



The Strategic Assumption to Enhance Top 10 CSR Issues and Trends in the Global Economy: Empirical Study in Indonesia Mining Sector

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Abstract

Research on organizational performance from financial outlook have been carried out and not considered Corporate Social Responsibility (CSR) performance, especially in the field of community development (Comdev) and even done partially. This study aims to investigate the strategic assumption to enhance Top 10 CSR issues and trends in the global economy in Indonesia mining sector. Thirteen experts were involved in the Forum of Multi Stakeholder Corporate Social Responsibility (MSHCSR) through Focus Group Discussion (FGD). Data by cluster random sampling were statistically analyzed with Surfacing Assumption and Testing Strategy (SAST). The results showed from FGD experts stating if the priority should be done immediately on CSR area: CSR integration to the main business (A2), supply chain (A6), competition of water resources (A8) and transparency (A10).

Keywords: CSR issues and trends; Community development; The global economy; Indonesia mining sector.

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1. Introduction

The globalization of economic, political and social environments converge with technological advances and speed of access on information across nations really give effect to business world. As we read in the Indonesian Economic Outlook 2008-2012, January 2008 edition, Indonesian economy was quite high and accounted for in the global economy. In terms of the global economy, the Corporate Social Responsibility (CSR) as a form of corporate responsibility towards stakeholders is considered to be an economic agent [1] following a surge in attention towards firms and relationship with stakeholders.

CSR generally refers to business principles in a variety of managerial decision making, emphasizing the obligation and accountability to the community [1,3]. CSR is a company's commitment to carry out its operations to at all times provides a positive contribution to the social community and the environment.

Along with the company's operations that give different impacts, some laws and regulations also govern the relationship between the company and its environment. The authors in [10] that business entities or permanent establishments that carry out business activities of Oil and Gas co-responsibility for developing the environment and local communities. High-profile companies generally gained big public attention as a result of operational activities which are potential to intersect with broader interests. Such companies are those having leading stocks, or stocks of the most desirable (blue chip), and belong to the ranks of the stock position Liques (LQ)-45 established by the Indonesia Stock Exchange (IDX). Mining companies are included in the leading stocks LQ-45 and therefore get more attention from the communities and sometimes accusation that its operations have caused environmental damage. Mechanization of mining equipment and processing technology development have made lower quality mineral extraction more economical and caused the scale of mining expanded. Several companies have expressed their contribution in social responsibility in a transparent manner. Considering the expansive scale and scope of corporate social responsibility, there is a need for transparency of the respective companies, especially mining companies to express their contribution in dollars and dollars into annual reports.

Government pressure on the implementation of CSR continues to be coupled with a variety of issues and trends of CSR in today's global economy. Call it the Business for Social Responsibility (BSR), which for 20 years has accompanied companies in various industries around the world in an effort to increase awareness of the importance of the role of the company in the implementation of social responsibility in order to continue to protect the environment and rare natural resources by focusing on the sustainable economic development either for stakeholders and companies primarily those in mining and energy sectors [5].

There are ten CSR issues and trends that become the demand of the global economy. The local license is a strong community participation of the company which is based on trust and partnerships with local communities and their involvement in the projects of scheduled business strategy. This is the key of long-term company success. The integration of CSR into a major business is a full integration of CSR into business strategy, function, and operation by local national companies. Cross-functional coordination in the response to the environmental impact, legal issues, procurement, human resources, government relations, and community. Collaborative approach is a partnership with the local government and the various elements of society in

controlling air quality and carbon emissions, climate adaptation, the use of water and land, and local employment for the sake of long-term success of the company. It is also important for companies to consider human rights issues not only to reduce the risk, but also to increase social investment programming and simultaneously provide local benefits that help companies keep and maintain licenses. Local content and the demands of profit sharing are other important issues. The government legalize through legislation and regulations the importance of local content in each of the company's business processes. Supply chain are practices that promote and facilitate 'local content' as a goal in the supply chain. This is critical for the company to pay attention. Non-Governmental Organizations (NGOs) agendas are also important to consider by the company. They need to reconsider their relationship with NGOs and seek constructive ways to find common ground in response to current issues, transparency of management and various issues related to social responsibility and human rights. Competition in water resources is an innovative solution for sustainable water management and company investment on this is absolutely needed. In labor relations, there is a need to review the management practices on issues like labor, the workers of contractors and business partners in order to avoid tensions and violent confrontations during ongoing business processes. Establishing cooperation with labour unions and local partners is an important issue for the company at this time. In order to improve the accountability, the government, companies and NGOs agree that better transparency is needed in the provision of essential services to the community such as fresh water, health care, and education [5].

