Evolving Practices of Corporate Social Responsibility in Indonesia’s Pulp and Paper Industry

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OUTLINE

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• CSR Debate
• Why Pulp and Paper Industry
• CSR Practices of RAPP
• CSR Trajectory
• Conclusion: Key success, challenges, theoretical contribution
INTRODUCTION

• Focus on how corporate social responsibility practices have evolved over time in one of big companies, Riau Andalan Pulp and Paper (RAPP) affiliated of APRIL, in Indonesia’s pulp industry

• As most companies in emerging economy context especially emphasize only for maximizing profits, this company shows different direction by also practicing community development programs in quite massive ways and producing better impact to the society

• CSR trajectory: transformation of CSR practices since the establishment to the position which the company has been growing rapidly:
  – its institution (process of institutionalization)
  – Its CSR values (process of internalization)
METHODS

- Case study, replication logic, rather than sampling logic: whether case company chosen could provide rich information in the aspects of research constructs (i.e. Lee, 2003)
- RAPP as one of the leading pulp and paper companies in Indonesia fits with these criteria
- Desk studies, interviews stakeholders (internal, external), three time site visits, fieldwork to beneficiaries, triangulations, member checking, focus group discussion
- Mid 2007 – End of 2008
- Research time frame: 1999 - 2007
CSR Debate

• McWilliams and Siegel (2001) defines CSR as set of company’s actions to improve its social products, extend its reaching beyond the company’s explicit economic interests, with consideration that such action is not obliged by the law

• Between two extremes: economics (focus on corporations, profits) and moral philosophy (focus on social responsibilities)

• Porter and Kramer (2006): link between company and society; CSR as part of company’ strategy

• Godfrey and Hatch (2007) summarize existing CSR scholarships: shareholders capitalism, cause-related marketing, strategic philanthropic, stakeholder management, business citizenship
Pekanbaru, Riau Province, 953 km from Jakarta

Pelalawan, Pangkalan Kerinci, 72 km from Pekanbaru
Why Pulp and Paper Industry

• Controversy as renewable industry:
  – Covering wide scope of issues: economics, politics, deforestation, reforestation, politico-criminal, climate change, sustainability etc
  – Involving many actors: academicians, politicians, bureaucrats, NGO activists both local and international, international organizations, military, business, society etc

• Significant contribution to economy
RAPP Case Study

- One of two conglomerates in pulp and paper industry: Asia Pulp and Paper (APP) and Asia Pacific Resources International Limited Holdings (APRIL)
- Pangkalan Kerinci: from a village to a city (Pelalawan City)
- RAPP contributions to Pelalawan City:
  - Employment (direct and direct): 18,571 people (35.76%) in 1999; 36,125 people (35.58%) in 2002; 36,125 people (41.72%) in 2005
  - To Riau Province: Rp6.35 trillion (approx US$7 billion) in 1999; Rp17.40 trillion (approx US$19 billion)
- Production capacity per year: 2 million (pulp); 750 ton (paper) → one of the biggest in the world; biggest in Asia
- RAPP market share: 60% in Indonesia
- Export: Asia: Pulp (76.1%), Paper (43%), Europe etc: Pulp (15.22%), Paper (42%)
RAPP Integrated Facilities and Its Products
CSR Practices of RAPP: Empowerment Programs for Riau Society (Program Pemberdayaan Masyarakat Riau, PPMR)

- Integrated Farming System (1999)
- Social and Infrastructure Programs (1999)
- Small and Medium Enterprises (2001)
- Vocational Training (2000)
Triple Bottom Line (Elkington, 1997)
PPMR Coverage Areas (Number of villages)

<table>
<thead>
<tr>
<th>Distrik</th>
<th>SIP</th>
<th>IFS</th>
<th>SME</th>
<th>VT</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kampar</td>
<td>31</td>
<td>6</td>
<td>2</td>
<td>1</td>
<td>32</td>
</tr>
<tr>
<td>Kuansing</td>
<td>88</td>
<td>17</td>
<td>14</td>
<td>8</td>
<td>93</td>
</tr>
<tr>
<td>Pekanbaru</td>
<td>6</td>
<td>4</td>
<td>3</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>Pelalawan</td>
<td>53</td>
<td>24</td>
<td>15</td>
<td>17</td>
<td>61</td>
</tr>
<tr>
<td>Rohul</td>
<td>8</td>
<td>7</td>
<td>2</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Siak</td>
<td>32</td>
<td>15</td>
<td>5</td>
<td>6</td>
<td>33</td>
</tr>
<tr>
<td>Inhu</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>220</td>
<td>73</td>
<td>43</td>
<td>32</td>
<td>240</td>
</tr>
</tbody>
</table>

Catatan: data diatas menggambarkan jumlah desa lokasi PPMR namun tidak mewakili ukuran (besaran) program.

