

# Corporate Social Responsibility of Oil Palm Companies in East Kutai Regency, East Kalimantan Province, Indonesia

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**Abstract** This research aims to analyze the implementation of East Kutai Palm Oil Companies Corporate Social Responsibility. This is a deductive-qualitative research by data collecting through observation and semi-structure interview to the company middle line. This research was conducted in three companies in East Kutai Regency, East Kalimantan Province in three different sub-districts namely Sangkulirang Sub-district, Muara Ancalong Sub-district and Sandaran Sub-district. The research focuses are the implementation of CSR in community development which is studied from its contribution in the social, education, economy, health, environmental conservation and infrastructure and its inhibiting factors. The research results showed that CSR conducted by oil palm companies in East Kutai Regency only use a philanthropic approach, not on a socially responsible business practice approach. The inhibiting factor of CSR implementation in community development in East Kutai is the attitude of the company that has only made the community as beneficiary, but does not involve the community in the planning and implementation of the program. The authors recommend applying the process model and/or public choice in the process of program formulation so that the CSR implemented can gain good support or participation from the surrounding community and can make a meaningful contribution to them. The implementation of CSR also needs to pay attention to the achievement of the aspects of benefits, conformance, impact and sustainability to obtain good acceptance from the community around the company's existence.

**Keywords** Corporate Social Responsibility, Oil Palm Companies, Community Development, Quality of Life

## 1. Introduction

Corporate Social Responsibility (CSR) has now become an important issue in the business world especially with regard to the impact of the declining environmental conditions in the context of sustainable development. It emerges as the reaction of many parties to the deterioration of the quality of physical, psychological, social, cultural and natural life as a result of improper management of production sources rather than building a balance of interests and sustainable development.

CSR is an answer for building people's trust in corporations and economic sustainability of local communities. CSR in principle is the embodiment of the business ethics of a company, where when the company acts ethically in business, then placing corporate responsibility into a requirement and also as part of business capital in increasing the company's confidence in its stakeholders. This is the application of the concept of CSR from the business way approach which states the operate core

business in a social responsible way, complemented by investment communities for solid business case reasons [1] which is in line with the CSR concept of Global Compact Initiative (GCI) in 2002 as well as from The World Business Council for Sustainable Development (WBCSD).

Any form of business that exploits natural resources and benefits from its business is obliged to preserve nature. In addition, socially the company needs to share to the surrounding community the benefits it earns and must be responsible for the environmental impacts arising from its business activities.

CSR is important for enterprise development through corporate interaction with community empowerment. With the right policy, the company as an industry can devote its attention to the process and community development that can improve the welfare of the community by synergizing in the company's business activities.

CSR program is one of the obligations that must be implemented by the company as regulated in the Law of the Republic of Indonesia Number 25 Year 2007 regarding Investment. In articles 15, 17 and 34 it is stated that the company shall carry out social responsibility and preserve the environment. Even in article 34 it is stated that for a company that can not fulfill the obligation, an administrative sanction in the form of a written warning, restriction of

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business activity, freezing of business activity and/or investment facility or revocation of business activity and/or facility of investment is required.

Hereinafter in the Law of the Republik of Indonesia Number 40 Year 2007 concerning Limited Liability Company is affirmed on every company to perform the obligation (which uses the term of Social Responsibility and Environment as a translation from CSR). CSR activities should be budgeted and calculated as corporate costs carried out with due regard to decency and fairness. Activities undertaken by the company should be contained in the annual report conducted by the company.

The Indonesian government's policy on CSR is further elaborated in the Law of the Republic of Indonesia Number 19 Year 2003 on State-Owned Enterprises (called BUMN in Indonesia), which is further elaborated in the Regulation of the Minister of State-Owned Enterprises of the Republic of Indonesia Number 4 Year 2007 which regulates the start from the amount of funds to the procedure of CSR implementation.

Thus, the government has set the policy on CSR which in its implementation is directed to pay attention to the principle of propriety and fairness principle, based on the idea of balance of relationship between the company, natural environment and social community.

