

Conference Paper

Comparative Study Level of CSR Compliance in the Cement Industry Sector, Mining Sector and Banking Sector in Indonesia

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Abstract

In this article, the authors briefly explain contemporary disclosures of corporate social responsibility and related disclosures of sustainability of Indonesian sectors. Also, we critically analyze the level of CSR compliance in each sector of Cement, Mining and Banking. So, this article is a comparative study leading to describe the role of CSR and how it will be implemented in the different industries of Indonesia. It is anticipated that this article will add to the body of knowledge on CSR, especially as it relates to Indonesia, which has a relatively dearth of literature on CSR, and provide some insights to sectors operating in Indonesia. Results of the study demonstrate that though voluntary, overall CSR reporting by Indonesian sectors are rather moderate, however, the varieties of CSR items among Indonesian sectors are really remarkable, and the implementation of CSR by Indonesian sectors can be realized with CSR disclosure disseminated to the public in the annual report, and the sector can be measured through financial performance. Finally, this article has provided a brief discussion of the evolving understandings of CSR and its importance to each sector in order to run its business activities on the long run and to increase its efficiency and effectiveness in the scope of its industry. In addition, social responsibility and sustainability are defined by business in order to attract or serve the interests of stakeholders.

Keywords: Corporate Social Responsibility, CSR disclosure and compliance, sustainability, Indonesian sectors of Cement, Mining and Banking.

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1. Introduction

The business world is growing rapidly, demanding the company's competence in maintaining their business. In developing a business enterprise requires not only investors who will invest in the company, but also needed a good relationship with the government, and society. The existence and impact of corporate activity are often contradictory and even detrimental to the interests of the other party. Therefore, the company should not only focus on the company's interests, but also consider the interests of

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parties outside the company. Awareness of the need to preserve the environment in Indonesia has begun to flourish. This is indicated by the rules limited liability company Act No. 40 of 2007 which came into force on August 16, 2007. So that the company runs its business activities in the field and, or related to the natural resources required to implement social and environmental responsibility. Environmental performance and international issues are significant as corporate social responsibility (CSR) consideration. These factors contribute to the relationship between CSR and financial performance [1, 2]. This means that the issue of triple bottom line, a set of performances for a company comprising of social, environmental, and financial is desired by stakeholders. In addition, the issue of internationalization is an important aspect of the business structure.

Corporate social responsibility (CSR) and sustainability are two of many terms used to describe the social and environmental contributions and consequences of business activity. The notion of sustainable development lies in progress within three dimensions: economic development, environmental protection and social cohesion. Its principles are described as social progress that recognizes the needs of everyone, effective protection of the environment, prudent use of the natural resources, and maintenance of high and stable levels of economic. The concept of corporate social responsibility (CSR) has evolved over the past decades from a marginal, and often neglected, area of interest, into a comprehensive area of specialization, which has become increasingly relevant in decision-making processes in firms and enterprises. In fact, CSR used to be discussed only by a small group of academics [3]. Despite the increasing interest by professionals and academia, to this day there is no universally accepted definition of CSR.

The current global discourse on corporate social responsibility (CSR) emphasizes its cultural universality and benefits [4, 5]. In practice, there are numerous obstacles to achieving corporate responsibility, particularly in many developing countries where the institutions, standards and appeals systems, which give some life to CSR in North America and Europe, are relatively weak. This article examines the experience of promoting CSR in Indonesia and its relevance to that economy and society. Particular attention is focused on CSR compliance in the cement industry sector, mining sector and banking sector in Indonesia.

When discussing the scope or socioeconomic impact of CSR in the Indonesian context, it is important to know a little of the history of contemporary economic culture. While transnational corporations (TNCs) have been in Indonesia for many years, CSR is a relatively new concept and practice. Having been generated in Europe and the United

States as an answer to the perceived excesses of corporate power, CSR standards and initiatives are based on loosely defined social norms and stakeholder values that stem from Western cultural values. As a result, foreign investors and multilateral donors are increasingly demanding that developing countries provide some degree of national as well as corporate transparency and accountability [6].

