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Strategic CSR based on Local Wisdom for Corporate Sustainability (A Case Study on Sugar Factories in Karesidenan Besuki)*

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ABSTRACT

Objective – The objective of this program is to help and support sugar cane farmers, cooperatives and small business, and engaged in community development (such as education/training, improving health, public infrastructure/facilities, environmental conservation and poverty alleviation).

Methodology/Technique – This study is a qualitative study which aims to analyze the CSR activities of sugar factories located in Situbondo based on strategic CSR concept. There are three sugar factories which are studied and analyzed in this study, i.e.: PG Assembagoes, PG Pandjie, and PG Olean. They have a program named partnership program and community development.

Findings – The Partnership Program provides benefits to sugarcane farmers located around the sugar factories, and also give benefits to sugar factories themselves since more than 60% of the sugarcane milled come from the farmers.

Novelty – This paper analyzes company's perception, perspectives, and understandings of CSR concepts, especially strategic CSR, also its implementation.

Type of Paper: Conceptual.

Keywords: Corporate social responsibility, company sustainability, strategic CSR, sugar factory, partnership program and community development

1. Introduction

In several last decades, corporate social responsibility (CSR) is not anymore considered as a company obligation, but more as an opportunity for a company to internalize it in company's business strategy (Bisnis& CSR, 2007). The regulation regarding CSR is already embedded in the Corporation Act No. 40/2007. Article 74 of the Company Act states that "The Company having its business activities in the field of and/or related to natural resources, shall be obliged to perform its Social and Environmental Responsibility". Also Law on State-Owned Enterprises No. 19/2003 requires that state-owned companies to have CSR program which is called partnership program and community development. With all those regulations

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concerning CSR obligations, companies are required to be wiser in determining CSR form and activities. According to strategic CSR concept, it is very important to have CSR programs that are aligned to the company's strategy so that it will not only give benefits to company's stakeholders but also give benefits to company itself to promote its sustainability.

This study is a qualitative study which aims to analyze the CSR activities of sugar factories located in KaresideanBesuki (especially in Situbondo) based on strategic CSR concept. There are three sugar factories that are studied and analyzed in this study, i.e.: PG Assembagoes, PG Pandjje, and PG Olean. These sugar factories are owned by PTPN XI (PT Perkebunan Nusantara), which is a state-owned enterprise in agriculture business. They have a program named partnership program and community development. The objective of this program is to help and support sugar cane farmers, cooperatives and small business, and engaged in community development (such as education/training, improving health, public infrastructure/facilities and also environmental conservation and poverty alleviation).

2. Literature Review

Stakeholder theory argues that a company is not only to serve the interests of its owners/shareholders, but also to serve the interest of other stakeholders, such as employees, government, society, and environment (Utama, 2007). In this stakeholder theory framework, the differences between social goals and economic goals are not relevant anymore since the main focus is on the sustainability of the company (Lee, 2007)

The concept of strategic CSR has been developed by Baron (2001), Lantos (2001), and Porter et al. (2006). This strategic CSR concept basically states that CSR activities engaged by a company should give benefit not only to its stakeholders, but also to the company itself. By doing so, it is expected that those strategic CSR may contribute to the company's performance and sustainability, while CSR activities that are not strategic may decrease company's performance. In line with Baron (2001), Lantos (2001), and Porter et al. (2006), Lee (2007) argues that CSR is no longer perceived merely as a company moral obligation, but CSR has been seen as part of a business strategy to improve company's financial performance.

Porter et al. (2006) analyze CSR activities based on two forms of interdependence and interconnected between company and its stakeholders, i.e. inside-out linkages and outside-in linkages (pp.5-6). The inside-out linkages analyze the influence of company's activities on its stakeholders, while the outside-in linkages analyze the influence of company's environment and its stakeholders in the company (Porter et al., 2006).

3. Research Methodology

This study employs qualitative method using the phenomenology approach to analyze the company's perception, perspectives, and understandings of CSR concepts, especially strategic CSR, also its implementation. This study uses primary and secondary data. The primary data are obtained through in-depth interviews with several respondents such as the administration and accounting department, and production department. As for the secondary data includes: the data production reports, financial reports, the data yield. Secondary data will be obtained through the company itself, sugar factories, and also the company's website.

4. Results and Discussions

4.1. Company's Background: PT PERKEBUNAN NUSANTARA XI (PERSERO)

PT Perkebunan Nusantara XI (Persero) (PTPN XI), which was founded in 1996, is a sugar cane-based agribusiness company owned by the Government of Republic of Indonesia. It's working areas cover all over East Java. The main products of PTPN XI are sugar and molasses. The company's stakeholders include employees, sugarcane farmers, government, shareholders, customers, the press, NGOs, local community, etc. (Annual Report, 2014). Its business

segment consists of 16 sugar factories, one alcohol and spirit factory, one plastic bags factory, 4 hospitals, and 2 health clinics.

