

# *Strategic*                      *Corporate*                      *Social* *Responsibility*                      *Model:*                      *The* **Implementation                      on                      Domestic** **Forestry Company in Indonesia**

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The purpose of this study is to analyse the strategic implementation of Corporate Social Responsibility. The research method used in this research is the descriptive-qualitative method. The object of the research is the Domestic Forestry Company in Indonesia. The results shows that the implementation of strategic CSR in Domestic Forestry Company is higher than the non-strategic CSR. This indicates that the company's strategy to implement CSR is already done well, because the company has a strategy, and that the implementation of CSR does not only benefit stakeholders, but also provides value for the company.

**Key words:** *Strategic CSR, Non Strategic CSR, Value*

## **1. Introduction**

Corporate Social Responsibility is regulated in Law No. 40 of 2007 concerning Limited Liability Companies. Article 74 of the Law regulates the obligations of companies that conduct their business activities relating to natural resources, to perform social and environmental responsibilities. This law also requires companies to report their implementation of social and environmental responsibility in the company's annual report (article 66). Kartini (2009) explained that there are three important reasons why the business community must respond and develop social responsibility issues in line with its business operations. First, companies are part of the community and therefore it is natural for companies to pay attention to community interests. Second, businesses and the public should have a mutualistic relationship. Third, social responsibility activities are one way to reduce or even avoid social conflicts.

Ghozali and Chariri (2007) stated that the thing that underlies the theory of legitimacy is the social contract between a company and the community where the company operates and utilises economic resources. But in the implementation of CSR, aside from being responsible for the environment by analysing the impact felt by consumers, society, and employees, a company also expects that the implementation of CSR can provide benefits to the company itself. Companies can benefit from CSR activities that they perform like the smoothness of the production process, the ease of obtaining raw materials, market expansion, increased profits, and business continuity.

The business environment requires companies to not only pay attention to technical and financial factors in running their business, but intangible factors such as reputation factors must also be considered. Consumers and stakeholders are getting increasingly clever and critical and have greater access to information, especially companies related to natural resource management. The community has a growing demand for companies to run their business cleanly, ethically and responsibly both socially and environmentally. Corporate Social Responsibility (CSR) is a phenomenon of corporate strategy that accommodates the needs and interests of its stakeholders. CSR emerges since the era where the awareness of long-term corporate sustainability is more important than mere profitability.

In the implementation of CSR, companies need to set a strategy in issuing costs as a form of CSR activities. Strategy is a plan, an action that will develop a company's competitive advantage, with no exception in determining the strategy whether the company implements strategic CSR or non-strategic CSR. In line with the research conducted by Porter and Kramer (2002; 2006), CSR is no longer seen solely as a corporate moral responsibility, but it is seen as part of the company's strategy. Strategic CSR is a common ground for those who support and do not support CSR because CSR is in line with the company's strategy; the CSR activities can bridge the interests of capital owners and corporate social demands.

The company is a State-Owned Enterprise which has the duty and authority to manage state forest resources. The company's strategic role is to support the environmental sustainability system, the socio-cultural system and the economic system of the forestry community. The object of this research is one of the areas located in East Java that manage more than 40,000 acres of forest resources. In its business process, this company plants several types of wood (teak and jungle), pine, silk tree, and coffee as shade plants. In the business process, there are economic, social and environmental impacts. This is caused by the high intensity of forest use which has an impact on decreasing the quality and quantity of forest products. Therefore, real efforts need to be made as a form of anticipation to continue to maintain the natural balance and business continuity of the company. Corporate Social Responsibility (CSR) is one of the appropriate mechanisms in order to synergise corporate social responsibility programs. Therefore, the objective of this research is to investigate the strategy of the Domestic Forestry Company in implementing CSR activities.

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## 2. Literature Review

### Corporate Social Responsibility

According to Hadi (2011: 48), Corporate Social Responsibility is a form of action that comes from ethical considerations of a company that is directed to improve the economy, which is accompanied by improving the quality of life for employees and their families, as well as improving the quality of life of the surrounding community and society on a wider scale.

John Elkington in his book entitled "Cannibals with Forks: The Triple Bottom Line in 21st Century Business" (1998), introduced the concept of the triple bottom line. This concept is the key to measuring the value of a company's success by looking at three components namely, economy (profit), social components (people), and environment (planet).

