

# The Role of CSR as Corporate-Level Strategy in Mining Companies Case Study in Indonesia

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## Abstract

The mining business is oriented not on profit-making alone but it should also be oriented on responsibility to the physical and social environment to create sustainability in business with an environmental vision. In practice, mining companies should exercise corporate social responsibility (CSR) from the first time they enter a mining area (exploration). When CSR implementation is maximized, the positive impact on the company will be likewise maximized. This research used a qualitative method with an analysis that referred to McNabb (2002) and in testing for trustworthiness it used a technique presented by Lincoln and Guba (1985). The research objects in this research were PT Weda Bay Nickel and PT Tekindo Energi, mining companies located in Central Halmahera, North Maluku Province. The research findings showed that the CSR programs implemented by mining companies were in the form of community empowerment, infrastructure, and community welfare. The strategies used to promote CSR program implementation involved increasing the investment (the exploration phase), increasing the profit (the production phase), creating a company with good corporate governance, and care for the natural and social environment. Good cooperation should be established between the companies, the government and the community in the implementation and drafting of CSR. CSR implementation provided the benefits of improved community welfare, assistance to the government in achieving sustainable development, and achieved sustainability on the part of the company in running its mining business operation. This research recommends mining companies to carry out CSR programs from the time that they enter a mining area (exploration). The companies should establish good cooperation with the government, the community and other companies in preparing and implementing CSR programs. The companies should be oriented on good CSR implementation in running their mining operation since CSR is a crucial factor which today is incorporated into the vision and mission of mining companies or incorporated into the corporate-level strategy.

**Keywords:** corporate-level strategy, corporate social responsibility, sustainability of business, sustainability development, community welfare.

## 1. Introduction

Mining business is often associated with the term corporate social responsibility (CSR). This understanding shows that mining business is not only oriented to profit (profit making) but also responsible to its physical and social environment to achieve a sustainable and environmentally sound enterprise. As proposed by Jenkins and Obara (2008), the term corporate social responsibility in mining business is its social responsibility on the impact of mining operations, corporate operations without social legitimacy, massive destruction, and abandoning the site when all the natural resources have been fully exploited. Meanwhile, Dahlsrud (2006) said that despite various attempts have been made to describe the definition of CSR in order to make it clear and unbiased, there remains some confusion about how CSR should be defined. The latest definition of CSR by WBCSD (World Business Council for Sustainable Development) is the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large (WBCSD, 2013). So the main concern of CSR is economic development and improved quality of life or it could be said to increase the welfare of society.

Regulation on the amount of fund for CSR in SOEs (State Owned Enterprises) in Indonesia is clearly stipulated in Law No. 19 of 2003 on state owned enterprises and further elaborated in the Regulation of the Minister of State Enterprises No. 5 of 2007 which states that in addition to seeking profit, the role of state-owned companies is also to actively provide support to small businesses, cooperatives, and community. This form of social activity

is known as program kemitraan bina lingkungan (PKBL) or community development partnership program. Funding for the partnership comes from setting aside 2% of net income after tax that can be used for community development programs and partnerships. In contrast, Law No. 40 of 2007 on limited liability companies does not mention in detail how much to be spent on CSR and where it should come from in a limited liability company (non-SOE). Government Regulation No. 47 of 2012 on Environmental and Social Responsibility of Limited Liability Companies also only mentions that the amount for CSR is subject to the principle of "fairness" and "reasonableness".

Mining companies may in practice start to perform CSR since entering the stage of field survey and the stage of exploration although they have not made profit from the operations. Actually, at this stage of exploration, the company's physical destruction impact is not that big but the social impact on community is very big. People living around the mining site who are generally of lower education and income demand the company's responsibility for social and environmental impacts of the exploration activities. Provocateurs emerge in the form of organizations and incite local people to demand their right for corporate social responsibility from the mining company. When the mining company is not sensitive to this issue and does not expedite disbursement of CSR funds then surely rejection of the company's presence will arise that may lead to inability to perform exploration activities.

Accounting and tax reporting of the fund for implementation of CSR on exploration is very difficult to be in compliance with applicable rules. As suggested by Tilt (2009) on CSR reporting, the existing accounting report guidelines and mechanisms are unable to cover the overall social and environmental impacts of business. Because CSR is implemented upfront together with other pre- operational expenses, then its costs should be capitalized and included in the balance sheet under non-current assets, similar to deferred exploration costs, deferred exploration and development costs, or deferred environmental and reclamation costs, by the name of deferred CSR costs. Alternatively, CSR may also be included in the balance sheet under intangible assets, similar to patents, trademarks, or development costs by the name of CSR. Either CSR is included in non-fixed assets or stands as a new account of deferred CSR or even included in intangible assets, it should be amortized in accordance with applicable rules. Law No.17 of 2000, Article 11A paragraph 6, states that expenses incurred prior to commercial operation that have a useful life of more than 1 (one) year, are to be capitalized and then amortized. Referring to this Law, CSR can be capitalized and amortized because its useful life for a company can be more than one year.

Mining companies at first glance may be seen to only produce negative impacts that contribute to the destruction of nature and environment, but they also produce positive impacts to the economy. The positive impacts of mining companies to the economy are presented by Kwesi and Kwasi (2006) who say that mining companies make positive contribution to the economy. The mining companies' forms of contribution to the economy according to Romero (2004 ) are in terms of national development, such as increasing the country's foreign exchange reserve, increasing the regional government revenue, employing workforce and improving the socio-economic conditions of the surrounding community of the mine. Whereas positive benefit of CSR implementation for the company could be in the form of company's reputation insurance if the company experiences a bad incidence, according to Minor and Morgan (2010). With CSR, the company's reputation will be maintained and its competitive advantage increased, therefore its balance sheet also becomes stronger. Sino - German CSRP (2012) mentions that CSR has positive impacts on the operations and management of a company in two ways, i.e. direct and indirect positive impacts. Direct positive impacts enjoyed internally by the company are organizational commitment of employees and learning, deeper talent pool, operational effectiveness and externally in the form of publicity and improved reputation and stakeholder relationships. Whereas indirect positive impacts enjoyed internally by the company are internal cost savings, innovation, increased productivity, improved quality, and externally in the form of capital access, market access, customer satisfaction and price premium, and risk reduction.

