

FAA-06

STRATEGIC CSR, PRODUCTION PERFORMANCE, AND BUSINESS EFFICIENCY IN SUGAR FACTORIES

Yosefa Sayekti

Taufik Kurrohman

Purnamie Titisari

University of Jember

*e-mail: yosefa.sayekti@unej.ac.id

ABSTRACT

Nowadays, Corporate Social Responsibility (CSR) is considered as part of companies' business strategy, and not a companies' obligation per se. The Corporation Act No. 40/2007 and the Law No. 19/2003 concerning State-Owned Enterprise require companies to have CSR program, especially those companies related to natural resources. This study is a qualitative study which aim to analyze the production performance, business efficiency, and corporate social responsibility of sugar factories located in ex Karesidenan Besuki, East Java, Indonesia, based on strategic CSR concept. There are four sugar factories analyzed in this study. The results of the study show that the production tends to increase during the period of 2009 to 2014, both for sugar production also for molasses. The CSR program of the sugar factories is embedded in the Partnership Program and Community Development program. The partnership program can be considered as strategic CSR, while community development program is more on philanthropy or nonstrategic CSR.

Keywords: corporate social responsibility, strategic corporate social responsibility, sugar factories, partnership program and community development, business efficiency.

1. Introduction

Regarding Corporate social responsibility (CSR) in Indonesia, it has been regulated in the Corporation Act No. 40/2007 that companies with their business activities related to natural resources have obligations to engage in CSR activities. Furthermore, State-Owned Enterprise Act No. 19/2003 also requires state-owned companies to have CSR program. Based on those two regulations, the sugar factories located in ex Karesidenan Besuki, East Java have the obligation to engage in CSR activities since their business related to natural resources and also because

they are part of a state-owned company. In a state-owned company this CSR activities are embedded in a program called Program Kemitraan dan Bina Lingkungan (PKBL) or Partnership Program and Community Development. Since CSR is an obligation for the company, it is important to internalize this CSR program into the company's strategy so then the CSR program would give benefits not only to the recipients of the programs but also to the company itself in term of not only financial performance, but also production performance, and business efficiency. This concept in fact is the core of strategic CSR

This paper employs a qualitative study which aim to analyze production performance, business efficiency, and corporate social responsibility of sugar factories located in ex Karesidenan Besuki, East Java, Indonesia, based on strategic CSR concept. There are four sugar factories analyzed in this study. However, this study does not make any statistical analysis due to limitation of the data gathered.

The results of the study show that the production tends to increase during the period of 2009 to 2014, both for sugar production also for molasses. Regarding the CSR program, the Partnership Program can be considered as strategic CSR, while Community Development program is more on philanthropy or nonstrategic CSR.

2. Literature Review

According to Coporation Act No. 40/2007, social and environmental responsibility means "Company's commitment to taking part in sustainable economic development in order to improve the quality of life and environment, which will be beneficial for the Company itself, the local community and society in general". More specifically, State-Owned Enterprise Act No. 19/2003 mentions "State-Owned Entities (BUMN) are expected to improve the quality service for the public and also make contributions to the growth of national economy and enhance the state revenues". Furthermore, Article 88 of the Law states "a State-Owned Entity (BUMN) may appropriate a part of its net profits for direction of small-scale businesses/cooperatives and direction of the community living around the State-Owned Entity (BUMN)".

The concept of CSR in those two regulations is inline with the one shared by Global Reporting Initiatives (GRI) (GRI, 2015). GRI also shares the concept of triple bottom line (TBL), which consists of profit, people and planet (3Ps). This concept argues that to be sustainable in the long run, a company must be able to remain profitable while also incorporate social and environmental dimensions.

Freeman (1984, in Finch, 2005) defines stakeholders as a group or individual that affect or affected by a company. This theory of stakeholders indicates that there is an interrelation between company and its stakeholders. Furthermore, the theory suggests that a company should not serve only the interest of shareholders and debtholders, but also the interest of other stakeholders (Utama, 2007). The gap between economic goals and social goals are becoming irrelevant under this stakeholders concept since the main focus is the company's sustainability (Lee, 2007). Moreover, Lee (2007) argues that CSR should not be perceived as a company's moral obligation per se, but more than that, CSR should considered as part of company's business strategy to improve company's performance.

