Forest community development: Enhancing corporate social responsibility in Indonesia's forestry sector

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<td>APL</td>
<td>Land is determined for other uses (<em>Areal Penggunaan Lain</em>)</td>
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<tr>
<td>Bapedalda</td>
<td>Regional Environmental Impact Controlling Agency (<em>Badan Pengendalian Dampak Lingkungan Daerah</em>)</td>
</tr>
<tr>
<td>BP</td>
<td>British Petroleum</td>
</tr>
<tr>
<td>CAP</td>
<td>Community Action Plan</td>
</tr>
<tr>
<td>CD</td>
<td>Community Development</td>
</tr>
<tr>
<td>CCC</td>
<td>Community Consultative Committee</td>
</tr>
<tr>
<td>EC – UNDP</td>
<td>European Community – United Nations Development Program</td>
</tr>
<tr>
<td>FAO</td>
<td>Food and Agriculture Organisation</td>
</tr>
<tr>
<td>FFG</td>
<td>Forest Farmer Group</td>
</tr>
<tr>
<td>FGD</td>
<td>Focus Group Discussion</td>
</tr>
<tr>
<td>FKM</td>
<td>Forum for Community Communication (<em>Forum Komunikasi Masyarakat</em>)</td>
</tr>
<tr>
<td>FSC</td>
<td>Forest Stewardship Council</td>
</tr>
<tr>
<td><em>Gerhan</em></td>
<td>National Movement for Forest and Land Rehabilitation (<em>Gerakan Nasional Rehabilitasi Hutan dan Lahan</em>)</td>
</tr>
<tr>
<td>GR</td>
<td>Government Regulation</td>
</tr>
<tr>
<td>HPH Bina Desa</td>
<td>Forest Village Development by Forest Concessionaires (<em>Hak Pengusahaan Hutan Bina Desa</em>)</td>
</tr>
<tr>
<td>HGU</td>
<td>Rights to use state land for a commercial purpose (<em>Hak Guna Usaha</em>)</td>
</tr>
<tr>
<td>HTR</td>
<td>Community Plantation Forest (<em>Hutan Tanaman Rakyat</em>)</td>
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<tr>
<td>ILO</td>
<td>International Labour Organisation</td>
</tr>
<tr>
<td>ISO</td>
<td>International Standard Organisation</td>
</tr>
<tr>
<td>LEI</td>
<td>Indonesian Ecolabelling Institute (<em>Lembaga Ekolable Institut</em>)</td>
</tr>
<tr>
<td>MNC</td>
<td>Marine Stewardship Council</td>
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<tr>
<td>MHR</td>
<td>Managing People’s Forest (<em>Mengelola Hutan Rakyat</em>)</td>
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<td>MHBM</td>
<td>Developing Forests with Communities (<em>Mengelola Hutan Bersama Masyarakat</em>)</td>
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<td>MD</td>
<td>Ministerial Decree</td>
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<td>Ministerial Regulation</td>
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<td>NGO</td>
<td>Non-Government Organisation</td>
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<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
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<td>Abbreviation</td>
<td>Full Name</td>
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<tr>
<td>PTUN</td>
<td>State Administration Court (<em>Pengadilan Tata Usaha Negara</em>)</td>
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<tr>
<td>RI</td>
<td>Republic of Indonesia</td>
</tr>
<tr>
<td>SFM</td>
<td>Sustainable Forest Management</td>
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<tr>
<td>UN</td>
<td>the United Nations</td>
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<tr>
<td>WWF-UK</td>
<td>World Wide Fund for Nature the United Kingdom</td>
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Certificate of authorship

I, Kristiana Tri Wahyudiyati,

Herewith declare that this thesis is my own work to the best of my knowledge and belief. This thesis contains neither material formerly published by another person without acknowledgement, nor material which has been accepted for the award of any other degree at other educational institutions. Any substantial contribution made to the research by colleagues with whom I have worked at Charles Sturt University or other institutions during my candidature is fully acknowledged.

I agree that the thesis be accessible for the purpose of study and research, especially for the interest of the development of new knowledge through loan and reproduction of the thesis.*

Signed

Kristiana Tri Wahyudiyati

Date 06/11/2014

*Subject to confidentiality provisions as approved by the University
Ethics approval

The Ethics in Human Research Committee at Charles Sturt University approved the proposed research and data collection procedures for this research (confirmation letter was sent on the 17 January 2011 by Ms Julie Hicks, Executive Officer, Human Research Ethics Committee). The protocol number issued with respect to this research was 2011/002
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Professional Editorial Assistance

Professional editorial assistance was obtained to finalise this thesis. That assistance did not begin until initial drafts of the thesis had been completed. It was based on my supervisors’ advice and approval that I engaged the editor – Dr Robert Trevethan. In-text editing of the thesis was limited to English spelling, grammar, formatting, word selection and structure. During the editing process, no alterations were made to the academic content or conceptual organisation of the thesis.
Publications from this research

Wahyudiyati, K.T, Race, D., Basu, P.K., Udiansyah, Gunarso, P., 2012. CSR in Indonesia’s forestry industry: constraints and challenges. This article was published in September 2012 by Tropenbos International Indonesia (the sponsoring organisation for this study).

Other publications

Wahyudiyati, T. 2010. CSR: Does the legislation work in Indonesia? This article was published on Wednesday, 28 April 2010 by the Jakarta Post.
Abstract

There are enduring problems regarding the relationship between corporations and the communities living close to their operations. The main causes of these problems include economic factors (Barron, Kaiser, & Pradhan, 2009) and a lack of opportunities for local people to work in the companies and to be involved in the companies’ projects on community development (Batruch, 2011). Problems have also arisen because of a demand by communities for a share of the benefits generated by the companies’ operations. The introduction of the concept of corporate social responsibility (CSR) has been recognised as a means by which the benefit collected by companies can be shared with local communities (Breen, 2007).

However, it is difficult as the need for profit often conflicts with CSR as presented in the companies as case studies. This study analysed the root reason for CSR is a lack of ethics in CSR (such as poor communication, low levels of trust and commitment) which stems from a conflict between ensuring profits (such as endeavouring to meet the production target and sustaining timber supply for the furniture industry) and the need to do good and establish good community relations. Whilst, benefit sharing embedded in CSR implemented by the large and small forestry companies, as well as the mining company, is not simply sharing profits, opportunities and benefits from natural resource extraction, but it needs a long process, continuous communication and strong trust between companies and local communities.

To explore a company–community relationship and its associated problems, three companies operating in South Kalimantan Province, were selected as case studies. These were two forestry firms and a mining company. Local communities located near the companies’ operations were also chosen as case studies to observe their villagers’ opinions regarding constraints and opportunities associated with the practice of CSR, and attempts to enhance its implementation.

In-depth semi-structured interviews (n=80) were conducted to collect relevant information. A household survey (n=36) with semi-structured interviews was also organised to gather a detailed profile of farmer interviewees. Other sources of information include focus group discussions; the Indonesian policy reviews on community forestry and CSR produced by the
government; media (newspapers); and publications produced by the government, companies, and NGOs.

From the interviews, it was found that understandings and perceptions of CSR on the part of companies are often framed by a narrow and simplistic interpretation, for example, public relations and sponsorship. Several inter-linked factors contribute to a forestry company’s approach to CSR, namely maintaining business profitability, securing future resource supplies, maintaining a cooperative relationship with local communities, and building and maintaining a positive media image. Extractive industries (forestry and mining) often have quite specific “affected” communities, and therefore companies can identify and develop tangible approaches to CSR that are beneficial to local communities. For example, they can organise training, establish micro-economic institutions, and help marketing strategies. Government plays an administrative and regulatory role – creating the policy environment – for the commercial forestry and mining sectors in Indonesia. Corporations are often perceived to have larger personnel capacity and financial resources than do local communities, so are often expected to lead and guide CSR, albeit with support from NGOs and perhaps other entities (e.g., local government). Local communities could also develop their understandings about what approach to CSR is most preferred in order to negotiate their preferred “operating environment” with corporations and government. They can also assist in avoiding the perception of CSR being a formulaic procedure or a fixed recipe, and promote CSR as a concept that should be nuanced and interpreted within a local setting and adapted over time. Also, CSR should be viewed beyond just a profit/loss arrangement, and be used to encourage local communities to develop their enterprise capacity and improve their livelihoods.
Chapter 1
Overview of research topic and approach

1.1 Introduction

The relationship between corporations and the communities living close to their operations can be problematic. Economic factors are cited as the main cause of friction (Barron et al., 2009), but other sources of friction include a lack of opportunities for local people to work in the companies or for them to engage in community development projects (Batruch, 2011). The primary cause of the problems stems from a strong demand by communities for a share of the benefits generated by the companies’ operations. Thus, local development needs are sometimes brought to the negotiating table when companies are committed to the concept of corporate social responsibility (CSR) (Breen, 2007).

Serious attempts have been made by companies to improve the relationship they have with local communities, including the integration of CSR into various aspects of their businesses. However, while international debates about CSR have intensified, especially regarding its implications for company performance, no clear consensus exists on its meaning or value (Cai, Jo, & Pan, 2012; McWilliams, Siegel, & Wright, 2006). Also, there has been growing criticism of existing CSR models as being insufficient to provide an adequate understanding of CSR (Claydon, 2011). In turn, this limited understanding affects the design and implementation of CSR programs, which sometimes do not appear to be strongly aligned with the generally accepted principles of CSR. Instead of trying to understand how CSR should be implemented in certain local contexts, more research is needed to make a practical difference to how it is generally interpreted (Sabadoz, 2011).

The research reported in this thesis investigates the application of CSR to the relationship between forestry companies and local communities in the villages adjacent to commercial forestry operations in Indonesia. The research also investigates how CSR is subjectively understood and it affects its implementation. Limitations in understanding and implementation of CSR were revealed including lack of ethical and environmental values, contrasting with the original principles of CSR (focuses on ethics, law and human rights).
The limitations have negatively affected local communities residing near the companies’ operations, which provided inadequate support to improve communities’ livelihoods. Strong encouragement needs to be provided by the government, at all levels, with reference to the existing CSR regulations. Also, criteria and guidelines on CSR need to be developed so that misunderstanding and misinterpretation can be predictably avoided. Therefore, CSR in Indonesia’s forestry sector could be enhanced, thereby improving forest community development.

The general topic for research was identified by Tropenbos International Indonesia (a Dutch-funded non-government organisation) that promotes the improvement of tropical forest management for people, conservation, and sustainable development (Tropenbos International, 2010). The research focussed on experiences relating to case studies of two forestry companies having operations in Tanah Laut district, South Kalimantan Province, Indonesia. To investigate another approach to CSR, this research also explored the experiences related to a mining company operating in the same location.

In the research location, conflicting land use often occurs, particularly between mining and forestry operations. Therefore, an analysis comparing how CSR is understood and practised in forestry and mining companies can substantially enrich the discussion of the thesis, and include programs, budgets, publications, strategies, and CSR-related problems. In addition, local communities have also experienced CSR practices by both companies. Thus they could provide important inputs about the companies on which CSR programs are beneficial to them, and which CSR could support their livelihoods. Their views on this subject could also contribute to the general discussion of SCR in the thesis.

In mid-2009, this research commenced with a workshop on corporate social responsibility in the forestry sector in Banjarbaru, South Kalimantan. The collaborating partners were the Forestry Research and Development Agency (within Indonesia’s Ministry of Forestry), the University of Lambung Mangkurat (the leading local university), and Tropenbos International Indonesia (the sponsoring organisation for this research). This workshop was an essential part of this research because the presentations provided information on how CSR is viewed, including insight about a company’s understanding and implementation of CSR-related programs. In Indonesia, there are generally two primary reasons for companies to invest in CSR:
• the issuance of the Limited Liability Company Law 2007, requiring companies having businesses in natural resources management to do so; and
• pressure from shareholders and local communities (Djatmiko, 2009).

One of the presenters at the workshop spoke about a people’s forest program being organised by a forestry company, which was believed to be significantly beneficial to local communities despite several serious problems being encountered (Djatmiko, 2009). While the positive information about the program was encouraging in terms of boosting community livelihoods and supporting a better environment, some problems were evident and became challenging issues that needed further exploration. As Waddock (2007, p.74) stated:

“The better some companies perform, the more discouraged and concerned some people are about the quality of life, the sustainability of the planet, and the set of values that are driving societies”.

Key research questions were then developed as a foundation for further investigation, and their development was followed by the construction of the research study. The following sections describe the outline of the study, methodology, and contribution of the research to theory, practice, and policy. The last section contains the structure of the thesis detailing the contents of each chapter.

Information regarding understandings of CSR was also gathered from forestry staff at the national, provincial, and district levels, as well as from professionals (e.g., sociologists, socio-economists, environmentalists, foresters, and journalists) and NGOs.

1.2 Outline of the study

1.2.1 Focus of the study

Existing literature has been dominated by views that neglected the social factor in CSR (Brammer, Jackson, & Matten, 2012). A social element is interpreted as a set of external requirements for companies to engage with societies (Margolis & Walsh, 2003). Howard Bowen, popularly referred as the ‘Father of CSR’, defined it as ‘the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of
action which are desirable in terms of the objectives and values of our society’ (Bowen, 1953, p. 6). In a broader context, the World Business Council for Sustainable Development (2001) defines CSR as “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” (WBCSD, 2014, p. 1).