CSR when viewed from the perspective of the shareholder theory focuses on the manager who performs the main responsibility, which is to accumulate profits and the responsibility as a trusted party to save and increase the shareholder's equity entrusted to him without fraud. When the manager performs CSR, it means that the manager violates the rule since he collects a tax from the owner of the company and determines how money from the tax is used (Azheri, 2011). The theory attracts a lot of criticism because CSR is essentially a business action and activity that makes an impact on certain people, community, and environment in which the company conducts its business or that is known as the stakeholder theory of CSR. Therefore, such company should carry out activities that do not have a negative impact on stakeholders and can realize a better and prosperous society

(Azheri, 2011).

When the mining company is already in a region, the step that must be taken by shareholders to maximize welfare is to determine a strategy for successful and sustainable performance. If the mining company's operations are successful and sustainable, then profits for shareholders can be realized. The way to maintain continuity of operations of the mining business could refer to the opinion of Lins and Horwitz (2007). Lins and Horwitz mentions some keys to maintaining a mining company's operational sustainability, which are environmental, social, economic and governance aspects. Environmental aspects include environmental management, biodiversity, land management, climate change and water management. Social aspects include employee and public safety, involvement of stakeholders, reduction of HIV / AIDS, life cycle policy for mining, human rights, community development, and supply chain management. Economic and governance aspects include transparency and accountability, external performance indicators, and sector -specific or global Initiatives.

This study will discuss further not only what CSR implementation strategies are effective, efficient and on- target but also CSR as a business strategy that aims to support sustainability of a mining company's existence, achievement of public welfare and sustainable development. CSR as a viable strategy has been demonstrated by Siegel and Vitaliano (2007) who found that CSR proved to be effective to increase a company's sales as well as by Jones and Bartlett (2009) who found that a company's CSR contributes positively to public relationship. According to Jones and Bartlett, public relationship actually benefits more to the company's strategy than just general communication on public relations activities. Additionally, Filho et al (2010) further explained that CSR could become a strategy to improve a company's competitive advantage. Nevertheless, CSR is not the only way to get a competitive advantage, but there are other factors of organizational values, relationship with stakeholders, internal resources, ideology of the upper management, and public expectations.

Mining companies have their own uniqueness compared to manufacturing, garment companies, or others in carrying out CSR programs. Manufacturing or garment companies are usually located in an industrial area where surrounding community and infrastructure are already established and well ordered. The situation is very different in a mining area, its location is in remote place where infrastructure has not been established. This is what happens to PT Weda Bay Nickel and PT Tekindo Energi where the surrounding environments are still not well managed. Therefore, both companies should implement CSR programs since the company first entered the mining area. However, whether the CSR implementation since the beginning of companies' entrance although they have not made profits from the mining operations is a corporate strategy to maintain and strengthen a stable surrounding environment, is yet to be examined and reviewed more deeply.

Mining companies which will be reviewed in the study, PT Weda Bay Nickel (WBN) and PT Tekindo Energi are both a nickel mining company. Selection of the two companies as the research object is because they are both located in Central Halmahera, North Maluku province and close to each other. Moreover, the two companies have different forms of legal license, where PT WBN holds a Contract of Work (CoW) under the ownership of foreign direct investment (FDI) and PT Tekindo Energi holds a Mining Business License (MBL) under the ownership of domestic investment. With different characteristics, each company therefore has a different pattern of CSR implementation and strategy.

## 2. Methodology

Type of research used in this study is a qualitative research with interpretive social science approach that relies more on qualitative data. This is done based on a planned method in order to ensure its academic or scientific quality. Qualitative research is a research that emphasizes a variety of methods that can be employed when a researcher chooses to use a qualitative research (Denzin and Lincoln, 1994). Qualitative research itself emphasizes the naturalistic paradigm. Lincoln and Guba (1985:198) say that qualitative research focuses on the naturalistic paradigm not because a paradigm is qualitative, but rather it is easier if the instrument is human. Whereas the flow of naturalistic research can be seen in Figure 1.

McNabb (2002) coins the term qualitative research, which is defined as a series of technical and non-statistical research process used to collect data about social phenomena. Qualitative data are related to a set of words, symbols, pictures or other non-numeric records, materials or artifacts collected by a researcher and have connection to social groups in the study. Thus, this study aims to address the reality of research issues concerning aspects from what a mining company's CSR program is, its implementation, collaboration, to benefits of the

CSR program for the company, government, and people that can later be used to develop an ideal model of CSR as a mining company's strategy.

Sources of data in this study include informants, events and documentation. Selection of informants uses the snowball sampling technique. Sampling in this technique is drawn by determining the first sample. The next sample is determined based on information from the first sample, a third sample is determined based on information from the second sample, and so on so that the sample size gets larger, as if going on a snowball effect. Number of informants can not be determined in advance. Sample drawing will stop when information is already saturated, i.e. where there will be no more new information obtained from the next informant. However, the informant is not selected based on the researcher's subjective whim but based on the topic of research. Event is a phenomenon in which the research source data is obtained through direct observation on the site and researcher's focus, which are how the CSR programs are implemented, what the CSR implementation strategies are, how collaborations in CSR implementation are performed, and benefits of CSR implementation for the mining companies PT WBN and PT Tekindo Energi, the government and communities. The final stage is to model how CSR can become an ideal business strategy for continuity of a mining company's operations, social welfare and sustainable development. Documentation is the source of data obtained in the form of reports, records, and photos of an event (phenomenon) related to the research question.

