

Research article

Corporate Sustainability, NGOs, and the Role of Stakeholders: A Case Study

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Abstract.

Sustainability is an important part of the global business practice. Companies' sustainable actions are disclosed on sustainability reports to provide transparency on their contribution to society and the environment. This study analyzes the sustainability report of one of the leading companies in the Indonesian cement industry, PT. Semen Indonesia (Persero) Tbk. (SIG). The reports have claimed their substantial contribution in developing Indonesia ethically through corporate social responsibility (CSR). However, the company is widely known to have conflicts with local people in the area where they have their cement plants. Using literature review and document analysis, this article examines the SIG's sustainability commitment by detailing its stakeholders' role in achieving good corporate governance and also the relationship of SIG with NGOs as the third party in protecting the minority of SIG stakeholders which is the local people. The findings show that although SIG has correctly published a sustainability report, it omitted the negative actions and focused on emphasizing its CSR activities.

Keywords: sustainability, environment, business, corporate governance, Indonesia

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1. Introduction

PT Semen Indonesia (Persero) Tbk. (SIG) previously named PT Semen Gresik (Persero) Tbk. was inaugurated in Gresik on August 7, 1957. This company is a state-owned cement company that has supported the Indonesia national development since the independence period. In 1991, the Company was listed on the Indonesia Stock Exchange (IDX) with the issuer code "SMGR".

SIG stated that innovation and adaptability are keys to the company's sustainability which are the capabilities that help SIG to overcome challenges and navigate through business dynamics now and in the future. Since 2013, SIG has regularly issued its sustainability report and the company's latest sustainability report is to be discussed in this paper. SIG daily activities are also reported to embody four pillars of sustainability such as sustainable economic growth, climate and energy, circular economy, people and community.


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Even though it was explicitly stated that sustainability has always been a principal and ongoing commitment of the company, SIG is known for having several conflicts with local people due to environmental destruction in its operational site. This paper will analyze more about SIG' sustainability commitment, role of stakeholders in good corporate governance of SIG, and the role of non-governmental organizations (NGOs) in SIG conflicts with local people. Research questions to be answered are as follows.

1. What is the role of stakeholders in good corporate governance in SIG?
2. How SIG business operations impact social and environmental aspects?
3. What are the roles of NGOs in protecting the interests of SIG stakeholders?
4. How does SIG fulfill its corporate social responsibility?

Previous research has studied corporate sustainability report and the role of stakeholders (see for example, the latest research from Xiao and Shailer [1] that identified the perceptions of stakeholders regarding the credibility of sustainability report). Ramadhini, Adhariani, and Djakman [2] have also showed how stakeholders can give pressures to companies to provide CSR disclosures transparently. Even though previous studies have investigated the role of stakeholders, sometimes there are still ignorance from companies to the specific group of stakeholders, usually the vulnerability and marginal groups due to their lack of power. To assist this specific group, some independent parties such as NGOs can mobilize their power against the companies'. This study is dedicated to present a case study that reflect this phenomenon, hence contributes to the literature on the relationship between companies and stakeholders as depicted in sustainability reports compared to the actual facts. We employed the stakeholder theory to investigate whether the company has paid intention to the needs and requirements from stakeholders[3].

2. Method

A case study analysis is employed in this study with data gathered from journals, news portals, and books poured into an in-depth study with a particular emphasis to examine the company's sustainability practice and evaluate its sustainability commitment.

The data was analyzed in several steps. First, we coded the data using the following keywords : 'stakeholders', 'NGO', 'SIG sustainability problems', 'corporate governance', and 'Rembang conflict'. Second, the data gathered was classified into several themes as presented in section 3.1 – 3.7 of Results and discussion.

3. Results and discussion

3.1. Role of Stakeholders in Good Corporate Governance

OECD had already issued several roles of stakeholders in good corporate governance [4]. Stakeholders' rights are set by law (e.g. employment, business, commercial, environmental and bankruptcy laws) or by contracts. Employee as part of the stakeholders should be provided the participation rights to enhance their performance. To meet the requirements from stakeholders participating in the corporate governance process, the Company shall provide access to relevant, adequate and reliable information on a timely and regular basis as stipulated by law. Legal frameworks and processes must be transparent and provide the opportunity to stakeholders to communicate and obtain redress for rights violations. Shareholders, employees and all other stakeholders shall be given the access to freely communicate to the Company regarding illegal or unethical practices.

3.2. Role of NGOs in Protecting the Interests of Stakeholders

The roles of this non-governmental organization are as a forum to accommodate the aspirations of the community in the field of development, especially those that are often not seen by the government, and maintain the atmosphere of the community to remain conducive, as encouragement in developing communities in the field of development. There are examples of non-governmental organizations in Indonesia, such as YLBHI (Indonesian Legal Aid Foundation) which is tasked with providing legal assistance to the public in need, Elsam (Institute for Study and Community Advocacy) which aims to provide advocacy and study assistance to communities in need, PBHI (The Association of Indonesian Legal Aid and Human Rights) which is a non-governmental organization whose task is to provide legal assistance to people who have experienced violence or have become victims of certain crimes, Kontras (Commission for Missing Persons and Victims of Violence) which has a noble mission to assist victims of acts of violence and missing people, WALHI (Wahana Lingkungan Hidup Indonesia) which has been actively encouraging efforts to save and restore the environment in Indonesia, and ICW (Indonesia Corruption Watch) whose mission is to monitor and report to the public about acts of corruption that occur in Indonesia.