It is difficult to arrive at one definition of CSR as it evolved over time with changing social and community value systems (Garriga & Mele, 2004). Literature provides a range of theories and definitions of CSR. Some theories combine different approaches, and others use the same terminology but with different meanings (Garriga & Mele, 2004). CSR often expressed diverse values. As Votaw (1972) observed CSR means something, but not always the same thing to everybody. Thus, CSR might be seen as inherently subjective (Matten & Moon, 2008), and be interpreted in many different ways (Blasco & Zölner, 2010). Others define it as the economic, legal, moral, and philanthropic actions of firms that influence the quality of life of relevant stakeholders (Hill, Ainscough, Shank, & Manullang, 2007). Most relevant to this thesis are definitions of CSR which include mandatory responsibilities, i.e. in the economic, legal, ethical, and philanthropic dimensions (Carroll, 1991). Although this classification has been criticised, it is the typology that is widely being used (Enderle, 2010).

While definitions of CSR vary, it generally means serving people, communities, society, and the environment in ways that go beyond what is legally required of a firm (Cai, Jo, & Pan, 2011; Lindgreen, Swaen, & Johnston, 2009; Lindgreen, Swaen, & Maon, 2009), but mandatory CSR may increase business costs because some companies are legally required to allocate more of their budget to CSR than they generally do (Rosser, Atje, & Edwin, 2008b). Carroll expressed a view that most businesses today embrace CSR, but argued discretionary aspects of corporate citizenship should be linked with business objectives and strategy (Carroll, 2009). Such linkage is needed because social responsibility actions have primarily been taken to improve a company’s image (Herman, Georgescub, & Georgescu, 2012).

In the early 1990s the debate about CSR focused on the voluntary behaviour of companies. For example, CSR is defined as practices of companies that support a better workplace, and benefit society in ways that go beyond legal compliance (Vogel, 2006). Similarly, current opinion has also stated that social responsibility shown by businesses should be voluntary, to maintain their competitiveness (Fifka & Berg, 2013). In the 1990s social responsibility of
corporations and environmental concerns merged into a more holistic understanding of CSR, covering environmental and corporate ethics (Schlegelmilch, 1994). Later, Garriga & Mele (2004) declared that CSR theories were dominated by four main issues:

- meeting objectives that generate long-term profits;
- using business power;
- integrating social demands; and
- contributing to a healthy society by referring to ethical principles.

These four issues were classed as instrumental, political, integrative, and value theories.

That moral and ethical concerns have been expressed by small companies indicates that great importance should be placed on CSR and business ethics (Fassin, Rossem, & Buelens, 2011). The term *ethics* refers to a set of moral norms, principles, or values that guide people's behaviour (Sherwin, 1983). Thus, ethics can also help to understand how our economic behaviour is influenced by the moral dimensions of our lives (Tota & Shehua, 2012). For a typical firm, CSR is the normative view of the moral arguments, from the stakeholder perspective, about the firm and its social objectives and how its responsibility to society (Krishnan, 2011). It applies to any sized business and follows principles that can be modified (Arnaudova & Koseskaa, 2012).

Ethically based theory has emerged from stakeholder management guidelines; (Freeman, 1984) suggested that managers are required to maintain a trust-based relationship with stakeholders. Further, he declared that stakeholders are the groups who have a stake in or claim on the firm, such as suppliers, customers, employees, stockholders, and the local community. Stakeholder theorists have argued that while there are normative, ethical elements to stakeholder theory beyond its managerial, social science applications, these are separate and distinct (Freeman, 2002; Jones & Wicks, 1999). In this regard, CSR and stakeholder theory are different -- they have divergent views on the CSR obligations of businesses to society; and also on the responsibilities of businesses to their firm-specific stakeholders to create value (Berman, Wicks, Kotha, & Jones, 1999; Freeman & Liedtka, 1991).

Ethical theory mandates firms should accept social responsibilities as an ethical obligation (Garriga & Mele, 2004). Ethical responsibilities have been promoted by some scholars, who confirm that they go beyond the law to avoiding harm or social injury, and respecting
people’s moral rights (Smith & Quelch, 1993); and include caring about stakeholders (Lantos, 2001a). Focusing on moral responsibility and avoiding harm was an approach also suggested by Archie Carroll (1979), who stated that ethical responsibilities concern how to conduct business morally, so as to do what is right, just and fair. Similarly, Lantos (2001) declared CSR to be the morally mandatory fulfilment of a firm’s economic, legal, and ethical responsibilities. Further, DeGeorge (1999) defined business ethics as a field of ethics concerned specifically with ethical dilemmas emerging in the context of doing business. Velasque (1999, p. 13) defined business ethics as “a specialised study of moral right and wrong. It concentrates on moral standards as they apply particularly to business policies, institutions, and behaviours”. Further, three mainstream ethical theories are:

1). teleological or consequences-based (consequentialism), employing principles of utility (e.g. utilitarianism);

1). deontological or duty-based, highlighting people’s duty to uphold norms, using principles of rights and justice; and

3). virtue-based, focusing on behaviour that promotes ethical values and good character, and entails caring for stakeholders (Lantos, 2001b).

*Teleological* refers to behaviour that is ethically right -- whereas *deontological* is a term from the branch of moral philosophy that focuses on duties and moral obligations. This research tends to adopt a virtue-based approach to CSR that encourages corporations to be responsible in solving ethical problems. Thus, an ethical approach to CSR encourages corporations to be responsible in solving social problems. Virtue-based ethics engage with a person’s character, accommodating elements of moral excellence,rightness, and goodness (Lantos, 2001b). Virtue theory could be used by corporations if there were conflicting duties to various stakeholder groups. The helpful solution to the problem of how to conceptualise the balancing act is the *ethic of the mean* (Aristotle, 2000).

Virtue theory itself does not discuss how to be perfect, but rather how to achieve balance (Lantos, 2001b). As ethics are identical to morals, the simpler definition of moral obligation was given by Porter & Kramer (2006): that it focuses on the goal of business regarding CSR, whereby companies have a duty to be good citizens and to “do the right thing”. Similarly, Garriga & Mele (2004, p. 60) suggested that “an ethical requirement should be based on principles that concern the right thing to do or the necessity to achieve a good society”. A
most recent challenge in applied ethics concerns the development of principles that are
generally suited to various cases (Buckley, 2013).

Environmental issues have been an important topic of discussion for the past thirty years in
the business world (Uddin, Hassan, & Tarique, 2008), during which time corporations
realised the importance of natural resources conservation and ecosystem health (Bullis & Ie,
2007). Environmental management systems began to be promoted and gained favour, as they
were found to be economically efficient due to their ability to reduce waste (Bullis & Ie,
2007). Environmental CSR is defined as environmentally friendly actions not required by law
(Lyon & Maxwell, 2008). Further, these authors highlighted that in developing countries,
such as Indonesia, where regulatory systems are weak, international markets are assumed to
be the strongest force for environmental CSR.

It is important to note that adopting corporate social and environmental responsibility for
firms perceives as legitimate and voluntary activities (Lee, 2012). Small businesses have
indicated high concern on ethics in their operations (Fassin et al., 2011), in contrast, this
group cannot afford to be environmentally responsible because environmentally concerns are
assumed to be expensive (Bullis & Ie, 2007). Concern over the environment is an
opportunity rather than a cost (Bullis & Ie, 2007). Another opinion argues that
competitiveness in a business is important, therefore many firms are concerned about
environmental protection because the strategy of corporate responsibility improves a
company’s competitive advantage (Orlitzky, Siegel, & Waldman, 2011). A linkage between
competitive advantage and CSR is also important according to Porter and Kramer (2006) who
stated that “CSR can be much more than a cost, a constraint or a charitable deed – it can be a
source of opportunity, innovation and competitive advantage” (Porter & Kramer, 2006, p. 2).
Yet this advantage of CSR can also be used as a branding strategy that places a greater
importance on profit-making than corporate citizenship (Lorenzo-Molo, 2009).”

In the last two decades, CSR has been increasingly encouraged in forestry businesses, as well
as in many other sectors (Rosser & Edwin, 2010; Waagstein, 2011). A number of definitions
of CSR have been proposed, but none have been unanimously accepted. Therefore, it is
difficult to develop a theoretical framework and measurement criteria (McWilliams et al.,
2006). While many national and international forestry firms have adopted CSR, there is no
consensus about how it should be implemented. Each company has its own interpretation, so
a forestry firm in Indonesia can apply CSR according to its own understanding — yet it may not be effective in establishing a mutually-beneficial relationship with local communities.

Generally, the aim of company–community partnerships is to improve local livelihoods and promote socially, environmentally, and economically sustainable private sector forestry. Moreover, the theory underlying the perspective on CSR developed by McWilliams et al. (2006) recommends that it be considered as a strategic investment on the grounds that it is a form of reputation building or maintenance. Significantly, the introduction of CSR in a company is frequently linked to a crisis (Batruch, 2011). This phenomenon in the forestry plantation sector is often associated with the need for an alternative solution for timber companies facing a timber supply shortage — in this case a “crisis of supply” (Mayers & Vermeulen, 2002).

In many countries, including Indonesia, expansion of government and industrial plantation tends to be increasingly difficult because of changes in social attitudes, difficulties with access to land, and competing claims for land rights by local people. At the same time, there is growing awareness of various social and environmental benefits resulting from this expansion. More importantly, there is an increasing interest in a “people-oriented” approach to forestry, rather than a top-down approach controlled by the government (Harrison & Herbohn, 2000). The latter type of forest management is most evident in Southeast Asian countries, where about 365 million hectares of forests (92 percent of the total forest area) are public, most of which (79 percent) is owned or controlled by central governments (FAO, 2007) that in turn often distribute logging or plantation rights to private companies.

With such massive economic development, the forest industry continues to create negative impacts on the natural environment, leading to a pressing demand for companies to incorporate socially and environmentally responsible practices into their core business strategies. One response to this demand was sustainable forest management (SFM), a concept derived from sustainable development theory that emerged in the early 1970s.

The concept of sustainable development was first introduced in 1972 in Stockholm, Sweden, at the UN Conference on the Human Environment (FAO, 2010a). More than a decade later, a seminal speech by Gro Harlem Brundtland, then the prime minister of Norway, placed an even stronger value on the importance of sustainable development, emphasising the linkage
between people, resources, environment, and development (Brundtland, 1987). From that time onwards, sustainable development has increasingly been adopted by many countries. However, more than three decades after this idea was introduced, environmental degradation is still growing at an alarming rate (FAO, 2010b).

Consequently, the forestry sector has been strongly encouraged to ensure goods and services derived from forests meet present-day needs while at the same time securing their continued availability and contribution to long-term development (FAO, 2008). Many commitments have been made, and discussions held, to find effective ways to achieve sustainable forest management (SFM), including the introduction of forest certification, the International Standard Organization (ISO) and, more recently, corporate social responsibility. Forest certification is a third party verification system that certifies SFM practices (Vidal & Kozak, 2008).

Elkington (1998) defined the new types of economic, social, and environmental parameters, known as the ‘triple bottom line’, needed to achieve an overall performance of sustainability. These reform mechanisms, among others, resulted from the positive impacts of the publication of the Brundtland Report.

1.2.2 Purpose of this research

Given the limited literature available on the understanding of CSR by local communities and forestry companies, and whether its practice by forestry companies has a significant potential to improve the well-being of local communities, the purpose of this research is to:
- seek detailed information on how selected corporations and communities view CSR; and
- examine how these understandings are reflected in company–community partnerships.

Also, the research is intended to explore whether the selected companies’ perspectives on CSR are similar to those of their corporate peers, as well as the extent to which these perspectives reflect generally accepted principles and practices of CSR. Reflecting the issues being addressed by corporations at the research location, this study is intended to develop a conceptual framework for enhancing CSR practices via rural community development.
Research questions

The following key research questions were framed to provide a basis for the investigation:

1. What is the understanding of CSR by selected local communities and forestry corporations in Indonesia?

   The sub-questions to support this question are:
   - What is the nature of the interaction and relationship building between local communities and industrial forest plantation corporations?
   - What are the characteristics of communities residing near forestry corporations’ activities that are most influential to the communities’ perceptions of corporations’ operations in their area and the practice of CSR?
   - What are the forestry corporations’ perspectives of communities living in areas surrounding their operation?
   - What are the forestry corporations’ views on CSR?

2. To what extent do the practices of forestry corporations in Indonesia reflect the principles of CSR?

   The sub-questions to support this question are:
   - What are the elements of CSR principles and how can these principles be put into practice?
   - What are the perspectives of forestry corporations on CSR principles globally?
   - How do Indonesian forestry corporations understand CSR principles and how do they apply CSR principles in practice?

3. How can CSR be adopted and enhanced through forest community development in Indonesia?

   The sub-questions to support this question are:
   - How do changes by forestry corporations in Indonesia assist in achieving CSR in terms of organisation, behaviour, and attitudes?
• How can CSR be enhanced or harmonised with existing rural community development?
• What is the nature of policy development relating to CSR in Indonesia?
• How is CSR able to produce systemic changes in Indonesia?