Baron (2001), Lantos (2001), and Porter et al. (2006) have been developed a concept of strategic CSR which argue that company's CSR activities should provide benefits not only to its stakeholders, but also to the company itself. Porter et al. (2006) develop strategic CSR concept in a more practical way by providing a tool for company to design its strategic CSR activities based on "inside-out linkages" and "outside-in linkages" analysis (pp. 5-6). This analysis is basically constructed on the interdependence and interconnected between company and its stakeholders. By doing strategic CSR, it is expected that company's performance will be improved. An empirical research by Sayekti (2011) shows the results supporting this proposition that strategic CSR activities have a positive impact on company's financial performance, while nonstrategic CSR have a neutral or negative impact.

3. Research Methodology

This paper employs a qualitative study, which aim to analyze production performance, business efficiency, and corporate social responsibility of sugar factories located in ex Karesidenan Besuki, East Java, Indonesia, based on strategic CSR concept. The required data is collected from each sugar factory. There are

four sugar factories considered in this study. However, this study does not make any statistical analysis due to limitation of the data gathered.

Production performance analysis comprises the capacity of milled sugar cane, production trend, and milling capacity. Business efficiency is analyzed by comparing input and output regarding production of sugar and molasses. In this study employs four indicators to analyze business efficiency of each sugar factory, i.e.:

1. Total ton of sugar cane milled produced per hectare area of sugar cane.
2. Total sugar cane production per sugar cane milled
3. Total molasses production per sugar cane milled

4. Results and Discussion

4.1. Production Performance

4.1.1. Capacity of milled sugar cane

The capacity of milled sugar cane analysis includes area of milled sugar cane and sugar yield for the period of 2009 until 2014 for each sugar factories. Tabel 1 provides the data of area sugar cane milled.

Table 1
Area of milled sugar cane
2009 - 2014

| | 2009 (ha) | 2010 (ha) | 2011 (ha) | 2012 (ha) | 2013 (ha) | 2014 (ha) |
|-----------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Sugar Factory 1 | 1,133 | 1,616 | 1,284 | 989 | 1,014 | 3,041 |
| Sugar Factory 2 | 9,040 | 7,930 | 9,641 | 11,161 | 12,561 | 14,390 |
| Sugar Factory 3 | 1,585 | 1,861 | 1,745 | 1,561 | 1,746 | 1,939 |
| Sugar Factory 4 | 9,830 | 9,491 | 10,564 | 9,929 | 11,170 | 12,520 |

Source: Sugar factories

Figure 1
Area of milled sugar cane
2009 – 2014
(in hectare)

