

WHY CSR IS RELEVANT TO ENVIRONMENTAL PROTECTION? A STUDY OF CSR PERFORMANCE ON INDONESIAN LIMITED LIABILITY STATE-OWNED COMPANIES

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ABSTRACT

Nowadays, companies are not only required to provide information on financial accountability but also about corporate performance related to environmental and social activities to promote shareholder values and sustainable practices. In Indonesia, corporate social and environmental responsibility is an emerging and relatively new concept in terms of practices, economic and political aspects. This paper aims to investigate the performance of the social and environmental responsibility of three limited liability state-owned companies in Indonesia and covering the company's reports, namely annual report, CSR report, and sustainability report. The study concluded that there is a significant relation between CSR activities, social and environmental protection on Indonesian limited liability state-owned companies, both in relation to legal obligation, as well as relating to company's commitment to show environmentally good behaviour through CSR activities.

Keywords: corporate social responsibility, corporate governance, environmental protection.

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KENAPA TANGGUNGJAWAB SOSIAL KORPORAT BERKAIT DENGAN PEMULIHARAAN ALAM SEKITAR? KAJIAN MENGENAI PRESTASI SYARIKAT-SYARIKAT BERHAD YANG DIMILIKI KERAJAAN INDONESIA

ABSTRAK

Pada waktu ini, syarikat-syarikat tidak hanya perlu menyediakan maklumat mengenai tanggungjawab kewangan tetapi perlu juga menyediakan maklumat mengenai prestasi syarikat yang berkait dengan alam sekitar serta amalan kemasyarakatan. Ini bertujuan untuk mewar-warkan amalan kelestarian yang seterusnya meninggikan nilai pemegang saham. Di Indonesia, tanggungjawab kemasyarakatan syarikat serta tanggungjawab alam sekitar adalah konsep-konsep baharu yang cuba diamalkan. Amalan-amalan ini penting dari sudut ekonomi serta politik. Makalah ini bertujuan untuk menyiasat prestasi tiga syarikat berhad yang dimiliki oleh kerajaan Indonesia dari segi kebolehan memenuhi tanggungjawab kemasyarakatan serta alam sekitar. Ini dilakukan dengan memeriksa laporan-laporan syarikat yang merangkumi laporan tahunan, laporan tanggungjawab sosial korporat serta laporan kelestarian syarikat. Kajian ini menyimpulkan bahawa terdapat kaitan yang ketara diantara aktiviti tanggungjawab sosial dengan pemeliharaan hubungan sosial serta alam sekitar. Ini terserlah dari aktiviti yang dijalankan oleh syarikat-syarikat berhad milik kerajaan Indonesia yang mementingkan kewajiban perundangan melalui aktiviti tanggungjawab kemasyarakatan korporat yang memelihara perhubungan sosial serta alam sekitar.

Kata kunci: tanggungjawab kemasyarakatan korporat, urus tadbir syarikat, pemeliharaan alam sekitar.

INTRODUCTION

Corporate social and environmental responsibility (CSR) has become an important element of a company's development and has rapidly developed into mainstream corporate activities that links corporate governance with corporate responsibility, and sustainable development.¹ This term can also be considered as the key strategy to

¹ Clarke, 'The materiality of sustainability: corporate social and environmental responsibility as instruments of strategic change? ', in S Benn, and Dunphy, D (ed.), Corporate governance and sustainability:

incorporate many stakeholders in the decision-making processes mainly in dealing with social and environmental issues. Additionally, in business practices, companies are also expected to play a role in social and environmental protection, as the interests of stakeholders other than shareholders, such as the communities and environment at large could also be affected by the problems that could result from negative corporate behaviour.

In Indonesia, corporate social and environmental responsibility is an emerging and relatively new concept² not only in terms of practices but also in economic and political aspects. In 2007, the government issued the Law number 40/2007 on Limited Liability Companies (LLC). Article 74 has officially regulated a mandatory system of CSR for companies, especially companies whose core businesses are related to natural resources. Furthermore, for state-owned companies, the mandatory system is also regulated through Regulation number 5/2007 on the Partnership and Community development programme (*PKBL or programme Kemitraan dan Bina Lingkungan*). Further, the pressures to implement CSR also come from communities due to many environmental problems that are caused by corporate activities.³

It is important to investigate what are the purposes of CSR and how the companies apply corporate responsibility effectively and efficiently. This study aims to investigate the performance of social and environmental responsibility in limited liability state-owned companies (LLC) in Indonesia in relation to environmental protection.

LITERATURE REVIEW

1. Corporate social responsibility (CSR)

Challenges for theory and practices, Routledge New York (2007).

² Shauki, E, 'Perceptions on corporate social responsibility: A study in capturing public confidence', *Corporate Social Responsibility and Environmental Management*, vol. 18, (2011): 200-208.

³ Arie A, Anbar J, Angela, *Fighting the giants: Efforts in holding corporation responsible for environmental damages in Indonesia*, *Hasanuddin Law Review*, Vol. 4 Issue 3, (2018).