1.2.3 Brief description of the research site

South Kalimantan Province was chosen as a research site (figure 1.1) as it has a number of forest concessionaires and mining companies that significantly contribute to the local people’s livelihood; and also features company–community relationships through the practice of several types of CSR. Forest degradation caused by companies extracting natural resources as part of their businesses has direct negative implication for forest dependent communities. One of the forest plantation companies, a large forestry company, has set up a CSR program referred to as a community forest project. This project is carried out under an agreement with a local institution called a koperasi (cooperative). The communities that participate consist of trans-migrants from Java and local indigenous communities (Banjarese); they have participated by voluntarily planting a species of tree determined by the company. Upon the completion of the harvest, it is intended that the community will receive a share of profits as stated in the contractual legal agreement.

In addition, South Kalimantan is regarded as one of the most challenging provinces in Indonesia for effective economic development due to its size (it has the smallest land area compared to the other three provinces in Kalimantan), and has been identified as the eighth highest contributor to national revenue from non-oil resources (South Kalimantan Province, 2009a). According to the Indonesian Ministry of Forestry, the forest area of South Kalimantan has been reduced drastically over the past 25 years, from around 1.8 million hectares in 1985 to only about 900,000 hectares in 2011 (Ministry of Forestry, 2013).

Five villages were selected for this research: Asri Mulya, Asam Jaya, Suarangan, Ranggang, and Ujung Batu II. All of them are located within the sub-districts of Jorong and Takisung within Tanah Laut district. Most of their residents have developed a partnership with forestry companies, except for those in Suarangan as that village has strong support via a CSR program provided by a locally-based mining company.
1.3 Methodology

My initial task was to construct an appropriate theoretical framework as a foundation for this research. This framework provided a guideline for the literature review and discussion, and drew on theories of rural community development related to corporate forestry, company–community partnership, and CSR that place particular emphasis on legal, ethical, and cultural values.

From the literature review, field works were organised to test the theories in the research sites. Edmondson & McManus (2007) define field research as systematic studies that rely on the collection of original data. The field works were also intended to collect relevant data so that I could answer the constructed research questions. A research question focuses a study, shapes the topic area to a meaningful and manageable size, addresses issues of theoretical and practical significance, as well as points toward a viable research project ensuring the question can be answered (Edmondson & McManus, 2007). The key to good research lies, not in using the right method, but rather in asking the right question and selecting the most appropriate method for answering that particular question (Bouchard, 1976).
This research study was developed further with the establishment of a research design, covering four elements, namely the: type of data; data collection tools and procedure; type of analysis; and selection of sites (Edmondson & McManus, 2007). The type of data used in this research is classified as primary data (semi-structured interviews, household surveys and focus group discussions) and secondary data (policy reviews, statistical data, company publications, and newspaper articles). Data collection tools and procedures included tape recordings, flipcharts, data processing programs, questionnaires, letters of research permit, and a research ethics protocol. The type of analysis employed in this study is a combination of thematic analysis, socio-economic analysis and newspaper article analysis. As presented in detail in section 4.5.1, the selection of sites followed these criteria: they were selected in the province that is smallest in size compared to other provinces in Kalimantan, that is the eighth highest in national revenue contribution, has dramatic forest degradation; also the selected companies had established a partnership agreement with local communities.

To analyse the collected data, I utilised a largely qualitative method. The strengths of this method is the research can progress step-by-step in several stages (Denzin & Lincoln, 2005), which can be systematically organised to suit the limitations of this project, in terms of time and budget. Using a qualitative method can also provide insights from the data while the analysis is in progress (Richards & Morse, 2007). Qualitative research exists in a time of global uncertainty (Denzin, Lincoln, & Giardina, 2006). Qualitative researchers also ought to learn to think outside the box (Atkinson, 2004). It is necessary for researchers to apply critical imaginations to the meaning of particular concepts, such as policy studies and public science (Cannella & Lincoln, 2004; Weinstein, 2004). However, criticism has been directed at qualitative research due to the complexity of the politics embedded in its nature (Denzin et al., 2006).

With several corporations and villages included in this research, I employed a multiple-case study approach because of the varying characteristics of the different locations (Cresswell, 2007). The case study method refers to three main principles of data collection, i.e. using multiple sources of evidence, creating a database, and maintaining a chain of evidence (Yin, 2009).”
1.3.1 Research approach

The key findings from the research reported in this thesis are based on a range of primary and secondary data collected using several approaches (described in detail in Chapter 4). The research approach used in this study mostly entails personal contact with interviewees involved in a number of cases. I developed a close relationship with the interviewees by staying in touch, and using the same language (Javanese and Banjarese), as well as other informal means (e.g. attending social events). These approaches resulted in a positive environment with the interviewees, so that upon my re-visit for the second field work, I was able to collect data from the same individuals to update the issues. Regular contact with the selected companies and communities involved in the case studies was maintained over a 3-year period to ensure relatively up-to-date information on the specific issues was incorporated into the analysis.

This research approach was identified by Stake (2003) as a qualitative methodology with multiple case studies. The advantages of using multiple cases is that the findings are likely to be more compelling and robust (Herriott & Firestone, 1983), although multiple case studies have the disadvantage of requiring extensive resources and time that can often be beyond the means of a single researcher (Yin, 2009).

1.3.2 Data collection methods

Data was first collected from the presentations and discussions during the initial scoping workshop. This thesis focuses primarily on perspectives about CSR, its principles and attempt to enhance it. Data were collected from two forestry companies, a mining company, and local communities, derived from, face to face in-depth interviews (n=80), focus group discussions (n=3), analysis of local media (newspapers) and the companies’ publications (e.g. annual reports), and also analysis of forest cover maps. The interviewees were selected by means of snowballing, particularly those who have developed a partnership agreement with the companies. The data were analysed in light of interviews, CSR activities, and publications of the companies, to provide rich and detailed understandings of CSR drawn from the different characteristics of the research participants.
Data were collected from a number of in-depth interviews held in sequential periods of fieldwork organised from 2009 to 2012 (discussed further in Section 4.5). The focus groups were also organised once at the sub-district level (Jorong sub-district) and twice at the village level (once in Asri Mulya and another one in Ranggang village). The collected data were triangulated in order to solve problems of bias and validity (Opperman, 2000).

The strategy used to analyse the data was the application of thematic content analysis, the product of which is presented in a thematic structure that incorporates interrelated themes so that patterns can be identified and further analysed. The thematic content analysis was thus helpful in identifying and analysing issues that emerged from a number of interviewees, in that several interviewees provided data on a similar issue or theme. The themes were grouped into positive or negative opinions, and also suggestions on how to improve CSR in the commercial forestry sector. These opinions were further investigated and discussed in order to be able to answer in detail each key research question.

I also employed a form of media analysis to identify the companies’ CSR-related activities that were reported in the local newspapers. My media analysis was comprised of a survey and examination of newspaper articles. This survey was a means of understanding the issues, public opinions, and companies’ behaviour, in the context of the way local represents its values (Metheson, 2005). The media analysis describes and assesses the production of meaning in close detail (Metheson, 2005). The media discourse is also used to gain an understanding of communication practices as part of, and in relation to, a range of social processes (Fitzgerald & Housley, 2009). The articles were collected from local newspapers that have the largest circulation in South Kalimantan province, where my field sites were located.

The companies’ documents (e.g. annual reports, newsletters, publications) were collected to aid understanding of their CSR related activities, strategies and programs. Statistical data at district, provincial and central levels were also included to identify types of livelihoods and demographics.

Maps were designed to explore the rate of forest degradation in the sub-districts of Jorong and Takisung. Forest dependent communities were strongly affected by the degradation that
impacted on alternative sources of incomes, including developing partnerships with local forest companies.

1.3.3 Strategy for building a theoretical framework

My initial strategy was to obtain an overview of the company-community issues present in the locality for the research study and of the understandings of CSR by various stakeholders using different methods, namely:

1. I conducted preliminary field work (organised before the official commencement of my study) in which general information about CSR theories and practices was gathered;
2. I conducted a short field visit and several interviews to observe in detail the arrangements about forestry practices being developed with local communities;
3. I identified several stakeholders who were influential in forming partnerships/relationships between companies and the local communities; and
4. I observed debates about several problems that had emerged in the process of companies seeking to build partnerships with local communities.

As my research progressed, I undertook a literature review about an array of CSR practices around the globe and how CSR is understood. The forms of CSR reviewed in the literature reflected a diverse range of characteristics, such as the community or company’s size, the nature of corporate sector, the home country, and operational context, as well as the influence of public opinion (Batruch, 2011).

The literature review was organised by focusing on the linkages between the government policies and regulations, commercial forestry sector, rural community development, and CSR. The nexus between these four factors is illustrated in Figure 1.2. The theories framed in Figure 1.2 can also be used as a strong foundation for this research, and as a guide for exploring relevant literature including theories, practices and discussions presented in Chapters 2 and 3. These theories are also used as guidance for managing the practical realities in the field research location (the field studies are presented in Chapter 4); and are also used as a reference point in the Conclusion (Chapter 7).
Government policies and regulations play a crucial role in supporting forest community development in Indonesia. With an array of policies issued in previous years, it was evident that lack of control and guidance from the government resulted in minimal impact from its policies to improve communities’ well-being (The Tropenbos International, 2008). In the 1970s and 1980s, the Indonesian government adopted a top-down approach to fostering development using forest resources to promote a strong economic growth (Dendi, Heile, & Makambombu, 2009).

Corporate social responsibility highlights the nature of corporate citizenship and its legal and ethical dimensions (Seeger & Hipfel, 2007; Waddock, 2007). Business leaders often express the view that good corporate citizenship is concerned with businesses meeting their social responsibilities (Waddock, 2007), regardless of the seeming paradox between doing good and doing well. Thus the law can be seen merely as one set of contingencies that organisations face in determining how to be socially responsible. A social responsibility model can be the most appropriate encouragement for companies to consider ethics and morality to be as important as the law (Seeger & Hipfel, 2007). Similar to community development as defined
by Ife & Tesoriero (2006) that tries to identify significant factors in local culture, CSR resonates with specific social and cultural elements (Whelan, 2007).

**Community development** (CD) focuses on examining whether culture is influential in rural community development, especially in CSR practices by forestry companies via partnerships; and also whether partnerships can support forest-based livelihoods (Campfens, 1999; Ife & Tesoriero, 2006; Sunderlin et al., 2005).

Between 1980 and 2000, many nations had to face the dramatic impact of global restructuring, resulting in new tensions at the community and group levels that were influential in the practice and theory of community development. The United Nations also actively promoted CD as one of the most significant social processes, particularly in developing nations, as part of nation-building and as a means of raising standards of living among the poor (Campfens, 1999). CD is primarily concerned with promoting quality of life, participation, and social permanence (Stafleu, 1999). Another founding principle for community development is the promotion of social justice and human rights (Ife & Tesoriero, 2006). This principle has been particularly evolved in Western, industrial, and advanced capitalist countries, i.e., those of North America, Europe, and Australasia. According to its rationale, poverty appears to be a direct result of capitalism and economic domination in the process of globalization (Freire, 1996; Ledwith, 2011).

Developing capacities of local communities via partnership-building in forestry activities that reflects CSR practices has been aimed at reducing poverty, as shown by case studies in rural areas of South Kalimantan where local culture is taken into account. Local traditions are an important factor in the social structure of a community, which encourages communities to develop a sense of identity. Thus, community development often tries to include the important elements of local culture (Ife & Tesoriero, 2006).

**Commercial forestry sector**, as reflected in industrial forest development, specifically addresses the community’s participation in the plantation with a contractual partnership agreement. In this research I investigated company–community partnerships and their advantage in reducing conflicts.
Business activities, including forestry, generally continue to accumulate profits while having a direct impact on indigenous people. These people often demand a share of the profits, and their actions define how CSR is structured as they expect to play important roles in the companies’ activities (Breen, 2007). At the study locations, approaches have been initiated by forest companies via CSR and partnership-building with local people. This provides a strategic and structured way to share the profits.

1.4 Contribution of the research

This research seeks to contribute to the growing literature on CSR practices in forestry, particularly regarding developing countries, with implications for theory, practice, and policy. CSR being practised in forestry companies and a mining firm in South Kalimantan is presented in this thesis using case studies -- with specific reference to local contexts in terms of ethnicity, cultural identity, customs, village settings, and natural phenomena. Some aspects of the research are likely to contribute to forestry development in other parts of Indonesia and internationally.

1.4.1 Theory

To some extent, companies have no willingness to change their ethical behaviour in running their businesses unless they are compelled to change by the government with enforceable laws. Pressure can also come from national and local NGOs, farmers’ organizations, and the media. Continuous control from these stakeholders might serve to guide and direct the companies’ behaviour so as to be based on ethical values. Moreover, local communities need a specific knowledge of contract writing so that rights and responsibilities can be embedded in the legal document.

Researchers on CSR have often focused on building corporate citizenship, regaining a company’s reputation after it has been guilty of destroying the environment and disturbing local communities due to its business activities. In such circumstances, the company is concerned with ethical and legal aspects of CSR. However, such concern sometimes has to be stimulated either by the government or local non-government institutions. Little research or investigation about CSR practices (company–community partnerships) is evident in the
general field of forestry, in particular as forestry is practised in tropical countries. Given research into such partnerships in CSR practice is rare, this can be described as a ‘revelatory case’ (Yin, 2003, p. 42).