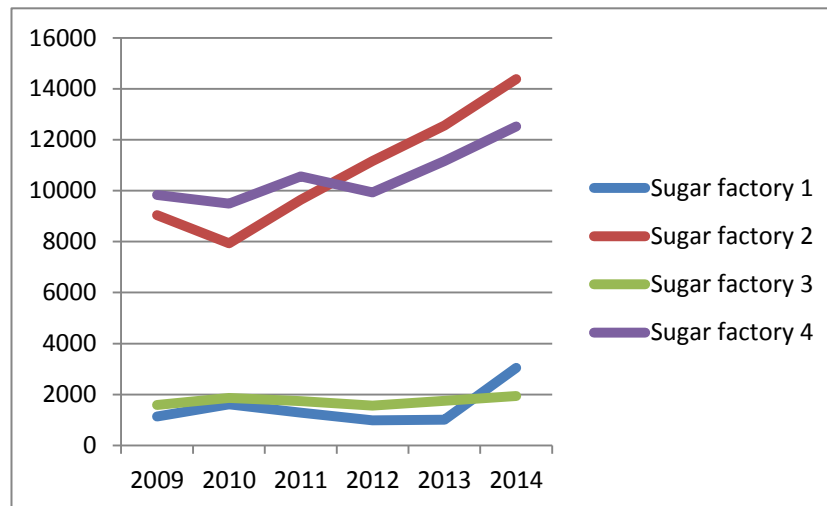


Figure 1 depicts the trend of area of milled sugar cane based on Table 1. Table 1 and Figure 1 shows that in average, the Sugar Factory 2 has the most extensive area of milled sugar cane as compared to the other three eventhough there is a slight decrease in 2010. The area of milled sugar cane of Sugar Factory 2 and 4 tend to increase from time to time. On the other hand, the Sugar Factory 1 has the smalles area of milled sugar cane for the period of 2009 until 2013, but then in 2014 the number is increased more than twice.

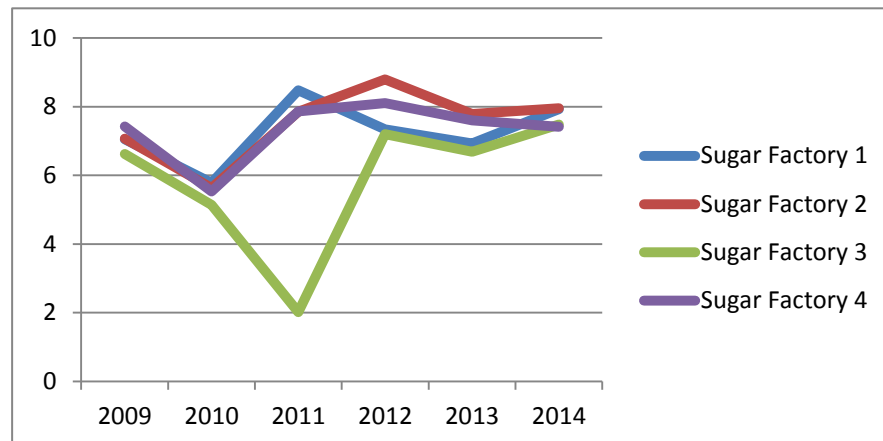
Tabel 2 and Figure 2 shows the sugar yield for each sugar factory for the period of 2009 until 2014.

Tabel 2
Sugar Yield
2009 - 2014

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|------------------------|------|------|------|------|------|------|
| Sugar yield (%) | | | | | | |
| Sugar Factory 1 | 7,05 | 5,78 | 8,48 | 7,34 | 6,93 | 7,93 |
| Sugar Factory 2 | 7,07 | 5,63 | 7,85 | 8,79 | 7,79 | 7,95 |
| Sugar Factory 3 | 6,62 | 5,14 | 2,02 | 7,2 | 6,69 | 7,48 |
| Sugar Factory 4 | 7,42 | 5,53 | 7,86 | 8,10 | 7,60 | 7,41 |

Source: Sugar factories

Figure 2
Sugar Yield
2009 – 2014
(in percentage)



As shown in Tabel 2 and Figure 2, Sugar Factory 2 and 4 has the highest sugar yield and also relatively more stable as compared to the other two.

4.1.2. Production trend

The production trend analyzes the growth of production for each sugar factory for the period of 2009 to 2014. This production trend consists of sugar and molasses production. As shown in Table 3 and Figure 3, generally for all four sugar factories, the trend of sugar production tend to increase, eventhough there is a sharp decreased for Sugar Factory 2 (in 2010), and Sugar Factory 4 (in 2011).

Table 3
Trend of Sugar Production
2009 – 2014 (in ton)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|-----------------|--------|--------|--------|--------|--------|--------|
| Sugar Factory 1 | 6.033 | 6.536 | 7.692 | 6.620 | 8.965 | 12.857 |
| Sugar Factory 2 | 52.038 | 39.774 | 44.510 | 69.841 | 67.903 | 75.331 |
| Sugar Factory 3 | 7.909 | 8.907 | 10.888 | 11.938 | 11.298 | 13.156 |
| Sugar Factory 4 | 70.095 | 58.805 | 50.013 | 69.918 | 68.932 | 69.389 |

Source: Sugar factories

Figure 3
Trend of Sugar Production
2009 – 2014 (in ton)