Table 1 depicts the operational summary of PTPN XI from 2009 to 2013. The table shows that there was a decrease about 21% of total sugar cane milled in 2011 even though there was an increase in the area of milled sugar cane about 6% as compared to 2010. This trend was also consistent with the decrease of total sugar production about 5%. Later, Table 2 shows that there was a decrease in revenue in 2011 as compared to 2010.

Table 1. Operational Summary of PTPN XI

	Unit	2009	2010	2011	2012	2013
Area of sugar cane milled	Ha	69.476	66.374	70.486	80.171	82.724
Total sugar cane milled	Ton	5.246.757	5.570.020	4.388.716	5.299.901	5.868.924
Total sugar production:	Ton	359.755	318.869	302.925	410.475	401.481
– Sugar Belongs to PTPN XI	Ton	203.097	173.898	163.097	215.391	191.402
– Sugar Belongs to farmers	Ton	156.658	144.971	139.828	195.084	210.079
Total molasses production	Ton	238.831	246.258	203.762	286.996	268.586
Average productivity	Ton/ha	75,52	83,90	62,30	66,10	70,90
Milling capacity	TCD	34.884	33.841	36.513	36.007	36.681
Sucrose content in sugar cane	%	6,84	5,70	6,90	7,72	6,83

Source: Annual Report PTPN XI, 2013

Table 2 shows the financial summary of PTPN XI from 2009 until 2013. As shown in Table 2, the company suffered a loss in 2011 of Rp136.023.000.000. This is due to the decrease in revenue for about 36% as compared to 2010. However, in 2012, the company gain profit since there was an increase in revenue for about 35% in 2012.

Table 2. Financial Summary PTPN XI (in Rp000.000)

	2009	2010	2011	2012	2013
Revenue	1.814.095	2.423.451	1.557.990	2.100.561	2.097.807
Cost of goods sold	1.361.806	2.184.600	1.504.284	1.580.837	1.866.566
Gross income	452.289	238.851	53.706	519.724	231.240
Income before tax	131.225	71.286	(150.732)	152.898	193.722
Comprehensive income (loss)	83.927	40.200	(136.023)	134.075	22.334

Source: Annual Report PTPN XI, 2013

4.2 Corporate Social Responsibility (CSR) of PTPN XI

One of the key success factors of PTPN XI is the partnership program with sugar cane farmers that makes the farmers as true partners. Another key success factor of PTPN XI is its support to social environment, i.e. to increase stakeholders' welfare and also to improve the effectiveness of partnership program and community development. The CSR program of PTPN XI is contained in the Partnership Program and Community Development, or it is well known as PKBL (Program Kemitraandan Bina Lingkungan). The company considers PKBL as an investment in social capital. (Annual Report PTPN XI, 2013).

4.2.1 Partnership Program

In granting and distribution the Partnership Program fund, PTPN XI emphasizes on activities that could improve production techniques and marketing of sugar cane farmers/growers. During 2013, PTPN XI distributed funds for Partnership Program for Rp59,66 billion to sugar cane farmers, cooperatives, and micro/small businesses. This amount was almost doubled as compared to the fund distributed in 2012 (i.e. Rp47,21 billion). Table 3 provides data regarding the Partnership Program Fund of PTPN XI. The data show that there was an increase in available fund and also in fund utilization from time to time since 2009 until 2013. In 2009, the fund utilization was Rp11.21 billion, and in 2013 was increased more than five times, became Rp59,66 billion.

Table 3. Partnership Program Fund PTPN XI ((in Rp000.000)

	2009	2010	2011	2012	2013
Available fund	14.215	24.290	33.791	39.904	65.402
Fund utilization	11.209	20.083	30.522	37.210	59.657
Fund balance	3.006	4.207	3.269	2.694	5.745
Trained partners (person)	n/a	n/a	2.067	921	1.078

Source: Annual Report PTPN XI, 2013 and Annual Report PTPN XI 2012

4.2.2 Community Development

Besides Partnership Program, PTPN XI also distributes and grants Community Development fund of Rp515.000.000 in 2013 in helping victims of natural disasters, education and training programs, improving public health, improving public facilities and infrastructure, improving religious facilities, and poverty alleviation. (Annual Report PTPN XI, 2013). Table 4 provides data concerning the realization of community development fund distribution of PTPN XI from 2009 to 2013.