The four types of data collection technique used are (a) in-depth interviews to capture the meaning of CSR implementation activities at PT Weda Bay Nickel and PT Tekindo Energi. Interviews are intended to obtain data and information on five research focuses as described in Chapter I. (b) Observation, in this case is non-participant observation. Observation is done to obtain data and information especially concerning the implementation of the mining company's CSR. Observation is also conducted separately in a social setting on how the implementation of CSR in the case of PT Weda Bay Nickel Energy and PT Tekindo solves existing social problems. (c) Documentation, which includes records on the management and implementation of CSR programs conducted by PT Weda Bay Nickel and PT Tekindo Energi. In addition to relevant records are other secondary data such as statistical data. (d) Focus group discussion (FGD) is a later stage in which discussions are held with all of the company's stakeholders, including parties from the company, the community or the government to support data and findings and to confirm or check the results of final analysis.

Data analysis technique used in this study refers to the thought of McNabb (2002: 148) which categorizes research data analysis into six stages of activity. The first stage is collecting and categorization of data, this is the stage of selection, simplification, categorization, and collection process of raw data that the researcher obtains from interviews with informants. Second, is generalization, or generalizing the categories, themes, and research topics. Third, is coding, this is the stage in which the researcher labels phenomena (conceptualization of the data) that are found in the field. Fourth, categorization and mind idea, this is the stage of placement procedure of ideas, themes, and categories of research in a new way so as to create relationships between ideas, themes, and categories in formulating the reality of research findings. Fifth, description alternative, this stage is an anticipative attempt to avoid errors when interpreting study findings. Sixth, report, the final or sixth stage is writing and presenting a report. This is the stage in which data that have been obtained under each category are presented in writing or research such as the creation of description and matrix of phenomena. At this stage, an attempt is made to draw conclusions from the various categories of data that have been summarized and presented for final conclusions that can answer and explain various issues in the research.

In conducting a qualitative research, attention must be given on the validity of data. Validity of the data in this study refers to the technique presented by Lincoln and Guba (1985: 301-327) in which to establish the validity of data (trustworthiness) requires some examination techniques. There are four criteria that are used to check the validity of data, i.e. credibility, transferability, dependability, and confirmability. In determining the degree of confidence (credibility), Lincoln and Guba (1985) proposes to use five techniques: techniques that make research findings more reliable and upon which interpretations can be drawn (prolonged engagement, persistent observation, and triangulation); technique that provides external checking of the inquiry process (peer debriefing); technique that aims to cultivate as many hypotheses as possible so that more information is obtained (negative case analysis); technique that allows checking of preliminary findings and interpretations as opposed to the raw data (referential adequacy), and technique that provides a direct test on the existing findings and interpretations with the person that becomes the source (member checking). Transferability is applied by using the snowball sampling in a continuous basis, performing constant comparison of data and data triangulation, both triangulation of sources and methods of collection. An argument is useful to support the claim of reliability (dependability), that is, if credibility is aimed to show the quality of research, then dependability of delivery

should not be excluded. Overlap methods reflect the kind of triangulation associated with credibility, replication stages (stepwise replication), and inquiry audit. Whereas the general technique to establish confirmability is by confirmability audit.

### 3. Result and Discussion

Data used in the result and discussion is collected by in-depth interview to capture the essence of mining CSR affairs implementation organization in PT Weda Bay Nickel and PT Tekindo Energi. In gathering data and information, observation was conducted primarily upon that related to mining CSR affairs organization. Documentation was also carried out to gather records on CSR programs organization and implementation conducted by PT Weda Bay Nickel and PT Tekindo Energi. Based on the result, a comparison will be set up between the reality of CSR organization and its theory and original concepts from various references.

#### CSR Programs

The facts of CSR programs implementation in PT Weda Bay and PT Tekindo Energi was focusing on external factors i.e. the community where programs in forms of community empowerment, health, education, and environment were in line with Sino German CSRP (2012). Sino German CSRP states that stable community and avoidance from social pressure are the key factors of successful mining operation. Therefore, mining company must identify local stakeholders representing certain cultural context and attempt to sync different interests through dialog with stakeholders in order to achieve the effectiveness of community involvement in business development and to establish the trust. The key stakeholders are local government or village executives, community based organizations or groups, and community figures who contribute to decision making process in the community.

Social responsibility in corporate governance as declared in the ISO 26000 is the essential key of corporate social responsibility programs implementation including mining company. Corporate governance is the most essential key point of the whole seven corporate social responsibility core subjects. Corporate governance is essential as it is the principal factor in achieving responsible company for the effects of its policy and effectiveness and integrating social responsibility in the organization and the relationship with the stakeholders. The corporate governance of these two companies is indeed the key program of the seven social responsibility core subjects, however, both had never aimed at CSR programs implementation in their governance scheme.

CSR programs implementation in PT Weda Bay Nickel and PT Tekindo Energi is not as complete as that mentioned in ISO 26000, but they have fulfilled community development criteria as regulated by the government to mining companies. According to Hariyadi (2012), community empowerment programs in mining sectors comprise of four key objectives; first of all is economy. Priority on economic sector is aimed at improving micro economic condition through community business and local purchase increase. Economic sector is crucial and essential in achieving mutual goals in one collective scheme of sustainable development. Second of all is education where human resources capacity building is the priority achieved through education infrastructures support and scholarships for the poor. Third of all is infrastructure which becomes program principal objective as the success of economic development is measured by the achievement in infrastructures. The actual accomplishments were the development of public and social facilities within the community. Fourth of all is health where programs such as free medical check up and treatment for the poor and renovation of health facilities are carried out. These two sectors have been fully implemented in the CSR programs in PT Weda Bay Nickel and PT Tekindo Energi.