In the corporate responsibility theory, stakeholder issue is the most commonly mentioned. Freeman⁴ firstly introduced a concept that went against the usual belief that companies only have social responsibilities to their shareholders. Instead, Freeman went on to introduce the concept that “*managers bear a fiduciary relationship to stakeholders*”. Therefore, the fate of the stakeholder’s matter and have an impact on the roles of corporate activities. Freeman further defines a stakeholder as:

...groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, corporate actions including suppliers, customers, employees, stockholders, and the local community, as well as management in its role as the agent for this groups.⁵

The stakeholder theory focuses on the company’s activities and the relationship between the internal stakeholders, such as shareholder-owners, the board of directors, and managers as coordinators and collaborators with the external stakeholders which are the customers, communities and the environment as a whole. This relationship is based on a relationship of utility, a theory initiated by Aristotle.⁶ It is also known as the triple bottom lines theory, where companies hold the responsibility to contribute to the economic prosperity (profit-oriented), environmental (the earth) preservation, and social justice (community) in doing businesses.⁷

Another theory is the “pyramid of CSR” that focuses on the importance of business to be aware of economic, legal, ethical, and philanthropic aspects.⁸ This theory emerged in response to the urgent

⁴ Freeman, RE, *Strategic management: A stakeholder Approach*, Pitman Publishing Inc., Massachusetts USA (1984).

⁵ Freeman, 'Stakeholder theory of the modern corporation', in T Donaldson, PH Werhane & M Cording (eds), *Ethical issues in business: A philosophical approach*, Pearson Education Inc., Upper Saddle River, New Jersey (2002): 39-41.

⁶ Gregg, S, 'Stakeholder Theory: What it means for corporate governance', *Policy*, vol. 17, no. 2, (2001): 34.

⁷ Elkington, J, *Cannibals with forks: the Triple Bottom Line of the 21st Century*, Oxford, Capstone (1997).

⁸ Carroll, 'The pyramid of corporate social responsibility: toward the moral management of organizational stakeholders', *Business Horizons*, vol. 34 no. 4, (1991): 39-48.

need for the real action in corporate responsibilities⁹ which did not receive much attention in the era of stakeholder theory. A more complex model was proposed by Aras and Crowther that links corporate responsibility with corporate sustainability. This model argued that the previous pyramid of CSR theory in practice lacked consideration for “environmental management and sustainability” and then added that corporate governance is an essential component in corporate sustainability.¹⁰ The next theory of corporate responsibility is the “consumer-driven corporate responsibility” that developed on the premise that consumers’ desire for companies to run CSR programmes is an effective measure of the implementation of CSR.¹¹

Lastly, the latest model is “CSR 2.0” that elaborates principles of the “DNA” of CSR, namely connectedness, scalability, responsiveness, duality, and circularity. The CSR 2.0 described that corporate responsibility should include collaborative actions which are reward-based, performance-driven, integrated programmes which are diverse, scalable, and responds to global issues to improve quality of life.¹² Aside from that, research shows that companies will be more “competitive and acceptable” in societies and businesses when they apply social and environmental responsibility as part of their activities.¹³

2 Corporate performance measurement and evaluation

The increasing awareness of environmental issues associated with economic development and corporate behaviour has made people focus on the social and environmental performance of companies. However, measurement of social and environmental performance is a

⁹ Claydon, J, 'A new direction for CSR: the shortcomings of previous CSR models and the rationale for a new model', *Social Responsibility Journal*, vol. 7, no. 3, (2011): 405-420.

¹⁰ Aras, G & Crowther, D, 'Governance and sustainability: An investigation into the relationship between corporate governance and corporate sustainability', *Management Decision* vol. 46 no. 3 (2008): 433-448.

¹¹ Claydon, J, *Op.cit.* (2011): 405.

¹² Visser (2010) in *Ibid*, 412.

¹³ Sharma, MK, Agarwal, P & Ketola, T, 'Hindu Philosophy: Bridging corporate governance and CSR ', *Management of Environmental Quality*, vol. 20, no. 3, (2009): 2.

“challenging task”.¹⁴ This is due to the "multi-dimensional construct" of corporate responsibility performance where the assessment is determined by "the recognition, measurement, verification, and reporting".¹⁵ Furthermore, very few companies evaluate their environmental and social performance particularly in terms of the impact on the performance to stakeholders. This is due to the lack of agreement from both academia and practitioners regarding the tools and methods for assessing social performance.¹⁶

Ullmann¹⁷ suggested three criteria to measure corporate social performance, namely social disclosure (including corporate reporting of social activities, such as pollution disclosure), social performance (defined as company's response to social demands which the measurement might use any forms, such as reputation index) and economic performance that closely relate to social performance. The comparable model of corporate social performance (CSP) was then proposed by Wood¹⁸ who mentioned CSP as a "sister concept" of CSR.

According to Wood¹⁹ CSP is, “A business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programmes, and observable outcomes as they relate to firm's societal relationships”.

¹⁴ Font, X, Walmsley, A, Cogotti, S, McCombes, L & Hausler, N, 'Corporate Social Responsibility: The disclosure-performance gap ', *Tourism Management*, vol. 33 (2012): 1545.

¹⁵ Dragomir, VD, 'The disclosure of industrial greenhouse gas emissions: a critical assessment of corporate sustainability reports', *Journal of Cleaner Production*, vol. 29, no. 30 (2012): 222.