This deficiency may indicate that attempts to pursue sustainable forest management in the forestry business sector via company–community relationships have been impeded by various unsatisfactory arrangements among interested parties. The community – company partnership is a typical form of CSR in the forestry field that needs to be encouraged in order to establish a harmonious relationship between the two parties. Multiple benefits are expected to emerge from the relationship, i.e. reducing the area of forest degradation, minimising conflicts, creating a source of alternative income for local communities, decreasing the number of the poor, and supporting sustainable forest management.

1.4.2 Practice

Generally, clear recognition within companies about the importance of corporate responsibility is needed, as attempts to improve situations must be managed so that companies do not merely appear, but actually are, responsible (Waddock, 2007). This research represents one of numerous efforts to describe community-related CSR projects that can be used by business managers as prototypes that, with some adjustment, can be incorporated within the core business of a company.

As stated above, logging companies’ operations close to residential areas have had minimal positive impact on the communities. As a result, there is a tendency to associate the forest industry with a negative image (Ferguson, 2012), particularly in developing countries. With consistent inclusion in forestry management business practices of strategies promoting environmental and social responsibility, the negative reputation of the forestry business would potentially be reversed in the future. Journalists and governments at all levels need to provide strong support if this is to happen.

Many companies that incorporate CSR in their business strategy tend to attain meaningful environmental and societal results without significant involvement of external parties (Nijhof, Bruijn, & Honders, 2008). This characteristic might not be possible in the research locations, as ethics have not yet been embedded in their business strategies. The only object of their
businesses is the fulfilment of forest timber production targets. However, this research presents an example of involvement by local cooperatives and local governments in partnerships in the forest plantation industry. Involvement of this kind might be adopted in locations with similar characteristics.

1.4.3 Policy

At the national level, concern over CSR is expressed not only in business and academic circles, but also by legislative groups, as shown by the enactment of the Limited Liability Company Law, 2007 and its recent implementing regulations. However, the issuance of such regulations might not be helpful and meaningful if their enforcement is still weak. Therefore, governance and enforcement is more important than enacting unenforceable regulations. At the global level, research indicates that CSR is in need of strong support from governments to promote it and policy initiatives to strengthen stakeholder rights (Windsor, 2006). Hindrances to the effective implementation of CSR in Indonesia’s forestry and mining sectors revealed in this research may be helpful for developing and refining relevant policies.

1.5 Highlighting the research

The research was conducted using a theoretical framework as explained in figure 1.2. Theories have been used as references to explore relevant literature, discussions and analysis throughout the thesis. From the legal perspective of CSR, government policies and regulations are explored to seek their roles in supporting forest community development in Indonesia. How the regulations were enacted with reference to dynamic processes in the global context, and specific local socio-culture context have been investigated. Exploring CSR from legal and ethical dimensions is discussed for corporations to achieve a good corporate citizenship. The discussion stressed on community development, the role of culture and its influence on CSR practice; as well as its contribution to the establishment of commercial forestry plantation.

From the theoretical framework, the specific objective of the study was developed, i.e. enhancing CSR practices in commercial forestry plantation in Indonesia. As rural community development plays a significant role in the improvement of CSR via community
– company partnership, the discussion was directed towards this aspect. Theoretical framework is defined as “empirical or quasi-empirical theories of social or psychological processes which exist at a variety of different levels and apply to the understanding of phenomena” (Anfara & Mertz, 2006, p. xxvii). Theoretical framework also refers to the “paradigms” of social science research such as post-positivist, constructivist, critical, and feminist (Guba & Lincoln, 1994). In contrast, the definition offered by Anfara & Mertz (2006) does not assume methodological approaches to be the same as theoretical frameworks, e.g. narrative analysis, systems analysis, and symbolic interactionism. Qualitative researchers can consider a range of diverse theoretical frameworks which emerge from the broad domain of disciplines in both social and natural sciences (Tavallaei & Abu Talib, 2010).

1.6 Structure of the thesis

This introductory chapter presents a summary of the thesis, and is followed by a literature review in Chapters 2 and 3, a methodology chapter that describes the research approach (Chapter 4), and a presentation of results sourced from data collected during fieldwork (Chapter 5). Discussion of the results, and how these results challenge or support established theories, is provided in Chapter 6, and the thesis concludes with my key findings and recommendations as well as suggestions for future research to deepen the collective understanding of CSR. The chapters comprising this thesis and their contents are outlined in Table 1.1.
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Chapter 2
Review of Corporate Social Responsibility

2.1 Introduction

Lessons learned from all CSR practices surveyed around the globe are presented in this chapter. The practices that relate to the present research focus cannot be generalised. I have selected some examples in sectors related to natural resources (e.g. mining). Below, I present a number of CSR related practices that could be addressed, that were selected to inform my thinking for this research. It is not intended that the examples are representative or typical of the companies to which they relate, but serve to illustrate the diverse issues that relate to CSR around the world.

Theories and practices within global and national frameworks are presented, and they provide an understanding of the historical and temporal evolution of CSR. This chapter also provides information about how CSR has been understood, dating back to the 17th century in the colonisation era, a time when many scholars discussed human rights. That period was followed by the Industrial Revolution that began around 1760, during which companies were increasingly concerned about workers’ rights. The recent movement towards CSR began in the 20th century and signified the coverage of CSR within a broader range of focuses, such as brand image, environment, security, and a concern for future generations. This chapter, however, focuses on a theoretical framework that underpins corporate social responsibility presented in Chapter 1 (see Figure 1.2), to include corporate citizenship, and legal and ethical dimensions.

A wide array of CSR dimensions and definitions are also explored in this chapter. The investigation of this research focuses on the characteristics of CSR in each period, and the factors that most influenced companies to practise CSR. This chapter also addresses the reasons for corporations adopting CSR. Also considered are the reasons for the adoption of CSR by forestry firms including whether they were merely based on a genuine willingness to improve relationships with local communities or were just practised in order to improve brand image and companies’ performance.
2.2 Corporate social responsibility: Temporal evolution

CSR has evolved from its initial form in the 1700s up until the most recent issues and debates about it. The evolving conceptualising of CSR specifies its characteristics and what caused it to be implemented. The evolution of CSR is seen from its characteristics and motivations. One study has indicated that the generations of CSR run parallel with the development of three generations of human rights, the most recent being the human rights regime that emerged after the Second World War (Stohl & Stohl, 2010). The issue of human rights was addressed during the 1700s, when it became a major topic of discussion in Europe and the United States of America. During this same period, there is little literature available about the debate on human rights in Asian countries and other continents.

2.2.1 CSR in the 1700s: Emergence of human rights

Some scholars argue that global CSR is intrinsically related to human rights, as stated in Article 28 of the United Nations Charter (The United Nations, 1948) these rights include “the dignity and worth of the human person” and “the equal rights of men and women”. Both human rights and CSR correlate with any kind of freedom, and therefore to understand the evolution of global CSR it is necessary to understand the evolution of the global human rights movement (Stohl, Stohl, & Townsley, 2007). The evolution of human rights over the last 500 years has been described in terms of three generations of rights (Apodaca, Stohl, & Lopez, 2007; Marks, 2004; Stohl et al., 2007) – see Figure 2.1.

The first generation of rights, relevant to the Anglo-American tradition, is concerned with the civil and political rights of individuals. It emerged to protect the individual from the power of the state, and includes the rights to freedom of thought and expression. These rights were determined in the Magna Carta and further expressed in the English Bill of Rights in 1689, the Declaration of Independence in 1776, and the Declaration of the Rights of Man in 1789 (Stohl et al., 2007).

The second generation of rights emerged as part of the 19th century class struggle and the development of capitalism and industrialisation, which were associated with child labour and women’s rights to employment. This generation was also characterised by workers’ demand
for more humane conditions of employment and compensation. The focus of the third generation was the rights of “man-kind”, or collective humanity as reflected in the inspirational statement of the preamble of the UN Charter (The United Nations, 1948). Article 28 of the Universal Declaration of Human Rights declares:

“...everyone is entitled to a social and international order in which the rights set forth in this declaration can be fully realized” (The United Nations, 1948).

These rights differ significantly from those addressed in the first two generations, as they are collective rather than individual rights.

**Figure 2.1: Three generations of human rights**

![Time line](image)

Source: Stohl et al. (2007).

According to Lynch (2005), the value of a human rights approach to CSR covers four key areas, i.e.

1. Human rights are universal and founded on a minimum standard;
2. Human rights are concerned with the basic enabling conditions that are necessary for people to live with human dignity and to participate in and contribute to civil, political, economic, social, and cultural life;
3. The human rights framework imposes responsibilities and obligations on ratifying governments and corporations operating within their jurisdictions; and
4. The human rights framework protects important principles of human rights-based corporate management, stakeholder engagement, and conduct.

All states have legal obligations to protect human rights. These obligations include those of corporations (McCrorquodale, 2009). Although some corporations reject the responsibility to protect and promote human rights (Samuels, 2000), business activities are assisted substantially by the operation of these laws (McCrorquodale, 2009). Corporations have the potential and capacity to contribute significantly to the realisation of human rights (Lynch, 2005).

2.2.2 CSR in the 1800s: The rise of the legal status of organisations

In industrial societies, science and technology developed rapidly, leading to the emergence of “secular” ethics. The roots of modern atheism have arisen from the enlightenment and scientism of the 1700s and 1800s, which were influenced by industrialism. In that period, an ethical perspective that “God did not exist” led to a non-religious ethos of tolerance of diverse beliefs, confining religion to the private domain (Maggiolini & Nanini, 2006). However, the late 1800s signified the rise of the “juristic person”, a non-personal entity such as a church, trade association, or labour union, which could own property and have legal protection (Hearit, 2007).

2.2.3 CSR in the 1900s: Focus on social value

During the first three decades of the 20th century, leaders within business and elsewhere used three interrelated themes to describe the social responsibilities of business. First, managers were seen as trustees of various interests, acting as powerful agents of stakeholders. Second, managers had an obligation to balance the interests of the main constituents of a company. Third, managers were responsible for service to society. The word “service” was loosely defined, but apparently covered the belief that corporations were obligated to undertake various social programs to benefit the public (Steiner & Steiner, 1994).

The concept of CSR has been formally recognised in organisational studies since at least the 1930s and can probably be traced back much further to the dawn of the Industrial Revolution (Buchholz, 1990). In the early 19th century, considerable attention was given to larger social
values and needs, when there was monopolistic corporate exploitation of workers, markets, and the environment. A relevant 20th century example was Henry Ford established a sociological department during the 1920s. During that period, the company was the only expansive firm in the USA, and its approach was characteristic of early efforts at corporate responsibility (Seeger & Hipfel, 2007). Referring to a later period, in her book Silent Spring, Carson depicted how a community in the USA suffered because of the existence of factories in the early 1960s. The chemical particles that issued from the laboratories badly affected people living in the local village (Carson, 1963). The lack of a social conscience amongst corporations was lamented by economist Milton Friedman, who declared that “public companies possess only minimal ethical obligations (e.g. to operate within the societal ethical frame, to avoid deception and fraud) beyond maximizing profits and obeying the law” (Friedman, 1970, p. 1).

Many scholars state that if businesses pursue social responsibilities, freedom will be endangered because in the end business performance will be measured by political rather than economic achievement; they have no doubt that economic efficiency would suffer. In response to this, some opinions exist that government, not business, should solve social problems (Steiner & Steiner, 1994).

In the 1990s, CSR still attracted debate and was supported by the growth of the internet. This period was also characterised by an explosion of civil group engagement with corporations, such as the Baby Food Action Network and the World Wide Fund for Nature, the latter becoming a strategic means of mass dissemination (Bendell & Bendell, 2007). In contrast, in the early 2000s, CSR was identified with popular movements, and was more similar to the 1960s and 1970s when the debates were dominated by the most effective ways of promoting and implementing CSR (Hummels, 2004).

The legitimizing of the human rights movement described below has taken several necessary forms for both sustainability and CSR. First, the formal articulation of norms and expectations is necessary, although they are insufficient as a precondition for international development. Second, there has been an increasing role of NGOs when rights or sustainability become a focus of discussion. Third, the power relations among NGOs, governments, and corporations can always shift. Fourth, as power relations shift, networks are rebuilt so they can provide an opportunity for further processes (Stohl & Stohl, 2010).
2.2.4 Present time: Environmental and ethical considerations

In 2000, it continued to be the case that primary emphasis of CSR was on sustainability and other environmental issues (Tax Executive Institute, 2008). Addressing enduring environmental problems (e.g., forest degradation, fisheries depletion, mining destruction, and even climate change) in a broader context, and social problems including human rights, were also the focus of CSR studies (Auld, Benstein, & Cashore, 2008). As a result, a wide array of tactics, including boycott campaigns, eco-labelling, and environmental certification (a third party verification mechanism that certifies socially and environmentally responsible practices), have been introduced to encourage firms to implement improvements.