So, this article has been created in order to make a comparative study which leads to describe the role of CSR and the way of how CSR will be implemented in such different industries as: the cement industry sector, mining sector and banking sector in Indonesia. There are two factors triggering changes in business structure in the 21st century which are globalization and information technology [7]. Globalization in the business context is the unification of business entities and world-wide market resulting in increasingly intense. Consequences of the globalization are the emergence of free trade agreement in Asian and in Pacific areas well. The implementation of the agreement is to free the committed nations from the 'barriers to entry' for free flows products and services. Indonesian sectors have strong existence in technological know-how and brand names, market power resulting from scope and scale economies, a wider range of investment opportunities, competitive industries, lower factor cost, and lower systematic, or beta risk. It is reasonable to expect that Indonesian sectors have higher level of profitability. In addition to the factors, due to operating experience in diverse business environments, Indonesian sectors have more abilities to develop diverse capabilities and have a broader learning opportunity than their partner in the same country.

Cement is an energy intensive industry with energy typically accounting for 30–40% of the production costs [8]. The high energy consumption places the sector to an important position from socio-economic point of view. Energy efficiency improvement in cement industry is thus an important area of research [9]. An appropriate CSR must be adopted to achieve the principal objectives, such as maximizing the plant productivity, minimizing the raw material, minimizing the energy consumption, and improving the performance at partial load, of any cement industry [10].

CSR is a helpful conceptual framework for exploring the corporate attitude of companies toward stakeholders [11]. For the mining industry, CSR is about balancing the diverse demands of communities, and the imperative to protect the environment, with the ever present need to make a profit [12]. For the mining industry, one outcome of the CSR agenda is the increasing need for individuals companies to justify their existence and document their performance through the disclosure of social and

environmental information [13]. The finite nature of non-renewables, the diverse environmental impacts associated with their extraction industries and use, the economic importance of primary extraction industries in some countries, and the social impacts of extraction activities in local communities have led the mining industry to be amongst the most prolific disclosers of social and environmental information [14]. Most large mining companies now disclose information covering dimensions of CSR such as social and environmental performance, health and safety issues and ethics.

1.1. Research gap and the justifications for choosing this case study

The existing gap in the literature on CSR in the Indonesia context, the gap is that CSR have shifted their focus from measuring corporate social responsibility disclosure to exploring it's determinants, and the academic researchers have made rigorous efforts to explore the social and environmental disclosures made by the corporate sector, including: size of the business [15–18], financial performance [19], age of the company [20], board characteristics [21] and nature of the industry. The motivation for this article emerges from the realization that most of the research in this sphere of knowledge has explored corporate social responsibility disclosure in the western world, and only a small number of studies have been conducted into corporate social responsibility disclosure and its determinants in developing economies such as Indonesia, India, Pakistan and Malaysia. And, the other motivation for this study is the need to measure and understand the level of corporate social responsibility disclosure and its determinants before the application of corporate social responsibility.

The justifications regard to the followings: This case study has been chosen, and that's because of: the scarcity of the researches in this field, and in order to give clear information about the corporate social responsibility over the sectors of cement industry, mining and banking. Also, in order to reinforce the role of CSR, and to clarify its function to improve the capabilities and performance the sectors of cement industry, mining and banking.

1.2. Research focus

This research has focused on describing and explaining the role of CSR and sustainability in improving and updating new developed systems in the sectors of cement industry, mining and banking. Also, it has focused in making a comparative study

between each sector in order to know how efficient and effective the concept of CSR and sustainability to diagnose the problems and impediments of each sector. Finally, it has focused on enhancing the mutual trust between those sectors and society by implementing effective management policies which based on well managed CSR.