Table 4. Community Development Fund PTPN XI (in Rp000.000)

	2009	2010	2011	2012	2013
Available fund	3.900	4.150	2.455	1.150	558
Fund utilization	1.140	2.545	1.323	717	315
Fund balance	2.760	1.604	1.132	433	243

Source: Annual Report PTPN XI, 2013, and Annual Report PTPN XI 2010

Data in Table 4 shows that there was a decrease in fund available for Community Development in 2013 as compared to previous years. In 2009, the available fund was Rp3,9 billion and it kept decreasing until Rp559 millions in 2013. On the other hand, the fund utilization increased in 2010 as compared to 2009. However, since 2010 until 2013 the fund utilization for Community Development kept decreasing from Rp2,55 billion to Rp315 millions.

4.3 Sugar Factories of PTPN XI

The PTPN XI has 16 sugar factories across East Java province, i.e. Magetan, Madiun, Ngawi, Pasuruan, Probolinggo, Lumajang, Jember, Situbondo, and Bondowoso. The sugar production of PTPN XI contributes around 16-18% in national sugar production. The revenue from sugar production contributes almost 75%-80% in total revenue of PTPN XI. Most of the raw materials are obtained from farmers' sugar cane through Partnership Program. This study

analyses three sugar factories located in Situbondo, i.e. PG Assembagoes, PG Olean, and PG Pandjje.

4.3.1 Sugar Factory PG Assembagoes

PG Assembagoes was founded by the Dutch in 1891, and in 1957 was taken over by Indonesians (www.ptpnn-11.com). Table 5 depicts the operational summary of PG Assembagoes for 2013, 2014 and 2015 target.

Table 5. Operational Summary of PG Assembagoes

	Unit	2013	2014	2015 (target)
Area of sugar cane milled:				
- Belongs to PTPN XI	Ha	1.423,2	1.290,4	1.393,9
- Belongs to farmers	Ha	5.420,0	5.549,5	5.300,3
Total area of sugar cane milled	Ha	6,843,2	6.839,9	6.694,2
Total sugar cane milled:				
- Belongs PTPN XI	Ton	109.641,4	74.971,4	110.809,1
- Belongs to farmers	Ton	416.805,5	320.076,3	407.077,4
Total sugar cane milled	Ton	526.446,9	395.047,7	517.886,5
Total sugar production:				
- Belongs to PTPN XI	Ton	18,327,4	14.723,6	21.839,1
- Belongs to farmers	Ton	20.138,8	16,640,6	23.722,1
Total sugar production	Ton	38.466,2	31.364,2	45.561,2
Total molasses production				
- Belongs to PTPN XI	Ton	11.940,4	10.150,2	11.092,5
- Belongs to farmers	Ton	12.504,2	9.602,3	12.212,5
Total molasses production	Ton	24.444,6	19.752,5	23.305,0
Milling capacity	TCD	2.184,5	2.184,2	2.760
Sucrose content in sugar cane				
- Belongs to PTPN XI	%	7,79	8,69	9,4
- Belongs to farmers	%	7,19	7,75	8,6

Source: PG Assembagoes, 2015

Table 5 shows that the area of sugarcane milled was relatively stable from 2013 until 2015 that was about 6.800 ha. Around 80% of total area belongs to sugar cane farmers. Even though the total area of sugar cane milled was relatively stable, but the total of sugar production tends to increase from 2013 until 2015. Also for milling capacity and sucrose content in sugar cane was tended to increase.

PG Assembagoes engaged in PKBL activities in 2014 that consisted of the Partnership Program for sugarcane farmers for the amount of Rp1.077.183.000. The priority of the Partnership Program was for sugar cane, so that there was no program for small business. The Community Development fund distributed in 2014 was Rp12.500.000 in the forms of support mosque facility (Rp5.000.000), mass circumcisions (Rp5.000.000), and support the orphan children (Rp2.500.000). In 2015, the budget for Community Development is 2015 for mass circumcission (PG Assembagoes, 2015).

4.3.2 Sugar Factory PG Pandjje

PG Pandjje was founded by the Dutch in 1884, and then in 1958 was taken over by Indonesian Government (www.ptpn-11.com). Table 6 provides Operational Summary of PG Pandjje for 2013, 2014, and 2015 target.

Table 6. Operational Summary of PG Pandjje

	Unit	2013	2014	2015 (target)
Area of sugar cane milled:				
- Belongs to PTPN XI	Ha	627,9	537,1	284,5
- Belongs to farmers	Ha	3.246,8	3.629,5	3.292,2
Total area of sugar cane milled	Ha	3.874,8	4.166,5	3.576,7
Total sugar cane milled:				
- Belongs PTPN XI	Ton	40.403,8	27.096,4	21.695,4
- Belongs to farmers	Ton	221.108,7	220.418,8	243.622,8
Total sugar cane milled	Ton	261.512,5	247.515,2	265.318,2
Sucrose content in sugar cane				
- Belongs to PTPN XI	%	6,71	9,00	9,33
- Belongs to farmers	%	6,80	7,61	8,24

Source: PG Pandjje, 2015

It is shown in Table 6 that the area of sugarcane milled had tend to decrease

From 2013 until 2015, especially the area belongs to PTPN XI that was decreased from 627,9 ha in 2013 to 284,5 ha in 2015. Even though the total of sugar cane milled was relatively stable, but the sugarcane milled belongs to PTPN XI decreased almost half as compared to 2013. On the other hand, the sucrose content in sugar cane was kept increasing and improved in 2013, 2014, and 2015.

