

Practicing of Corporate Social Responsibility for Community Empowerment: A Case of a Mining Company in Indonesia

DOI: <https://doi.org/10.47175/rissj.v1i3.115>

| Alamsyah Agus |

School of Social and
Behavioral Sciences, Nanjing
University, China

shizensyah@gmail.com

ABSTRACT

In recent years, Corporate Social Responsibility (CSR) has attained increased significance in both business and in the associated academic literature. The very term, CSR, clearly indicates the focus is on social responsibility as a company's obligation to be accountable to all its stakeholders in all its operations and activities. Nowadays the concept of empowerment has become the development paradigm. The Indonesian government is expected to coordinate and be responsible for a wide range of community development activities that allow the entire community to participate actively, while the company contributes to the community empowerment process as the implementation of social responsibility undertaken through its Corporate Social Responsibility (CSR). This study assessed the CSR activities undertaken by a mining company (PT Vale Indonesia). Over the past 50 years, PT Vale Indonesia (PTVI) has been operating under the Contract of Work (CoW) agreement with the Indonesia government to open-pit nickel mines and processing plant facilities near Sorowako, Indonesia. This study provided empirical evidence on PTVI's presence benefits the surrounding communities by implementing PTVI's CSR program called Integrated Community Development Program (ICDP). The research purpose is to explore the concept of CSR practice that is viewed and applied by PTVI to create a win-win situation that contributes to community empowerment. The findings of this case study contribute significantly to give more profound knowledge of the role of ICDP to community empowerment and to extant an understanding of the company dealing with the challenges of CSR activities for community empowerment.

KEYWORDS

CSR; mining company; community empowerment; PTVI; ICDP

INTRODUCTION

World Economic Forum Global Governance Initiative held by the World Business Council for Sustainable Development in New York in 2005, one of the important declarations was agreed that the Corporate Social Responsibility (CSR) be a commitment to assist businesses in realizing the UN Millennium Development Goals (MDGs). In September 2015, 193 United Nations member states came together to ratify the Sustainable Development Goals (SDGs), targeted at addressing 17 major world issues by 2030. Having adopted the goals, governments are looking to society and especially business to help achieve them. With the ratification of SDGs, the way we do business has the potential to fundamentally shift.

A new demand for assessment and accountability could drive real change across the business community, with a sense of check against the impact on society. The business

sectors are showing real energy and enthusiasm to engage in the agenda to play a leading role in ensuring the aspirations of the SDGs by supporting smart CSR with a focus on reaching the most vulnerable populations with high-quality products and services.

As a developing country, Indonesia has not yet fully developed a comprehensive regulation regarding the social responsibility of mining companies. Initially, CSR was only made mandatory for state-owned enterprises (SOE) which was then expanded to include foreign direct-investment, including mining companies. Since the enactment of the Company Act in 2007, CSR activities have become compulsory for all companies having businesses in Indonesia. For companies that listed on the Indonesian Stock Exchange (IDX), the requirement to implement CSR activities is ratified in Law No. 25/2007 regarding Capital Investment. In 2012, the Indonesian government showed its seriousness in engaging the private sector in CSR implementation by issuing government regulation No. 47/2012. Interestingly, it also stated in those regulations that companies which do not comply with those regulations and do not engage in CSR activities will be sanctioned according to the law where the violations were committed.

Under the enactment of the Company Act in 2007, CSR is mandatory for foreign companies engaging in natural resource extraction activities. Mining companies in Indonesia need to concern set aside part of the profit for the benefit of human development (community) and environmental in a sustainable manner based on the procedure is appropriate and professional is a concrete manifestation of the implementation of CSR in the effort to create prosperity for the people of Indonesia.

In this paper, the primary focus is on how the CSR practice can be integrated into business activity while contributing to the community empowerment process in a mining company in Indonesia. CSR today has become a mirror of social development in a democratic society so that CSR is often used by companies as a form of private participation in development with a community empowerment approach so that it can be a tool for achieving prosperity for all people.

REVIEW OF LITERATURE

As part of the worldwide issue, it is important to understand the basic concept of CSR and also the importance of a mining company's role in engaging with CSR to community empowerment.

To understand CSR concept better, Carroll (1991) tried to conceptualize CSR through the pyramid and covered all the basic aspects of CSR. Carroll's pyramid describes the relationship between companies and stakeholders in running their operational activities. It begins with economic responsibilities, legal responsibility, ethical responsibility, and places philanthropic responsibilities at the top of pyramid.

