will be distributed to the society. Besides, it is also necessary to have CSR programs that have a close relationship with the company's main business. This make easy for CSR managers in the field to allocate funds and implement programs in accordance with the needs of the society to be right on target.

Literature Review

CSR Definition

Nowadays*, Corporate Social Responsibility* is an unavoidable thing, both for government and private companies. The globalization demands make the company more aware about the importance of running CSR because it becomes an obligation. There is a lot of literature about CSR, both from academics and practitioners which are growing widely. That is the reason why the CSR definition is very varirious and widespread. In addition, the many CSR definitions due to differences opinion about the company'srole in the CSR implementation according to the needs and desires of stakeholders (Freeman, 1984; Petkeviciene, 2015; Walker, 2010; Mello and Morgado, 2012; Elkington, 1997). The International Labor Organization (ILO) defines CSR as: "A way in which enterprises give consideration to the impact of their operations on societies and affirm their principles and values both in their own internal methods and processes and interactions with other actors. CSR is a voluntary, enterprise-driven initiative and refers to activities that are considered to exceed compliance with the law"(http://www.ilo.org/empent/Publications/WCMS_116336/lang--en/index.htm, accessed December 18, 2017)". While the Commission defines; "CSR as the responsibility of enterprises for their impact on society. CSR should be company led. Public authorities can play a supporting role through a smart mix of voluntary policy measures and, where necessary, complementary regulation (http://ec.europa.eu/growth/industry/corporate-social-responsibility en, accessed 18 Desember 2017). It can be synthesized that CSR is an approach where companies combine social and environmental concerns in their business operations. Companies must have a sustainable commitment to behave ethically and contribute to economic, environmental and social development. CSR should benefit stakeholders, including employees and their families, shareholders, wider community and local communities.

Investment Law Republic Indonesia of 2007, article 15 letter b states that corporate social responsibility is the inherent responsibility in any investment company to create a harmonious, balanced and appropriate relationship with the environment, values, norms and local culture community. The Limited Liability Company Law of 2007 tries to separate social responsibility from environmental responsibility, which lead CSR as a firm commitment to sustainable economic development as an effort to improve the quality of life and the environment. CSR in several state-owned companies in Indonesia is known as Partnership and Community Development Program/Program Kemitraan Bina Lingkungan (Suparyono, 2012; Muafi, 2016; Muafi, 2017) or Social and Environmental Corporate Responsibility (Circular Letter of State Minister of SOE Number SE-21/MBU/2008).

Characteristics of CSR

The main characteristics of CSR are important things from concepts which tended to be discussed in the CSR definition by practitioners and academics. According to Crane et al. (2013), there are six main characteristics, there are: (1) *voluntary*. CSR is usually seen as a voluntary activity that beyond

what has been determined by law. The company carries out responsibilities beyond the existing legal limits, (2) *managing externalities*, the company manages the positive and negative impacts of economic behavior borne by others, for example the company invests in clean technologies that prevent pollution, (3) *multiple stakeholder orientation*, the company considers the different interests of stakeholders, (4) *the social and economic alignment*, that there must be conformity between social and economic responsibility that should not contradict with profitability, (5) *practices and values*, a philosophy or set of values that underlie the CSR practice and (6) *beyond philanthrophy*, 'actual' CSR is more than philanthropy and community giving, but also how the whole company's operation-its main business function-affects society.

Elkington (1997) provides the view that companies which want to be sustainable should pay attention to corporate functions in a balanced way, namely: profit, people and the planet. According to the classification, there are four CSR benefits for company (Sanders and Wood, 2014); *brand differentiation, human resources, license to operate, and risk management*. Regardless from the opinion of pros and cons, Suparyono (2012) has set seven criterias that can be used as corporate consideration in making decision for CSR program implementation: *corporate reputation, potential conflict, income contribution, employment absorption, business opportunity, regional economic growth* . This study focuses on different criteria because it considers the business process of food companies and also the results of Focus Group Discussion with several managers of the company. The criterias are; *raw material contribution, absorption of the product contribution, business opportunity, reputation, conflict potency, poverty alleviation, environmental damage and industry center existence.*