Indonesia as a developing country with abundant natural resources becomes an investment field for business actors who can utilize the natural resources, including in East Kutai Regency in East Kalimantan Province. In the district of East Kutai, many companies engaged in oil palm plantations whose industrial activities caused a lot of environmental changes. Although these companies have implemented CSR in various fields for the development of surrounding communities, the implementation of CSR indicates that they have not been able to fully meet the needs of the community to achieve the improvement of the quality of life.

Whereas CSR commitments and activities should essentially refer to aspects of corporate behavior, including company policies and programs involving two key elements, namely good corporate governance and good corporate responsibility [1]. Good corporate governance concerns business ethics, human resource management, social security for workers and occupational safety and health. While good corporate responsibility concerns environmental conservation, community development, human rights protection, consumer protection, supplier relations and respect for other stakeholders.

This research seeks to analyze the implementation of CSR at existing oil palm companies in East Kutai Regency by taking representation from three districts in East Kutai Regency, East Kalimantan Province. When other recent research on CSR focuses on the relationship between corporate governance with the CSR programs for community as in [2, 3]; while the author's research focuses not only on the implementation of CSR conducted by the company, but also focuses the analysis on the stages of its program formulation. That is the difference of this research with other

recent research.

## 2. Methods

### 2.1. Location, Objects and Research Design

This research was conducted in some Palm Oil Companies at East Kutai Regency, East Kalimantan Province, such as PT. Sinergi, PT. Sawit Sukses Sejahtera and PT. Etam Bersama Lestari which are located in different subdistrict areas with each other. This is a deductive-qualitative research that attempts to analyze the implementation of Corporate Social Responsibility of those Palm Oil Companies in East Kutai, East Kalimantan, using qualitative techniques. CSR contributions in community development in the social, educational, economic, health, environmental and infrastructure sectors [1] and its inhibiting factors are the focus of this research. The analysis will be done by comparing the external factors faced by the company and the field of CSR program performed and the achievement of the success aspects of CSR. The formulation of policies related to CSR also analyzed in this study by using the study from the perspective of the model of public policy formulation.

### 2.2. Data Collection Techniques

Data collected through field study and library research. As a consequence of qualitative research, the data collection technique used observation, interview, documents searching and triangulation. Data analysis technique is interactive model.

## 3. Results and Discussion

### 3.1. Comparison of External Factors Facing Oil Palm Companies in East Kutai Regency

There are different profiles among oil palm companies that become the object of research along with the external environmental conditions facing the company in relation to the implementation of CSR that has been done (look table 1).

While CSR programs that have been conducted by these three companies also have a number of differences when viewed from the scope of the program for the community (look Table 2).

The form of CSR programs of the three companies as shown in the table show that PT. Sinergi has a very limited program coverage area compared to the other two companies. The variety of forms and coverage of the CSR PT. Sawit Sukses Sejahtera program is inseparable from the company's responsibility to exploit the extent of its plantation land, which is much wider than the other two companies. Besides, the location of PT. Sawit Sukses Sejahtera is located in the village with more residents than the two other companies, is also the cause of it.

Besides a number of differences, the three companies also have differences in terms of factors inhibiting the implementation of CSR (look Table 3).

**Table 1.** Recapitulation of Oil Palm Companies Profiles in East Kutai Regency

No	Comparative Components	PT. Sinergi	PT. Sawit Sukses Sejahtera	PT. Etam Bersama Lestari
1	Location	Susuk Village, Sandaran Sub-district	Senyur Village, Muara Ancalong Sub-district	Pelawan Village, Sangkuli-rang Sub-district
2	Area	11.300 ha	434 km <sup>2</sup>	545 km <sup>2</sup>
3	Population	1.891 people	3.494 people, 968 heads of family	1.469 people, 445 heads of family
4	Potential Aspect	--	Timber forest products, palm oil.	Agriculture (rice)
5	Livelihood of the Population	Fisherman	Agriculture and Fisheries	Agriculture
6	Start of Business	2008	1997	--
7	Total Plantation Land	8.000 ha	24.504 ha	--
8	Vision	Become an integrated and environment-tally sound oil palm plantation company and provide benefit to stakeholders.	Become a dynamic producer of palm oil.	--

Source: Research result, 2016.