3.3. How Companies Fulfill the Interests of Stakeholders/Public (Corporate Social Responsibility)

The concept of corporate social responsibility (CSR) according to the World Bank is a company's commitment to behaving ethically and contributing to sustainable development by collaborating with all relevant stakeholders to improve their lives in ways that are good for business interests, the sustainable development agenda, and society in general. Corporate social and environmental responsibility must be based on a concept called the triple bottom lines concept (profit, planet and people). The triple bottom line concept means that corporate responsibility is on aspects of economic goals, aspects of environmental quality, and aspects of social justice so that each company is required to disclose information about corporate social responsibility (CSR). Some relevant regulations related to CSR are Corporate Law No.40 of 2007 on Limited Liability Companies (there is budgeting for CSR costs as company costs) and Law No.25 of 2007 concerning Investment that requires all companies to carry out social responsibility.

3.4. Role of stakeholders in good corporate governance in SIG

SIG has several stakeholders and is committed to translate feedback and information from stakeholders into action through implementation and monitoring of the Company's Sustainability Policy (see Table 1). The list of stakeholders is analyzed from 2019 SIG Sustainability Report [5] ; which showed that the company has identified the direct stakeholders and how the company respond to the requirements from each stakeholder group. The company did not mention the indirect stakeholders such as NGO and media that could also have influence on the company.

3.5. How SIG business operations impacted social and environmental aspects

SIG planned to construct a cement plant with 3.000.000 annual capacity in Rembang Regency in 2010. The plan to build a cement factory creates social conflict due to environmental damage. Moreover, the plant could destroy paddy, vegetable farms, and water sources which actually mean a lot to Rembang, especially Kendeng farmers. The conflict led to farmers' rallies and protests in front of the State Palace on April 12, 2016 and March 13, 2017. Joko Widodo, the President of Indonesia, has reacted to this issue and in 2016, Kendeng farmers have won a lawsuit in the Supreme Court regarding the cancellation of the environmental permit for mining activities and the construction of

TABLE 1: List of Stakeholders of PT Semen Indonesia.

Stakeholders	Engagement Methods	Meeting Frequency	Important Topics for The Stakeholders	Company Response
Shareholders	Annual and Extraordinary General Meeting of Shareholders	Min 1 per year	The Company's performance achievement, changes in corporate governance composition	The Company's performance
				Improve next year's performance
				Publish annual and sustainability reports
Investor	Annual General Meeting of Shareholder	Min 1x per year	Cement demand growth and additional national installed cement capacity	Publish annual and sustainability report
	Investor Conference		The Company strategy to overcome the challenges in cement industry	the Company performance
	Public Expose		The Company performance achievement	
			The Company financial position and capital adequacy	
Employees	Semen Indonesia Labor Union	Min 1x per year	Employee Welfare, Employment Agreements, Employee Performance, Business plan	Monitoring and Evaluation
	Leader Café	1x per month		Creating strategies and action plan
	Work Meetings	2x per year		Creating a training plan
				Salary adjustments
				Medical checkup is applied to the employess and their spouses (applicable to all subsidiaries)
Public	Monitoring and evaluation of the SOEs for the Nation (BUMN Hadir Untuk Negeri/ BHUN) Program, Community Development Program, Social and Environmental Responsibility (TJSL) Program and Partnership Program.	Min 1x	Positive and negative impacts of the programs that have been implemented	Planning a more strategic program for the community

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				Facilitate various programs
Customer	Customer Gathering	12x per year	Product communication, Disclose of the Company's achievement and future targets, Review their needs and complaints	Provide channel for complaints
	Loyalty celebration	Min 1x per year		Provide the necessary information for customers
Business partners	Coordination meetings	Min 1x per year	The needs of the Company within one year	Facilitate meetings with business partners
	Distributor Summit	2x per year		
	Supplier survey	1 x per year		
	Work negotiations	1 x per year		
Regional Government	Village Forum	1 x per 3 months	CSR and PKBL activities are carried out in accordance with the needs of the community	Accepting inputs from local government
	Sub-District Forum	1 x per 2 months		Planning a CSR program that meet the needs of the communities
	District Forum	1x per 3 months		Comply with local government regulations

a cement factory owned by SIG in the Kendeng mountains, Rembang Regency. But in 2020, the farmer set protests again questioning the cement factory that continues to operate during the COVID-19 pandemic [6]. This case is aligned with an in-depth study conducted by the Research Center for Politics and Government that revealed that local communities living near mining sites were mostly marginalized, since they had to overcome impacts of mining operations that harmed their livelihoods [7]. In its 2019 Sustainability Report, SIG stated that it has commercial operations in Rembang, Central Java in the form of an integrated cement plant.