Research Methods

This study survey was conducted on SOE manager of food security in Indonesia. Data collection is conducted by giving questionnaires, interviews and Focus Group Discussion. The population of this study are all CSR managers and CSR strategic decision makers from the largest state-owned food security company in Indonesia which is 150 managers. The sampling technique is conducted with purposive namely choosing the CSR implementer manager who has direct involvement in the field that is equal to 66 managers all over Indonesia starting from Sabang to Merauke who have been managing and handling CSR directly at least 5 years. Statistical techniques using Analytical Hierarchy Process (AHP). The use of the AHP method requires logical consistency or judgment in the making of comparisons between criteria (Anderson et al., 2005; 2003; Suparyono, 2003). From the consistency calculationresult, it is known that CR value <0,10. This means that the comparison between criteria meets the requirements of logic concessions (Suparyono, 2003). Therefore, it can be concluded that the studyresults can be accounted for its validity and corresponded with the used method.

Research Result And Discussion

The result of data analysis using AHP Expert Choice 11 Software gives the illustration as can be seen in Figure 1.

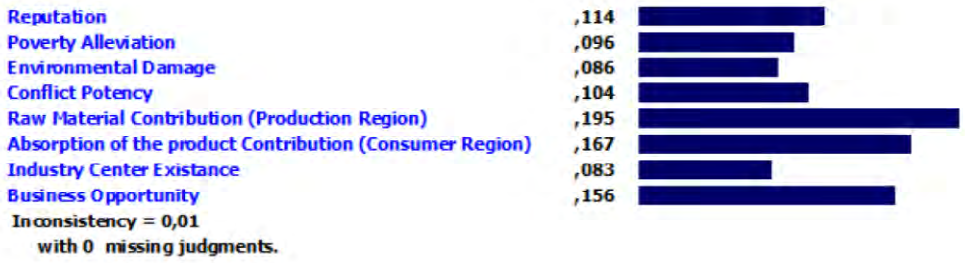


Figure 1: Output of AHP Expert Choice Results 11.
Weigh each criterion for program decision making and TJSL fund allocation.

Based on Figure 1, it is known that the procurement contribution criteria get the highest proportion, with weight of 0.195 or 19.5%. This shows that the criteria for procurement contributions are considered as the most important.This is accordance with the company's principal task to collect food products for food logistics reserves in Indonesia

Criteria that occupy the second position is theabsorption contribution of the company's product with a weight of 16.7%. This shows the company's plan to start marketing products with a profit orientation not only as a main product distributor but alsobeing a major concern. The company's products will be absorbed / bought by the society if it will be officially marketed to the society in Indonesia, and directed to optimize the products marketing function with direct and indirect distribution strategy, promotion, price, branding, and product diversification.CSR program is expected to support promotional strategies undertaken as an effort in achieving the specified goals. The third position is a business opportunity with a weight of 15.6%. This is accordance with the company's principal tasks that will turn the function into a pure business that requires the creation of business opportunities. Business opportunities help in expanding the market when it comes to pure business territory. Companies can develop a network that has been developed by offering diversified products outside the business that has been created. CSR is designed and if it can be implemented properly will be able to strengthen business development in the future and in facing competition. CSR in this case is designed to build market credibilityand strengthen corporate social responsibility's identity. The fourth position is reputation criteria with weight 11, 4%, potential conflict 10.4%, poverty rate 9.6%, environmental damage rate 8.6%, and the existence of industrial centers received the lowest rating, with the weight of the value of 8, 3%.

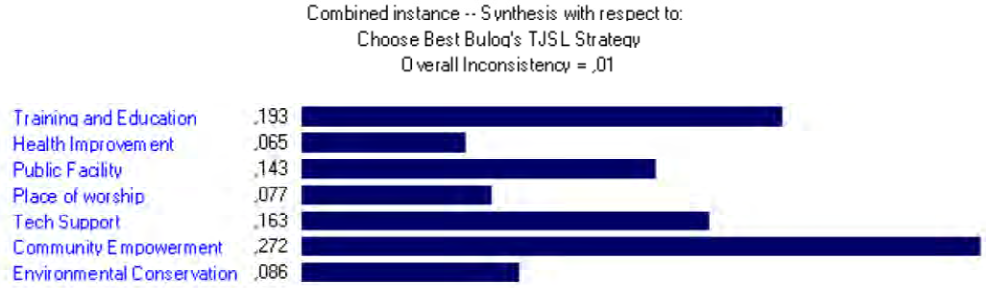


Figure 2: Output of AHP Expert Choice Results 11
CSR Program Priority based on the overall criteria

Furthermore, based on the program priority,it can be illustrated in Figure 2. There are 8 criterias ofprogram priority that is appropriate to be implemented in the CSR of corporate implementation, such as; (1) community empowerment (27.2%), (2) education and training (19.3%), (3) technological assistance (16.3%), (4) public infrastructure facilities (14.3%), (5) environmental conservation (8.6%), (6) worship facilities (7.7%), and (7) health improvement (6.5%). The sequence of programs based on all these criteria should being the company's reference in conducting CSR activities.