In regards to community involvement, it is also set out in Law No. 32 Year 2009 regarding environment protection and management. Mining company must carry out environment impact assessment (EIA) to proceed to the next level i.e. production operations. EIA for mining company is that comprising of the study of business plan and/or mining activity impact, evaluation on the planned business and/or mining activity location, estimate on the occurring impact size and key characters when business plan and/or mining activity is carried out, thorough evaluation on the occurring impact in determining environment feasibility, and the plan on environment management and monitoring. In developing an EIA, community must be involved in accordance to the principle of disseminating transparent and thorough information conducted prior to mining activity commenced. The intended community are those suffering mining activity impact, conservationists, and/or those influenced by any decision made in the EIA making process (Law No. 32, 2009).

It can be clearly seen that fundamentally the main focus of these two companies in carrying out their social

responsibilities is based upon the Indonesian governing law, i.e. that mining companies has to be able to guarantee the effectiveness of mining business activity implementation and control in the principles of effectiveness, efficiency, and competition; guarantee the benefit of mining activity in the principle of sustainability and keeping environment in perspective; guarantee mineral supplies as basic material and/or energy source for the country; support and enhance national capacity to compete at the national, regional, and international level; increase local citizen, district, and national income, and create job opportunities for the greatest benefit of the people; and guarantee law enforcement in the implementation of mineral mining business activity (Law No. 4, 2009).

Azheri (2011) states that CSR which is originally viewed as shareholder's theory has developed into stakeholder's theory i.e. CSR is the action and activity of the business impacting on certain people, community, and environment, where the company establishes its operation. In mining business, it can be said once more that the external stakeholders occupying the greatest power are the government and the community. They may influence the existence of a mining company. According to the Constitution of State 1945, the natural riches therein Indonesia are to be controlled by the state, and corporations only obtain approval on mining management. Hence, in order to obtain management approval from the government, the company has to implement terms and conditions released by the government, to carry out social responsibility in forms of community empowerment around the operational site, among others, known as community development. Meanwhile, community is the main objective of the company's social responsibility as regulated by the government through the prevailing laws. Besides, community would also have control in declining or defying the company existence if the company did not contribute anything to them. Therefore, community also has social permit that is useful to support mining company operation. When mining company is in the upstream such as PT Tekindo Energi which has run its operation and PT Weda Bay Nickel which is still in exploration phase, by carrying out community empowerment of CSR, the company will obtain social operational approval from the community which therefore its legal mining operation approval from the government can be sustained.

The first key point for mining company in Mineral Council of Australia (2005) states that a company shall obtain entire community support and acceptance in order to protect social approval to carry out an operation. Tuck et al. (2005) adds up that for mining company, business sustainability is the key importance and the way to achieve it is by gaining trust from the community around the site. While according to Kwasi and Kwasi (2006), community refusal may come up into surface due to their position as the one who suffers the impact of mining activity, hence it is natural that they shall receive considerably appropriate benefit in exchange of the suffering. Thus, when a company in a certain area cannot contribute any benefit to the community, refusal to the mining company existence will reveal which may lead to the termination of social approval of the mining operation. In fact, in absence of social approval, a mining company may deemed violating the government regulation thus termination on the permission may ensue. Therefore, in order to avoid the worst, PT Weda Bay Nickel and PT Tekindo Energi has been putting extra effort in implementing CSR programs. Koestoer (2007) also supports CSR implementation by saying that there are more companies in Indonesia adopting CSR for they believe that implementing CSR is the right thing to do.

#### CSR Program Implementation Strategy

Company strategy development in the 21st century is in line with that stated by Lynch (2006) that strategy has been undergoing development compared to those in the earlier centuries. During this period, there are six components in emphasizing company strategy, i.e. free market competition, competition and welfare improvement, local and global demand, needs to empower and involve workers in setting up company policy strategy, rapid evolution of technology and the rising of various communication forms, and the falling down of several companies due to ethical issues. In essence, Lynch states that in this century, a company strategy is that emphasized on innovation and social responsibility in taking crucial role in it.

Johnson, et al. (2008: 7) actually has divided strategy level, the first and the highest level is corporate-level strategy. It contains the overall of an organization or company, as to how the company carries out structural and financial issues and how the existing resources are allocated to achieve maximum productivity. The second level is competitive or business-level strategy which relates to how company competes with the surroundings including with its competitors. The third level is operational strategies which concentrate on how various divisions in the company offer contribution. The strategy of PT Weda Bay Nickel and PT Tekindo Energi is putting any effort to maintain and preserve the sustainability of mining company thus is included in the category of corporate-level strategy. The strategy implemented is corporate-level strategy based on the corporate social

responsibility (CSR). This is expected to support the sustainability and continuity of both companies' mining operation. In implementing this strategy, both companies apply three approaches i.e. profit, good corporate governance, and nature and social environment. These approaches may be included in the business-level strategy. While in the effort of accomplishing these approaches, PT Weda Bay Nickel and PT Tekindo Energi apply different respective methods that may be included in operational strategies level.

In line with Barey's (2002) opinion that a successful company in maintaining its existence in a relatively long period must be at least successful in offering normal economic performance (the company profit obtained is equal to that expected by the stakeholders). When the company is unable to achieve good performance (normal economic performance), the company will not survive in a long term unless it gets subsidiary funding from the government or private entity. Hence, the survival of a company can be in any case used to assess its performance. This also means that to achieve normal economic performance, a company must generate profit in its mining business. Thus, the first strategy to support CSR programs implementation, to PT Tekindo Energi, is by increasing the company profit gain. The bigger the profit, the bigger the monetary portion allocated to CSR programs. Profit increase strategy to support CSR programs implementation henceforth is included in the business strategy.