**Table 2.** Recapitulation of Oil Palm Companies CSR at East Kutai Regency

No	CSR Program	PT. Sinergi	PT. Sawit Sukses Sejahtera	PT. Etam Bersama Lestari
1	Social Areas	Activity of intimacy and sharing between members of the community and the company.	The construction of 23 units 6x6m sized habitable house for people who have inadequate shelter in 2014, Routine national celebration of national independence day every year, Routine aid of Ramadhan Safari anniversary every year.	Routine religious festivities for the employees and the community of Pelawan Village and Tepian Terap Village, The provision of two units of rental homes for a year for children enrolled in the Sangku- lirang Sub-district.
2	Educa- tion	--	1. The provision of three units of shuttle buses (mini buses) for schoolchild-dren living in the vicinity of the company's plantation area since 2009, 2. The construction of one unit of elementary school building in 2013.	1. Assistance of teaching staff of Kindergar-ten, Elementary School and Junior High School on a regular basis per month. 2. Providing scholarship for the children of employees and non- employees who excel, regularly every month
3	The Eco-nomic Field	The provision of oil palm seedlings to local farmers, Recruiting people to work in companies, Entrepre- neurship skills training for youth.	Oil palm plantation development through plasma plantation for Senyur Village community managed, the result will be purchased by the company.	Incidental aid according to community proposals with the recommen-dation of the village government.
4	Health care	--	1. Provision of polyclinics with doctors and medical personnel for employees and family in the company in 2009, 2. Mass circumcision for 40 boys by 2013.	Free immunization and extra-fooding for employee's children under five year each month.
5	Envi- ronment	--	Reuse of PKS waste and empty beds in lieu of fertilizer	--
6	Infra-structure Deve- lopment	--	50km of village road construction since 2009, Construction of a mosque in Senyur Village in 2013 Repair of one mosque in Kelinjau Ulu Village by 2013	Construc-tion of Hydroelec-tric Power Plant (called PLTA in Indonesia) to Tepian Terap Village, Providing routine lighting using 200 litersof diesel per month, Hardening roads between villages (Pelawan Village to Tepian Terap Village)

Source: Research result, 2016.

**Table 3.** Recapitulation of Constraining Factors of Oil Palm Companies CSR at East Kutai Regency

No	Constraining Factors of CSR Program	PT. Sinergi	PT. Sawit Sukses Sejahtera	PT. Etam Bersama Lestari
1	Lack of coordination in government and community institutions	√		√
2	Program plans are still partial/group	√		
3	Lack of support or public participation in the formulation and implementation of CSR	√	√	√
4	Limited company budgets for CSR programs		√	
5	Formulation of CSR programs conducted unilaterally, without involving the community		√	√

Source: Research result, 2016.

The constraining factors faced by oil palm companies in East Kutai Regency are in accordance with the external conditions that exist in the environment in which the company is located. But there are similar factors in each company associated with support or community participation in the formulation and implementation of CSR.

### 3.2. Research Founding

The type of CSR implemented by PT. Sinergi has a limited range of life areas compared to CSR implemented by two other companies. CSR forms that are implemented are still standard because only prioritize the withdrawal of some people to become workers in the company and the provision of oil palm seedlings to local farmers to manage, which actually still leads to the company's business profits. So, that the CSR that has been implemented has not been able to contribute in the development of the surrounding community well.

Although in the formulation and implementation of its CSR program there has been involvement of community groups and local institutions through the forum, but very limited CSR programs undertaken affect the level of concern and community concern for the company. In the social field, PT. Sinergi has a program of activities of intimacy and discussion between members of the community with companies that carried out regularly one to two times a year in order to establish communication and trust, but the achievement of CSR in the aspects of benefits and suitability of the program, also the impact and sustainability of the program is still low due to limited community groups targeted by the program.

While the type of CSR implemented by PT. Sawit Sukses Sejahtera among the three oil palm companies that became the object of this study, is a company with CSR programs with the most diverse fields of activity. The variety of forms and scope of PT. Sawit Sukses Sejahtera CSR program because the area exploited by the company is the most extensive compared to the other two companies, so it is natural that PT. Sawit Sukses Sejahtera must implement CSR programs that stand out. In addition, the location of the PT. Sawit Sukses Sejahtera that located in the village also has the largest population when compared with two other companies. However, in the implementation of CSR, PT. Sawit Sejahtera does not necessarily do so within a short time from the start of operation of the company. Established

in 1997 and just started to implement CSR for the development of surrounding communities in 2009 make this company is considered slow showing the responsibility to the environment.