Based on the recent phenomenon, the development of business and more commanding government regulation on the implementation of CSR and environmental policies and on the other hand there are still many erroneous cases and irregularities in the field such as damage to the environment (water, soil, and noise), conflict with the community demanding a more comprehensive CSR implementation and integration, as well as the demands of the roles and competencies of leadership in CSR program achievements, it was then conducted a research with the title: "The Strategic Assumption to Enhance Top 10 CSR Issues and Trends in the Global Economy".

2. Hypotheses Development

The government laws regulating the existence and obligation of companies to maintain the environment balance should become an important part in the company's goals. This may be reflected by brainstorming to have their own programs and policies on CSR, especially the community development. When noticing all changing community values regarding environment preservation the business practitioners should be incited to compete in developing the company's CSR activities.

This study aims at:

- Formulating the priority of strategic company decisions and recommendations from the Ten CSR Issues and Trends in the global economy.

Community development is seen as a process, method, program, and movement [17]. As a process [8] it involves solving the social and economic problems of communities by seeking help from the government, non-governmental and private organizations. Through this process, the community moves by stages from one

condition or state to the next which involves a progression of changes [17]. On the other hand, community development is also a method which put the emphasis on both the process and the objectives to be achieved. As a program, community development is stated as a set of procedures and the content is a set of activities to be accomplished by the community members. Finally as a movement, it is seen as a crusade or a course to which people become committed. Reference [16] defined community development as the active voluntary involvement of community residents in a process to improve community life.

2.1. Corporate Social Responsibility

According to the World Business Council for Sustainable Development (WBCSD), CSR or corporate social responsibility is defined as a business commitment to contribute to sustainable economic development, in collaboration with employees and their representatives, their families, the local and broader communities to improve the quality of life in a useful way for their business and general development. Despite that CSR has been variously defined, all these definitions describe the common theme that:

- The business must consider the economic impact, social impact and environmental impact of its regular operations to stakeholders and the environment
- CSR requires companies to minimize side effects and maximize the benefits consequential damages of any action against the stakeholders and the environment [21]

According to [2], companies can benefit from CSR. Some notable internal benefits are:

- Reducing operational costs and increasing revenue from grants and incentives
- Managerial competencies on social responsibility may lead to better management in general
- Developing new resources and capabilities related to know-how and corporate culture, which may lead to efficiency
- CSR boosts firm's reputation, which may likely attract better job applicants
- Maintaining relatively high work satisfaction and happy workforce Some prominent external benefits are [1, 2, 6, 19, 20]:
- Firm's reputation represents an intangible resource
- CSR investment triggers the creation or depletion of other fundamental intangible resources, which may differentiate one firm from another within the same industry
- Good CSR prompts improved relationships with customers, investors, bankers, suppliers and competitors
- Any disclosures on firm's behaviors and outcomes of social responsibilities may build a positive image, which may win new businesses
- Easier access to financial assistance, and funding opportunities

2.2. Roles of CSR

The most common query encircle CSR is simply either firms are really trying to do the right thing in their routine business operations, or firms are just aiming for company image?

2.3. CSR on Employment Relations

There is a general understanding that the concept of CSR could serve as a bridge between issues of governance, covering the notions of equity and fairness in employment and in society [6, 11, 14]. This expanded coverage of CSR differs both from a traditional conception of CSR, by referring to compliance with corporate behavioral standards [14] CSR should be perceived as mechanisms on managerial, regulatory and financial dimensions in firms. reference [6] and [11] defined the dimensions of employment is based on five measures, which are:

- Health and safety systems
- Systems for employee training and development
- Equal opportunities policies
- Systems for good employee relations
- Systems for job creation and security

2.4. CSR on Environment Performance

CSR activities on the environment should be based on the philosophy of continuous improvement of environmental policies and development strategies to reduce adverse impacts on the environment [15, 18, 12, 9] indicated that the attention toward environmental initiatives has increased drastically. The attention is basically coming from market for products, capital, and labor, as drivers of improvements.