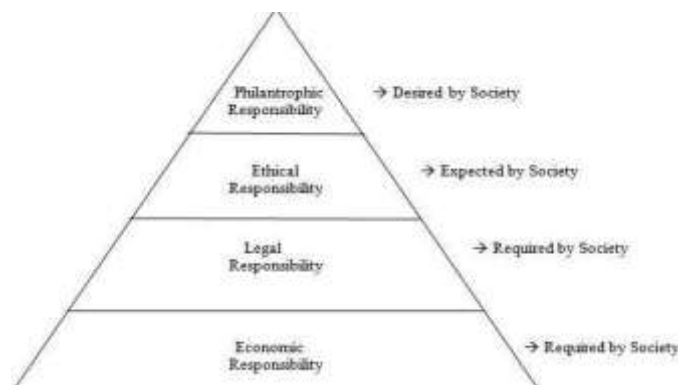


Figure 1. Carroll's (1991) The Pyramid of CSR

Based on Carroll's pyramid, the economic responsibilities were placed as the basis of the pyramid to show that the main goal of a company is profit. If a company wants to survive and grow, it must have economic value added through sales maximization, cost reduction, and focus on long-term financial performance. In addition to that, the company must comply with applicable regulations and run their business ethically, fair, and respect the prevailing norms in society. Lastly, companies are required to display good citizenship by contributing to their communities through social development activities (Carroll, 1991). These four elements should be implemented as one entity.

In engaging with CSR activities, Du et al. (2010) emphasize the importance of CSR through social development programs as a means to contribute to community empowerment in terms of their CSR activities. Mining companies do have wider responsibilities than simply to make money for their shareholders and expected to be good corporate citizens. This is captured in the philanthropic and ethical responsibilities, wherein business is expected to contribute financial and human resources to the community and to improve the quality of life. This includes such as interaction with the local community; the level of support for community projects; support for health; training, employment, education programs; and environmental performance.

In short, Corporate Social Responsibility is the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large (Holme and Watts, 2000, p.8).

Meanwhile, empowerment is being understood as a process of change (Cornell Empowerment Group, 1989). Whitmore (1988) defines empowerment as an interactive process through which people experience personal and social change, enabling them to take action to achieve influence over the organizations and institutions which affect their lives and the communities in which they live (p.13). Conceptually, community empowerment is an attempt to increase the dignity of society is in a state now not able to escape the trap of poverty and under-development, thus empowering means enabling them and make them independent (Phillips & Pittman, 2009).

The theory which is relevant to explain the correlation between CSR activities and community empowerment as outlined by Elkington (1997).

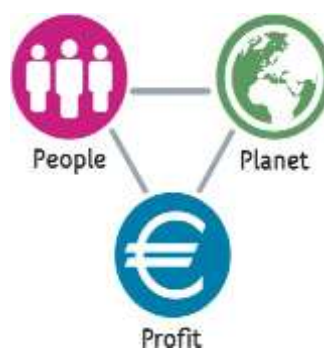


Figure 2. Elkington (1997) The relationship between Profit, People, and Planet (3P)

Elkington (1997) states that if a company wants to survive then it must pay attention to "3P" (Profit, People, and Planet). Companies in the pursuit of profit (Profit) be concerned and involved in the fulfilment of public welfare (People) and contribute actively to protecting the environment (Planet). "Profit" is defined as a form of economic aspects, "planet" as form environmental aspects and the "people" as a social or community aspect.

According to Ife (2002), stated that Corporate Social Responsibility (CSR) is a concept that is characterized by the moral and ethical public so that on a practical level it must be channelled into concrete programs. One form of actualization of Corporate Social Responsibility (CSR) is named Community Empowerment or Community Development (CD). Community empowerment program can be carried out by the company based on attitudes and opinions that generally has in him the attitude and outlook of generosity. Furthermore, Ife (2002) states that community empowerment for industrial environments can be used as a medium to increase community commitment can coexist symbiotically with business entities (companies) and their operations.

Thus, the CSR program is expected to provide benefits to the company's existence and can be used to develop a harmonious relationship between the company and the community around the company.

RESEARCH METHODS

This study uses a qualitative approach with a case study. A case study can be defined as an intensive study about a person, a group of people or a unit, which is aimed to generalize over several units. In a case study, the focus is based on an especially unit (Jacobsen, 2002).