¹⁶ Davenport, K, 'Corporate Citizenship: A Stakeholder Approach for Defining Corporate Social Performance and Identifying Measures for Assessing It', *Business & Society*, vol. 39, no. 2 (2000):210-219.

¹⁷ Ullmann, AA, 'Data in search of a theory: acritical examination of the relationships among social performance, social disclosure and economic performance of U.S. firms', *The Academy of Management Review*, vol. 10, no. 3 (1985):540-557.

¹⁸ Wood, DJ 2010, 'Measuring corporate social performance: A review', *International Journal of Management Reviews*, vol. 12, no. 1 (2010):50.

¹⁹ Wood, DJ 1991, 'Corporate Social Performance Revisited', *The Academy of Management Review*, vol. 16, no. 4, (1991): 693.

Wood then suggested,²⁰ in order to assess a company's social performance, the researcher should examine the degree to which principles of social responsibility motivate actions taken on behalf of the company. In addition to that, there is also a need to consider the degree to which the company makes use of socially responsive processes. Aside from that, another important factor to be taken into account is the existence and nature of policies and programmes designed to manage the firm's societal relationships. Finally, the social impacts (i.e., observable outcomes) of the firm's actions, programmes, and policies should be reflected on as well.

To measure the success of CSR programmes researchers, need to discover the principles underlying the company's actions both at the initial stage of the process and when the results are achieved. They must also “deconstruct” the outcomes of the processes of corporate responsibility practices. Moreover, this theoretical definition can be a basis for the validity of future research on the corporate social and environmental performance²¹ that has been discussed by scholars for decades.²² Clarkson²³ proposed a stakeholder management model for describing, evaluating and managing CSR performance. He believed that the stakeholder framework can be an effective tool to measure and evaluate CSR performance than using a framework based on the concept of corporate responsibility.

Based on Clarkson's view then Davenport carried out the criteria offered by stakeholders to deem that company as being socially responsible.²⁴

In addition to the CSR performance measurement method, recently, there is an emerging standard as a guideline for measuring environmental management systems, such as International Standard

²⁰ Ibid.

²¹ Agle, BR & Kelley, PC, 'Ensuring validity in the measurement of corporate social performance: Lessons from Corporate United Way and PAC campaigns', *Journal of Business Ethics*, vol. 31, no. 3 (2001):272.

²² Carroll, AB, 'A Three-Dimensional Conceptual Model of Corporate Performance', *The Academy of Management Review*, vol. 4, no. 4 (1979): 497-505.

²³ Clarkson, MBE, 'A Stakeholder Framework for Analyzing and Evaluating Corporate Social Performance', *The Academy of Management Review*, vol. 20, no. 1 (1995):92-117.

²⁴ Davenport, *Op. cit.*, (2000): 217.

Organization (ISO) 14001 and the European Union EMAS (Environmental Management and Audit Scheme). Furthermore, there is also the Global Reporting Initiative (GRI) for CSR standard reporting and the AA1000 for Stakeholder Engagement Standard (SES). In the Indonesian context, the regulatory Environmental Impact Assessment (EIA) refers to the AMDAL (*Analisis Mengenai Dampak Lingkungan*) process. Particularly, for the mining industry, compliance with the AMDAL process is compulsory.²⁵

Despite the benefits of adopting the standards, such as “enhanced image, improved stakeholder relationship, increased operational efficiency, and reduced costs,”²⁶ however, the existence of these standards, such as ISO 14001 and EMAS are inseparable from criticism. One such criticism against the standard includes the argument that it is used merely as a mechanism to promote the companies' image rather than as a tool for environmental management system.²⁷ Consequently, there is a need for “some form of assurance mechanism” to justify the company’s CSR performance.²⁸

The integrated system of environmental management gained attention since the Business Charter for Sustainable Development Principles of Environmental Management was issued by the International Chamber of Commerce at the World Conference on Environmental Management (WICEM II) in April 1991.

Further, integration can be defined as the company’s commitment to “the environment becomes an issue for consideration

²⁵ Zutshi, A & Sohal, A 2004, 'Environmental management system adoption by Australasian organisations: part 1: reasons, benefits and impediments', *Technovation*, vol. 24 (2004):335-357.

²⁶ Biondi, V, Frey, M & Iraldo, F, 'Environmental management system and SMEs: Motivations, opportunities and barriers related to EMAS and ISO 14001 implementation', paper presented at United Nations Conference on Trade and Development (UNCTAD) Expert Meeting on Trade and Investment Impacts of Environmental Management Standards, Geneva, 29-31 October 1997 (2000).

²⁷ Boiral, O 2007, 'Corporate greening through ISO 14001: A rational myth?', *Organization Science*, vol. 18, no. 1 (2007): 127-146.