#### 1. Profit

Profit is an income that is used to guarantee the business operations of a company. The thing that is needed to be done to get benefits is by increasing productivity and efficiency of the costs incurred for operational activities, for example by using raw materials as needed, eliminating activities that are not efficient, and saving processing and service time.

#### 2. People

People in the triple bottom line concept are no longer just shareholders, they are all stakeholders that are related to the company's operational activities, be it employees, customers, investors, to the people who live around where the company was built, because the support of these stakeholders determines the survival of a company.

#### 3. Planet

All activities done by a company will be inseparable from the environment (planet). So, in this concept, the company needs to pay attention to the condition of the surrounding environment and guard it if the activities are likely to have impacts on the environment.

Limited Liability Company Law No. 40 of 2007 article 74 paragraph 1 reads:

"Companies that run their business activities in the fields and / or related to natural resources are required to perform Social and Environmental Responsibility".

It is also stated in the Limited Liability Company Law No. 40 of 2007 article 66 paragraph 2c that companies have obligations to report the implementation of social and environmental responsibility in their annual report.

### **Strategic CSR and Non-Strategic CSR**

Porter and Kramer (2002) argued that it is very important to align CSR activities performed by a company with the goals or strategies of the company itself. With the development of the Stakeholders concept, CSR is no longer seen solely as a corporate moral responsibility, but CSR is also seen as part of the company's strategy. Strategic CSR is a common ground for those who support and do not support CSR because CSR is in line with corporate strategy; CSR activities can bridge the interests of capital owners and corporate social demands (Porter and Kramer, 2002; 2006). There are two reasons that underlie companies to perform CSR strategies, namely: (1) it is expected to improve company performance; and (2) it is hoped that it will improve the quality of the community and natural environment in which the company operates, which in turn will support the company's sustainability.

### **Stakeholders Theory**

Stakeholders are often defined as the parts (parties) that need and utilise the activity report information that is disclosed. Stakeholders will be closely related to the value of trust related to all forms of information disclosed. According to Freeman (1984), stakeholders are groups or individuals who can influence or be influenced by the achievement of company goals. The stakeholders themselves consist of shareholders, creditors, employees, customers, public interest groups and government bodies. In general, the Stakeholder theory states:

*“The purpose of an organization is to create as much value as possible for the stakeholders, whereby in the integration of relevant stakeholder interest into organizational value creation processes account for the challenges of the business society...”* (Freeman, 2010).

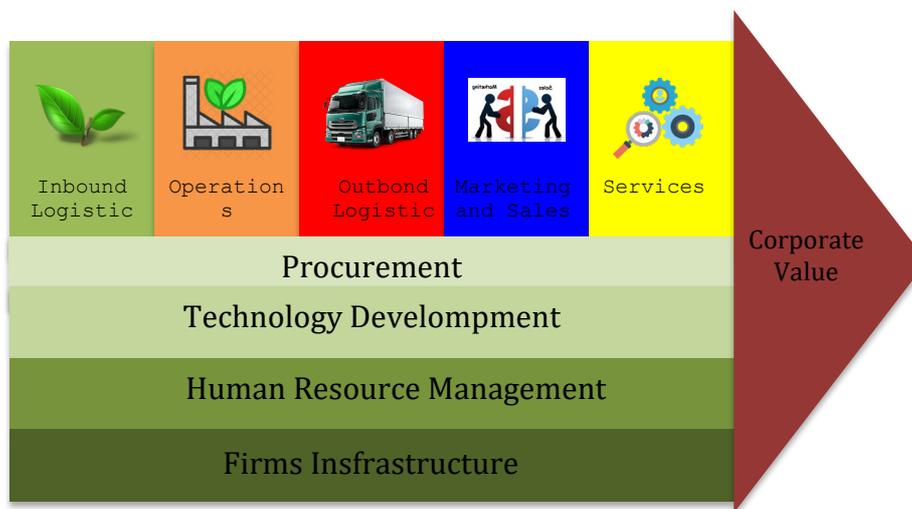
### **Legitimacy Theory**

The legitimacy theory is a theory that explains the existence of social contracts for business entities, including companies that live side by side with the community, that have social contracts that are stated either directly or indirectly. So, it can be said that the survival of the company will depend very much on the results of the company's goals provided by the company to the community by allocating economic resources to correct social inequalities and take concrete actions to reduce the impact of environmental damage. The recognition or legitimacy expected by the company from community groups is the recognition that the company's operational activities are in

line with the values, norms, and social restrictions that apply in the society (Deegan and Unerman, 2006). Company goals that are in line with the social value of the community will make the company increasingly gain good legitimacy, so with that, the long-term risk of demands from the community that will have an impact on the financial aspects and the company's survival, can be minimised or even avoided.