In accordance to Law No. 40 Year 2007 regarding Limited Liability Company, a company is required to carry out social responsibility in the principles of equity and fairness. However, on the basis of equity and fairness, the face value of monetary allocation from the company for social responsibility is not clearly regulated and originated from. If only this company complies with that applied in Law No. 19 Year 2009 thereof regarding State Owned Enterprise (BUMN), the amount and source of the budget allocated for the said program is from the company net profit after 2% taxes. It is clearer now that the most suitable strategy for PT Tekindo Energi is: first of all, increasing company profit. The increasing profit will lead to the increase of budget allocated to social responsibility programs. As to strategy at operational level by PT Tekindo Energi to increase profit, is first of all conducting communication and maintaining good relationship with local community and government. Hence, company operation can be carried out safely without any interference, and moreover, profit gaining can be maximized. The second strategy is by mining operational efficiency, and the third is by strengthening business development division since mining company operates on non-renewable natural resources, which means the company has to have found new location when the remaining resources at the former site dwindles in order to support mining business continuation of the company.

Mining company which is at the phase of exploration, in the meantime, cannot implement profit increase strategy to support the implementation of social responsibility programs. The most feasible strategy is preserving investment situation of the company. Hence, the measure taken in preserving investment situation, to PT Weda Bay Nickel, is by involving local community and government to maintain favorable situation that makes mining prospect appears more positive. To investors, favorable community and government situation is one of the key factors in determining whether or not they will invest their capital. Therefore, PT Weda Bay Nickel seriously tries to maintain local community and government good situation which is henceforth expected to maintain good investment situation. This investment will originally generate some fund to support CSR programs.

Nugroho (2001) explains that when a company only pays attention to discussing merely on the relationship and influence of someone's decision and action toward someone else, it is called as anthropocentric ethic paradigm. He believes that the paradigm of mere anthropocentrism is insufficient without carrying out biocentric environment ethic considering ethical deeds not only from human point of view, but also from non-human point of view such as flora, fauna, and earthly non-organism materials as one united environment system. Biocentric environment ethic expands the area of conscience, sensibility, and care of human kind to view any kind of species, any kind of living things, and anything on earth and the whole universe as elements with rights to live and exist, regardless of the usage and beauty to humans. Any living things and materials on earth have an intrinsic value in itself. Thus, when both companies have carried out social responsibility to both social and natural environment, they have been carrying out one of the CSR subjects according to ISO 26000 and can be considered that the company has been attempting to conduct company ethic in form of biocentric environment ethic.

#### CSR Program Implementation Cooperation

According to the narrative of the Post, et al. (2002) it is mentioned that business, government and society has a very high degree of mutual influence. Business activity will affect other social environment and may of government's policies, either directly or indirectly affect business activity. In addition, both business and

government policy simultaneously also affect the social level of society. To set this interconnectivity, the manager needs a deep knowledge and understanding of the company's relationship and how the economic and social systems have impact to the company's activity which constitutes the result of such managers' decision. General view in interconnectivity relationship between business, government and social society is social perspective which emphasizes the relationship between economic activity, politics and culture of the country. Each social society is influenced by combination of economic, political and cultural. Combination of factors that affect this social society illustrate that business, government and community organization provide important role and community expectation that comes from people, institutions and available ideas. In such way, when mining company is able to establish good cooperation between these three parties, therefore each party will obtain maximum benefit and advantage.

Post, et al. (2002) also adds that business activity is designed by cultural and political pressure, as well as economic factors. Business is also influenced by political life and community culture. One proof that cannot be taken off inter-relatedness between business and society is the number of business decisions that have influence on the society, moreover, the success of business activity is also influenced by society's activity and behavior. This becomes the reason why business and community are equally important in which each requires the other and also affect the other. These relationship shapes will be different on different stakeholders. For PT Weda Bay Nickel and PT Tekindo Energi, the government constitutes the party who grants mining power to company to manage mining results contained in Central Halmahera with certain provisions and rules. While the surrounding community of Central Halmahera in particular, is affected community which has the authority to grant permission of operational social on mining activity. Communities around Central Halmahera have the power to reject and terminate the operation of both companies' activities. To maintain good relationship, there should be a good cooperation so that intertwined a good inter-relatedness.

However, in carrying out cooperation between companies, government and communities, it must also uphold the ethics. Because according to Lynch (2006) many companies are closed due to unethical ways in running their business operation. According to Post et al. (2002) ethics expectation constitutes important part in business environment. Ethical behavior constitutes important aspect in company social performance. Company has to find a way to balance and combine economic performance and high standard ethics to obtain public support and credibility. When company behave ethically towards its stakeholders, company will obtain positive impact and otherwise, when company fails to behave ethically, however, such company will face the risk of losing public support where such support greatly required to make the company successful and credible. The way can be implemented by companies both PT Tekindo Energi and PT Weda Bay Nickel to actualize ethical behavior is by establish ethical cooperation with various stakeholders. By cooperation, therefore, mining companies participate in involving the communities and also the government which means that it could improve mining company's credibility by giving concern for them.

#### Program Benefit, Strategic and Implementation Cooperation of CSR

This research result indicates that for PT Weda Bay Nickel, benefit received by the company can be seen in the terms of securing the mining business operation and also strengthen social ties with surrounding communities. By this strong social ties, therefore, mining business can be successful more quickly when compared to them with no social ties. In addition, when mining company does not establish CSR in its business, then its business activity will be in a highly risk. PT Tekindo Energi receives benefit upon the implementation of CSR programs in the form of company stability, so that mining operation can be continuously run. Benefits received by communities upon the presence and the implementation of CSR programs of both companies are improving the quality of communities' life. Those earning will be viable by the presence of these both companies so that communities' purchasing power has increased. Besides, the presence of CSR programs will greatly help to ease communities' burden in terms of education, healthy and infrastructure access. While benefits received by government can be in the form of relief or assistance in establishing government's obligation to welfare its people and establish sustainable development. As presented by Mr. Abulrohim Oedayani, Chief Legislative of Central Halmahera, which said that Regional Budget Plan for Central Halmahera is very small and limited, while government's duties to promote its region is very high, in which Central Halmahera included areas that lagged compared to others areas in Indonesia. Duty to carry out sustainable development is very heavy if borne by government itself, therefore when this company establishing CSR and such CSR is coordinated with the government, sustainable development process for people can be realized more easily than if must be done alone.