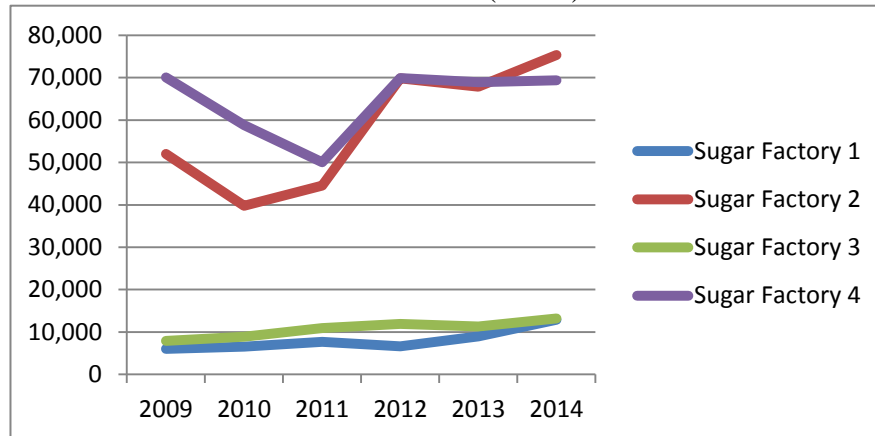


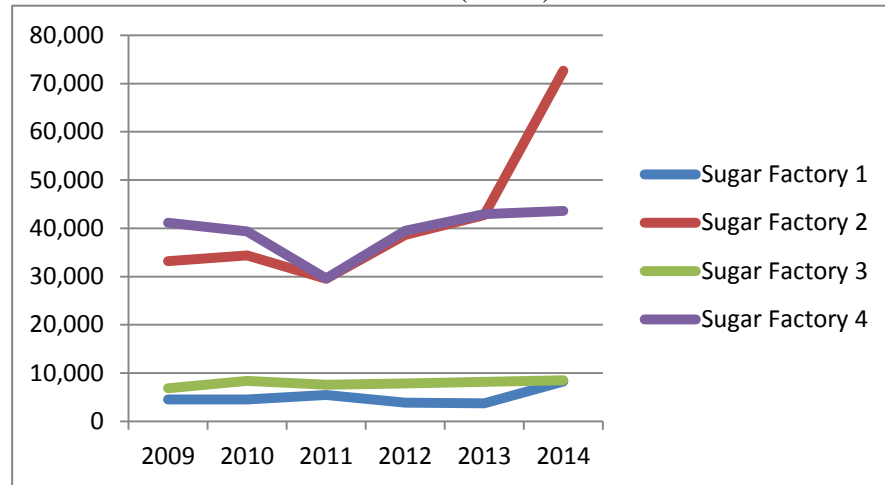
Table 4 and Figure 4 show the trend of molasses production for each sugar factories for the period of 2009 to 2014. Both Table 4 and Figure 4 indicate that consistent with sugar production trend, generally the trend of molasses production tend to increase from 2009 to 2014.

Table 4
Trend of Molasses Production
2009 – 2014 (in ton)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|-----------------|--------|--------|--------|--------|--------|--------|
| Sugar Factory 1 | 4.521 | 4.521 | 5.425 | 3.846 | 3.745 | 8.239 |
| Sugar Factory 2 | 33.172 | 34.396 | 29.535 | 38.613 | 42.719 | 72.681 |
| Sugar Factory 3 | 6.832 | 8.370 | 7.569 | 7.829 | 8.170 | 8.496 |
| Sugar Factory 4 | 41.181 | 39.351 | 29.614 | 39.464 | 42.933 | 43.610 |

Source: Sugar factories

Figure 4
Trend of Molasses Production
2009 – 2014 (in ton)



4.1.3 Milling capacity

The milling capacity is analyzed based on ton cane per day (TCD) for each sugar factory for the period of 2009 to 2014. As shown in Table 5, overall there is an increase in milling capacity for all of sugar factories from 2009 to 2014.