This method is applied to deepen the implementation of CSR by using semi-structured interviews, FGDs, observation, and study documentation to collect data through a single case study of the mining company in Indonesia (PT Vale Indonesia). When a single case study is used, the researcher can question old theoretical relationships and explore new ones because of that a more careful study is made. This makes also the researcher to get a deeper understanding of the subject (Dyer & Wilkins, 1991).

For this study, the researcher developed interview questions for 10 informants. The source of evidence will be collected through semi-structured interviews. The frameworks were used to sort and structure the information gathered. Semi-structured interviews with all informants have been carried out according to table 1.

Table 1. Overall Information about the Interviewees

Informant	Name	Post
1	Mrs. Fb	The Board of Director
2	Mr. Id	Communication and External Affairs Manager
3	Mr. Ic	CSR (ICDP) Manager
4	Mr. Bd	Local Government Official
5	Mr. Jk	Senior Staff (Miner)
6	Mr. Ak	Social Worker
7	Mr. Jo	Social Worker
8	Mrs. Sw	Local Community Member
9	Mr. Hr	Local Community Member
10	Mr. Pr	Local Community Member

The sampling technique used in this research is purposive sampling. The purposive sampling technique that is by taking a sample based on the specific reasons related to the knowledge acquisition of informants concerning the problems being examined, particularly about issues of community empowerment in the PTVI's CSR program. As the researcher intended to study a specific case an interview with appropriate informants within PTVI would give me deeper knowledge about the company and its CSR activities.

RESULTS AND DISCUSSION

Brief Profile of PT Vale Indonesia

PT Vale Indonesia is currently the largest nickel producer in Indonesia and accounts for 5% of the world's nickel supply. The company is a foreign investment company that gets a business license from the Indonesian government to carry out exploration, mining, and nickel production. It operates an open-pit nickel mine and processing plant in Sorowako since 1968. Sorowako is the operational center of PTVI and employee residential areas. It is located about 590 kilometers from Makassar, the capital of South Sulawesi Province. One of the 11 sub-districts in East Luwu Regency, Sorowako has a population of around 24.738 (2017). Overall the total number of employees and other workers in PTVI is 3.165 people. From those numbers, 87% of the total employees (18.18% are manager level officials) are locals from East Luwu Regency.

General Description of ICDP

PT Vale Indonesia has an initiative in implementing CSR program, namely Integrated Community Development Program (ICDP) or in Indonesian called “Program Terpadu Pengembangan Masyarakat” (PTPM). ICDP is a community empowerment program of PTVI which is intended mainly for the local community around the operating area of PTVI. ICDP is carried out in a five-year cycle, which includes empowering independent rural communities in the fields of agriculture, education, health, economy, and other strategic contributions in the form of emergency, social, cultural, and donation responses. Mr. Ic as CSR Manager explained:

“The ICDP program is a regional development program synergized with the village medium-term development plan, in the fields of health, economic development, education, and agriculture. In its implementation, the government directs the community to develop their respective regions by paying attention to principles such as participation, partnership, transparency, accountability, and independence”.

From that explanation, ICDP is viewed as a company's obligation to be accountable to all its stakeholders in all its operations (PT Vale Indonesia, 2017). PTVI is in charge of strengthening approaches and cooperation with governments, public institutions, the private sector, and the wider community to balancing the need of stakeholders with its need to make a profit.

Implementation of ICDP

ICDP has been implemented by PTVI since 2013. In 2017, the Company completed the first phase for over 36.000 poor beneficiaries in East Luwu Regency. Furthermore, PTVI is now running the ICDP second phase for implementation in 2018-2022, regarding the Minister of Energy and Mineral Resources 2016 Regulation No. 41 concerning community development and empowerment.

The implementation of the ICDP is expected to contribute greatly, not only for the community and environment but also on a larger scale, namely regional development. One of the Board of Directors of PTVI is Mrs. Fb said

“PTVI is strongly committed to implementing sustainable mining operations and ensures the company's presence benefits the surrounding communities and support every joint effort to preserve the environment. ICDP was a new chapter to see something better than before. This is called the synergy of three pillars of the government, company, and society”.

ICDP in first phase is divided into three programs, i.e. Independent Village Partnership Program (IV2P), Strategic Partnership, and Strategic Contribution. It can be seen in table 2 below.