The Partnership Program of PG Pandjje in 2013 and 2014 was related to sugar cane farmers and small businesses, while in 2015 were only for sugar cane farmers with the amount of Rp1 billions. The Community Development fund of 2013 was distributed to help orphan children and mass-circumcision, while fund of 2015 is planned to help a kindergarten school nearby the factory. The amount of fund distributed was about Rp15.000.000.

4.3.3 Sugar Factory PG Olean

PG Olean was built by the Dutch in 1846, and then after the Independence Day was taken by Indonesian Government (www.ptpn-11.com). Table 7 provides the operational summary of PG Olean for 2009 until 2014, and 2015 target.

Table 7. Operational Summary of PG Olean

	Unit	2009	2010	2011	2012	2013	2014	2015 (Target)
Area of sugar cane milled:								
- Belongs to PTPN XI	Ha	86,6	110,5	55,2	170,9	178,4	301,2	98,8
- Belongs to farmers	Ha	1.045,9	1.505,2	1.228,7	818,2	836,0	2.740,0	1.837,7
Total area of sugar cane milled	Ha	1.132,5	1.615,7	1.283,8	989,1		3.041,2	1.936,5

						1.01 4,4		
Total sugar cane milled:								
- Belongs PTPN XI	Ton	5.509, 5	7.138,8	4.547,4	13.74 6,1	12.6 84,4	14.819 ,8	7.489,7
- Belongs to farmers	Ton	83.80 9,1	109.87 8,4	109.12 8,2	78.85 3,4	83.6 09,4	160.85 4,7	133.016, 6
Total sugar cane milled	Ton	89.31 8,6	117.01 7,2	113.67 5,6	92.59 9,5	96.2 93,8	175.67 4,5	140.506, 3
Total sugar production:								
- Belongs to PTPN XI	Ton	2.165, 9	2.094,7	2.824,7	2.794, 7	2.00 9,0	5.048, 4	4.109,6
- Belongs to farmers	Ton	3.852, 2	4.390,4	4.773,8	3.736, 6	3.92 9,3	7.790, 7	7.020,3
Total sugar production	Ton	6.033, 0	6.535,6	7.692,3	6.620, 4	8.96 5,4	12.856 ,7	11.129,9
Total molasses production:								
- Belongs to PTPN XI	Ton	2.007, 1	2.128,9	2.951,6	1.488, 9	1.23 7,1	3.413, 5	2.332,3
- Belongs to farmers	Ton	2.514, 3	.296,4	3.273,9	2.365, 6	2.50 8,3	4.825, 6	3.990,5
Total molasses production	Ton	4.521, 4	5.425,2	6.225,5	3.845, 5	3.74 5,4	8.239, 1	6.322,8
Milling capacity	TCD		889,4	1.003,0	1.098, 9	1.20 0,1	1.202, 2	1.200,0
Sucrose content in sugar cane:								
- Belongs to PTPN XI	%	7,05	5,78	8,48	7,34	6,93	7,93	8,50
- Belongs to farmers	%	6,71	5,48	6,57	7,09	6,03	7,24	7,86

Source: PG Olean, 2015

PG Olean engaged in PKBL activities in 2013 and 2014 which was Partnership Program for sugarcane farmers and small business for the amount of about Rp200 millions, and the amount of 2015 was planned to be about Rp2,6 billion. The Community Development fund in 2013/2014 was about Rp15.000.000 in helping mosque facilities, mass circumcision, and orphaned children (PG Olean, 2015).

5. Conclusion

The sugar factories in KaresidenanBesuki studied in this research, which are: PG Olean, PG Assenbagoes, and PG Pandjie, have already engaged in CSR programs named Partnership Program and Community Development (or well known as PKBL). From the strategic CSR concept point of view, the Partnership Program can be considered as strategic CSR activities since this program is directly related to business core of the sugar factory. The Partnership Program provides benefits to sugarcane farmers located around the sugar factories, and also gives benefits to sugar factories themselves since more than 60% of the sugarcane milled come from the farmers. On the other hand, the Community Development programs cannot yet be considered as strategic CSR activities since this program more emphasize on philanthropy and not yet related to business core of the sugar factory. In the future, it is important that all the PKBL programs are planned and designed according to strategic CSR concept so that they will benefit the stakeholders of sugar factories and also for the sugar factories themselves.

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