Some scholars have declared that the most popular issues relating to CSR have been those associated with the environment and ethics (Lockett, Moon, & Visser, 2006). Ethics is often associated with legal dimensions. The Union Carbide Bhopal accident, for example, demonstrates that the debate over CSR has been framed by an array of competing positions, including practical versus desirable goals, minimal acceptable versus optimal required actions, and legally required versus ethical behaviors. The law, although incorporating larger ethical principles, is comparatively narrow in its dictates and does not include ethical positions or moral obligations (Seeger & Hipfel, 2007). Legal and ethical dimensions of CSR were also previously described by Carroll (1979) as focusing on economic, legal, ethical, and discretionary expectations that society has of organisations.

Ethical concerns of companies operating in certain countries differ substantially to those of companies operating in other areas (Cavalieri, 2007). These differences have emerged as understandings about -- and the importance of -- the environment, social welfare, human rights, cooperation, and development assistance vary among countries (Cavalieri, 2007). Ethics should also be firmly rooted in religion -- otherwise they have no binding force, as only religions can speak with one voice on ethical issues, covering all aspects of respect for life (Mofid, 2003).

Business ethics and other related elements (e.g. governance and CSR policies) are important for a company in order to be a ‘responsible citizen’ that can meet the expectation of the public (Hurst, 2004). Research indicates that there is no direct relationship between the existence of company ethics and CSR policies (More & Webley, 2003). However, many
companies have considered ethics to be an important element in CSR. Various opinions expressed by scholars such as Friedman (1962) have stated that stockholders are the firm’s only responsibility. This view is not the approach most ethicists or most business people would take. Indeed, DeGeorge (1999) confirmed that society expects moral behaviour, and is particularly impressed when it sees that business operates against immoral labour practices or environmental policies. A Machiavellian perspective stresses ethics as an important factor in a business, in as much as a firm operates in a way that avoids the legal consequences of its actions -- and to convince stakeholders that the firm serves their interests. Similarly, Nash (1995) expressed a view that a firm includes ethics in its business only to curry consumer favour. Corporate legal compliance, and reluctance to exploit loopholes in the law, is the only kind of integrity needed according to Paine (1994).

Over the years, some observers have argued that CSR and ethics are complementary approaches, with CSR being primarily external to the firm and ethics being mostly internal (Murphy & Schlegelmilch, 2013). Under stakeholder theory, however, CSR is said to “exacerbate the problem of capitalism and ethics” (Parmar et al., 2010, p. 413”). Whilst Freeman (1984, p. 46) defines a stakeholder as any group or individual “who can affect, or is affected by, the achievement of the organisation’s objectives”. This thesis takes the view that ethics and CSR can be made compatible with capitalism, but acknowledges the difficulty involved.

Arvidsson et al. (2008) explains that we are at the stage of an emergence of a new “ethical economy” through the demonstration of economic system which operates with a logic of value output that is related to efficient social relations. Through the concept of the “brand”, the corporation creates social relations by engaging with societal values, norms and culture. The new economy is “ethical”, by way of investing in the human in society (Arvidsson, Bauwens, & Pietersen, 2008). This assertion, coupled with the increasing consumer demand for CSR in a contemporary capitalist society, calls for a new model of CSR to be adopted by companies which will address how a company can be profitable and socially environmentally responsible (Claydon, 2011).

Businesses are recently concerned on ethical value because of the pressure on financial economies, especially in emerging economies, such as Indonesia and India, to act unethically (Tota & Shehua, 2012). Some ethical problems cannot be solved because the problems are
industry-wide or reflected inadequate laws or are caused by corrupt governments, and therefore, enforced legislation is necessary to enable business to develop and to correct unethical business practices (Tota & Shehua, 2012). Zari and Peters (2002), Orlitzky et al. (2003) and findings by ‘The Canadian Centre for Social Performance and Ethics’ conclude that even on a scale of profitability, corporations that put priority on ethical conduct and corporate social responsibility are most profitable on the longer term (Aaron, 2012). It is time for mental attitudes to change, and for people to learn to move on a strategic level to identify a positive and winning approach to the issues of ethics and corporate social responsibility (Cavalieri, 2007).

Elsewhere Carroll stated that a business should meet the economic requirement of being profitable, the legal requirement of obeying the law, behave ethically and be a good corporate citizen through philanthropy (Carroll, 1991). In brief, the evolution of CSR can be characterised by the timeline in Figure 2.2.

**Figure 2.2: The evolution of CSR**
The term “sustainability” became popular in the late 1980s; it was derived from and defined in the influential Brundtland Report (1987, p.8), and referred to the:

“...goal of an organisation being to develop, in balance, the financial security, the environmental quality and societal needs of the present stakeholders without compromising the ability to meet the needs of future stakeholders”.

This definition acknowledges the elements of economics, environment, and society, and requires a balance of these three aspects could be difficult for an organisation to implement. Other dimensions of sustainability emphasise a fair distribution of resources and opportunities for both current and future generations (Daly & Cobb, 1989; Gray & Milne, 2002; Milne & Gray, 2007; Sadler, 1988). Sustainability can be achieved only if it is culture-transforming, with the inclusion of both culture and sustainable development (Packalen, 2010).

Two dimensions of sustainability are emphasised in a definition that focuses on care for human needs to improve the quality of human life while conserving the vitality and diversity of the earth (International Union for the Conservation of Nature and Natural Resources, The United Nations Environmental Programme, & World Wild Fund for Nature, 1991). This definition requires harmony between human beings and the environment. Problems may occur when trying to achieve this harmony, as many firms avoid sustainability because they were formed to focus only on profit-making (Latour, 2004; Peterson & Norton, 2007).

Environmentalists such as Elkington define sustainability as being concerned with achieving triple bottom line performance, requiring attention to economic, social, and environmental factors (Elkington, 1998). However, this perspective has been criticised by Gray & Milne (2002) who argue that there is a potential conflict between economic interests and other bottom line variables, so the predictable future financial factors will always be the corporate priority (Blowfield, 2005).

The theoretical analysis of this thesis was constructed from theories of CSR that focused on ethical and environmental values in business. Many companies have failed to address these elements of CSR, as maximising profit is still the primary goal of a business (Friedman, 1962). CSR is considered to be a narrow range of socially beneficial actions that also aims to
increase profits, and is merely “hypocritical window dressing” (Lyon & Maxwell, 2008). In these companies, profit-making and social responsibility are potentially in conflict (Rosser et al., 2008b), so that harmonising the two goals in a superficial way removes likely difficulties in community relations.

Unethical behaviour can be expensive, but to be ethical is also expensive, and therefore many corporations make manipulative use of business ethics to win consumer favour (Nash, 1995). It is widely accepted that unethical companies would significantly damage their image, and suffer drastic punishment from the market (Keinert, 2008). For this reason a large number of companies have formally adopted CSR within their organizations (Kuo, Yeh, & Yu, 2012). However, Chinese businesses that are influenced by a Confucian perspective view the most important thing in ethics and social relationships as being, not the actions that are taken, but the quality of the person who undertakes them (Allinson, 1989). Thus Asian concepts of good corporate citizenship originate from a different worldview to those in the West.

Companies carrying out environmentally sensitive activities should be particularly committed to environmental information disclosure (Kuo et al., 2012). In developing countries, such as China and Indonesia, while considerable emphasis is placed on environmental protection, economic growth is still the primary goal (Kuo et al., 2012). Although it is difficult to avoid the environmental damage caused by human activities, it is a product of unsustainable development and social injustice (Peterson & Norton, 2007). It has also been admitted that economic development has brought not only economic prosperity but also some negative effects. For example, the rapid development characterized by high energy consumption and severe pollution has become harmful to the environment, affecting a country’s economic and social sustainability (Xu & Yang, 2010). Therefore, environmental regulations have been issued by many countries to minimise these negative impacts, such as Indonesia with its Environmental Protection and Management Law 2009, and China with its Environmental Protection Laws (Kuo et al., 2012). However, many problems are still being faced by both countries. For instance, during China’s economic boom, company compliance with laws and regulations has been difficult to enforce, because of the frequently flawed content of laws and regulations, leading to diverse interpretation of laws (Tateisi, 2004).

Thus critics from the media, industry, and academia are sceptical, focusing on the fact that CSR is an elusive concept that still lacks a generally accepted definition, and have started
writing about corporate social irresponsibility (CSI) (Murphy & Schlegelmilch, 2013). There is a contrast between the concepts of CSI and CSR. The CSI firms may be operating within a legal requirement, but their operations do not include a larger social role for the firm (Murphy & Schlegelmilch, 2013).

Companies increasingly expect to appear “green” (Lyon & Maxwell, 2008). Thus being perceived as an environmentally friendly business is a new corporate goal. Environmental CSR is defined as environmentally friendly actions not required by law, going beyond compliance, or voluntarily internalizing externalities (Lyon & Maxwell, 2008). The typical business’ goal for CSR declares that there are legitimate reasons for a corporation to invest in CSR activities. From an economic aspect theoretical logic, and some empirical evidence, show that engaging in socially responsible activities can: reduce costs and risks to the firm; build its competitive advantage; enhance its reputation and legitimacy; and create synergies (Salazar & Husted, 2008)

Recently, the practice of sustainability has been related to specific impacts on biodiversity and habitat degradation (Edwards & Laurance, 2012). The focus has been on the negative impacts of biodiversity in the future, rather than on factors required for achieving sustainability. The next section explores the definitions and implementation of CSR in several places around the world.

2.3 Political and geographic perspectives of CSR

This section describes an array of definitions and practices of CSR, with a focus on ethical, legal, and cultural dimensions, as it is understood differently around the world. CSR practices are also related to geographic locations because those practices are influenced by the politics, beliefs, culture, and business characteristics of different regions or countries. However, the CSR practices described in this section do not necessarily represent a specific country, but serve as an example of how a company interprets CSR in a given locality. The USA is still focusing on profit maximising although an array of CSR activities have been undertaken. European companies have met their obligations by paying taxes and following government regulations, and therefore social problems are regarded as the responsibility of governments. Asian countries, including India and China, rely very much on doctrines and
beliefs, and in South America, with its strong religious creeds, CSR has emerged as an intention to be a good corporate citizen focusing on charities and social assistance. In Australia, it appears CSR is not usually in a company’s underlying philosophy, but is rather viewed as a mechanism to compensate victims of corporate negligence. Africa is quite different, as it is still questionable whether CSR can contribute to development and solve problems, considering the politically unstable conditions of countries there.

2.3.1 The nature of CSR

Academics and practitioners have been striving to establish an agreed upon definition of CSR for over 30 years. The number of CSR definitions so far identified is 37, which can be categorised with the headings: ‘social’, ‘economic’, and ‘environmental’. Despite numerous efforts to bring about a clear and unbiased definition of CSR, there is still some confusion as to how CSR should be defined. Dahlsrud (2008) concluded that the existing definitions are congruent. Thus he argued that the confusion is not so much about how CSR is defined, as about how CSR is socially constructed in a specific context (Dahlsrud, 2008).

CSR has been defined as being partly beyond the goal of collecting profit: businesses’ decisions and actions taken for reasons at least partially beyond the firm’s direct economic or technical interest (Davis, 1960). At about the same time, CSR was described as the ethical principles that is directed to manage the relationship between the corporations and society (Eells & Walton, 1961). The main intention of a business is to make profit, but incorporating social and ethical factors into the business strategy is also vital for its sustainability. This was argued by Milton Friedman (1970, p.1) who declared: “The social responsibility of business is to increase its profit…to make the most money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom” (Friedman, 1970). This view has been criticised by those who argue that the mere existence of CSR is a signal of an agency problem with the firm. An agency theory perspective dictates that CSR is a misuse of corporate resources that would be better allocated for value-added internal projects or returned to shareholders (McWilliams et al., 2006).

Carroll (1991) introduced a “three concentric circles” approach for depicting CSR to illustrate the different but inter-related components. The inner circle includes basic economic functions of growth, product, and jobs. The intermediate circle suggests that economic functions must
be exercised with a sensitive awareness of changing social values and priorities. The outer circle outlines newly emerging and still amorphous responsibilities that businesses should assume to become more actively involved in improving the social environment.

One perspective is that human individuals can be held morally responsible and, consequently, be punished for their actions since it is corporate members and not the corporation itself that bring about the acts of the corporation (Velasquez, 1983). To develop a moral corporation, all individuals within the company must keep themselves morally responsible for the job they are doing, and they must hold others morally responsible for doing their jobs. In this way, a culture of moral responsibility can be created where moral conduct is institutionalised throughout an organisation (Buchholz & Rosenthal, 2006).

The local context has to be acknowledged as a foundation in building business in any country. Robert Davies, Chief Executive of the Prince of Wales International Business Leaders’ Forum emphasised the importance of local context in terms of local economic development, culture, religions, livelihoods, and other forms of locality. His view was that business culture and definitions of corporate responsibility cannot be separated from the local context (Davies, 2002). Another view is that if business is more socially responsible, it will discourage additional regulation to be enacted to improve the economic system by government (Steiner & Steiner, 1994). If managers avoid regulation by responding to social demands, the costs can be substantially reduced since regulation in general is more expensive and allows less operating flexibility (Steiner & Steiner, 1994).