Table 2. ICDP First Phase 2013-2018

ICDP First 5 Year Period	
Independent Village Partnership Program (IV2P)	<ul style="list-style-type: none"> • More than 36.000 people in poor families in 38 villages in East Luwu Regency received program benefits. • More than 1.000 healthy family toilets were built for poor households. • Supporting health services center (Posyandu, Pustu, and PKM) facilities and infrastructure in 4 districts. • Life skills training for “Karang Taruna” through synergy with youth institutions to improve skills and workability. • “Gapoktan” provision through the availability of capacity strengthening support for economic activities in the community.
Strategic Partnership	<ul style="list-style-type: none"> • Introducing environmentally friendly Farming System for Rice Intensification (SRI) for farmers in East Luwu Regency. • PTVI increased the capacity of teachers and educators at PAUD till high school through apprenticeships, comparative studies, technical guidance and workshops. • Assistance for businesses and product legality consultation for Micro, Small and Medium Enterprises (MSMEs) in households from all sub-districts.
Strategic Contribution	<ul style="list-style-type: none"> • Emergency Response: PTVI has experienced to send logistical aids, heavy equipment and a team to help the victims of flood in South Sulawesi Province. • Art and Culture: PTVI preserved local culture through folklore books and also published a book titled "Princess Loeha and Her Magic Umbrella" in 2007. • Donation: By the end of 2017, ICDP had made several donations and conducted other activities, such as: sport and religious activities, support activities for youth pledge, blood donation, and anti-corruption day, etc.

In 2018, PTVI is running the second phase for the ICDP project to be implemented during 2018 - 2022 regarding the Ministerial Regulation No. 41 of 2016 on Community Development and Empowerment. The program began by collecting proposals and finalizing the ICDP scheme for the period 2018-2022.

In the second phase, ICDP will be implemented as a form of PTVI's contribution in encouraging improvement in community welfare, influence on the community towards this program where all community members are invited to be involved in each stage of the activity, starting from the planning process, decision making, in the use of funds following the village's priorities. Mr. Id as a communication and external affairs manager of PTVI explained:

"I hope that through the ICDP, the cooperation between PT Vale Indonesia and the East Luwu Regency Government makes people participate in programs that are aimed at increasing and creating an independent economy. One day, mining activities will

definitely run out in this place, so from that, we hope the people around the mine area can already be independent. "

PT Vale Indonesia also continued to synergize the execution of ICDP in phase two with international initiatives, including Sustainable Development Goals (SDGs), confirming PTVI's support for the Government of Indonesia's efforts to improve the welfare of the population through the implementation of SDGs.

ICDP and Social Worker

Based on the observation, the researcher found that in the implementation of ICDP encouraging partnership with social worker. Social workers work in almost every village in East Luwu Regency contribute to conducting community needs assessments to design various activities such as vocational training programs as well as to be the catalyst for the company's effort to give back in their communities and workforces. One of the social workers who work on the ICDP, Mr. Ak said:

"The role of social workers in this ICDP to act as social agents. They can have an important role and make much use of this CSR work, being advocator to resolve social conflicts and manage change. Or, it might involve liaising with government agencies or conducting community needs assessments".

Social workers' role is described as practical and being increasingly recognized. However, in order for social workers to successfully work with CSR they need to bring up their own professionalism in the CSR program and show their ideas in contributing to community empowerment process is carried out by PTVI. These could be seen as strategies used by social workers to develop CSR and help PTVI to find ways of how to collaborate and work with implementing CSR in its business.

The Responses of Community to ICDP

Local community is one of PTVI's strategic stakeholders, as per the stakeholder mapping that has been implemented since 2013. The involvement of communities has been included in the selection of material topics PTVI Sustainability Report through the selection of priority topics.

The implementation of ICDP to empower the local community is important to report because of one of the stakeholders contributing to building the company in the community, especially those residing around PTVI's area of operations. Also, most of the Company's employees are a local community from East Luwu Regency.

ICDP is implemented to form an independent region, with good quality human resources. Therefore, it is always conveyed to the community, if the concept of community development does not only provide financial assistance, but the most important is special training and increased knowledge for the community.

Based on the results of interviews in several communities regarding the response of the local community to the ICDP program in Sorowako and Malili Villages, the researchers took several informant samples representing the voices of the farming community which was of importance to be raised in this paper. The researcher firstly interviewed representatives of a local community named Mrs. Sw who said:

"Thank God, in the form of cooperation with the Government of East Luwu Regency and PT Vale Indonesia initiated the ICDP. We felt that we were helped by taking a part of training to make organic fertilizer that we got from facilitators of ICDP. It totally had a positive impact on us".