Although the operation period of PT. Sawit Sukses Sejahtera has been much longer, including in the implementation of CSR for the surrounding community, compared to the other two companies, the formulation and implementation of PT. Sawit Sukses Sejahtera's CSR also shows weak coordination and involvement of the community especially for social programs. PT. Sawit Sukses Sejahtera uses an elite model which in the CSR implementation is entirely dominated by the company. The elite model in the formulation of policies states that the people in relation to public policy should be made apathetic or poor information. Elite models are more likely to shape public opinion in policy matters than with the masses forming elite opinion. Government officials, administrators and bureaucrats only implement elite-made policies. Policies flow from the elite to the masses through the administrators [4].

In relation to CSR conducted by PT. Sawit Sukses Sejahtera, the CSR program can not be enjoyed by all society or not fully targeted. CSR programs implemented, especially in the social field are also not maintained so as to create new problems for the community. Only the CSR program in the economic field that meets the aspect of sustainability is given a long-term contribution through the plasma plantation. Although the implementation of CSR conducted by PT. Sawit Sukses Sejahtera has not fulfilled the aspects of benefit, impact and sustainability as a whole, PT. Sawit Sukses Sejahtera's CSR program has advantages compared to CSR of two other companies because it is also done in the field of environmental sustainability, that is by reducing the use of chemicals in the company's operation and the use of company waste in lieu organic fertilizer. The way it creates the cost efficiency of fertilization while reducing the level of waste pollution to the environment around the company maintained its sustainability. Sustainable development and environmental issues should tend to be a key understanding on CSR implementation [5].

The type of CSR implemented by PT. Etam Bersama Lestari is corporate philanthropic because in such activities the company contributes directly to certain communities, where donations are usually in the form of material for free. So that seen from the aspects of benefits and suitability of the

program, the implementation of PT. Etam Bersama Bestari's CSR has been enough to provide benefits to the dimensions of poverty communities around the company. The impact of all CSR programs that have been done by PT. Etam Bersama Lestari quite equally for various areas of community life, so that seen from the impact aspect, the implementation of CSR is good enough.

While the policy formulation model that used by PT. Etam Bersama Lestari is also an elite model, as PT. Sawit Sukses Sejahtera. In relation to CSR conducted by PT. Etam Bersama Lestari, the company does not disclose the entire CSR work program they are planning, and other findings are that the community and the village apparatus are very little informed about the entire PT. Etam Bersama Lestari's CSR work program. In addition, in the submission of proposals for activities or grants by the community, PT. Etam Bersama Lestari remains the party that decides whether or not to accept the activity plan. In the implementation of CSR in Pelawan Village, PT. Etam Bersama Lestari does not have a special team that handles CSR. On the one hand the company 'entrust' to the village apparatus, without any evaluation of both parties. Thus, viewed from the aspect of sustainability and empowerment, CSR programs conducted by PT. Etam Bersama Lestari is still not good because the determination of the program is still centered only on the company, no involvement of community and community groups in the planning and implementation. The less the community groups involved, the smaller the groups who have benefit from the CSR program.

Lack of support or community participation in CSR implementation by oil palm companies in East Kutai Regency is a major constraint factor. In the three research sites it was found that the village apparatus had not been able to reach out to the community leaders who could represent them to sit together to formulate the CSR program in accordance with the needs of the local community in order to achieve the target program's accuracy, even though the village apparatus had shown high effort and commitment in fighting for the welfare of society. Low public awareness to engage in corporate CSR is also due to the attitude of preferring daily work in order to meet the needs of his life and his family. The assumption that is better to work and get a clear result than to expect the 'contribution' of companies that have exploited the resources available in their neighborhoods, strongly inherent in the local people's mind.

The application of participatory approaches is also necessary to achieve high levels of programmatic conformity to the community, in order to improve the quality of life of the community through development. The basis of CSR implementation by the company should be the existence of community legitimacy which is a strategic factor for the company in order to develop the company in the future, the existence of stakeholders to be considered by the company because they are the parties that influence and influenced the activities and policies of the company, as well as the existence of a social contract between the company and the community [6].