The total CSR of business covers the same area as fulfilment of a firm’s economic, legal, ethical, and philanthropic responsibilities. Stated in more pragmatic and managerial terms, a firm committed to CSR should work hard to make a profit, obey the law, be ethical, and be a good corporate citizen (Carroll, 1991), as represented in Figure 2.3. Some scholars argue that corporate acts should demonstrate values of honesty, responsibility, and equality, as well as show an ongoing concern for and contribution to the well-being of the communities in which they operate. In other words, organisations should be “good corporate citizens” (Hearit, 1995, 2007; Seeger & Ulmer, 2003). This range of responsibilities may seem broad. They seem to be in striking contrast to the classical economic argument that company management has one responsibility: to maximize the profits of its owners or shareholders (Friedman, 1970).
Garriga and Mele (2004) have mapped CSR into four categories. First, there is a group of *instrumental theories*, viewing CSR as a mere means to the end of profit, considering business and society relationships only from an economic aspect. Second, there is a group of *political theories*, emphasising social power of a corporation, including its associated political arena. The third group comprises *integrative theories*, indicating that social demand should be integrated in a business for its sustainability. The fourth group is *ethical theories*, depicting CSR from an ethical perspective — that corporations ought to accept social responsibilities as an ethical obligation above any other consideration.

Another perspective, expressed by neoliberal economists, is that CSR is wrong-headed due to its violation of the principles of free enterprise and confusion of roles of the private, governmental, and non-profit sectors. Businesses can be confused by overlapping requirements initiated by governments, non-profit organisations, and other private companies (business partners) and, therefore, CSR had no firm direction due to the several influences of those institutions (Cheney, Roper, & May, 2007).

### 2.3.2 CSR in the United States

Generally, the objective in CSR activities is gaining public acceptance of a corporation’s right to exist, which is embodied in the term “legitimacy” (Llewellyn, 2007). To achieve the
goal of legitimacy, it is necessary to take a novel approach to issues of communication and CSR. Thus, communication professionals within a company are required to deal with shareholders and persuade them about the reputation-building benefits of CSR (Macleod, 2001).

Typically, US corporations make strong efforts by donating to charities or engaging in volunteerism to establish their reputation and build corporate citizenship. Although some efforts have been notably successful, corporations can still fail to develop their reputation as good social actors due to global criticism of their wrong-doing (Waddock, 2007). For example, Freeport McMoran was notorious for large-scale environmental destruction and complicity in military abuses of human rights (Leith, 2002); also Newmont’s was alleged to have misused funding allocated for CSR to provoke and create violence between environmental activists and local villagers for the company’s security purposes (Welker, 2009).

2.3.3 CSR in Europe

In European social democracies, governments have taken broad responsibility for addressing major social problems. Traditionally, these governments have used high taxes to fund far-reaching social programs. Some parliaments have nationalised industries and tried to achieve social objectives through state-owned firms. The development of a voluntary social responsibility ideology similar to that in the United States has been reported but in both Europe and the USA this concept is still being developed. European companies feel that they have met their obligations by paying taxes and following government regulations (Steiner & Steiner, 1994), so there is no further requirement to act in socially and environmentally responsible ways. This is in line with the statement of Friedman (1970) that the only obligation that business has to society is to collect profit and pay taxes.

Some of the authors believe that German and other northern and western European companies are much more concerned about CSR than those companies based in, and operating in, developing countries (Wirl, Feichtinger, & Kort, 2013). Another research finding also indicated that European countries understand CSR as the integration of socially responsible practices into activities of business and wealth creation (Blasco & Zolner, 2010). CSR discourse and practice in France are influenced by a high moral standard of behaviour
stemming not only from a macro-economic model in the post-war period, but also from Catholic social doctrine (Blasco & Zolner, 2010).

In 1990, CSR in the UK was drastically changed to reflect concern for the environment. In that period, civil groups were involved with corporations in cooperative ways. The environmental group World Wide Fund for Nature UK (WWF-UK) started developing a network of companies that agreed to purchase timber from well-managed forests (Bendell & Bendell, 2007). Currently governments in Western Europe are becoming increasingly active in promoting and shaping CSR by issuing a range of soft public policies. These policies are set up to complement conventional social and environmental hard-law regulations (Steurer, Martinuzzi, & Margula, 2012).

Business in Italy is often associated with the “Mafioso” or “Mafia”. Corrupt organisations often collapse in financial scandals and internationally are notorious, with bad reputations for systemic violations of human rights or collaboration with repressive governments. However, the emerging interest in CSR has supported an instrumental approach that reduces social responsibility to profit maximisation, resulting in a strong appearance of CSR rather than a genuine interest in social welfare (Gond, Palazzo, & Basu, 2009).

CSR in Russia has distinctive characteristics that result from the history of a strong absolutist state of Tsarist and the Soviet rule that influenced all aspects of social life (Preuss & Barkemeyer, 2011). Typically, Russian companies have inherited from the Soviet Union a strong focus on production, and a locale’s economic welfare may depend on a single industry or a single large enterprise. However, the specific structural features of the Russian economy, with its diverse and complex socio-economic problems and the limited capabilities of government regulation, create a significant demand for CSR (Polishchuk, 2009). Similar to other countries with emerging economies (Brazil, India, and China), the development of CSR in Russia is commonly correlated with global trends (Blagov, 2008).

In Southern Poland, while there has been an absence of large-scale, coherent local initiatives to respond to the community impacts of steel restructuring, unions, key local actors, and local authorities have worked to mitigate the more negative impacts of privatisation and capacity restructuring. These actors have operated through a series of smaller, often ad hoc activities (such as financial assistance funds and charitable initiatives) as well as through the mobilisation of existing social policies (Dawley, Stenning, & Pike, 2008; Stenning, 2003;
In more recent years in some communities, these activities have been developed to connect to broader national initiatives to combat post-industrial poverty, social exclusion, and labour market restructuring. Corporations have also increasingly integrated community development activities into their profit-making strategy since the earlier paternalistic eras (Dawley et al., 2008; Domanski, 1992).

Scandinavian companies, compared with those in other European countries, have a long history of integrating issues of ethics and social responsibility into corporate strategies. As these states are the main providers of social services for their citizens, Scandinavian firms have been exposed to strong environmental regulations since the 1980s. (Morsing, Midttun, & Palmas, 2007). In Sweden, for example, the state exercises strong controls over social welfare, and social issues have traditionally been tackled by the state and politicians; as a result, the country is sceptical about CSR (Geer, Borglund, & Forstenson, 2009).

In Sweden, CSR has been practised by corporations since the 1980s, when corporations focused mainly on employment and worker protection issues. The CSR of Swedish corporations used to be embedded by law, and they were supported by workers of early 17th century industrialists; to some extent it was incorporated into organisations by the political economy of the country (Morsing et al., 2007).

Norway is influenced by long periods of Labour socialistic government and a culture of collective bargaining. The Norwegian government’s work for sustainable development has been particularly personified by its first female prime minister, Gro Harlem Brundtland, who led the World Commission on Environment and Development that led to the subsequent Rio and Kyoto processes. Solid backed by the trade unions’ labour rights engagement and a strong tradition for human rights, the Norwegian government has worked to promote human rights issues. Human rights have therefore been a major topic of CSR in that country (Morsing et al., 2007).

2.3.4 CSR in Africa

Africa is a continent plagued by wars, inter-clans conflict, corrupt leaders, and misguided international economic aid. A population of 850 million people from 53 nations has made the African Union the second largest international union after the United Nations. Africa has a
long history of accepting international development aid from Europe and other countries. Large scale aid projects, however, sometimes create dependency on foreign aid that has direct negative implications for African entrepreneurship, so that beneficiaries are simply consuming but not producing any goods and services (Onyeani, 2004). While there is evidence of successful CSR projects some places (Baskin, 2006), there is still a question about the capacity of CSR to contribute to development and solve pressing problems in Africa (Dobers & Halme, 2009).

In regard to CSR organised by mining companies, communities have felt that the companies did not live up to their responsibility to support local development. Reacting to this viewpoint, companies argued the government was only shifting blame because of lack of actions taken by government agencies at all levels. Therefore, companies can act in a surrogate government capacity (Garvin, McGee, Smoyer-Tomic, & Aubynn, 2009).

South African companies appeared to be different to those neighbouring countries’ firms. South Africa is considered a newly industrialised country with many of its businesses recently developing codes of ethical practice, showing their concern for CSR (Blasco & Zolner, 2010).

2.3.5 CSR in South America

In many developing countries, CSR is less important than it is in developed nations where it originated (Gjolberg, 2009). The real political goal of sustainable development in developing countries is unclear. In the South American context, the continent has been haunted by the severe economic turmoil of the mid-1950s which was a bitter time of crisis when inflation and interest rates were high and investment rates were low, and when people therefore changed their ideas about social development. With the successful liberation of Columbia, Peru, Bolivia, Venezuela, and Ecuador from the Spanish colonial regime in the 1800s -- and especially in the case of the Simon Bolivar regime -- the economic power and environmental exploitation in the region began to come from natural resources. With such experience, the development of society in South America is different to that in the African continent. This contrast implies differing capacities of organizations and their managers to understand and address pressing CSR issues because of different cultural contexts (Dobers & Halme, 2009).
CSR theories, concepts, and ideas emerged from market economy countries with relatively well-established institutional environments in which regulations were efficient and enforced. However, in many developing countries with emerging economies and weak institutional environments and law enforcement -- as well as inconsistent bureaucracy, insecure property rights, and widespread corruption -- CSR is still premature (Jamali & Mirshak, 2007; Kuznetsov, Kuznetsova, & Warren, 2009). Therefore, in developing countries such as those in South America, structural and institutional development should be regarded as a first priority that can play a crucial role in contributing to social justice, environmental protection, and poverty eradication (Dobers & Halme, 2009).

Mexico has undergone a series of changes that undoubtedly have had an impact on the practice of CSR. From the economic point of view, it went from a closed, protected, and paternalistic economy to a free market one with the signing of NAFTA (North American Free Trade Agreement) in 1994. CSR in Mexico is quite a new concept, with many challenges yet to be faced. The well-known paternalism of Latin American cultures, together with their religiosity, seems to be the underlying motivation for charity and social assistance in that continent (Chavarria, 2007).

### 2.3.6 CSR in Australia and New Zealand

CSR is an emerging concept in Australia, where it is in the process of developing its own reputation as a set of business practices. For this reason, it is important to understand and value the role of debate and discussion regarding CSR (Truscott, Bartlett, & Tywoniak, 2009). A previous study revealed that in Australia, CSR is interpreted and practised differently from one state to another.

Compared to Australia, New Zealand has adopted CSR more consistently in its small and medium companies. These companies engage in socially responsible and environmentally protective practices but unfortunately they do not report their efforts; therefore, little is known about their initiatives (Lawrence, 2007; Lawrence & Collins, 2003). However, their responses indicated that practices are undertaken for ethical reasons that go beyond self-interest; and ethical behaviour comes from a sense of moral obligation toward others rather than from a need for self-glorification (Lawrence, 2007).
Businesses in New Zealand prefer not to be interfered with by any form of government, whether or not such interference is in the interests of their society as a whole. For example, corporate lobbying in the late 1990s resulted in a non-obligatory requirement for green reporting by the larger New Zealand businesses. In addition, there is a belief that business organisations are best left to their own operations and self-regulation is an effective approach to corporate governance (Gray & Milne, 2002).

2.3.7 CSR in Asian countries

While there is now a very extensive literature on the theory and practice of CSR, there is still a heavy focus on European and American cultures. There is very little literature on CSR within Asian contexts and, more specifically, within a Confucian context derived from a Chinese perspective. In most parts of Asia, great importance is placed on bonds of family and friendship, and respect and courtesy are shown for “age”, wisdom, leadership, neighbours, and customs. According to Confucian thought, individuals are obliged to relate to those within their families in differing ways; they are also obliged to relate to those outside their families in ways that differ from the relationships they have with their family. Thus, Confucian values strongly influence organisations, networks, action, and relationships, as well as Asian business and government (Whelan, 2007).

Business and government have an inseparable connection in most East Asian countries, and governments have accepted responsibility for the industrialisation and accelerated development of their national economies since the 1950s (Robins, 2002; Whelan, 2007). Governments have employed a variety of ways to achieve economic objectives, and policies and actions very much support business-government relationships. However, these policies differ from those in Western countries. Any discussion of business in Asia, in particular of CSR in Asia, needs to begin by acknowledging the role played by governments (Whelan, 2007).

Confucianism spells out strict ethical duties and responsibilities, but traditionally they apply only to persons in direct relationships. It is governments’ task to legislate solutions for other groups and to ensure corporate responsibility (Steiner & Steiner, 1994). For example, the enactment of the labour laws in China was intended to ensure a minimum social safety net for all employees (China Labour Bulletin, 2007; Shen, 2007; Zheng, O'Neill, & Morrison, 2009);
and a broader context and awareness of CSR both in global business circles and within China, which provides a legal framework mostly for the groups of small and medium-sized enterprises (Zheng et al., 2009). Overall, however, it has been argued that currently Chinese companies are still at an early stage in implementing CSR (Baughn, Bodie, & McIntosh, 2007) because of their minimal interest in CSR (Baskin, 2006).