²⁸ Font, X, Walmsley, A, Cogotti, S, McCombes, L & Hausler, N 2012, 'Corporate Social Responsibility: The disclosure-performance gap ', *Tourism Management*, vol. 33 (2012):1546.

whenever any business decision is made, and system and processes are developed to ensure that this happens”.²⁹

3. CSR in Indonesia

Corporate social and environmental responsibility is a new concept in Indonesia.³⁰ Nevertheless, in terms of regulation the country has moved forward by issuing Law number 40/2007 on Limited Liability Companies that have initiated mandatory requirements for Indonesian companies to perform CSR. Article 74 states that the company that runs its business activities in the field and/or related to the natural resources is required to carry out social and environmental responsibility. This responsibility is an obligation of the company budgeted and accounted for as an expense of the companies with respect to implementation appropriateness and fairness. Furthermore, the government moves forward by regulating Regulation number 47/2012 on Corporate Social and Environmental Responsibility.

CSR is defined as a commitment to improve community welfare through business practices that are generally regulated as an integral part of the company’s code of conduct outside corporate law and done voluntarily by the company. While under Indonesian law, CSR is defined as the company’s commitment to contribute to sustainable economic development to improve the quality of life and the environment, both for the companies and communities, be it the local community or the wider community at large. At first, the law itself has been debated due to the unclear understanding of the concept of whether CSR in Indonesia will be voluntary or mandatory for business practices.

The legislation is the result of a political struggle between the parties concerned including business practitioners, communities, non-government organizations, political parties, and bureaucrats.³¹ It can be

²⁹ Winter, G 1995, *Blueprint for green management: Creating your company's own environmental action plan*, Mc Graw-Hill Book Company Europe, England, (1995):36.

³⁰ Shauki, E, 'Perceptions on corporate social responsibility: A study in capturing public confidence', *Corporate Social Responsibility and Environmental Management*, vol. 18 (2011): 200-208.

³¹ Rosser, A & Edwin, D, 'The politics of corporate social responsibility in Indonesia', *The Pacific Review*, vol. 23, no. 1 (2010): 1-22.

concluded that political pressure influenced the establishment of the regulation and the practice of CSR in Indonesia.

For state companies, the obligation to implement social responsibility is regulated through the Law number 19/2003 on Stated-Owned Enterprises (*BUMN or Badan Usaha Milik Negara*) and the Regulation number 05/2007 on the Partnership and Community Stewardship programme (*PKBL or programme Kemitraan dan Bina Lingkungan*). Article 88 mentions that the state can set aside part of its net income to foster small business and community development around the company.

Recently, some companies are aggressively implementing their social and environmental responsibilities following the policies of their respective companies. The study by Nugroho et al. concluded that there are trends of CSR practices in Indonesia, which are community development, CSR reporting, multi-stakeholder forums, and government initiatives.³² However, if compared to other Asian countries, Indonesia is considered to have “the lowest level of CSR penetration and community involvement”.³³ In addition, the literature also mentioned that the implementation of CSR in some developing countries is “relatively weak”, particularly those related to institutions, standards, and systems.³⁴

Hence, it leads to questions about the effectiveness of community development as a form of CSR activities and CSR practices in Indonesia.

METHODOLOGY

This study is based on a case study of three limited liability state-owned companies in Indonesia. This is done through an analysis of annual

³² Nugroho, Y, Tanaya, J, Widiyanti, T & Permana, AH, 'Indonesia', in W Visser & N Tolhurst (eds), *The world guide to CSR: A country-by-country analysis of corporate sustainability and responsibility*, Grrnleaf Publishing Limited, Sheffield,UK (2010).

³³ Chapple, W & Jeremy Moon, J, 'Corporate Social Responsibility (CSR) in Asia: A Seven-Country Study of CSR Web Site Reporting', *Business Society* 2005 44: 415, vol. 44, no. 4 (2005): 415-441.

³⁴ Kemp, M, *Corporate Social Responsibility in Indonesia*, UNRISD programme on Technology, Business and Society, Switzerland (2001): 1.

reports, CSR reports, and sustainability reports. Textual analysis is used to analyse the reports published on the company's websites. The companies chosen for the study are PT Aneka Tambang (Antam), PT Tambang Batubara Bukit Asam, and PT Timah. These companies are listed companies and represent a limited liability state-owned company whose scope of business relates to natural resources, particularly comprising of mining sectors. Based on the LLC Law, these types of companies have been mandated to perform social and environmental responsibility. Data were collected from the company's websites and other web sources related to their CSR activities.

Data analysis is a difficult part of this research since there is a methodological problem in measuring CSR performance. This study applies qualitative data analysis using several criteria as an analysis framework in describing, evaluating, and managing CSR performance. These criteria are applied to evaluate CSR performance, namely the company's commitment to CSR, corporate governance system, and the availability of environmental standard management.

According to Maignan and Ferrell,³⁵ "*there is only embryonic marketing research on CSR communication (reports)*", as published on the company's websites is considered a one-direct communication; where the company publishes their social and environmental images through CSR disclosure and most of the reports are without the attempt to publish stakeholder's response to the activities.

Early research by Wiseman concluded that there are significant discrepancies between what has been written on the reports and the actual performance. In this study, there is a limitation regarding the method used for data collection that relies only on reports published on the company's websites.³⁶ Consequently, researchers cannot cross-check the information with other sources; although admittedly this may influence the analysis.

³⁵ Maignan, I & Ferrell, OC 2004, 'Corporate social and responsibility and marketing: An integrating framework', *Journal of the Academy of Marketing Science*, vol. 32, no. 1 (2004): 15.