Table 5
Milling Capacity
2009 – 2014

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|-----------------|-------|-------|-------|-------|-------|-------|
| Sugar Factory 1 | 6.049 | 5.563 | 5.563 | 6.510 | 6.500 | 6.520 |
| Sugar Factory 2 | n/a | 889 | 1.003 | 1.099 | 1.200 | 1.202 |
| Sugar Factory 3 | 815,2 | 764 | 907 | 836 | 913 | 957 |
| Sugar Factory 4 | 5.270 | 5.258 | 5.726 | 5.308 | 5.762 | 6.089 |

Source: Sugar factories

4.2. Business Efficiency

4.2.1. Total Ton Of Sugar Cane Milled Produced Per Hectare Area Of Sugar Cane

The first ratio to measure business efficiency employed in this study is total ton of sugar cane milled produced per hectare area of sugar cane. The higher the ratio indicates better efficiency. Table 6 and Figure 5 provide information on total ton of sugar cane milled produced per hectare area of sugar cane. Based on this ratio, Sugar Factory 4 is the most efficient for 2009 and 2010, while Sugar Factory 3 is the most efficient for 2011, 2012, 2013, and 2014.

Table 6
Total ton of sugar cane milled produced per hectare area of sugar cane
2009 - 2014

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|-----------------|-------|-------|-------|-------|-------|-------|
| Sugar Factory 1 | 78,87 | 72,43 | 88,55 | 93,62 | 94,93 | 57,76 |
| Sugar Factory 2 | 87,05 | 94,08 | 67,59 | 77,74 | 78,21 | 70,12 |
| Sugar Factory 3 | 89 | 100 | 89 | 101 | 97 | 90 |
| Sugar Factory 4 | 101 | 113 | 66 | 88 | 86 | 77 |

Source: Sugar factories

Figure 5
Total ton of sugar cane milled produced per hectare area of sugar cane
2009 – 2014

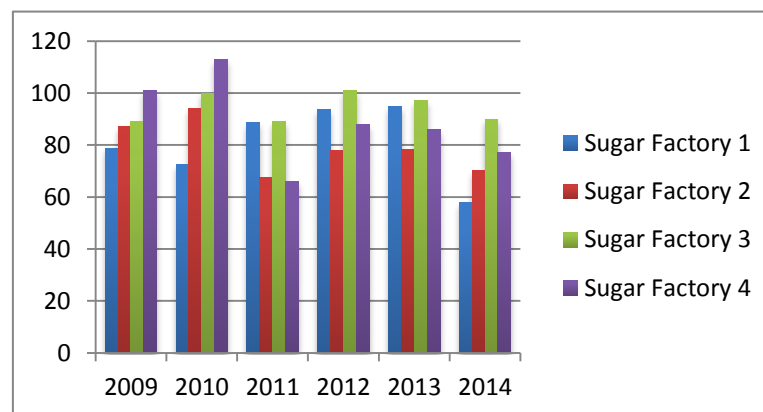


Figure 6

Trend of Total ton of sugar cane milled produced per hectare area of sugar cane
2009 – 2014

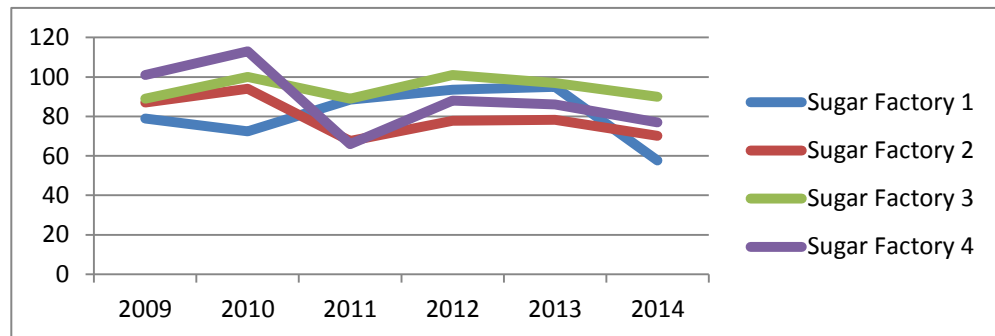


Figure 6 depict the trend of total ton of sugar cane milled produced per hectare area of sugar cane from 2009 to 2014 for each sugar factory. In general, based on this ratio there is a decreasing trend in efficiency in all sugar factories.