India is slightly different from its neighbouring Asian countries, as it is strongly influenced by the doctrine and trusteeship set forth by Mahatma Gandhi in the 1940s, where social welfare is supported by society’s money and properties (Steiner & Steiner, 1994). For example, a medium sized family business manufacturing recycled paper, namely South India Paper Mills, created a strategy of integrating CSR activities when the company was established. The company provides free treated water for agriculture to the local farmers while finding a way of disposing of wastewater and generating its own power with locally available biomass to ensure a steady supply of power and income. With these CSR activities, the medium-size company has put social concern in its business strategy and can be regarded as socially responsible (Kanchan, 2010).

Singapore has increased awareness of CSR, especially after the non-profit Centre for CSR was set up in 2003 (Whelan, 2007). However, previously little attention was paid to CSR, and overall awareness of the concept is still low among the mass media, academia, government agencies, and corporations in that country (Hung & Ramasamy, 2004).

Indonesia’s dynamic political processes have influenced CSR practices. When viewed in the context of culture, economics and political development, and turmoil in Indonesia in the late 1990s, CSR remains an ideal. In such a context it is difficult to consider something as abstract as CSR. Given the situation in Indonesia, it is timely to establish the institutions, educational foundations, and management training that are needed for business and political reform, and from which CSR may be a spin-off (Kemp, 2001). Policy debates over CSR in Indonesia have reflected a struggle between the dominant sections of Indonesia’s capitalist class, local communities that have been negatively affected by corporate activity (their allies in the non-government organisation movement), and predatory elements in the political parties and bureaucracy aiming for control over the economic resources generated by the activities of major corporations (Rosser & Edwin, 2010).
This section has described various definitions of CSR in different focuses and from many angles. CSR debates are continuing (McWilliams et al., 2006). Therefore, CSR lacks a dominant paradigm. Existing CSR models are revealed as being insufficient for providing an adequate understanding of CSR (Claydon, 2011). From the experience of different countries or regions it appears that culture, custom, and politics play an important role in business operations and thus affect how CSR is interpreted.

The way that businesses interpret and practise CSR seems often to emerge from bitter experiences. Legal and ethical dimensions are crucial in some parts of the world in CSR applications. In Europe, including Scandinavian countries, social responsibility rests with governments because firms have paid tax and then merely conformed to government regulations. South American countries, such as Mexico, are mostly inhabited by religious people, which tend to create a CSR focus on charitable activities. Despite differences in CSR across nations, the main goal of CSR practices is sustainability in terms of economies, resource management, business, livelihoods, and development. The following section presents the investigation of CSR practices in various sectors (e.g., mining, fisheries, and forestry), including small and medium enterprises. The primary objective of CSR practices within those sectors is also sustainability.

Figure 2.4 illustrates how culture, custom, religion and politics are strongly influential in the practices of CSR in various countries.

### 2.4 CSR practices in different sectors

In the above section, I examined an array of CSR practices in some countries that represent a continent. In this section, I investigate CSR that has been implemented in sectors related to natural resources, e.g. mining, fishery, and forestry.

CSR has long been implemented in mining companies, despite poverty remaining a complex problem for local communities in the vicinity of the mines. CSR in fisheries is characterised by their eco-labelled products. In the forestry sector, building partnerships has become a trend, and these partnerships are regarded as part of CSR practice. CSR practised by small
and medium enterprises is more inward looking, for example through applying performance-based pay and employee involvement in decision-making.

**Figure 2.4: Factors influencing CSR practices**

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**2.4.1 CSR in mining**

Unlike the forestry field in which scholars have categorised contractual partnership agreements between company – communities as part of CSR (Mayers & Vermeulen, 2002), the comparable mining industry agreements cannot be considered part of a company’s CSR program because they are similar to binding contracts (Westphalen, 2012). Another difference is that labour rights in the case of a community – company partnership agreement in a timber forest plantation cannot be considered part of CSR policy because these rights are usually established by collective agreements (Westphalen, 2012). Partnerships are increasingly critical in contributing to meeting socio-economic development needs in the
areas within which mines operate (Mabuza, Msezane, & Kwata, 2010). In a study of CSR in mining companies in Indonesia, the CSR business strategy involves all three parties at once -- the company, the government, and local society -- in CSR preparation, implementation and reporting (Setyadi, Supriyono, Handayani, & Raharjo, 2013). Reputation and brand identity in the mining industry are also factors strongly related to CSR (GIZ, 2012). It was therefore a possible for CSR to be misused by companies so as to generate publicity and boost their reputations (Mabuza et al., 2010).

Extractive industries such as mining are commonly in the forefront of practising CSR (Ranangen, 2013). A similar opinion was expressed by Westphalen (2012) that in many developing countries, including Indonesia, CSR strategies have become a very common practice for mining companies. When a mining company arrives in a particular place, it is often seen as an alien presence and a potential source of negative impacts and conflicts. It is therefore unsurprising that a company invests considerable amounts of money in utilizing the most environmentally friendly technology available and in following environmental standards, such as ISO 14001 (Westphalen, 2012). Mining companies may start to implement CSR upon conducting field surveys and exploration, although they have not yet made a profit from the operations (Setyadi et al., 2013). Overall, a core benefit of CSR is reducing the risk of losing the ‘license to operate’ and of disruption by local communities (GIZ, 2012).

Without CSR, a mining company may eventually be unwelcome as an investor in its host country (Trebeck, 2009). When corporations operate in countries with a different culture to their own, attempts at CSR can easily be misunderstood. For example, BHP, an Australian listed mining company, recently announce a US$ 2.5 million payment to a community near a bauxite project in a north eastern Cambodian province. A Cambodian government minister described the payment as “tea money”, a local term for unofficial payments to government officials. BHP has rejected this, saying the money was put into a development fund investing in local social welfare programs (Chambers & Stevens, 2010).

Key managers of Rio Tinto, a multinational mining company operating in Australia with its headquarters in the UK, noticed the potential benefits from improved Indigenous relations. The company was able to shift its policy towards being more responsive to the expectations
of Indigenous entities to seek a reputation as Indigenous Australia’s preferred development partner (Trebeck, 2009).

In contrast, it is evident that mining companies can conduct irresponsible actions merely to protect their businesses. One example was the case of Newmont operations in the island of Sumbawa, Indonesia, where managers of a mine incited village leaders and youth groups to attack a group of visiting environmental activists. In this case, it is possible to argue that CSR was misunderstood as a means by which managers and elites could merely legitimate their actions (Trebeck, 2009). In response to the unethical behaviour of the company, a legal scholar argued that managers are largely “good moral people” who behave unethically because they are under a legal obligation to maximise shareholder profits (Bakan, 2004).

The mining sector to some extent provides an abundant contribution to national revenue, and sometimes strengthens the economy on a national scale, even though at a local level it may present an entirely new set of problems affecting local people (Garvin et al., 2009). In this situation, companies have introduced CSR into their management to develop a relationship with local people to minimise these problems.

2.4.2 CSR practices in forestry

High demand for timber can create situations where logging companies focus on making profits and developing temporary economic booms for local communities and national governments, while ignoring environmental concerns. Cutting large volumes of timber and illegal activities such as evading taxes, logging areas outside their concession, and smuggling logs are common modus operandi of logging companies to avoid bankruptcy due to limited timber availability. To obey environmental regulations constitutes a direct threat for the business sustainability of many logging companies, and they frequently prefer to close down and move to a new location (Dauvergne, 2001).

When timber is regarded primarily as a source of income, little concern is shown about the impact of logging companies’ operations on local communities. The forest can play a pivotal role in a community’s livelihood as a source of food and firewood, the sacred home of water-giving gods, a safe haven from pursuing enemies, and a hiding place for insurgents against a government (Borrini-Feyerabend, Pimbert, Farvar, Kothari, & Renard, 2007). Given that
forest dwellers live in poverty, there has been an emergence of various policies created by
governments to alleviate poverty and sustain livelihoods of local communities. This has
occurred in Indonesia with community forestry (Rusli, 2003; Wardojo, 2003).

Cameroon has created a policy to provide an opportunity for the involvement of rural people
in the management of forests since 1994 (Lescuyer, Mbarga, & Logo, 2008), and the
Nepalese government introduced a community forestry policy in 1978 (Malla, 2000).

In Australia, in the state of New South Wales in particular, accepting social responsibility for
the state’s forests is important to ensure future sustainable management. Seeds of social
conflict might occur, which has been seen when there has been logging of rainforests and old-
growth mountain forests. Nevertheless, and despite the wisdom of hindsight, it is difficult to
envisage what else successive governments might have done to achieve supply and price
objectives at a time of rapidly expanding demand, and before the emergence of a broadly-
based environmental ethic (Florence, 2005).

CSR in forestry is mainly dominated by partnership building between firms and local
communities, with commitments legalised in agreements. Forestry business development
through “contractual partnerships” might provide an alternative solution for timber
companies facing a shortage of timber supply. Partnerships in this context are sometimes
understood as part of CSR practice. In South Africa, for example, partnership schemes have
helped to shore up the reputations of the biggest forest companies just as wider societal
debates and laws were promoting a larger number of smaller, communally based, producers
and more equitable patterns of land and resource control (Mayers & Vermeulen, 2002).

A considerable body of literature emphasises the costs or risks for small-scale farmers, most
of whom are from communities living adjacent to forest areas, when entering into
partnerships with forestry corporations; although equally there are costs and risks for
companies and other partners (Race, Bisjoe, Hakim, & Hayati, 2009). One study suggested
that formal certification of sustainable forestry is one response to encourage forest managers
to meet community expectations, therefore ensuring that partnership arrangements are
compliant with the prevailing expectations of “best practice” forestry and will be worthwhile
and beneficial for all partners. The 2002 World Summit on Sustainable Development also
promoted partnerships, which are similar to collaborative management. The partnership
concept was applied to all forms of collaboration, including those where industry remained the primary factor and actor (Borrini-Feyerabend et al., 2007).

Transparency is also being promoted in forestry businesses. In privately owned Australian forests, most sections are clearly identified by a locked gate at the entrance. The locked gate on a forest road is a sad symbol of a breakdown in trust and transparency. Forest managers may need to protect their operations from potential thieves and vandals, but they should not prevent public scrutiny. Socially responsible managers should consider public transparency to be an important adjunct to the processes of internal review and continuing improvement. It is only through reliable monitoring and reporting systems that information can be disseminated about the standards being achieved and the progress or otherwise that is being made to improve those standards (Wilkinson, 2009). CSR likewise implies not only “doing-good”, but also learning to communicate. CSR should be viewed as much more than just looking good or selling more, the attribute of cosmetic actions (Roberts, 2003).

2.4.3 CSR in small and medium enterprises

CSR practised by small and medium enterprises is more inward looking, for example through applying performance-based pay, and employee involvement in decision-making. Therefore, these enterprises emphasise the importance of the capacity improvement of their employees, such as performance evaluation, training and development, and provision of social benefit (Zheng et al., 2009). This is in line with the socialist ideology that workers are identical with the “masters of the house” (Tsang, 1994).

CSR is programmed by small and medium enterprises that also perceive the importance of social and environmental considerations in their business strategies (refer to CSR characteristics in New Zealand, India, and China). However, according to Rodgers (2010), small and medium enterprises’ awareness of environmental and social aspects in their business, latterly called eco-preneurship, remains in its infancy. Rodgers’ findings further suggested that eco-preneurial small and medium enterprises are looking to other goals alongside the financial and are prepared to go to significant lengths to achieve them.

Financial considerations are strongly conditioned by the eco-conscious nature of a business. In other words, sustainability imperatives remain vital, and business is not just an income
stream but regarded as a vehicle for social change. The new generation of “green” businesses, firmly rooted in the ethical principles of the eco-preneurs, with a high risk tolerance and based on a platform of self-education in green issues, can provide experiences that are emotionally satisfying and meaningful (Rodgers, 2010). This is in line with the view that the defining insight of green thought is that sustainability requires more than eco-efficiency, or the minimizing of energy, resources and waste but also fundamental personal, social and institutional transformation (Birkeland, 2002).

Small and medium enterprises in forestry also sometimes stress social concern in their business strategies. For example, in Nepal, non-timber forest products have played a crucial role in local community development. There lokta (a local tree species) has been a popular source of material for a hand-made paper industry. Communities have been provided with opportunities to work in the small-medium paper industries that are mostly established in the areas close to the forest where the raw material is sourced. The industries have practised social responsibility through a number of important aspects, namely traditional commitments to community development and fair trade codes of conduct (Biggs & Messerschmidt, 2005).

The review of literature provides evidence that the practices of CSR are dominated by multinational companies (e.g. BHP, Rio Tinto, and Newmont), which are considered the backbone of economic development of each country. Little literature is available concerning CSR in small and medium enterprises. The next section presents CSR from various dimensions, and aims to provide information about how companies view CSR and related policies developed in their organisations.