1.3. Research objectives

1. Is to know the distinction or variation points of CSR disclosure in each sector, and to know which one is capable to use a good CSR in the scope and the content of its business area.
2. Is to know the main techniques and the role of CSR, to know the ways to adopt a well-managed CSR in each sector and to analyze the level of quality and competence in order to know which sector is having the highest commitment of corporate social responsibility in its business activities.
3. Is to obtain information about corporate social responsibility disclosure in order to know the weaknesses and strengths points of the industry in each sector.
4. Is to analyze the efficiency and the effectiveness of cement, mining and banking sectors in order to provide clear ideas and facts about its business or industry activities and to know if that sector will run its business well to be sustainable.
5. Is to know the followed sustainability reporting guidelines on cement, mining and banking industries, and to know which industry is giving or offering well-managed strategies to satisfy stakeholders.

2. Literature Review

2.1. Stakeholder theory

The concept of CSR has been known since the early 1970s, which is commonly known as stakeholder theory means a collection of policies and practices relating to the stakeholders, values, compliance with legal requirements and the environmental community awards, as well as the commitment of business to contribute to the sustainable development. Stakeholder theory begins with the assumption that the value (value) explicitly and no doubt a part of business activities [22, 23]. CSR is the company's strategy to satisfy stakeholders. If CSR is done well, the performance of the company will increase. This is because the stakeholders have confidence in the company that

runs the CSR that, the company that runs the CSR is a company that cares about social and environmental problems that exist so that later stakeholders will provide full support for any action taken during the company did not violate the law.

Stakeholders in corporate social responsibility concept is the concept of social responsibility puts emphasis on the role of stakeholders, stressing the fact that a firm cannot function independently from its surroundings [24]. Falck and Hebllich (2007), state that CSR can be strategically applied in dealings with claims of each particular interest group. The firms' management can use CSR as a normative instrument in planning strategies which satisfy shareholders as well as other interest groups. Social responsibility represents an important 'exchange' between the firm and its public domain or interest groups. This exchange, the only transaction where the firm offers something of value – typically social profits or public service – presupposes the approval and support by key individuals and/or social-political interest groups [26].

2.2. Theory of legitimacy

Legitimacy can be considered as the perception or assumption that the actions performed by an entity is a desired action, inappropriate, or in accordance with a system of norms, values, beliefs and definitions developed socially ([27] in [28, 29]). O'Donovan (2000) in Hadi (2011) argues the legitimacy of the organization can be seen as something that is given to the company and the community something to be desired or sought the company of the community. Thus legitimacy has benefits to support the survival of a company.

2.3. Signaling theory

The activities undertaken by the company always have an impact on stakeholders, such activities to the attention and interest of the stakeholders, especially investors and prospective investors. Therefore, the company has an obligation to provide a report as information to stakeholders. The report must be disclosed company consists of financial statements. However, companies are allowed to disclose additional reports, for example, annual reports that provide information about the company's workforce, awards received by the company and the company's CSR activities. The purpose of this report is to provide additional information about the company's activities as well as provide sign (signal) on the company's concern for the environment. Signs (signals) is expected to be received positively by the market so as to affect the

performance of the enterprise market as reflected in the market price of the company's stock. Signaling theory emphasizes that the company can increase the value of the company through its report. If the company fails to present more information, then the stakeholders will only assess the company as an average of the same with companies that do not disclose the additional report ([33] in [34]).

2.4. CSR

CSR is a mechanism for an organization to voluntarily integrate social and environmental concerns into its operations and interactions with stakeholders, which exceeds the responsibility of the organization in the field of law (Kusumadilaga, 2006). According to the International Standard ISO 26000 in Resturiyani (2012) CSR is the responsibility of an organization for the impacts of decisions and activities on society and the environment in the conference are realized in the form of transparent and ethical behavior that is consistent with sustainable development and public welfare, considering expectations of stakeholders, in accordance with established laws and norms of international behavior, and is integrated with the organization as a whole.