Actually in Sino-German CSRP (2012), there are many other CSR benefits for mining companies. Benefit and

advantage which can be directly obtained internally are, organizational commitment of employees and learning, deeper talent pool, operational effectiveness and to externally are in the form of reputation and publicity and improved stakeholder relationships. While benefit which indirectly obtained internally are in the form of cost savings, innovation, increased productivity, improved quality and externally are in the forms of capital access, market access, customer satisfaction and price premium, as well as risk reduction. If we look at benefits received by PT Weda Bay Nickel and PT Tekindo Energi, it indicates that benefits received are benefits to external company in the form of reputation and publicity as well as to improve relationship with stakeholders.

In Sino-German CSR (2012), it is stated that involvement and community development, social responsible employment practices, environment protection, recognition on human rights, fair operation practices, and management of consumer issues gives good reputation to company, because company is not only oriented to the profit but also responsible to maintain communities' welfare as a whole. While pro-active CSR will open new opportunity for company publicity through promotion practices and best award from public organization, government, academia, and the media. The company's brand identity can also be strengthened by high credibility of such institutions compared to advertisement which only trusted by limited audience. Such both mining companies expressly have received benefits upon the implementation of CSR programs which proof that these both companies have socially responsible to maintain communities' welfare. Since both the communities and Local/Village Government around PT Weda Bay Nickel and PT Tekindo Energi have obtained benefits in the form of the realization of communities welfare and sustainable development, therefore, the community and government should support and grateful upon the presence of these both companies in their area. Support upon this presence means mining companies of PT Weda Bay Nickel and PT Tekindo Energi have received external benefit in the form of reputation and improvement relationship with stakeholders.

Support and reputation which have received by these both companies must be maintained and improved to support sustainability of mining business. Lins and Horwitz (2007) said that there are three aspects in achieving sustainability in mining business, namely aspects of environment, social, economic and the governance. On environment aspect is to minimize impact of mining activity. When a mining company opens a new mining land, they peel the soil surface and the entire surface of the existing plants, destroying animal habitats and threatening the biodiversity of such area. Therefore, the company is challenged to avoid adverse impact of land including avoiding unnecessary destruction, change of use, and habitat removal. PT Weda Bay Nickel which is still in exploration must have careful and thoroughly mining plan or design in order to reduce or minimize destruction against the existing biodiversity. While for PT Tekindo Energi, a company which has carried out their operation since the year of 2011, this company must prepare a good reclamation system to restore its biodiversity.

#### Ideal Model of CSR

Preparation process of CSR programs on PT Weda Bay Nickel and PT Tekindo Energi is essentially the same. CSR program prepared upon proposals and suggestions from community around the site delivered to the company. Preparation pattern of CSR programs in these both companies can be seen in Figure 2. However, it is only taken by the community-based needs. The company will analyze to determine the priority of CSR program to be implemented based on community's proposal and suggestion. The involvement of Regional Government has not shown yet in the CSR implementation of these both companies.

The implementation of CSR programs established since the company was in the exploration phase actually has benefit and positive impact to stakeholders as government, community and mining company. Therefore, based on discussion delivered previously, suggestion of CSR proposal as effective and efficient strategy of mining company has included in three levels, namely corporate-level strategy, business-level strategy and operational strategies (Johnson, et al (2008) as seen in Figure 3.

Such ideal model means in establishing strategy of CSR business which has included in the level of mining corporate-level strategy, it must involve all of three parties at once, i.e. company, government and community in which later all parties will gain the benefit of each. Benefit to company is the achievement of company operation stability and further will also achieve the sustainability of company operation since it has obtained operation permit from the government and social permit from the community. The community will gain the benefit namely the improvement of community welfare, because in addition of obtaining attention from government, they also obtaining social responsibility from mining companies. While for the government, the benefit gained is assistance upon government's responsibility to implement sustainable development to the community. By obtaining this assistance, therefore, government's burden will be reduced by the existence of mining companies.

#### Discussion

This CSR can be implemented in the three Johnson's strategy levels, et al. (2008) in mining company. On operational strategies level, CSR is established to support other strategies level in mining company. For example as in terms of employee recruitment and employee performance, when the community is working in mining company with good CSR implementation, they will automatically utilize all of its capability for the company's progress and successful. CSR practices on other operational strategies level are as in mining company who establishes CSR, therefore relation of such company with surrounding society environment can go smoothly. A good relationship with surrounding society will minimize community demonstrating action and disturb the mining operation, if refusal or demonstration is occurred, community usually blockade the road in ore nickel transportation process. This blockade may result to the termination of company operation, and the company may suffer a losses. In such way, CSR strategy on operational strategies level is very important to be implemented by mining company.

On business-level strategy stage, CSR became the strategy to support competitive power of mining company. Mining company which establishes CSR in good and right way will has high competitive power in the market. This competitive power is highly required to obtain company's market share and consumer loyalty which more friendly to environment to obtain priority to become buyer's choice. Ore nickel buyers are really taking into account of either environmental and social condition of mining location of ore nickel seller or other product of upper mining. These buyers attention are based on ore delivery accuracy and supply. When the buyer has sent the ship to the location of ore nickel production of mining company, and there is a social problem, mining operation can be obstructed in such way and the process of shipping loading can be also obstructed. Whereas in shipping system, there is a penalty in the form of demurrage when the shipping process is delayed and there is a bonus when the shipping is faster than the agreed schedule. At the time the shipping process is obstructed or disrupted, therefore, it must be imposed by demurrage, even in general this forfeit becomes the seller's obligation; however when the value is too large, the seller will also burden to buyer. Demurrage for shipping capacity of 50.000 – 70.000 MT is US\$ 8000 – 16000 per day. In such way, buyers in addition to taking into account of the accuracy of ore delivery in order of subsequent production continuity, they also consider the shipping fine. Therefore, CSR as strategy in the business-level strategy is very important to mining companies.