4.2.2. Total Sugar Cane Production Per Sugar Cane Milled

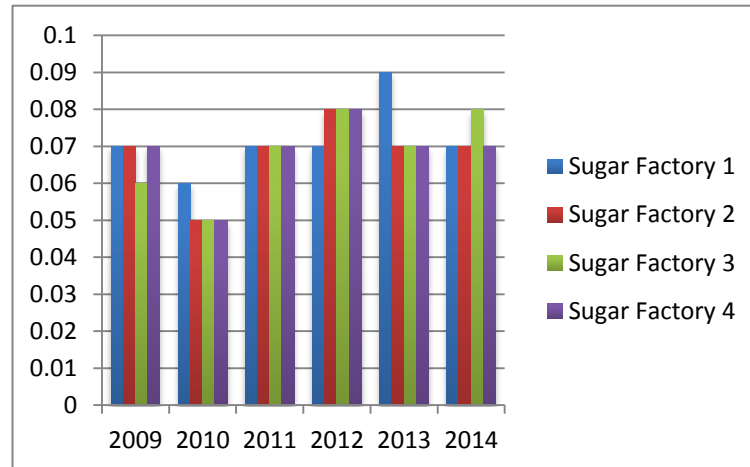
The second measure of business efficiency employed in this study is total sugar cane production per sugar cane milled. The higher the number indicates better efficiency of a sugar factory. Table 7 and Figure 7 provide this ratio for each sugar factories for period of 2009 – 2014. In general, the efficiency for all sugar factories is about the same level. However, in 2013 Sugar Factory 1 has the highest ratio as compared to the other three, while in 2014 Sugar Factory 3 has the highest one.

Table 7
Total sugar cane production per sugar cane milled
2009 - 2014

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|-----------------|------|------|------|------|------|------|
| Sugar Factory 1 | 0,07 | 0,06 | 0,07 | 0,07 | 0,09 | 0,07 |
| Sugar Factory 2 | 0,07 | 0,05 | 0,07 | 0,08 | 0,07 | 0,07 |
| Sugar Factory 3 | 0,06 | 0,05 | 0,07 | 0,08 | 0,07 | 0,08 |
| Sugar Factory 4 | 0,07 | 0,05 | 0,07 | 0,08 | 0,07 | 0,07 |

Source: Sugar factories

Figure 7
Total sugar cane production per sugar cane milled
2009 - 2014



4.2.3. Total molasses production per sugar cane milled

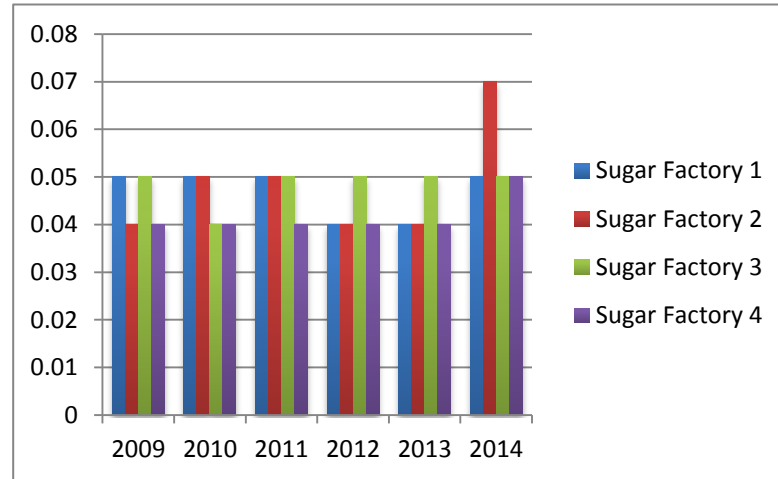
The third measure of business efficiency applied in this study is total molasses production per sugar cane milled. The higher the ratio indicates that sugar factory is more efficient. Table 8 and Figure 8 showing that Sugar Factory 2 has the highest ratio in 2014 as compared to others, while Sugar Factory 3 relatively has a stable ratio during 2009 to 2014.