### CSR in Value Chain

The Value Chain Model is a model introduced by Michael Porter in 1985 consisting of primary activities and supporting activities. This model describes the process in a company in identifying the main activities and supporting activities to add value to the product. Value Chain Analysis is a strategy used to analyse the company's internal activities and reveal where a company's competitive advantage or drawbacks are. In accordance with the concept of strategic CSR which is part of the company's value chain, the strategic CSR will also affect the process of transforming inputs (in this case slack resources) into outputs (in this case measured by the company's financial performance). In the concept of CSR, companies can also identify what CSR activities the company can do in every activity that is within the scope of primary activities and supporting activities.

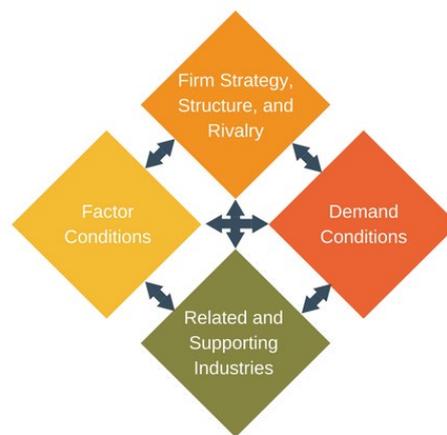


**Figure 2.1 Value Chain Model (Porter et. al, 2002)**

### Diamond Framework

The Diamond framework was developed by Porter (1990), in which it groups competitive contexts into four terms, namely: (1) Factor (input) conditions: the quantity and quality of company inputs, such as human resources, and infrastructure. The availability of adequate quantity and quality of production factors is influenced by the presence of good education and research institutions, supporting infrastructure, a

conducive administrative environment, and the availability of natural resources; (2) Context for firm strategy of the University of Indonesia and rivalry: rules and regulations governing competition, such as transparency, anti-corruption, copyright protection, and intellectual rights; (3) Local demand conditions: the quantity and quality of local market demand that is affected by, namely, product quality and safety standards, consumer rights; (4) Related and supporting industries: the existence of industries that support company operations (Porter et al., 2002, 2006). The company's CSR activities can be associated with each of these categories so that the CSR activities are expected to be able to influence the competitive context faced by the company.



**Figure 2.2 Diamond Framework (Porter et al., 2002)**

### 3. Methodology

The research method that will be used in this research is the descriptive-qualitative method. Descriptive-qualitative research is a research in which the data are collected in the form of words, images, and not numbers. According to Bogdan and Taylor, as quoted by Lexy J. Moleong, qualitative research is a research procedure that produces descriptive data in the form of written or oral words from people and observed behaviour.

The research data used in the study are primary data and secondary data. Primary data were obtained through structured interviews with the leaders, namely the head of the office and divisions (Production, Finance, Marketing and Planning Division). Secondary data used in this study were obtained from company profiles and company annual reports. In measuring CSR, this study uses a matrix developed by Sayekti (2011) based on the GRI Standards associated with Value Chain and Diamond Framework (Porter et al, 2002; 2006). The matrix consists of 31 items that have been adapted to the object of research. The matrix is also broken down based on primary

activities and supporting activities in the Value Chain model (Porter, 1985) and diamond framework. The approach to the calculation of the Strategic CSR level basically uses a dichotomous approach in which every aspect of the research instrument is given a value of 1 if disclosed, and a value of 0 if not disclosed (Haniffa Cooke., 2005). Next, the scores of each item are added together to get the overall score for each company. The formula for calculating the Strategic Level of CSR and Non-Strategic CSR is as follows (Haniffa et al., 2005):

Formula: 
$$\text{StraCSR}_j = \frac{\sum x_{ij}}{n_j}$$

CAPTION: 
$$\text{NonStraCSR}_j = \frac{\sum y_{ij}}{m_j}$$

StraCSR<sub>j</sub> : The Strategic Corporate Social Responsibility Level of company j  
NonStraCSR<sub>j</sub>: The Non-strategic Corporate Social Responsibility Level of company j

n<sub>j</sub> : The Number of Strategic CSR items for company j

m<sub>j</sub> : The Number of Non-strategic CSR items for company j

x<sub>ij</sub> : The Dummy variable:

1 = if i's CSR strategic item was disclosed;

0 = if i's CSR strategic item was not disclosed

y<sub>ij</sub> : The Dummy variable:

1 = if i's CSR non-strategic item was disclosed;

0 = if i's non-strategic CSR item was not disclosed

### Data Validity Test

The Data validity test in qualitative research according to Moleong (2013), consists of a credibility test (internal validity), a transferability test (external validity), a dependability test (reliability), and a confirmability test (objectivity). The Credibility test or data credibility test in qualitative research can be obtained by extending the observation period, increasing perseverance in research, triangulation, joint discussions with colleagues, negative case analysis, and conducting member checks. The testing of the validity of the data in this study uses source triangulation.

### Triangulation

Source triangulation is used in testing the credibility of the data by comparing the results of interviews that have been obtained from several informants or research

sources and comparing them to check the truth of the information that has been obtained. In this study, researchers conducted interviews. Based on the results, a validity test of the data is performed using different data collection techniques, namely interviews, observation, and documentation in order to obtain a valid degree of data confidence.

#### 4. Results

Based on observations made at the Domestic Forestry Company using the CSR matrix, the following results are obtained:

Table 1. The result of Strategic and Non-Strategic CSR Implementation in Domestic Forestry Company Indonesia

NO	ASPECT	STRATEGIC CSR	NON - STRATEGIC CSR
	<b>ECONOMIC</b>		
1	Direct economic value generated & distributed, incl. revenues, operating costs, employee compensation, donations & other community investments, retained earnings, & payments to capital provider and governments.	2	1
2	Financial implications & other risks & opportunities for the organisation's activities due to climate change	1	
3	Policy, practices, and proportion of spending on locally based suppliers at significant locations of operation	2	
	<b>ENVIRONMENT</b>		
4	Direct energy consumption by primary energy source	1	
5	Energy saved due to conservation & efficiency improvements	1	
6	Initiatives to provide energy efficient or renewable energy-based products & services, & reduction in energy requirements as a result of these initiatives	1	
	<b>SOCIAL</b>		
7	Health & safety topics covered in formal agreements with trade unions.	1	

8	Programs for skills management & lifelong learning that support the continued employability of employees & assist them in managing career endings	2	
9	Percentage of employees receiving regular performance & career development reviews.	1	
10	Nature, scope, & effectiveness of any programs & practices that assess & manage the impacts of operations on communities, incl entering, operating, & exiting	1	
11	Life cycle stages in which health & safety impacts of products & services are assessed for improvement, & percentage of significant products & services categories subject to such procedures	1	
12	Type of product & service information required by procedures, & percentage of significant products & services subject to such information requirements	2	
13	Practices related to customer satisfaction, incl results of survey measuring customer satisfaction	1	
14	Programs for adherence to laws, standards, & voluntary codes related to marketing communications, incl advertising, promotion, & sponsorship	2	
<b>TOTAL</b>		<b>19</b>	<b>1</b>

### Strategic CSR Implementation

Based on Table 1, the results show that CSR strategic implementation is higher than non-strategic CSR. As many as 4.71% of CSR strategies have been implemented by the Domestic Forestry Company from the CSR strategic potential that can be implemented based on the CSR Matrix consisting of 31 items. 57.90% of the CSR strategies carried out are forms of social activities for employees, such as providing health insurance and work safety, providing training to permanent employees and eavesdropping, training to partners, as well as efforts by companies to introduce products to the community (increasing local demand) through product socialisation to villages. The next 26.32% is a strategic CSR activity in the economic aspects which is carried out in the form of making protected forests, making rejuvenation plans for land and machinery used in response to climate change and wildlife protection, in the environmental aspect 15.79% for example, the use of environmentally friendly fuels. In addition, this study also found that there are 3.23% non-strategic CSR that have been implemented.