### 3.3. The Relevance of Policy Formulation Model

In the process of public policy formulation, there are eight models that can be used, namely: 1) Institutional Model, 2) Process Model, 3) Group Model, 4) Elite Model, 5) Rational Model, 6) Incremental Model, 7) Game Theory Model, and 8) Public Choice Model [4].

The implementation of CSR by oil palm companies in East Kutai Regency generally apply elite model in the formulation of its program. The elite model refers to the existence of a socially superior group of societies, while in elite political life is a particular group of a ruling society. In the elite model, public policy is seen as a preference of the values of the ruling elite. So that the people in relation to public policy would be made apathetic or poor information, elites form more public opinion in policy matters than the masses of elite opinion-makers.

The formulation of CSR programs by oil palm companies in East Kutai Regency is far from the use of a public choice model that assumes that individuals are influenced by their own ideas in the public interest. Where Buchanan states in the model of public choice, people will follow their personal interests, both in politics and the market, but with their self-motivation can be mutually beneficial through collective decision-making [4].

### 3.4. Recommendation for Oil Palm Companies CSR at East Kutai Regency

Understand the conditions faced by Oil Palm Companies in East Kutai Regency have some obstacles in implementing CSR so as not to contribute significantly to the surrounding development, the authors recommend that companies need to change the perspective in viewing CSR to be more than just a philanthropy movement, so that the management of CSR is correct can be done by a special section that handles it in order to have the same stages for CSR as the policy stage, namely the existence of lanning, implementation and evaluation. Companies need to create business sustainability in creating and maintaining a balance between business profits, with social functions and environmental maintenance, known as the triple bottom line. So that the implementation of CSR is done to be one of the efforts to build a sustainable development concept that requires a harmonious relationship between government, company and society [7].

In addition, companies need to make better periodic communications to the community through village apparatuses and community leaders in order for the company to actually gain acceptance from surrounding communities in order to cultivate their awareness and strengthen the implementation of CSR in the region because CSR is basically a requirement for companies to be able to interact with local communities as a form of society as a whole. The company's need to adapt the gain social benefits from its relationship with local communities can be a sosial advantage of trust [8].

Saleh et al research result found that there are positive and significant related of the CSR on Corporate Financial Performance (CFP). Two of the CSR dimensions, namely

employee relations and community movement, positively related to financial performance. CSR practices can be considered as effort to enhance the financial performance of company [9].

Corporate CSR requires a partnership that is efficient in the implementation of CSR activities to run effectively. CSR requires the government and society to keep the program from running independently or unfairly. For that comes the term tri-sector partnership consisting of government, companies and community/non-governmental organizations [10].

Thus, according to the author's analysis, in the formulation of CSR programs the company should no longer use the elite model, but to change using a process model or even more appropriate public choice model in order to improve the development of communities that have been exploited by the companies that take advantage of them.

### 3.5. Empirical Propositions

This research resulted in several propositions from the analysis of the empirical findings with theoretic formula:

1. Major Proposition: To achieve success in the mission of improving the quality of life and developmental of surrounding communities, then the implementation of CSR conducted by companies need to apply the concept of sustainable community empowerment.
2. Minor Propositions:
  - a. The wider the area of business managed by the company, the broader the scope of community life that needs to be fulfilled by the company through its CSR program.
  - b. The more the number of people who living in the location where the company is located, the higher the company's responsibility should be to improve the quality of life of local communities.
  - c. The less the community groups involved in the formulation of CSR programs, the smaller the groups who have benefit from the program.

## 4. Conclusions

If the company wants success in the mission of improving the quality of life and development of the surrounding community, then the implementation of CSR needs to change from merely a generous program to sustainable community empowerment through socially responsible business practice approach that does not emphasize the community's dependence on the company's existence alone. If the company has not run its activities or business operations, then the survival of the community will continue to run. In addition, in the formulation of CSR program it is necessary to apply a model of process and/or public choice so that the CSR implemented can gain good support or participation from the surrounding communities and can make a meaningful contribution to them. The application of

participatory approaches is also necessary to achieve high levels of programmatic conformity to the community. The implementation of CSR also needs to pay attention to the achievement of the aspects of benefits, conformance, impact and sustainability to obtain good acceptance from the community around the company's existence.

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