In the market places, demand plays an important role. When the level of market demand for less environmentally friendly products increases, the general level of price of those products drop. At a lower price, public may decide to buy and/or consume more. Nonetheless, as indicated by [12], as the less environmentally friendly products gain more bargaining power in the marketplaces, the general level of price may likely to increase. The relatively high price of the less environmentally friendly products may signal the relatively high quality [7]. This may be triggering public urge to increase purchases.

In terms of the labor market, the workforce is also providing potential incentives on CSR initiatives. As people may want to work with good firms, which are also doing well, firms may have to align with such employees' environmental values [1, 12, 13]. On the other side, the market supply side also holds crucial functioning terms of pushing firms toward eco-friendly products by ensuring efficient use of resources, and reducing wastes and pollution. Though cost reduction may not be present for the operational expenses, firms that produce both friendly and less-friendly products may also benefits with those imperfect product substitutes. When firms start adopting eco-friendly initiatives, production level on less-friendly products may slide. This affects the general level of price. Market demand for less-friendly products may also likely to fall while demand for eco-friendly products jumps. At the end, profitability for those products may both swell [12].

Following what [6] had previously studied; those analyses on environmental CSR can be categorized in three

dimensions: the quality of environmental policies, the environmental management systems, and environmental reporting.

2.5. CSR on Community Development

Community development signifies the indicator of community responsiveness. [4] on “Corporate Social Responsibility and Sustainable Business” explained that relationship between firms and society had increased expectations [21]. With the new level of expectation, there were new rules, regulations, and tactics. The relational effectiveness between firms and society is due to community attachment. Non-local firms may be seen as strictly profit-oriented business establishments with no concerns on local issues [7]. Hence, those non-local firms may not be expected to comply with local issues.

Nonetheless, firms are expected to commit to the following [4, 6, 15, 18] are :

- Safeguard the environment
- Support human rights
- Eliminate child labor
- Adopt codes of ethics
- Enter into partnerships with NGOs
- Display openness and transparency in relationships with customers, employees, community groups, and governmental organizations
- Promote diversity in the workplace
- Help communities solve their social problems
- Consult with community residents on business plans and strategies

3. Method

3.1 Research Design

This study was conducted in one mining sector company included in the category of high-profile listed on the Indonesia Stock Exchange. To disclose 10 CSR Issues and Trends in the global economy qualitative methods is used through focus group discussion (FGD) conducted in August 2014 by the Multi Stakeholder Corporate Social Responsibility (MSHCSR). FGD involving 12 experts by cluster random sampling in the field of CSR which involves elements of the Company, Local East Kutai Government, Non-Governmental Organizations, the National Committee of Indonesian Youth (KNPI) and educational institutions that have a major role in decision-making.

Through FGD in MSHCSR Forum for strategic assumptions rating, the scale of Semantic Differential (SD) was used to determine the perceptions of the respondents (experts) for the identification of 10 CSR Issues and Trends in the global economy in the seven categories of options. The statement is divided into two following rating assumptions.

- How important is the influence of the assumption of the clarity and accuracy of strategic CSR themes. 1 = least important and 7 = most important
- How much confidence that these assumptions can be justified 1 = most uncertain and 7 = most certain

In order to explore and formulate leadership competencies, experts who are members of the Forum MSHCSR conducted a series of intensive discussions among the institutions to define core competencies that must be possessed by a leader in the effort to increase the Top ten CSR issues and trends in the global economy.

4. Result

4.1. Focus Group Discussion

SAST Management, CSR Ten (10) Issues and Trends.

In models Strategy Assumption Surfacing and Testing (SAST) this whole primary data obtained by the FGD to twelve (12) experts who are representatives of companies, governments, educational institutions, youth organizations and non-governmental organizations (NGOs). The twelve (12) experts were actively involved in the discussion forum with duration of 1 or 3 hours. FGD held on Thursday, August 29th, 2014 at 9:00 to 12:00 PM and was located at the company's research object in Sengata, East Kutai, East Kalimantan. The elements of the company were present at the focus group session: BCRD Manager, Learning and Development Manager, PME Manager, and Manager of Community Empowerment. The government was represented by Regional Development Bureau (BAPPEDA) and Public Works Department, while the other parties attended by representatives of Indonesian Youth National Committee KNPI and RKPL.