³⁶ Wiseman, J 1982, 'An evaluation of environmental disclosures made in corporate annual reports', *Accounting, Organizations and Society*, vol. 7, no. 1 (1982): 53-63.

RESULTS AND DISCUSSION

Evaluation of CSR performance in this study aims to find out the company's efforts to realize an integrated environmental management. There are three criteria used, which are the company's commitment to implement CSR, the availability of social and environmental programmes, and the availability of environmental standards of the management system. Furthermore, the analysis is not only focused on the environmental aspect but also on social activities since there are no restrictions between environmental and social activities in the three companies (PT ANTAM, PT TIMAH, and PTBA) in the CSR framework.

Commitment to CSR activities

PT Antam shows the integrity to serve stakeholders and commits to protect the environment. The company then developed a CSR master plan which is an integrated programme focusing on social and environmental activities. There are two reasons for the CSR implementation, first, to meet legal obligations; the reason that has encouraged the company to seriously address the positive and negative impacts of its activities to stakeholders in accordance to regulations. Another reason is to fulfil stakeholder's needs and interests; for this reason, CSR activities are carried out by applying the stakeholder inclusivity principle based on company's ability, respecting community's rights, identifying characteristics of interaction within communities, and recognizing work values among communities.

Similar to PT Antam, PTBA has compiled with CSR guidelines which is a long-term integrated policy to manage CSR performance. The guidelines focused on several areas, namely economy, environment, human rights, employment practices, and suitable work conditions, good products, and communities. Further, the company engages all stakeholders including communities surrounding operational areas to participate in planning, executing, and monitoring CSR activities. The engagement process is an opportunity for the company to enhance CSR performance in terms of system and quality, to find out stakeholders' needs and interests, to increase communities' potentials, self-reliance as well as a sense of belonging and maintaining. Moreover, the commitment to environmental protection outlined in the company's environmental policy stated that the

company is concerned with the environment both physically and socially and becomes an integral part of the global environment in the prevention, restoration, preservation, and protection of the environment.

Meanwhile, the PT Timah commits to improving quality of life and quality of the environment as a comprehensive purpose of its CSR activities. As the other state-owned companies, the basis for the CSR implementation is to meet the company's legal obligation. The company realized that creating values to stakeholders is an integral part of its CSR activities. This should be seriously managed with a strong commitment to ensuring the long-term of the company's development.

PT Aneka Tambang carries out the Partnership and Community Stewardship programme (*PKBL-programme Kemitraan dan Bina Lingkungan*) and community development programmes to show the commitment to stakeholders, particularly communities which live surrounding the mining areas. The objectives of the Partnership programmes are to improve the local economy and poverty alleviation focusing on empowering and strengthening small and medium enterprises (SMEs). Furthermore, the implementation of community stewardship and community development covers several areas including assistant to the provision of public facilities/infrastructure, education and training, health, worship facilities, and religious activities, natural preservation, disaster relief, cultural preservation, and other areas of social culture.

However, PTBA commits to consistently intensify social and environmental responsibility performance by conducting the PKBL. This programme aims to create equitable development of economic, social, environmental and also to create job opportunities for communities. Community development is carried out to support communities in dealing with problems in their environment particularly covering some areas, such as disaster relief, education, community health, infrastructure/public facilities, religious facilities, and natural conservation. Specifically, in relation to natural conservation, the company is involved in government programmes such as:

1. Conducting "*Clean Friday and city greening programmes*, such as planting trees and cleaning the ring 1 areas in conjunction with communities and government agencies.

2. Delivering 8.000 shelter trees and productive plans in Lahat and Muara Enim.
3. Distributing 150 organic and un-organic waste bins to schools and public places in Lahat, Muara Enim, and Tanjung Enim.
4. Providing material assistant for manufacturing erosion retaining dam in Lawang Kidul, Tanjung Enim.

The company developed some indicators to measure the success of community development programmes, namely economic improvement of communities surrounding mining operational areas, decreasing complaints against CSR activities from communities, and establishing good relations between the company and communities. However, there is no explanation about the method used to measure and implement those parameters.

At the same time, PT Timah is committed to support the economic empowerment of the communities living nearby the mining areas. This commitment is achieved through 3 programmes, namely partnership programmes (PKBL), environmental development programmes, and social aid programmes. Through the partnership programmes, the company aims to support local entrepreneurs to become economically independent as well as to create more job opportunities for the locals. Environmental development programmes cover several areas, such as education, training, and work internship programmes, reforestation, agriculture, farming, fishery, and waste management. Particularly related to environmental conservation the company collaborates with the local NGO to carry out community development programmes that focuses on the utilization of vacant lands, reclamation of post-mining areas, rehabilitation of critical and degraded land, and waste management projects by promoting compost and biogas projects. Social aid is an additional part of the community development programmes that aim to improve quality of life particularly concerning religion, health, and social interaction as well as special allocated funds for disaster relief. Those programmes are an integral part of the CSR programmes that are designed to accomplish the triple bottom lines, namely economy, social, and environmental sustainability.