Table 8
Total molasses production per sugar cane milled
2009 - 2014

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|-----------------|------|------|------|------|------|------|
| Sugar Factory 1 | 0,05 | 0,05 | 0,05 | 0,04 | 0,04 | 0,05 |
| Sugar Factory 2 | 0,04 | 0,05 | 0,05 | 0,04 | 0,04 | 0,07 |
| Sugar Factory 3 | 0,05 | 0,04 | 0,05 | 0,05 | 0,05 | 0,05 |
| Sugar Factory 4 | 0,04 | 0,04 | 0,04 | 0,04 | 0,04 | 0,05 |

Source: Sugar factories

Figure 8
Total molasses production per sugar cane milled
2009 – 2014



4.3. Corporate Social Responsibility (CSR)

The CSR program in sugar factory of state-owned company is embedded in the Partnership Program and Community Development (or Program Kemitraan dan Bina Lingkungan, PKBL). This PKBL is considering as one of key success factors of the company to be sustainable. The Partnership Program in the sugar factory engages with sugar cane farmers as its partner, while Community Development concerns on social environment (Annual Report PTPN XI, 2013). The partnership program focuses on programs that would help sugar cane farmers, cooperative, and micro/small businesses to improve their production techniques and also their marketing technique. One example of Partnership Program is to provide micro credit for sugar cane farmers to help them in growing sugar cane in the beginning of planting season and the farmers could repay their debt when the crop already sold. The partnership program is very tightly related to main business of sugar factory that we can consider this program as a strategic CSR. Partnership Program provides benefits for sugar cane farmers, and in turn this program will give benefits to sugar factory itself especially more than 60% of the sugar cane milled come from the farmers.

Another type of CSR program of the sugar factory is the community development. As mentioned before, community development program focuses

more on social environment activities, such as providing grants for education and training programs, improving public facilities and infrastructure, improving public health, and also poverty alleviation (Annual Report PTPN XI, 2014). From the point of view on strategic CSR concept, community development program cannot yet be considered as strategic CSR activities since this type of CSR program is more emphasized on philanthropic aspects. In the future, community development program should also be developed and designed based on strategic CSR concept.

This study is not able to obtain the data regarding the amount of fund dedicated for PKBL activities for each sugar factory. However, the study is able to get the overall data of PTPN XI based on its annual report. Table 9 and Table 10 present data of Partnership Program and Community Development for 2009 to 2014. As shown in Table 9, the fund allocated for partnership program tend to increase from time to time. The fund allocated for community development; on the other hand, tend to decrease as shown in Table 10 from Rp3.9 billions in 2009 dropped to Rp82 million in 2014 in term of available fund, and from Rp1.14 billions in 2009 to Rp266 million in 2014 in term of fund utilization. The increase of partnership program fund along with the decrease of community development might indicate that the Company more focuses on strategic CSR and lesser on nonstrategic CSR.

Table 9
Partnership Program Fund of the Company
(in Rp000.000)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---------------------------|--------|--------|--------|--------|--------|--------|
| Available fund | 14,215 | 24,290 | 33,791 | 39,904 | 65,402 | 75,033 |
| Fund utilization | 11,209 | 20,083 | 30,522 | 37,210 | 59,657 | 69,317 |
| Fund balance | 3,006 | 4,207 | 3,269 | 2,694 | 5,745 | 5,716 |
| Trained partners (person) | n/a | n/a | 2,067 | 921 | 1,078 | n/a |

Source: Annual reports PTPN XI 2014, Annual report PTPN XI, 2013, Annual Report PTPN XI 2012.