Meanwhile, the researcher interviewed Mr. Hr, one of the local community members in Sorowako who has different perspective at the implementation of ICDP by saying:

"Many of the obstacles we faced in the ICDP organic farming program, for example, the technology for providing production facilities is not easily available. In making compost we find it difficult to find animal manure that will be used as fertilizer, and in my opinion, I see many other farmers who lack understanding in the training and switch back to conventional farming".

The problem of the ICDP program as an effort by the state in improving the welfare of the community pointed out that there are still citizens who have not fulfilled their basic needs adequately because they have not felt the positive impacts in implementing the program.

Discussion

ICDP's Role to Community Empowerment

Based on the research, the role of the Integrated Community Development Program (ICDP) used in this paper is any direct and indirect benefits received by the community as result of social commitment of corporations to the community and social system. The common roles of ICDP are discussed as follows:

- Closer ties between PTVI and community: The community within which mining companies operate is one of the essential stakeholders of the company and for that matter mining companies must be sure to understand very well the community's views and concerns of the CSR activities that companies offer to their communities. Through ICDP the existence of PTVI in the social system is felt beyond a perception that corporation is a place just to get employment and producers of goods and services. By doing so, corporations and community would stay in peace and harmony. This becomes a social capital that is essential in community empowerment, particularly in East Luwu Regency.
- Role in Transfer of Technology (TOT) in agricultural and industrial sectors: Closer ties help in TOT between PTVI that give concerns on CSR and communities. Through TOT coupled with CSR processes, the targeted community would gain in the various aspects of product development and marketing, such as better quality product, as well as concern for people's well-being.
- Interdependency between PTVI and community: The close link between a mining company and community is another aspect of the ICDP role because in long run it creates sustainable development. This could be seen PTVI spends a lot amount of budget and gives aid to the local organization and impoverished communities. This certainly leads to sustainable community development.
- To help in spreading the information: Accountability and transparency are the principles of PTVI for implementing ICDP. Every stage of the program must be managed correctly and can be accounted for. By doing so, the community has access to all information regarding ICDP. For Instance, all community in East Luwu Regency can access the environmentally friendly Farming System for Rice Intensification (SRI) facilitated by PTVI through the ICDP program.

The Challenges of ICDP Implementation

Results from the study found numerous factors that impeded the PTVI's effective implementation of ICDP to the community. Some of these major challenges including:

- Lack of community participation in CSR activities: There is a lack of interest of the local community in participating and contributing to ICDP. This is largely attributable to the fact that there exists little or no knowledge about CSR within the local community as no serious efforts have been made to spread awareness about CSR and instill confidence in the local communities about such initiatives. The situation is further aggravated by a lack of communication between the company and the community at the grassroots.
- Non-availability of clear ICDP practical guidance: There are no clear guidelines or policy directives to give a definitive direction to ICDP initiative of PTVI. Meanwhile, national guidelines only elaborate the principle which business is expected to address its CSR practice. PTVI also does not provide for the detailed elaboration of stakeholder engagement process, the corporate governance mechanisms to manage the CSR practices as well as mechanism for community involvement process.
- Local capacities building: There is a need for capacity building of the local farmers that can effectively contribute to the on-going CSR activities initiated by PTVI in the agricultural aspect. This seriously compromises scaling up of CSR initiatives and subsequently limits the scope of such activities. In fact, there are many farmers who lack understanding in the training and switch back to conventional farming.
- Lack of consensus on implementing CSR issues: There is a lack of consensus and open decision making amongst community members regarding CSR projects. This lack of consensus often results in duplication of activities by PTVI in areas of their intervention. This factor limits company's abilities to undertake impact assessment of its initiatives from time to time.

CONCLUSION

This study has provided some empirical evidence on PTVI's presence benefits the surrounding communities by implementing PTVI's CSR program called Integrated Community Development Program (ICDP) or PTPM which includes education, health, economy, institutions, and other support schemes.

For PT Vale Indonesia, practicing CSR viewed as a company's obligation to be accountable to all its stakeholders in all its operations and activities. Socially responsible companies will consider the full scope of their impact on communities and the environment when making decisions, balancing the need of stakeholders with their need to make a profit.

The study showed that ICDP provides an opportunity to empower community into three programs include Independent Village Partnership Program (IV2P), Strategic Partnership, and Strategic Contribution. It is undeniable that ICDP has implications on community empowerment in many ways. The common roles of ICDP such as closer ties between corporations and community, transfer of technology (TOT) in agricultural and industrial sectors, creates sustainable community development, and spreads the information.