In FGD, experts were asked in advance to be able to explore and express their aspirations in a few questions related to Ten Issues and Trends in CSR in the global economy into a Form B which is used for completing the development SAST.

- Exploration of Strategic Assumptions SAST approach.

Assuming the initial exploration of strategic outlines the components of factors. Strategic assumption aspects factors are described in detail in Table 1.

- Determination of Priority in Policy Development

By using techniques SAST the existing assumptions were rated. Graphically the rating is positioned in a Cartesian quadrant, so it is easy to see the position of importance and certainty of any existing strategic assumptions. The Cartesian quadrant chart is presented in Figure 1.

The rating shows a picture of importance and certainty of available assumptions. For sharpening on things that must be considered in the process of policy drafting, the analysis and synthesis were carried out on the assumption in the first quadrant, position of which has a relatively high degree of interest and certainty rate

(Certain Planning Region).

Table 1: Strategic assumption factors

No.	Strategic assumptions related with human resource through knowledge transfer	Important	Certain
A1	Local license	5	6
A2	Integration of csr to main business	7	6
A3	Collaborative approach	7	5
A4	Human rights issues	7	4
A5	Local content and demand for profit sharing	7	4
A6	Supply chain	7	6
A7	Ngo agendas	6	4
A8	Competition for water resources	7	6
A9	Employment relations	6	5
A10	Transparency	7	6

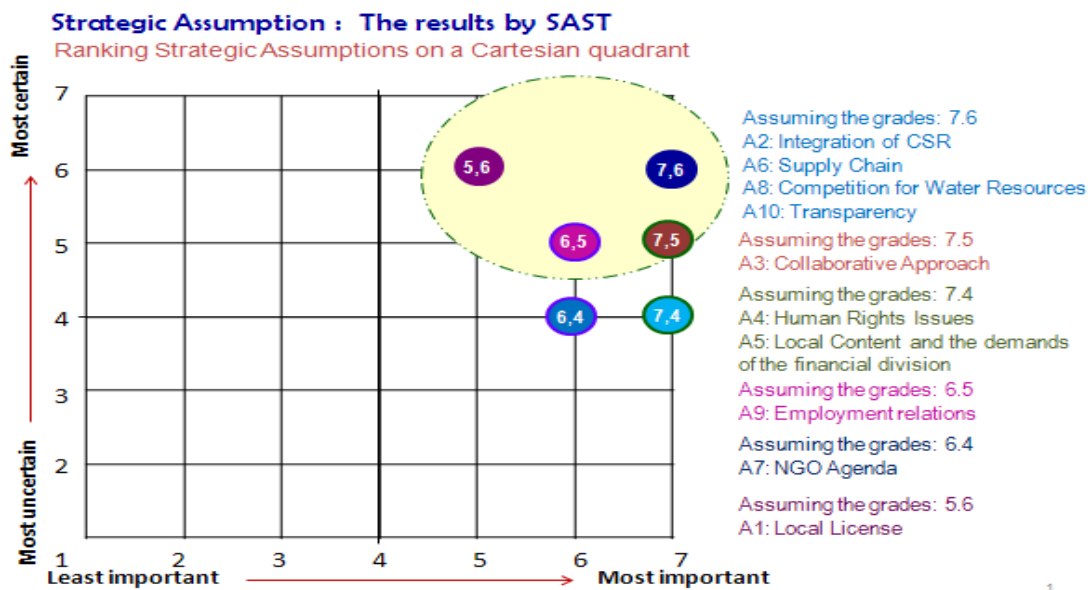


Figure 1: strategic assumptions

In Quadrant I can be identified assumptions as follows.

- Assumptions with score 7.6 (absolutely important–very certain) are A₂, A₆, A₈ and A₁₀
- Assumptions with score 7.5 (absolutely important–certain) is A₃
- Assumptions with score 7.4 (absolutely important–quite certain) are A₄ and A₅
- Assumptions with score 6.5 (very important–certain) is A₉
- Assumptions with score 6.4 (very important–quite certain) is A₇

- Assumptions with score 5.6 (important–very certain) is A₁

Strategic assumptions with an absolutely important value - very certain are A₂, A₆, A₈ and A₁₀. CSR integration, supply chain, competition of water resources and transparency are factors that are considered to be extremely important and very certain in affecting the clarity and accuracy of the strategic theme of CSR to increase organizational performance.