Suggestion

1. In making decisions and policies of CSR allocation funds, companies should be based on the appropriate criteria so that the CSR implementation is really useful and targeted to the interests of stakeholders.
2. The funds allocation and CSR programs should be in accordance with the priority scale and needs of stakeholders.
3. The publicity of CSR corporate program is very important to strengthen CSR corporate function.

References

Anderson, D. R., Sweeney, D. J., and Williams, T. A. (2003), An Introduction to Management Science, Quantitative Approaches to Decision making. 10th ed. Mason, Ohio: South Western. 5-6.

Anderson, R.L (2005), A Multi-Tactic Approach to Manage Weed Population Dynamics in Crop Rotations, *Agronomy journal*, Vol. 97 No. *6, p. 1579-1583*

Anonim, (2008), Surat Edaran Menteri Negara BUMN Nomor SE-21/MBU/2008

Choongo, P. (2017), A Longitudinal Study of the Impact of Corporate Social Responsibility on Firm Performance in SMEs, in Zambia, Sustainaibility, 9. 1300, p. 2-19.

Choongo, P. (2017), A Longitudinal Study of the Impact of Corporate Social Responsibility on Firm Performance in SMEs, in Zambia, Sustainaibility, 9. 1300, p. 2-19.

Crane, A., Matten, D., and Spence, L.J. (2013), 'Corporate Social Responsibility: Readings and Cases in a Global Context', 2/e. Abingdon: Routledge, pp. 3-26. Chapter in: Crane, A., Matten, D., and Spence, L.J., 'Corporate Social Responsibility: Readings and Cases in a Global Context', 2/e. Abingdon: Routledge, pp. 3-26 . Available at SSRN: https://ssrn.com/abstract=2322817.

Elkington, J. (1997), *Cannibals with Forks: The Triple Bottom Line of 21aacaentury Bussiness. Oxford*, Ux K: Capstone

Freeman, R. E., (1984), *Strategic Management: A Stakeholder Approach*, , Boston: Pitman Publishing.

Mello, T and Morgado, A.G. (2012), Corporate Reputation: A Combination of Social Responsibility and Industry, *Corporate Social Responsibility and Environmental Management*, Volume 19, Issue 1 January/February, p. 11–31.

Muafi (2016), Analyzing fit in *CSR* strategy research in state-owned entreprises: Indonesia context, *Journal of Industrial Engineering and Management,* 9(1): 179-206.

Muafi (2017), From Company Reputation to Environmental Performance. The Context of Corporate Social Responsability Port Manager in Indonesia. *Journal of Environmental Management and Tourism*, (Volume VIII, Winter), 7(23): 1386 -1398**.**

Petkeviciene, M.S. (2015), CSR reasons, practices and impact to corporate reputation, *Procedia - Social and Behavioral Sciences,* 213, p. 503 – 508.

Sanders, N. R. and Wood, J.D. (2014), *Foundations of Sustainable Bussiness: Theory, Function, Strategy*. United State of America: John Wiley & Sons.

Suparyono, W. (2012), Funds Allocation Mapping And Corporate Social Responsibility Program (Program Kemitraan Dan Bina Lingkungan-PKBL): Case In Indonesia, *Global Journal of Management and Business Research,* Volume 12 Issue 7*:* 53-65.
Walker, K. (2010), A Systematic review of the corporate reputation literature: Definition, measurement, and theory. *Corporate Reputation Review*. 12: 357-387.
http://ec.europa.eu/growth/industry/corporate-social-responsibility_en, accessed on Desember 18, 2017.
http://infopkbl.bumn.go.id/index.php/home/detail/2-Komitmen-CSR-BUMN-Untuk-Indonesia-Digdaya, accessed on December 17, 2017
http://www.ilo.org/empent/Publications/WCMS_116336/lang--en/index.htm, accessed on Desember 18, 2017.