However, there are some major challenges that impeded PTVI's effective implementation of ICDP include lack of interest of some local community in participating and contributing to ICDP, non-availability of clear ICDP guidelines, a need for capacity building, and lack of consensus on implementing CSR issues.

The implementation of ICDP might have not been maximized, yet it has made many signs of progress or positive impacts not only in agriculture but also in education, health, economy, and other schemes to encourage the improvement of the public's welfare.

ACKNOWLEDGEMENTS

The author would like to express high appreciation and gratitude to Prof. Peng Huamin, Prof. Hu Ming, and Prof. Shen Hui for their guidance, support, and valuable contribution during the research process and all dear colleagues at Master of Social Work (MSW) Program, School of Social and Behavioral Sciences, Nanjing University China.

REFERENCES

- Adedokun M. O, (2008). *A Handbook of Community Development*. Ado-Ekiti: Balfak Publisher.
- Aprilia, et al. (2015). *Community based development*. Bandung: Alfabeta Publisher.
- Carroll, A.B. 1991. "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders" in *Business Horizons* July-August 1991.
- Carroll, A. B., & Shabana, K. M. (2010). The business case for corporate social responsibility: A review of concepts, research and practice. *International Journal of Management Review*, 12(1), 85-105. doi: 10.1111/j.1468- 2370.2009.00275.x.
- Cornell Empowerment Group. (1989). Empowerment and family support. *Networking Bulletin*, 1(1), 2.
- Creswell, J. W. (2013). *Qualitative inquiry and research design: Choosing among five approaches*. Thousand Oaks, CA: Sage.
- Du, S., Bhattacharya, C. B, & Sen, S. (2010). Maximizing business returns to corporate social responsibility (CSR): The role of CSR communication. *International Journal of Management Review*, 12(1), 8-19. doi: 10.1111/j.1468- 2370.2009.00276.x.
- Dyer, W. G., Jr, Wilkins, A. L., & Eisenhardt, K. M. (1991). Better stories, not better constructs, to generate better theory: A rejoinder to Eisenhardt; better stories and better constructs: The case for rigor and comparative logic. *The Academy of Management Review*, 16(3), 613.
- Elkington, J. (1997). *Cannibals with Forks: The Triple Bottom Line of 21st Century Business* Capstone: Oxford.
- Friedman, Milton. (1970). The social responsibility of business is to increase profit. *The New York Times Magazine*, 33, 124-126.
- Holme, R., and Watts, P. (2000). *Corporate Social Responsibility: Making good business sense*. Oxford: World Business Council for Sustainable Development.
- Ife, J. 2002. *Community Based Alternatives in an Age of Globalisation*. Longman. Australia.
- Ismail, M. (2009). Corporate social responsibility and its role in community development. *Journal of International Social Research* 2(9), 203-206.
- Jacobsen, I. D. (2002). *Vad, hur och varför? – Om metodval i företagsekonomi och andra samhällsvetenskapliga ämnen*. Lund: Studentlitteratur.
- Perkins, D. D., & Zimmerman, M. A. (1995). *Empowerment theory, research, and application. An introduction to a special issue*. *American Journal of Community Psychology*. 23, 569-579.
- Phillips, R., and R. Pittman. 2009. *An Introduction to Community Development*: London and New York.
- PT Vale Indonesia. (2017). *Turning Challenges into Opportunities: Annual Report*.
- Suharto, E. (2011). *Pekerjaan Sosial di Dunia Industri: Memperkuat Tanggungjawab Sosial Perusahaan (Corporate Social Responsibility)*. Bandung. Refika Aditama.
- Thomas, G. (2011). A typology for the case study in social science following a review of definition, discourse, and structure. *Qualitative Inquiry*, 17(6), 511- 521.

- Visser, W. (2008). Corporate social responsibility in developing countries. In A. Crane, A. McWilliams, D. Matten, J. Moon & D. Siegel (Eds.), *The Oxford handbook of corporate social responsibility* (pp. 473-499). Oxford, UK: Oxford University.
- Whitmore, E. (1988). Participation, empowerment and welfare. *Canadian Review of Social Policy*, 22, 51-60.
- Yin, R.K. (2003). Applications of case study research (2nd ed.). United States of America: Sage publications, Inc.