2.4.1. Corporate Social Responsibility in banking sector

The issue of social responsibility in the banking sector was dealt with in a study by Brancoa and Rodrigues (2008) and Couplanf (2005), published in journals which are listed in the SCOPUS database. The Brancoa and Rodrigues (2008) study examined social responsibility disclosure (SRD) on the Internet by Portuguese banks in 2004 and 2005 and compared these disclosures with those made in annual reports in 2003 and 2004. The results suggest that banks with higher visibility attribute greater importance to social responsibility disclosure as part of their reputation management strategies when compared with banks with lower visibility. These banks exhibit greater concern to improve the corporate image through social responsibility disclosure. Coupland (2005) analyzed five reports of banking groups operating in the UK. The aims of the study were, to locate and make visible how distance is created between CSR issues and accounting practices in the web-based literature of these organizations, to examine how CSR is constructed as a concern of the organizations and to investigate how this is legitimated, in part, through accounting terms.

2.4.2. Factors that drive social and environmental disclosure in the mining industry

The shift toward CSR and tackling the challenges posed by sustainable development in the mining industry is characterized by numerous development both within the industry and more widely in the role of business. Mining operations often exist side by side with indigenous people [37]. Though traditionally seen as a potential impediment to development, with the globalization of opposition to mining developments and the emancipation of indigenous rights, engagement with aboriginal groups has become a reputational and political imperative for mining companies. This is compounded by the globalization of the opposition to transnational companies, and the increased organizational capacity and cooperation of NGOs, social movements and indigenous people [38]. Structural changes in the mining industry over the last decade have led to unprecedented access to new regions for mineral exploration [39], eased by the liberalization of mining policies and regulations in developing countries [40], which have led to unprecedented access to new regions for mineral exploration but may also increase the potential for conflict with a wide range of stakeholders. There is a growing emphasis amongst government organizations on the need for partnership with business, in order to address such common sustainable development issues and achieve the same objectives [41], (e.g., the UN's global compact which is (<http://www.unglobalcompact.org>)).

2.5. Sustainability concept

Sustainability is the ability to continue a defined behavior indefinitely. For more practical detail the behavior you wish to continue indefinitely must be defined through (<http://www.thwink.org>),

1. Environmental sustainability is the ability to maintain rates of renewable resource harvest, pollution creation, and non-renewable resource depletion that can be continued indefinitely.
2. Economic sustainability is the ability to support a defined level of economic production indefinitely.
3. Social sustainability is the ability of a social system, such as a country, to function at a defined level of social well-being indefinitely.

2.5.1. The challenges of sustainability

Whereas the need for an integrated approach toward sustainability has been recently advocated by academics, institutions and cross country initiatives, the implications and challenges involved in implementing this integration have received little attention. As argued by Gray (2010, p. 53), 'Sustainability is not only a complex and elusive notion, but one which is fraught with potential contradictions'. Some of these 'potential contradictions' stem from the tensions between the different dimensions of sustainability, which may occur when attempting to implement all dimensions simultaneously, according to an integrated approach.

2.6. The difference between business and social disclosure

2.6.1. Business disclosure

A discourse which has emerged within the debate on sustainability concerns the relationships between modern corporations and both social and environmental matters (we will label this discourse as the 'business discourse'). As argued by Gray (2010, p. 57), 'Capitalism and its destructive tendencies are manifest through its greatest creation—the corporation'. Given the depletion of natural resources that is caused through their activities, corporations are required to move toward a state in which they use only resources that are consumed at a rate below the natural reproduction, or at a rate below the development of substitutes. They do not cause emissions that accumulate in the environment at a rate beyond the capacity of the natural system to absorb and assimilate these emissions. Finally they do not engage in activity that degrades eco-system services ([44], p. 133). This situation encompasses not only eco-efficiency [45] but also eco-effectiveness [47] and sufficiency [48].

Moreover, from a business perspective, sustainability has been referred to as the capability of a corporation to last in time, both in terms of profitability, productivity and financial performance, as well as in terms of managing environmental and social assets that compose its capitals. In one sentence, business sustainability is the business of staying in business [49]. Dyllick and Hockerts (2002) define business sustainability as 'meeting the needs of a firm's direct and indirect stakeholders without compromising its ability to meet the needs of future stakeholders as well' (p. 131).