Strategic assumptions with an extremely important certain value is A₃. Collaborative approach is a factor that is considered to be extremely important and certain in affecting the clarity and precision of the strategic theme of CSR to increase organizational performance. The collaborative approach is important for companies to consider partnering with local governments and the various elements of society. Some forms of cooperation that can be built are control of air quality and carbon emissions, climate adaptation, the use of water and land, and local employment.

Strategic assumptions with an extremely important-quite certain value are A₄ and A₅. Human Rights and Local Content and the demands of profit sharing are factors that are considered to be extremely important and quite certain in affecting the clarity and accuracy of the strategic theme of CSR to increase organizational performance.

The assumption of a very important strategic-certainly value is A₉. The employment relationship is considered to be a very important factor and definitely affect the clarity and accuracy in strategic theme of CSR to increase organizational performance. Increasingly important for companies to revisit and improve labor management practices, the workers of contractors and business partners in order to avoid tensions and violent confrontations during ongoing business processes. Establishing cooperation with trade unions and local partners is an important issue for the company at this time.

Assumptions with very important strategic - quite certain value is A₇. NGO agenda is a factor that is considered important and very certain in affecting the clarity and accuracy of the strategic theme of CSR to increase organizational performance. Companies need to reconsider their relationship with NGOs and seek constructive ways to find common ground in response to the latest issues, the transparency of management and various issues related to the responsibilities and human rights.

Strategic assumptions that are considered important and very certain is A₁. The existence of local community involvement in business strategy scheduled in the projects, community participation to build trust and partnerships with local communities is a factor that is considered important and very certain in affecting the clarity and accuracy of the strategic theme of CSR to increase organizational performance.

Regarding community development and empowerment, the experts state that the companies have been very active, transparent and involved all relevant elements in formulating and implementing community development programs. A number of programs that have been administered to the community and deserve publication are: flood prevention and control, dengue fever disease prevention and control, the construction of roads and bridges, the provision of seeds, the provision of standard housing in deprived areas (self-reliant villages), participation in

seminars or campaign against drugs abuse, provision of scholarships to communities, cleft lip surgery, placement of 100 local medical personnel to several hospitals as part of the effort to empower local communities to actively participate in the government efforts to compete for national award for cleanness and neatness by participating in the program against garbage. The company also provided aid and guidance to the community in waste management program. There are still a lot of other community development programs.

4. Managerial Implications

The results of FGD of experts, the strategic assumptions upon Top 10 CSR Issues and Trends gives an overview of important and certain priorities that should be done by the company on the most powerful and weakest strategic assumptions. Regarding the assumptions relating to strategic organizational leadership, the company has to improve or increase by organization intervention in enhancing CSR performance. While regarding the most powerful strategic assumptions, the company has to maintain and improve the performance. Regarding the weakest strategic assumptions, the company needs to create special programs, improve, communicate and campaign CSR performance improvement programs, especially in the areas of local license (A₁), NGO Agenda (A₇), labor relations (A₉), Human Rights Issues (A₄), Local Content (A₅), and the collaborative approach and profit sharing (A₃) to all employees, and all division and the communities to minimize the negative perception that causes a conflict between the company and the government or community. There is a perception that activities related to CSR performance are not implemented consistently for not being communicated well and intensely.

5. Conclusion

FGD result and SAST process show that the 10 CSR Issues and Trends from both strategic assumption and priority assumptions are reviewed by experts as very good and there are in quadrant I which sequence priority of strategic assumption are CSR integration to the main business (A₂), supply chain (A₆), competition of water resources (A₈) and transparency (A₁₀). But in some areas of strategic assumptions and policy priorities that still require serious attention are: Local License (A₁), NGO Agenda (A₇), labor relations (A₉), Human Rights Issues (A₄), local content (A₅), and the collaborative approach and profit sharing (A₃).

While the mindset of the community have shifted. They are now aware that responsibility CSR is a shared responsibility among the companies, the government and the communities and all parties responsible to constantly maintain the natural balance so that all can live side by side in harmony.

6. Future Research

Research carried out in the mining companies listed in the Indonesia LQ45 can be developed further for future research involving companies of other sector listed in LQ-45 as research objects. Otherwise, this can be used to conduct similar study toward similar companies located in the vicinity of the company being researched.

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