While on corporate-level strategy, mining companies currently must not only place the CSR solely on business level, but also on corporate level in which has in accordance with their mission and vision. In mining companies, company's competitive power is not the main company's purpose. The main company's purpose is the achievement of mining operation sustainability in which its operation social permit has been obtained from the community and operation permit is legally obtained from the government. Therefore, by placing the CSR as strategy on corporate strategy level, CSR will penetrate to all of the existing company strategies as in accordance with stakeholders' expectations and equally to company mission. PT Weda Bay Nickel and PT Tekindo Energi currently have put CSR as strategy on their corporate strategy level which is reflected in vision and mission of these both companies. PT Weda Bay Nickel's vision is to ensure the sustainability of this project in the future by establishing and growing the community's sense of belonging and participation in Economic Corridor of Papua – North Maluku in accordance with the master plan of economic development declared by Indonesian Government. While PT Tekindo Energi's vision is to be a global leading company mainly in nickel mining industry, having professional services to all business partners and colleagues and its mission is to have a strong team of management, systematic, effective, efficient and professional in each of its field; being superior, integrity, innovative, respectful, environmentally friendly and high added value to stakeholders.

## 5. Conclusion

Ideal model in implementing the CSR business strategy as strategy in corporate-level strategy of mining company is by involving at once all of three parties, namely the company, the government and the society in CSR preparation, implementation and reporting, as well as society involvement in company's policy and operational implementation. The implementation must be commencing from the beginning of the company is entering the site area. Benefit to company is the achievement of company operation stability with the result that it will also achieve the company operation sustainability since the operation permit from the government and social permit from the society has been obtained. Whereas to obtain operation permit from the government and social permit of mining operation from the society, mining company must be able to provide benefit to the government and the society. The society will receive the benefits, namely society welfare which will be improved. In addition to obtain attention of social responsibility from the government, they also obtaining

attention of social responsibility from the mining company. While for the government, benefit received is assistance upon government responsibility to implement sustainable development to society. By obtaining this assistance, government's burden will be reduced by the assistance of the mining companies.

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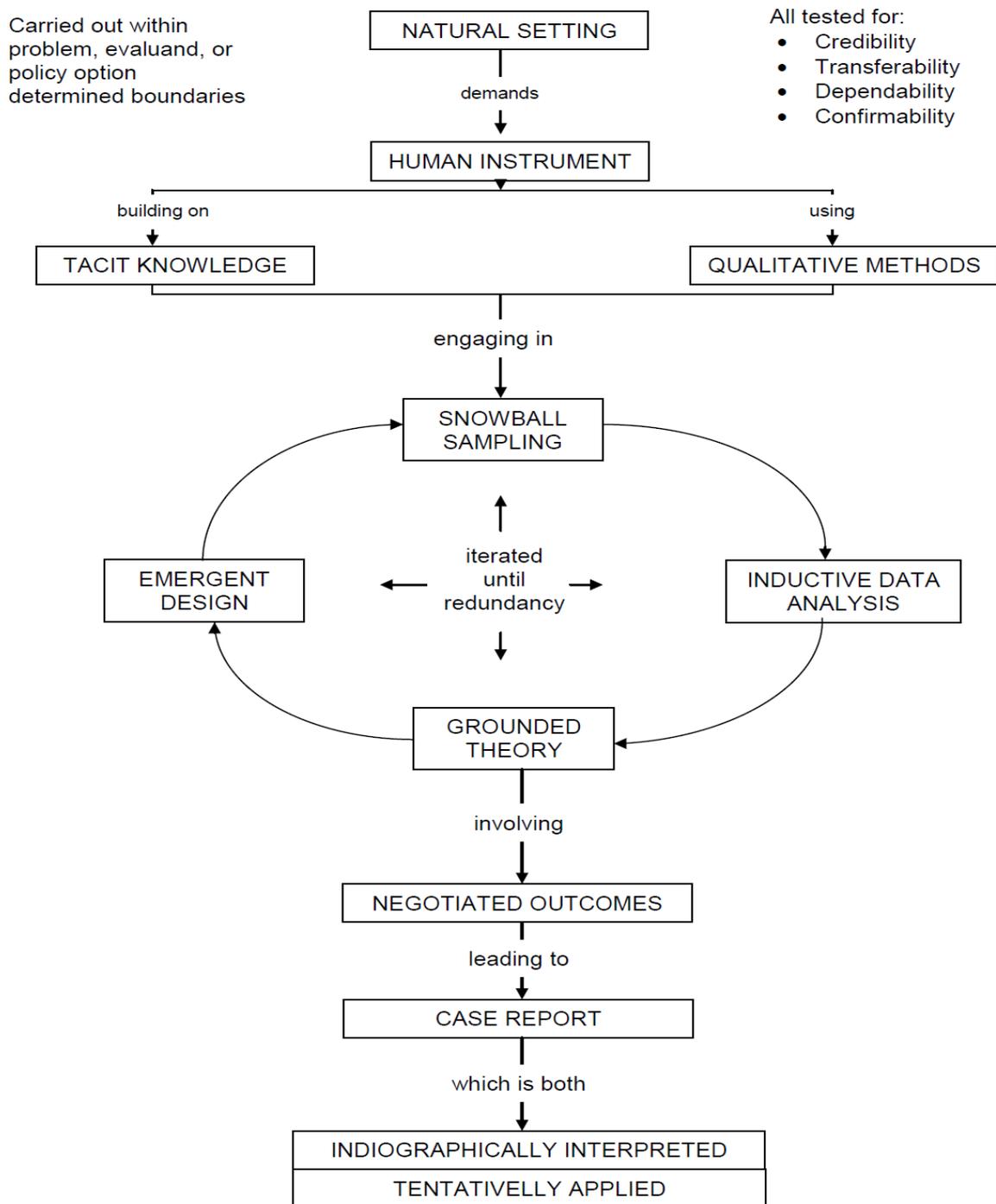