There are a number of best practices that foster business sustainability, and help organizations move along the path from laggards to leaders. These practices include [49],

1. Stakeholder engagement: Organizations can learn from customers, employees and their surrounding community. Engagement is not only about pushing out messages, but understanding opposition, finding common ground and involving stakeholders in joint decision-making.
2. Environmental management systems: These systems provide the structures and processes that help embed environmental efficiency into a firm's culture and mitigate risks. The most widely recognized standard worldwide is ISO 14001, but numerous other industry-specific and country-specific standards exist.
3. Reporting and disclosure: Measurement and control are at the heart of instituting sustainable practices. Not only can organizations collect and collate the information, they can also be entirely transparent with outsiders. The Global Reporting Initiative is one of many examples of well-recognized reporting standards.
4. Life cycle analysis: Those organizations wanting to take a large leap forward should systematically analyse the environmental and social impact of the products they use and produce through life cycle analysis, which measure more accurately impacts.

Firms that are sustainable have been shown to attract and retain employees more easily and experience less financial and reputation risk. These firms are also more innovative and adaptive to their environments.

2.6.2. Social disclosure

The social discourse has also developed in the context of corporations and has been particularly associated with the notion of social responsibility. Already in 1953, Howard Bowen's *Social Responsibilities of the Businessman* defined the social responsibility of businessmen as 'the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society' (p. 6). While Bowen's contribution represented a milestone in the debate on social responsibility, during the 1960s, definitions of Corporate Social Responsibility (CSR) began to spread: Davis (1960), for example, argued that CSR refers to 'businessmen's decisions and actions taken for reasons at least

partially beyond the firm's direct economic or technical interest' (p. 70). In so doing, he also suggested that some socially responsible business decisions could be justified by the long-run economic gains of the firm, Frederick (1960), instead, argued that 'social responsibility in the final analysis implies a public posture toward society's economic and human resources, as a willingness to see that those resources are used for broad social ends and not simply for the narrowly circumscribed interests of private persons and firms' (p. 60). During the 1980s and 1990s, alternative approaches to CSR were elaborated, such as stakeholder theory [53], corporate citizenship [55] and business ethics [57].

3. Research Methodology

We ensured that the research design and data collection matched the research objective – to explore the meaning and practice of CSR compliance in cement industry, mining industry and banking sector in Indonesia. This study has done with a qualitative approach. A qualitative approach taken by the researchers in order to accommodate studies about understanding the concept of CSR, and to obtain a general overview of the investigated issues. So, the purpose of this research is to investigate the association between CSR disclosures and the sectors or industries of (cement, mining, and banking) in Indonesia.

So, to assess things was needed a method of deep, oriented to the meaning, study thoroughly, could be described and was in nature inductive. Qualitative research by Shank, (2002:5), defines as a form of a systematic empirical inquiry into meaning. By systematic, he means 'planned, ordered and public', following rules agreed upon by case study, researchers will spend time in describing the context of or a setting for a case study.

3.1. Data collection

Data collection techniques in this study using secondary data to collect. The data used is in the form of financial statements and annual report of the cement, mining and banking sectors base has been published. The data collected for the purpose of the study involves the examination of annual reports for the year 2016–2017 of the cement industry such as (cement Indonesia and cement padang), mining industry such as (Krakatoa steel and adaro energy), and banking companies considered in the research include (BNI and BRI). The annual reports of selected cement, mining and banks were

examined after downloaded from the official web sites. The official web addresses of all firms were collected from the “companies profile section” maintained, exhibiting CSR reporting such as internet, newspaper, media, this study concentrates on published annual reports. The selection of annual reports is consistent with other prior studies.