220 villages, 7 cities; 4,305 people (IFS); 43,238 people (SIP); 689 people (VT), 186 people (SME); 10,713 cows etc.
Integrated Farming System (IFS)

- Multi benefits program
- Integrated: farming, husbandry, fisheries in the one place
- People-centered development: participatory, building trust, informal sharing and meeting
- Training centres: 14-days short course (70% field-work learning; 30% in class), post training activities, proposal, fully funded by RAPP, field worker continuous assistance
- Kiosk plus: trading place and access to credits for farmers
Birth of Independent Foundation

• Between two extremes: profits oriented (results oriented) vs. non-profits oriented (process oriented) by empowering community

• “to cut” company’s “intervention”

• To create wider space to work (to serve greater societies including outer regions)

• To improve community’ self-reliance, generate independency, participation and responsibility of the people

• To have greater autonomy: program development and source of funding
Riaupulp’s Level of CSR

- As per review conducted by Indonesia Business Link (IBL) in cooperation with PBSP (Philippine Business for Social Progress) and Ernst & Young, Riaupulp’s rate of CSR practices is as follows:

<table>
<thead>
<tr>
<th>CSR Elements</th>
<th>Benchmark</th>
<th>Average (Indonesia)</th>
<th>Average (Philippine)</th>
<th>Riaupulp Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership</td>
<td>5</td>
<td>3.66</td>
<td>4.34</td>
<td>4.80</td>
</tr>
<tr>
<td>Policy Setting</td>
<td>5</td>
<td>4.02</td>
<td>4.27</td>
<td>4.11</td>
</tr>
<tr>
<td>Program Development</td>
<td>5</td>
<td>3.96</td>
<td>3.66</td>
<td>4.45</td>
</tr>
<tr>
<td>Systems Installation</td>
<td>5</td>
<td>3.86</td>
<td>3.94</td>
<td>4.84</td>
</tr>
<tr>
<td>Measurement &amp; Reporting</td>
<td>5</td>
<td>3.57</td>
<td>3.60</td>
<td>4.13</td>
</tr>
<tr>
<td><strong>Mean Rate</strong></td>
<td><strong>5</strong></td>
<td><strong>3.81</strong></td>
<td><strong>3.96</strong></td>
<td><strong>4.47</strong></td>
</tr>
</tbody>
</table>

Note:
- Benchmarking is against ideal score (5)
- Indonesia average score is based on IBL’s pilot project on 7 companies
AWARDS

<table>
<thead>
<tr>
<th>Sertifikasi/Penghargaan/Keanggotaan: Riaupulp</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Sertifikat Manajemen Kualitas Lingkungan (EMS):</td>
</tr>
<tr>
<td>✓ Produksi Pulp</td>
</tr>
<tr>
<td>✓ Produksi Kertas</td>
</tr>
<tr>
<td>- Sertifikat EMS:</td>
</tr>
<tr>
<td>✓ Kertas Permanen</td>
</tr>
<tr>
<td>- Sertifikat EMS:</td>
</tr>
<tr>
<td>✓ Keterpaduan Produksi Kertas</td>
</tr>
<tr>
<td>- GREEN Rating PROPER 2005:</td>
</tr>
<tr>
<td>✓ Program Penilaian Peringkat Kinerja Lingkungan Riaupulp</td>
</tr>
<tr>
<td>- Sertifikat Kesehatan dan Keselamatan Kerja (OSHAS):</td>
</tr>
<tr>
<td>✓ Hutan Tanaman Serat Kayu Riaupulp</td>
</tr>
<tr>
<td>- 2005 - Runner-Up untuk Kategori Keunggulan Lingkungan – Pengembangan HTI &amp; HTR aspek konservasi dan masyarakat</td>
</tr>
<tr>
<td>- PERTAMA – Praktek Terbaik untuk Keseluruhan Program Sosial</td>
</tr>
<tr>
<td>- PERTAMA – Praktek Terbaik untuk Program Sosial (Kategori Sosial)</td>
</tr>
<tr>
<td>- Pernyataan Verifikasi Penerapan Lacak Balak Acacia di Riaupulp</td>
</tr>
<tr>
<td>- Sertifikat Eco-label untuk Produksi Kertas</td>
</tr>
</tbody>
</table>