Strategic forms of CSR that have been run based on surveys conducted include:

- 1 The company provides health and safety insurance for employees
- 2 The rejuvenation of land and plants contained in FCWP (Forest Conservation Work Plan) and Annual Technical Plan (ATT). The company has compiled the FCWP which is the Forest Sustainability Management Plan for the 2011 to 2020 period in the Teak Company Class which includes: initial term and boundary delineation and the reconstruction of boundaries. Dynamically the Management Plan document becomes a reference in preparing the company's Annual Technical Plan (ATT). The ATT then becomes the legal basis for performing all forest operations, specifically logging and planting
- 3 The establishment of protection forests as a buffer zone as a place to protect endangered animals or endangered species
- 4 The provision of Plant Seeds (Silk Trees) to Partners
- 5 Plant Maintenance Training for Partners
- 6 The replacement of the type of fuel used, from diesel to LNG (Liquid Natural Gas)
- 7 The replacement of machines with eco-friendly technology
- 8 The training of tappers on an ongoing basis to improve the expertise and skills of tappers and ensure that all production to the *TPK* (Activity Implementing Team) comes from legal activities.
- 9 The training for managerial level permanent employees through *Pusdikbang* (Workforce Training and Education Center) to improve employee competency
- 10 The provision of after-sales facilities if there is consumer dissatisfaction
- 11 The management of river border protection areas and springs
- 12 The minimising of conflicts between wildlife and humans
- 13 Product socialisation done by the Company Management from village to village to increase local demands
- 14 The provision of online Sales Information System facilities through Online System Sales to facilitate consumers to find company product information and as a means to facilitate the purchasing process
- 15 The making of ecotourism as a force to introduce company products to the community.

The Domestic Forestry Company has conducted management and monitoring so that its sustainability conditions are maintained. They are committed to sustainable forest management that meets social, economic and environmental aspects. They are also trying to maintain the special functions of a forest area and improve environmental functions, so that in the long run the company can continue to run its operational activities.

## **Non-Strategic CSR**

The Non-Strategic CSR form conducted by the Domestic Forestry Company is done by implementing the Partnership and Community Development Program in the form of revolving funds provided to small entrepreneurs with an average amount of funds provided each year of Rp. 315,000,000. The Partnership and Community Development Program is a Ministry of SOE Program to improve the ability of small entrepreneurs to become resilient and independent while empowering the social conditions of the community. The procedure for obtaining the revolving fund is that small entrepreneurs are required to make a submission proposal first and the next stage is field feasibility testing. Implementation of CSR through the program is in accordance with Law No. 40 of 2007, concerning Limited Liability Companies, article 74 which reads: Paragraph (1) The company which carries out its business activities in the fields and / or related to natural resources is required to carry out Social and the Environmental Responsibility. Paragraph (2) Social and Environmental Responsibility as referred to in paragraph (1) is a company obligation that is breached and calculated as a company expense whose implementation is carried out with due regard to propriety and fairness. Paragraph (3) Companies which do not carry out the obligations referred to in paragraph (1) will be subject to sanctions in accordance with the provisions of the legislation. Paragraph (4) Further provisions regarding Social and Environmental Responsibility are regulated by Government Regulation.

## **Potential Strategic Implementation of CSR**

Based on the results of the visit, the implementation of CSR strategies still has a lot of potential to be developed. This is because by performing CSR strategic activities, the company not only can benefit the community and the environment, but also the company itself. Limited Liability Company Law No. 40 of 2007 requires companies related to natural resources to carry out CSR activities, so the company must be able to determine the CSR activities that provide value for the company. This is in line with the research conducted by Ghozali and Chariri (2007), stating that the underlying theory of legitimacy is in the implementation of corporate CSR, in addition to being responsible for the environment by analysing the impact felt by consumers, communities, and employees; it is hoped that the implementation of CSR can benefit the company .

The forms of strategic CSR that can be conducted include:

- 1 Organising anti-corruption training and socialise it to employees, partners and the community
- 2 Dissemination of types of dangerous diseases, prevention, and treatment to the public
- 3 Utilisation and management of water resources
- 4 Utilisation of recycled materials



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- 5 Rejuvenation of transportation in an eco-friendly direction
  - 6 Conduct customer satisfaction assessments through surveys conducted regularly
  - 7 Opening opportunities as broad as possible for the community to work as workers through recruitment procedures with criteria or requirements in accordance with the required competencies.

## **5. Conclusions**

This study aims to analyse the implementation of Strategic CSR in Domestic Forestry Company in Indonesia. The results show that the implementation of strategic CSR at the Domestic Forestry Company is higher than the non-strategic CSR. In addition, this research also found that there are still many potential CSR strategic implementations that companies can do. Based on Law No. 40 of 2007, the company is included in companies that are required to perform CSR activities because their business activities are related to natural resources. Therefore, companies must be able to determine the right strategy in implementing CSR, so that the CSR activities provide benefits for stakeholders and the company.



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