4. Discussion and Results

This article has discussed the main benefits of CSR in order to improve the quality and proficiency of each aforementioned sector, and to increase or improve the reputation of each sector. So, we briefly explained that, Indonesian sectors still update new systems to enhance opportunities lead to increase the CSR compliance in each industry, but, the level of CSR compliance is differ from one sector to another. Based on the annual reports and the financial statements of each sector. In addition to use ratios analysis such as (liquidity, profitability and financing), we obtained a result which is the CSR compliance of banking sector is higher than cement and mining sectors, meanwhile the financial performance of each sector is really impressive. Also, we took in consideration that financial ratios can play an important role as a tool for measuring the performance and decision-making process of each sector, and through that it is possible to recognize if the industry has a low or high level of CSR compliance. Also, corporate social responsibility, and sustainability are considered as an ideological movements that are intended to legitimize and consolidate the power of each sector in Indonesia, and we considered that stakeholder theory of each sector represents the some policies and rules of each sector’s structure, as we noticed some sectors, its CSR compliance is totally connected with number of stakeholders, and it considers that their vision and perspective is so important to these sectors in order to make its decisions as well. As anticipated, the meaning of CSR was largely framed to reflect the local realities of each sector. Also, the results that we obtained are: Firstly, we noticed that the relevance of CSR activities affect corporate images and society perceptions, including how the corporate is doing outside the workplace, and it helps to invest and build stronger relationships with the key stakeholders, meanwhile, each sector has a different vision to implement CSR in the scope and the content of its industry, and banking sector still reinforces the best ways to implement CSR and with high compliance rather than cement and mining sector. Secondly, we have noticed that extra responsibilities for banking sector lead to meet staff higher order need for self-actualization, which motivates them, meanwhile for some companies of mining, and

cement sector extra responsibilities are considered stressful for the staff, so could demotivate.

5. Conclusions and Arguments

First, from the financial statements and annual reports of each sector, it is easy to conduct the importance of ideas and information about the role of CSR and the level of its compliance in each area. And, this will lead to recognize or to discover the strengths and weaknesses points of each sector. So, to formulate a successful CSR strategy, those sectors of (Cement, Mining and Banking) must understand that the benefits of CSR lead to create a well-managed business, to attract and maintain happy workforce, to enhance the sectors influence in the industry, also lead to strengthen risk management and enforce compliance and lead to make access to funding opportunities and saving money on energy and operating cost. In addition to enhance relationship with stakeholders and to increase in customer retention. Secondly, to obtain useful and effective plans in order to expand the size of the industry activities, those sectors must take the company's policies, instructions and hierarchy of employees in consideration in order to give clear CSR disclosures about the whole activities, in which this will be helpful to increase the level of compliance in each sector. Thirdly, financial ratios are useful product of financial statement and provide standardized measures of firm's financial position, profitability and riskiness. Also, the ratio analysis can help in understanding the various long term, and short term decisions and position of the sector. Fourthly, to have a strategic, and well-organized system, each sector must make the right decisions that lead to achieve the desirable goals, and must reinforce the role of CSR in each activity of the industry activities and to reinforce the role of responsibility aspects in the incentive and compensation systems of the management. Finally, the rationale for the industry case for CSR may be categorized under four arguments [59], (1) Reducing cost and risk posit that CSR may allow a sector to realize tax benefits or avoid strict regulation, which would lower its cost. The sectors of (Cement, Mining and Banking) may also lower the risk of opposition by its stakeholders through CSR activities.

(2) Strengthening legitimacy and reputation hold that CSR activities may help a sector strengthen its legitimacy and reputation by demonstrating that it can meet the competing needs of its stakeholders and at the same time operate profitably. A sector therefore would be perceived as a member of its community, and its operations would be sanctioned. (3) Building competitive advantage contend that, by adopting certain

CSR activities, a sector may be able to build strong relationships with its stakeholders and garner their support in the form of lower levels of employee turnover, access to a higher talent pool, and customer loyalty. Accordingly, the sector will be able to differentiate itself from its competitors and (4) Creating win-win situations through synergistic value creation hold that CSR activities may present opportunities for a sector that would allow it to fulfill the needs of its stakeholders and at the same time pursue its profit goals.

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