Furthermore, realizing the impact of mining activities on communities and the environment, both during operation and post-

mining stages have encouraged companies to carry out programmes to deal with such problems. PT Antam undertakes several programmes, such as land utilization and biodiversity awareness, and environmental preservation activities, such as greenhouse gases (GHG) emission measurement, energy usage and conservation, and cyanide recycling technology. In addition to GHG emission measurement that has been started since 2010, the measurement refers to the IPCC 2006 methods guidelines, the GHG Protocol for corporate accounting, and ISO 14064. And then, the company published several recommendations of potential energy efficiency where one of the recommendations is the need to implement the Energy Management System (EMS) to all company activities.

Additionally, during the mine closure and post-mining stage, the company showed its concern by establishing the Environment and Mine-closure Division and promoting the mine closure and post-mining-related programmes. The division is responsible for preparing and producing mine-closure documents that comprises the legal aspect of mine-closure, management of workers, management of assets, environmental management, and monitoring; as well as organizing programmes, such as conservation for reclamation and mine-closure guarantee, community development, an audit of mine closure implementation, and mine closure cost estimates. Moreover, community development focuses on empowering local potential and the development of local commodities that have high economic values.³⁷

The management and processing as well as emission control by the company is periodically accomplished by administering emission tests to all facilities, and also conducting research on environmental development. At the monitoring stage, PTBA applies a monitoring system to mitigate any risks that may occur during the conduct of its activities. The purpose of monitoring is to minimize potential impacts to communities and the environment through several activities including monitoring water, air, soil quality, soil contamination, erosion, and wildlife and aquatic biota surrounding mining areas. Further, monitoring and reporting will be used to guide planning processes for reclamation and revegetation programmes,

³⁷ KBL Report, ANTAM, 2019.

particularly for the sites that have changed form due to mining activities.

Furthermore, PT Timah is committed to strike a balance between production activities and environmental protection efforts by implementing environmental management activities. There are five aspects related to environmental protection that the company prioritizes in order to ensure sustainable business practices. This includes;

1. utilization of energy, water, and other natural resources,
2. biodiversity and land functions,
3. greenhouse gas emissions, tailings, and other waste materials,
4. environmental impacts of the various business support activities, and
5. post-mining land reclamation and recovery.

There are 3 strategic measures to show its commitment to environmental conservation programmes and post-mining land reclamation, namely:

1. Improving the knowledge and technical skills of the employees in protecting the quality of the environment.
2. Placing ethics and regulations regarding the awareness of environmental stewardship as a core material in the company's good corporate governance guidelines.
3. Requiring business partners in mining to adhere to good mining practices and to prioritize occupational safety in all their conducts (PT Timah Annual Report 2011:247).

To give an overview of CSR programmes conducted by the 3 companies the following table summed up the whole activities.

Table 1: Corporate Social and Environmental programmes.

Company	CSR programmes	Environmental programmes
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PT Antam	PKBL	Land utilization
	Community development Infrastructure, education, and training, health, worship facilities and religious activities, natural preservation, disaster relief, social, and cultural preservation.	Biodiversity Environmental preservation: <ul style="list-style-type: none"> • GHG emission measurement • Energy efficiency • Conservation Cyanide recycling technology
	Post-mining-related programmes. Community development: farming, fishery, animal husbandry and material processing.	
PTBA	PKBL Community Development	Energy and materials efficiency Biodiversity.
	Disaster relief, education, community health, infrastructure/public facilities, religious facilities, and natural conservation.	Waste management and processing. Emission control. Research and development Environmental monitoring system.
PT Timah	PKBL Environmental development. <ul style="list-style-type: none"> • Education, training, and work internship programmes, reforestation, agriculture, 	Utilization of energy, water & other natural resources. Biodiversity & land functions.

	farming, fishery, and waste management. <ul style="list-style-type: none"> • Social Aid Religion, health, and social interaction as well as allocated special funds for disaster relief.	GHG emission measurement, tailings & other waste materials. Environmental impacts of supporting activities post-mining: land reclamation & recovery.
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Sources: summary from company's reports.

To sum up, based on the description above, it can be concluded that the 3 companies are committed to carrying out social and environmental responsibility. The commitment is based on legal awareness and recognition of the important of stakeholders in order to achieve corporate sustainability. Community development is a common programme for each company in executing its social commitments. While the environment program is related to emission reduction. This programme is in line with Indonesia's commitment to reduce emissions that cause climate change. Although further research is still required on how these commitments are being applied because there is no clear information from the report.

Code of corporate governance

Good Corporate Governance (GCG) is one indication that is used to evaluate the success of an integrated social and environmental management. The criteria used are the availability of the code of corporate governance and the form of community engagement.

PT Antam developed a corporate governance code of conduct; an ethical and practical guide for the Board of Commissioners, the Board of Directors, the Committees, and employees in interacting with stakeholders and the basis for the implementation of the decision-making process. Further, the Board of Commissioners (BOC) established five Committees, namely the

Audit Committee, the Nomination, Remuneration, and Human Resources Development (NRHRD) Committee, the Risk Management Committee, the Good Corporate Governance Committee (GCGC), and

the CSR, Environment, and Post-mining Committee (CSR-EPMC) to ensure the implementation of good corporate governance in company's activities.