Meanwhile, in its Sustainability Report, SIG stated that it understood that every business process had the potential to receive complaints from the surrounding communities, both on the social and environmental issues. Therefore, the Company opened communication channels for the public to report their complaints related to social and environmental issues in the surrounding operational areas. Each complaint would be followed up by the PR function in accordance with the Standard Operating Procedure

(SOP) mechanism for conflict resolution. During 2019, SIG received 9 complaints of which all complaints were successfully resolved.

3.6. The roles of NGOs in protecting the interests of SIG stakeholders

The roles of NGOs in protecting SIG stakeholders especially the local communities are starkly seen in the emergence of the Rembang conflict. WALHI filed a lawsuit on the Environmental Permit of SIG in Rembang, Central Java in 2014 and 2017 regarding the legal smuggling on the basis of issuing permits and arbitrary actions of public officials of the issuance of SIG Environmental Permit [8]. Along with WALHI, JATAM, Koalisi Rakyat untuk Hak atas Air (KRuHA), Indonesia Global Justice (IGJ), Justice, Peace, and Integration of Creation (JPIC) OFM also supported the Rembang farmers by creating Asia Pacific Gathering On Human Rights and Extractives in 2018 [4]. The event successfully gathered international participants from ten countries such as Philippines, Myanmar, and India in which they visited the Rembang region to see directly the struggle of Rembang citizens in defending their own lands. Up until now, several NGOs and mass media still put their eye on SIG thoroughly to report the company's business operations. Whereas, Rembang citizens who were defeated, still try hard to grab their territory back from SIG until now. National NGOs had already given their best effort to support one of SIG minority stakeholders, the local people.

3.7. How SIG fulfills its corporate social responsibility

SIG implements the CSR program in accordance with Article 74 of Law No. 40 of 2007 on Public Company as well as the Government Regulation No. 47 on the Social and Environmental Responsibility of the Public Company. In contrast to the Community Development, SIG's CSR programs provide direct donations such as assistance as well as financial aid. The evaluation result for the 2019 CSR program recommended that the sustainability initiatives should be directed towards value creation, mainly to support the market and future revenues. The CSR programs also adhere to SIG's CSR pillars called SYNERGY which stands for Educating the Nation Together with SIG. The programs are consisted of SI Cerdas (Education Program) which provides education, training, and assistance for construction workers, local business partners, and prospective local labors, SI Sehat (Health Program) which improves the quality of excellent service and maintaining relationships that upholds a win-win solution with the

stakeholders, SI Lestari (Environmental Program) which carried out innovation using the latest technologies that are environmentally friendly, SI Mandiri (Empowerment Program) which improves the welfare and standard of living to the surrounding community through economic activities such as agriculture, animal husbandry, agriculture, fisheries, trade, SMEs, and other activities, and the last one is SI Peduli (Socio-Economic Program) which improves human resources quality of the surrounding community. All these five aspects of SIG units are implemented on its holding and subsidiaries such as PT Semen Gresik, PT Semen Padang, PT Semen Tonasa, and PT Solusi Bangun Indonesia Tbk.

Regarding the Rembang conflict, in its 2019 Sustainability Report, SIG carried out the environmental conservation as well as the P4T Empowerment Program (Integrated Plantation, Agriculture, Fisheries and Livestock) on its Rembang Plant in which they build, for instance, a rainwater conservatory pond managed by the Village-Owned Enterprises. In addition, SIG also gave scholarships, conducted blood donors, as well as food provision for Rembang residents.

4. Conclusion

Based on our analysis of SIG Sustainability Report for the year 2019, the company has provided many and diverse CSR programs to support its sustainability principle. However, the business operations of SIG still triggered conflicts with local citizens due to environmental destruction and land-grabbing, for example SIG built its plant above the indigeneous land of the Rembang people. Through its 2016 until 2019 Sustainability report, SIG did not disclose the fact that it actually had socio-economic conflict which actually violated its sustainability principle. This fact shows that SIG has not develop good relationship with specific group of stakeholders as suggested by the stakeholder theory. Meanwhile, national NGOs had already done a good job in protecting the rights of one of SIG stakeholders, the local people.

Due to SIG's historical business operations, several practical implications are identified. First, Government of Indonesia (Gol) should emphasize a better and effective policy regarding land management, environment, and industrial relations. Effective regulations should also be set, including the rewards and punishment regarding substantial contents and procedures of company's sustainability report. Second, firms should complete and stick to the environmental permit according to Indonesia's positive law. For instance, firms should also clarify the ownership of the land before construction process and Gol should help firms providing relevant data regarding this issue. This study has the limitation of investigating the SIG sustainability problem using secondary data. Future

research can further employ primary data to probe the perceptions of corporate actors and key stakeholders on specific sustainability issues.

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