Figure 1. The Flow of Naturalistic Research

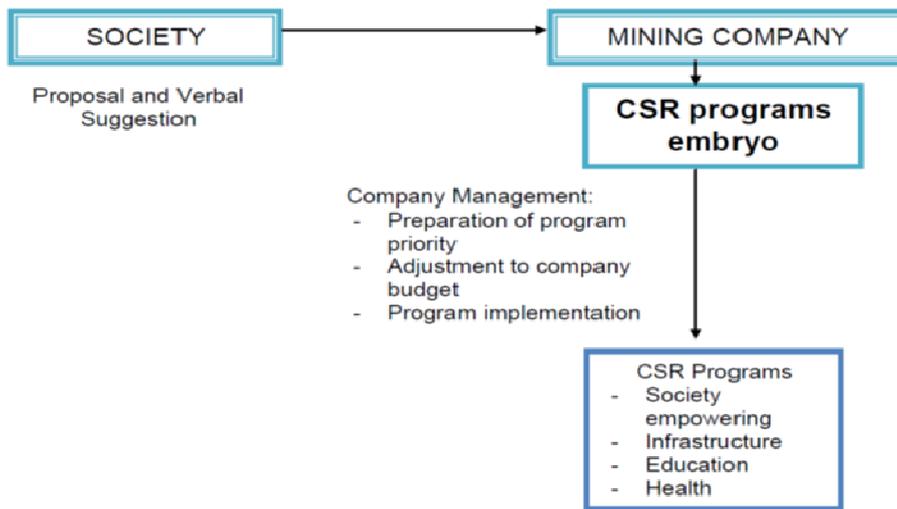


Figure 2. Existing Model of CSR

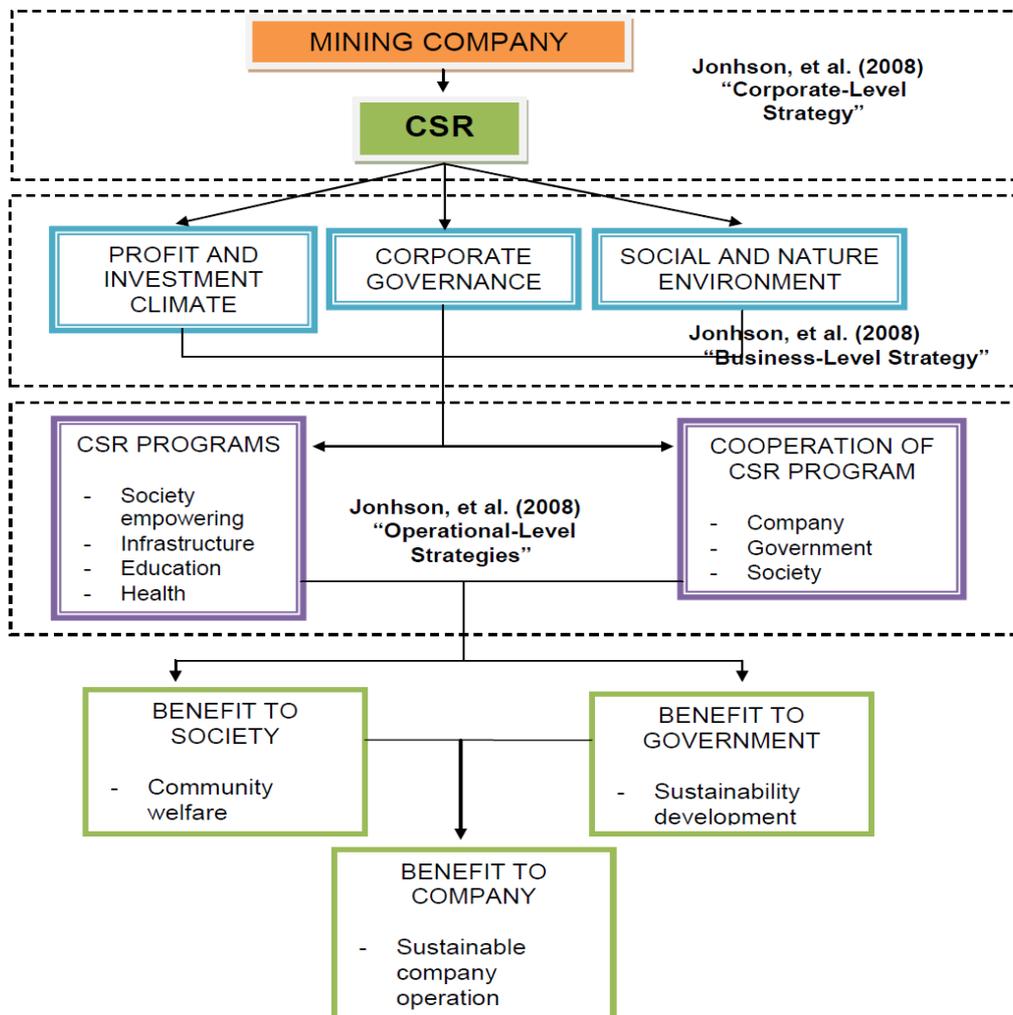


Figure 2. Ideal Model of CSR

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