Specifically, in relation to CSR activities, there is the General Affairs and Corporate Social Responsibility Director as part of the Board of Directors (BOD) that has the responsibility to coordinate corporate social and environmental activities that are supervised by the CSR-EPMC. All parties are expected to maintain and continue the implementation of the governance system in all company activities.

Likewise, in order to achieve good corporate governance, the company established an internal evaluating and monitoring system in order to ensure the effectiveness of the exercise. For instance, the NRHRD Committee has the responsibility to evaluate the BOC's performance using a self-assessment or a peer evaluation system; and the performance of the BOD is evaluated by the BOC based on pre-established Key Performance Indicators (KPIs) and then the evaluation result will be communicated to the General Meeting of Shareholders (GMS) as the highest level in the organization structure.

In general, in terms of planning and executing, CSR activities involve all units in the company. The implementation is coordinated by the general director and supervised by the CSR, Environment, and Post-Mining (CSR-LPT) committee. The General Affairs and CSR Director is responsible for formatting strategy, policies, and programmes of social and environmental responsibility as well as developing the coordination and control of the implementation by building relationships with stakeholders.

The GCG Code is the crystallization of all rules that guide the implementation of the GCG best practices, cultural values, vision, and mission. The GCG Code must be used as a reference by shareholders, Board of Commissioners, Board of Directors, employees, and other stakeholders in dealing with the Company.

PTBA establishes the Code of Conduct of the GCG based on the principle of transparency, accountability, responsibility, independence, and justice as well as guidance by corporate culture and ethics. Generally, the code is a guide that regulates any responsibilities of the company, individuals, and other stakeholders in doing business within and outside the company. Furthermore, the code covers some main points, which are the business code of business, individual code of

business, disseminating the code, and reporting violation and statement of compliance to the code of conduct. Basically, it could be surmised that the code can be concluded as a balance between corporate and stakeholder interests under GCG principles.

The application of the code is based on legal obligations as stipulated by the Minister for State-Owned Enterprises (SOE) Regulation Number 1/2011 and also underpinned by an awareness of the importance of consistency and application of GCG to support the company's operations that will create good decision-making processes, improve the efficiency of company's performance, create a good relationship with stakeholders, and also increase the company's values.

Since 2008, the company has carried out an assessment that is implemented by independent assessors to evaluate the GCG. The results concluded that the quality of the implementation of GCG is good. However, there were some recommendations to revise and adjust the code and board manual to conform to the legislation (The Law number 40/2007 on LLC) and also to change the Articles of Association of the Company; to develop and improve the code of conduct and to ensure that compliance sheets are to be signed by employees. There is also a need to add a clear description of rights, power, and responsibility of shareholders/GMS.

The company has undertaken some improvements to develop a new structure of the GCG consisting a board manual, GCG code, and code of conduct. The code of conduct regulates some policy, namely conflict of interest policy, restriction of giving and receiving gift policy, goods and services procurement policy, the procedure of reporting misconduct (whistleblowing system), and completion of the code of conduct compliance sheets by all employees. PTBA has strengthened the GCG implementation by changing the BOC Business Risk Committee and forming the Corporate Governance Committee. In formulating and implementing social responsibility programmes, the directors are required to involve the local community, so the impact of the implementation of CSR programmes can be optimal and actually reach the relevant stakeholders.

PT Timah acknowledges the importance of establishing a good corporate governance (GCG) system in accordance with corporate culture, and developed the company's code of conduct of the GCG. The code is an ethical standard as a guidance for the board of

commissioners, the board of directors, the committees, and other entities in managing the interaction with all stakeholders. The principles of the GCG are:

1. Transparency, in the decision-making process and information disclosure.
2. Independency, in managing the company without influences and pressures from other parties.
3. Accountability, the clarification of the effectiveness of the company's management.
4. Responsibility, the management based on the law and the company's principles.
5. Fairness, an equal position of shareholder's rights based on agreement and legislation.

To sum up, the good quality and consistency of the GCG will support the improvement of company's performance through the implementation of good decision-making processes, and the improvements in operational efficiency and services to the stakeholders. As a whole, the company believes that GCG can ultimately will be able to enhance corporate values. As a result, stakeholder's satisfaction will also increase due to the improved financial performance as well as reduced conflict of interest in the decision-making processes, thus helping to increase investor confidence.

Environmental standard management

The environmental impact analysis (EIA) implemented at the start of any mining operation is one of the significant efforts in building an awareness among the mining companies on the need for environmental protection. EIA is an important initiative to create economic activities that are aligned with the environment to realize sustainable development. Likewise, in Indonesia, companies conduct *AMDAL* (EIA or *Analisis Mengenai Dampak Lingkungan*) studies to identify the social and environmental impacts of mining activities. This process is also important as the basis for developing the Environmental

Management Plan (*RKL or Rencana Pengelolaan Lingkungan*) and Environmental Monitoring Plan (*RPL or Rencana Pemantauan Lingkungan*).

In the *AMDAL* process, PT Antam engages communities to participate in data collection mainly related to social, economic, and cultural aspects. Meanwhile, to finalize the *AMDAL* and monitoring plan, PTBA implements environmental protection programmes. In order to assess the effectiveness of environmental management, the company sets the parameters as indicators of environmental protection objectives under local regulations, especially regarding the fulfilment of environmental standards. PT Timah mitigates potential risks to the environment caused by the company's activities by measuring risk management strategy.