Table 10
Community Development Fund of the Company
(in Rp000.000)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|------------------|-------|-------|-------|-------|------|------|
| Available fund | 3,900 | 4,150 | 2,455 | 1,150 | 558 | 82 |
| Fund utilization | 1,140 | 2,545 | 1,323 | 717 | 315 | 266 |
| Fund balance | 2,760 | 1,604 | 1,132 | 433 | 243 | - |

Source: Annual reports PTPN XI 2014, Annual report PTPN XI, 2013, Annual Report PTPN XI 2012.

5. Conclusion

The results of the study show that the production performance measured by capacity of milled sugar cane increase in term of the area of milled sugar cane in each sugar factories analyzed for the period 2009 to 2014. However, this trend is not followed by sugar yield, which is showing an unstable trend. Consistent with the area of milled sugar cane, there is also an increase trend in production of sugar and molasses in all sugar factories studied. Production performance in term of milling capacity also showing that there is an increase trend for each sugar factory from 2009 to 2014.

Business efficiency in this study measured by three indicators, i.e.: total ton of sugar cane milled produced per hectare area of sugar cane, total sugar cane production per sugar cane milled, and total molasses production per sugar cane milled. In general, there is a slight decreasing in efficiency based on total ton of sugar cane milled produced per hectare area of sugar cane for all sugar factories analyzed for the period of 2009 – 2014. Furthermore, based on total sugar cane production per sugar cane milled is about at the same level for all sugar factories. Finally, business efficiency in term of total molasses production per sugar cane milled indicates that there is an increasing trend in sugar factories' efficiency from 2009 to 2014.

The sugar factories engaged in CSR activities through a program called Partnership Program and Community Development (more well know as Program

Kemitraan dan Bina Lingkungan, PKBL). The partnership program basically focuses more on sugar cane farmers while community development focuses more on social environment. Based on strategic CSR concept, the partnership program can be considered as strategic CSR, while community development more as nonstrategic CSR. Based on fund allocated to partnership program and community development from 2009 to 2014, it indicates that the Company more focuses on partnership program, which indicate that the Company considered already implementing strategic CSR.

REFERENCES

- Baron, D.P. (2001), Private Politics, Corporate Social Responsibility, and Integrated Strategy, *Journal of Economics & Management Strategy*, Vol. 10 (1), Spring, pp. 7-45.
- Finch, N. (2005), Sustainability Reporting Framework. <http://papers.ssrn.com/sol3>.
- Global Reporting Initiatives (2015), *Reporting Principles and Standard Disclosures*.
- Lantos, G. P. (2001), The Boundaries of Strategic Corporate Social Responsibility, *The Journal of Consumer Marketing*, Vol. 18(7) , pp. 595 – 649.
- Lee, M-D.P (2007), A Review of the Theories of Corporate Social Responsibility: Its Evolutionary Path and the Road Ahead, *International Journal of Management Review*, Vol. 10 Issue 1, pp. 53- 73.
- Porter, M.E., dan Kramer, M.R. (2006), Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility, *Harvard Business Review*, Dec., p. 1-15.
- PT Perkebunan Nusantara XI (2013), *Laporan Tahunan 2010*.
- PT Perkebunan Nusantara XI (2013), *Laporan Tahunan 2013*.
- PT Perkebunan Nusantara XI (2013), *Laporan Tahunan 2014*.
- Sayekti, Y. (2011), *Strategic Corporate Social Responsibility (CSR): Slack Resources, Kinerja Keuangan, dan Earning Response Coefficient, Disertasi, Program Pascasarjana Ilmu Akuntansi, Fakultas Ekonomi, Universitas Indonesia*.
- Undang-Undang Republik Indonesia Nomor 19 tahun 2003 tentang Badan Usaha Milik Negara.
- Undang-Undang Republik Indonesia Nomor 40 tahun 2007 tentang Badan Usaha Milik Negara.
- Utama, S. (2007), Evaluasi Infrastruktur Pendukung Pelaporan Tanggung Jawab Sosial dan Lingkungan di Indonesia, *Pidato pada Pengukuhan sebagai Guru Besar Tetap dalam Bidang Akuntansi Fakultas Ekonomi Universitas Indonesia*, 14 Nov 2007.