- Sustainability Reporting Awards 2007 (IAI)  |
  ✓ Best Social & Reporting  |
  ✓ Best Website  |
- Sertifikat Audit Sistem Manajemen Keselamatan Kerja & Kesehatan Kerja  |
- Sertifikat Pengelolaan Hutan Tanaman Lestari (LEI) SK 137  |
- Corporate Partner (2006-2008)  |
CSR Trajectory of RAPP

- **Establishment Stage:**
  - Values (Internalization): Start with Community Development (CD) Program, Charity, incidental, no solid concept
  - Institution: Dept. of Public Relations

- **Deepening Stage:**
  - Values: Community Development with New Paradigm;
  - Institution: Dept. of Community Development

- **Transformation Stage:**
  - Values: massive, well-planed, wider scope; give access to credit (creating self reliant of beneficiaries) expanding externally contribute to broader societies outside region
  - Institution: The Birth of Independent Foundation (greater public acceptance, efficient bureaucracy, more autonomous, greater public outreach); ‘coordinated’ by Dept. of CSR
CSR Trajectory of RAPP

**Establishment**

- **1993**: Huge scale companies establishment started
- **1995**: Commercial production started
- **1998**: Community Development established

**Deepening**

- **1999**: Dep. of Community Development established
- **Mid 2005**: Independent Foundation established
- **End of 2005**: Department of CSR is established

**Transformation**

- **2008**: ?

**Community Development (comdev) programs**

- **controlled and run by Department of Public Relations, charity and incidentally**

**Comdev Programs**

- **Coordinated by Department of CSR and implemented by External Independent Foundation**

Source: CECOM, elaborated by authors
Quadruple Bottom Line in RAPP

- Profit
- Community Development Consultant
- Process
- People
- Planet
CONCLUSION

• First, transformation of CSR values from a mere charity into a comprehensive program for community empowerment with exit strategy to prepare the vulnerable community to become empowered one who is capable of using commercial credit

• Second, CSR institutional transformation from public relations department into an independent foundation established for dealing with community empowerment issues
KEY SUCCESS

• First, commitment of owner and founder
• Second, central role of the manager that runs day-to-day operation (routines) and has full commitment to the community development program
• Third, commitment and trust of the top level management
• Fourth, guard of conceptual and methodological way of implementing CSR, the role of the community empowerment consultant
• Fifth, role of field workers
CHALLENGES: PRACTICES

• First, sustainability of institutional transformation and distribution of labor between independent foundation and CSR department of the company
• Second, the cleared organizational relations between independent foundation and the company
• Third, impact of independent foundation on the image and brand building of the company
• Fourth, issue of accountability of independent foundation to the public
• Fifth, the company should spread the experiences to other companies
THEORETICAL CONTRIBUTION

• CSR institutional governance: the company should decide to *make, buy or being collaborative* on CSR practices

• Social capital: how the networks of social relations and trust facilitate the creation of community cooperation, generate community’s commitment to spend time, resources, being socially friendly and being patient to others.
Thank you

Tanggung jawab sosial perusahaan, *corporate social responsibility* (CSR), kini telah menjadi prioritas utama para pemimpin bisnis di setiap negara. Hal ini karena CSR telah menjadi perhatian dari kalangan pemerintah, aktivis, media, pemimpin masyarakat, karyawan perusahaan hingga para akademisi. Fenomena ini menandakan bahwa CSR merupakan hal penting dalam aktivitas perusahaan di suatu wilayah tertentu.

Salah satu keunikan dan kekuatan buku ini, antara lain terletak pada upaya memadukan pemikiran teoretis CSR yang berkembang dalam khazanah akademik dengan praktik di lapangan yang dilakukan oleh Riaupulp. Dengan demikian, benang merah perjalanan sowindu CSR Riaupulp tersaji dalam sebuah perspektif akademis yang bermuara ilmiah populer. Namun, tetap mudah dipahami oleh berbagai khalyak.

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