In addition to the *AMDAL* and to improve the effectiveness of environmental activities, the companies apply an environmental management system which includes environmental management, environmental audit, and environmental performance evaluation. PT Antam refers to ISO 26000 principles; PTBA and PT Timah apply ISO 14001.

To conclude, the existence of environmental management standards does not mean that companies can automatically be considered as environmentally friendly. There is a need to also look at other factors, one of which is to assess community involvement in CSR activities to support the company's environmental stewardship efforts both at the stage of the operation and post-operative phases. However, the presence of such standards at least proves that the companies seek to manage activities that are more responsible, primarily those related to environmental preservation around mining areas.

Discussion

There are four main reasons for the implementation of the CSR in Indonesian limited liability stated-owned company, namely:

1. Supporting the government programmes, particularly related to increasing local economy, elevating social and educational level as well as preserving the environment;
2. Providing job opportunities for communities;

3. Increasing community participation in supporting the company's long-term plan and post-mining development;
4. Environmental awareness related to operational activities to show commitments to sustainable practices.

The 3 companies divide environmental programmes into 2 categories. First, the programmes that are not directly related to corporate core activities but are close to the community's needs, interests, and priorities as well give significant effects to the relationship between the company and communities. Another category is activities associated with mining activities at every level that aims to show the company's effort to support environmental practices in these activities.

Although the company distinguishes between CSR programmes and environmental programmes, according to the law, both forms can be categorized as CSR activities. The difference is the source of funds. While CSR activities and community development are covered by the funds are from the company's net income (as stipulated in Article 88 of Law No 19/2003). On the other hand, the management, monitoring, development, and environmental rehabilitation programmes, are all funded from the company operational budget (as stipulated in article 74 of Law No 40/2007).

Indonesia requires the application of CSR especially for companies that explore natural resources, including mining companies. Mandatory legal requirement represents a daring breakthrough from the government to encourage businesses to consider social and environmental impacts in their operations. Further, it shows the company awareness to solve environmental damages and its impacts on surrounding communities. Thus, it is appropriate that companies need to be aware and to contribute to environmental protection and also to improve the state of the environment in the post-mining programmes.

The implementation of social and environmental responsibility in Indonesia is still looking for the right methods and forms regarding economic, social, and cultural conditions as well as politics. However, the legal obligation has formed the same pattern of CSR activities in all state-owned companies; companies that perform PKBL and community development programmes both in the production and post-mining stages.

PKBL aims to improve the economy in the form of venture capital. While community development focuses on improving community welfare. Therefore, it can be said that the companies so far do not have a programme associated specifically with its business activities, namely mining. However, from the company's point of view, the legal requirement is a beneficial strategy in terms of time and cost of preparing and planning the programme. The company would have to factor in the legal requirements within the calculation of the cost and time.

Furthermore, there are dual functions expected of state-owned companies regarding the CSR performance. On the one hand, as other companies in general, the company is expected to make a profit for the shareholders. On the other hand, the company is also expected to participate and be involved in the efforts to succeed in government programmes, namely alleviate poverty, create job opportunities, especially for people living around the site, and the impact on environmental protection.

In terms of the governance system, the 3 companies established a code of GCG as a guide for the companies to interact with stakeholders. In recognizing the potential of environmental damages caused by mining activities, the companies engaged various stakeholders to establish the form of an environmental management system to minimize negative impacts on the environment. This method can also be recognized as a strategy to promote social and environmental awareness and to create a good image.

The CSR practices are the genuine actions of realizing a corporate governance agenda by bringing sustainability into the corporate governance system. This can be done by inserting CSR programmes as part of the corporate structure. It is expected that the programme can be sustainably run and eventually be accepted by the public. Companies should understand that they operate in the communities, thus they have roles and values that should be followed. This understanding is very important to establish social cohesion between the companies, government, and society. Without this, companies will not survive nor sustain.

The desire to care for the environment (According to the Claydon theory, namely consumer-driven corporate responsibility) is the most effective way to create CSR activities. This can be applied for

CSR in Indonesia, especially for a state company. Even though CSR is mandatory, in terms of programme selection the companies should look at what is required by the public to be accepted; in this case competitive advantages are essential. This also can build a good image to achieve mutual relationships in the effort to balance social and environmental preservation.

CONCLUSION

There is a pertinent relationship between CSR performance and environmental protection within the 3 companies studied in this research. The conclusion is based on two elements, firstly, CSR is mandatory in Indonesia, and secondly, the companies implementing the CSR programmes relate to environmental protection. The company also have a code of good corporate governance and environmental standard management.

Despite many studies that look at the importance of CSR in achieving corporate governance in order to achieve corporate sustainability, little focus is made on looking at the relationship between the 2 concepts, particularly those related to environmental protection. The relationship between corporate governance and CSR was limited to the system that developed in the UK. It is submitted that the type of governance would be differ depending on the country that adopts and applies it. Further research is needed to focus on CSR performance by applying various methods to find comprehensive results. There is also an need to conduct research to investigate the relationship between CSR, corporate governance, and sustainability in different systems and through different methods and approaches.