2.5 Dimensions of CSR

This section explores CSR from an array of dimensions including the recent trend of many companies to apply CSR in their business strategies. Even though many organisations include CSR in their management, those in different sectors emphasise CSR in different ways. For example, forestry businesses’ practice is dominated by partnership forming with local communities and the application of forest certification.
2.5.1 Criticism of approaches to CSR implementation

In the relevant literature, various perceptions of corporations’ practice of CSR are investigated, including those of forestry businesses about CSR. Regardless of their nationality, most local communities have similar opinions to the effect that logging companies’ operations close to their residential areas have had little positive impact. A research study in Ghana revealed that even when a social responsibility agreement was established, assuming that it might work to share benefits between corporations and communities, it afterwards emerged that any profit returned to the area had gone to community leaders, or authorities, rather than to the local communities themselves (Mayers & Vermeulen, 2002).

A common public perception, often promoted by business leaders, is that the inclusion of social concerns is expensive and that there is a basic contradiction between “doing good” and “doing well” (Deetz, 2007; Steiner & Steiner, 1994). The disastrous case of the poisonous gas leak at Union Carbide’s plant in Bhopal, India (in 1984), and the 11 million gallon oil spill from the Exxon Valdez in Alaska’s pristine Prince William Sound (in 1989), meant that these companies found themselves responding to a vast array of critics – within surrounding communities and internationally (Livesey & Graham, 2007).

Society’s growing concerns over the state of the environment and human rights are also illustrated by the case of a multinational oil company, namely Lundin Petroleum. As part of its operations in developed and developing nations, the company has paid particular attention to potential CSR issues such as environmental sensitivity to the oil fields located within French vineyards. In addition, the company’s experiences in Myanmar, Nigeria, and Sudan in regard to allegations of human rights violations have placed socio-political issues on its agenda, leading it to conclude that the traditional business model that focuses only on technical and financial parameters was inadequate to deal with the crises it faced and criticism of the company’s role in them (Batruch, 2011). In 2010, was very critical of British Petroleum (BP) after its serious misconduct in causing an oil spill in the Gulf of Mexico (Mitchell, 2010).

In the forestry field, the practice of CSR is generally focused on benefit-sharing between corporations and local communities to reduce the number of the poor. This approach has
been approved by some scholars in which the involvement of rural communities in forest activities is strongly promoted to enhance benefit-sharing in an attempt to alleviate poverty (Rusli, 2003; Wardojo, 2003). This key strategy is increasingly being adopted by most developing countries, including Indonesia (Maryudi & Krott, 2012) which is inhabited by nearly 50 million forest dwellers, approximately 25 percent of whom are categorised as poor because they lack the basic necessities for a normal standard of living (Ministry of Forestry, 2007). It has been reported that there are numerous rural households in developing countries living at, or under, subsistence levels on a daily basis, and who base their livelihoods on forest products (Arnold, 2001). These forest dependent people, for instance, exist on approximately US$1 per day, and are among the estimated 625 million people in Asia that can be classified as poor (Fernando, 2008).

In an attempt to overcome problems of poverty, participation of communities in forest plantation businesses is managed through partnership-building with companies that operate in their vicinity. Company-community partnerships in the forestry sector are sometimes viewed as an investment using CSR because they provide long-term advantages in managing conflict and social risk (Mayers & Vermeulen, 2002). Moreover, the cultural value attached to the communities in this research, which included several ethnic groups, plays an important role in their participation in industrial forest plantation. An ethnic factor is also significant to the success or failure of partnership building. However, forestry companies often neglect these aspects.

2.5.2 Environmental responsibility in the context of CSR

There is a growing public consensus that both individuals and businesses have an ethical obligation to conserve and protect the environment as a common inheritance. The problem is that environmentally sound decisions often do not mirror those that optimise corporate profits (Seeger & Hipfel, 2007). This perception is in line with the opinion that global capitalism and liberal economic norms reinforce free markets that tend to exclude environmental and social costs, contributing to prices that do not reflect the intrinsic or full value of a product (Dauvergne, 2001).

Industry is most likely to produce pollution, which is in conflict with the goals associated with environment and sustainable development. This issue has been addressed in an array of
international forums, for example the Kyoto Protocol to the United Nations Framework Convention on Climate Change. The forum ended with the refusal of the United States to ratify the agreement, which showed that pollution is a consequence of an industrial society that can only be controlled and not entirely eliminated (Seeger & Hipfel, 2007).

The demand for environmentally responsible products is derived from the increasing environmental awareness of consumers. These consumers comprise 10 to 20 percent of all consumers in Western societies and are willing to pay an “environmental component” in the purchase price of goods (Linnanen, 2005; Peattie, 1993). Mohr et al (2001) found that many consumers expect a high level of CSR, indicating that companies who disregard these expectations may risk consumer boycotts or consumers shifting their business to competing firms.

2.5.3 CSR for wider communities

Perceptions about social responsibilities differ in some cases from the mainstream models found in CSR and business ethics. The responsibilities of business towards society are based on the following three elements: protection of the environment, protection of consumers’ interests (health), and securing a satisfactory working environment (Pedersen, 2010). Moreover, responsibility towards wider communities means creating value for society by providing jobs, paying taxes, and minimising negative environmental impacts; and means that managers should adopt a view of CSR emphasising risk avoidance (“do not harm”) rather than generation of positive social and environmental impacts (“doing good”) (Pedersen, 2010).

Enhancing natural resource management at the community level should take several aspects of social capital into consideration. These include social networking and the ability of individuals to develop links with external agencies (Bodin & Crona, 2008). A similar perception was expressed by academics after conducting research on New Zealand firms. These researchers highlighted the importance of social partnerships between business and non-profit organisations in order to show their joint social responsibility and legitimacy to operate, as company managers are increasingly aware of the role their businesses play in the wider community. This form of partnership is increasingly growing and promoted as an important new strategy that has a positive impact on society (Eweje & Palakshappa, 2009).
Commonly, mineral resource exploitation is closely linked with royalties. In Ghana, as in many other developing countries, royalties for mineral resources are paid by the company directly to the central government (Aidan, 1999; Akabzaa & Darimani, 2001; Anaman, 2002; Garvin et al., 2009; Humphreys, 2001; Kampfner, 2001; McMahon & Strongman, 1999). As a result, communities saw little of that money from government sources, and so they expected companies to pay them directly (Garvin et al., 2009).

Garvin et al. (2009) underlined the perceived impacts of multinational companies at the community level in the context of globalisation processes and growing multinational corporate interest in CSR. Companies’ expectations about development appear to be affected by three main factors. First, most corporations still allocate relatively small budgets for community-based social development; second, meeting community demands would affect corporate profits; and third, corporate decisions made at headquarters far removed physically and culturally from the mining communities have left local company representatives to negotiate the fine line between high community demands, low community development budgets, and overall corporate profitability.

2.5.4 CSR and partnerships

It is commonly held that the most effective standards, both in terms of the range of issues covered and their robustness as regulatory instruments, are ones that are developed and/or managed by partnerships comprising multiple stakeholders. These multi-stakeholder partnerships are increasingly seen as a model for international and global governance. A CSR response to this trend would be that the concepts of stakeholder and partnership provide a means of recognising diversity and encouraging businesses to consider their relationships with other entities that in turn shape the discourse about businesses’ responsibilities (Blowfield, 2005).

Forest companies in Indonesia have commonly practised CSR in recent years by focussing on partnerships. Partnerships between companies and communities have been developed by planting a certain forest species. The first and the most important part of this strategy is informing communities about their rights, responsibilities, and options to legitimate the partnership (Arnstein, 1969). The value of the partnership is that companies can secure forest
product supplies with competitive cost structures and prices while enabling communities to develop skills and access credit, training, and markets related to growing, managing, and processing forest products. Tri-sector partnerships have been developed between major corporations, government agencies, and civil society organisations, claiming to bring together the driving forces of CSR and civil society rights-based approaches with a focused set of enabling and levering actions from the public sector (Mayers & Vermeulen, 2002).

The intention of developing tri-sector partnerships is maximising the effectiveness of each partner’s skill and resources (Warner, 2001). Each actor plays a crucial role in maintaining the partnership. For example, government agencies support the growth of a firm’s businesses by developing a specific policy, influencing markets, and acting as tax collector and facilitator. Corporations act toward civil society organisations principally by informing them of their rights and responsibilities and by exchanging experience. Civil societies generally have considerable skill to broker partnerships, which support the government’s responsibility in ensuring the partnerships are working on track (Mayers & Vermeulen, 2002). This specific type of partnership is illustrated in Figure 2.5.

**Figure 2.5: The tri-sector partnership**

- Corporations
  - Inform about rights and responsibilities
  - Exchange of experience

- Government agencies
  - Develop specific policies
  - Influence market
  - Collect taxes
  - Facilitate

- Civil society organisations
  - Have considerable skill to broker partnerships

Corporations have come to accept that they have a responsibility to behave as citizens of the planet and not merely as exploiters of its resources, and that they cannot operate without the assistance of other partners. Therefore, it is necessary to form strategic partnerships with non-corporate groups if their environmental, social, and educational efforts are to have maximum impacts (Guntensperger, 2008). Partnership is regarded as one rung of a ladder of citizen participation, where power is in fact redistributed through negotiation between citizens and power holders in the form of shared planning and decision making responsibilities (Arnstein, 1969).

Arnstein (1969) proposed that there are eight steps of citizen participation, forming this ladder. Its elements (from bottom to top) are: manipulation, therapy, informing, consultation, placation, partnership, delegated power, and citizen control. Manipulation and therapy are placed at the bottom rungs of the ladder, describing non-participatory levels that substitute for genuine participation. The third and fourth rungs (informing and consultation) can be categorised as “tokenism”, that restricted participation because citizens may hear and be heard but lack power to influence decision-making processes. Placation (Rung 5) is a higher level of tokenism because citizens are allowed to advise but it depends on the power holders when something is decided. On Rung 6 is partnership, where citizens are able to negotiate and engage in trade-offs with traditional power holders.

At the highest levels of the ladder, delegated power and control, citizens obtain the majority or full power in decision-making processes. Of the eight levels, the highest denoting partnership, that is mostly applied to the relationship between forestry companies and local communities in this research. Power at this rung is redistributed through negotiation between citizens and power holders, such as share planning and decision making responsibilities (Arnstein, 1969).

This section has pointed out that first, how different dimensions of CSR are understood and interpreted results in different practices; second, politics and power dominate the practices of CSR (dominated by giant companies); and third, sustainability of business which is directed towards profit maximisation is still given priority over other considerations. However, moral obligations have been a concern in business circles during the last decade. Paying attention to workers’ conditions, for example, occurs both for the sake of better working environments for them as well as for business sustainability because workers are
important assets in business activity. The increasing environmental awareness of consumers has also triggered a variety of CSR practices as it has a positive impact on local and international communities as well as on future generations. In addition, recognising diversity and encouraging business to consider a relationship with other entities stakeholders partnerships, is growing. While this section discussed different theories relating to CSR, the next section describes a range of recent practices of CSR.

2.6 The current practices of CSR

Companies often misunderstand the concept of CSR and practice it in inconsistent ways, for example, a company that allocates funding for security purposes thinking it is a form of CSR. Some companies also view compensation is as a part of CSR, although the compensation is imposed on them by a government because of their negligence. Politics is also influential on CSR, for example, in Indonesia, where the issuance of legislation that contains CSR has caused a contradiction between business actors and the government. The government initiated an article on CSR to be inserted in the Limited Liability Company Law 2007, while private sectors demanded CSR should be voluntarily practiced, but the government insisted it to be forced under a sub-sequent regulation.

Several catastrophes have occurred that revealed irresponsible practices of companies which have endangered the environment and society. These cases have raised global issues and many claimed that the firms should be held responsible for causing severe loss and damage. The companies charged with the wrongdoing often face social legitimacy crises and subsequently issue apologiae (Hearit, 1995), which is according to Batruch (2011) the main reason for a them to adopt CSR.

2.6.1 Catastrophe in the Gulf of Mexico

In April 2010, a disastrous oil spill causing environmental pollution occurred in US waters. British Petroleum (BP) was responsible for the catastrophe. Chief executive, Tony Hayward, had come under mounting pressure over the spill, caused after a drilling rig BP was leasing, the Deepwater Horizon, caught fire and sank, resulting in the death of 11 workers and widespread ecological damage (Chazan, 2010). BP accepted responsibility for the oil spill
that was threatening the entire US Gulf coastal region. The initial cause of the disaster is in dispute and the BP subcontractors tried to blame each other (Mitchell, 2010).

BP attempted to contain thousands of litres of oil spilling into the gulf by installing an “insertion tube” to the leak site so oil could be siphoned to a container vessel at the surface. The British company came under massive pressure from the US administration, including President Barack Obama who blasted companies involved in the disaster for seeking to shift blame and shirk responsibility (AFP, 2010). Nevertheless, BP was finally required to pay all legitimate claims of economic damages (Batruch, 2011).

2.6.2 Disaster in the Great Barrier Reef

At about the same time as the oil spill in the Gulf of Mexico, the Australian Great Barrier Reef faced a similar environmental disaster as a giant ship collided only several metres from the reef. The 225 m cargo ship picked up 65,000 tonnes of coal from Gladstone and was running at full speed when it crashed into Douglas shoal. The sandbar is located about 15 km away from normal shipping routes and is off-limits to commercial vessels because it is within the Great Barrier Reef Marine Park. Faced with the crippled ship, Shen Neng 1, which was leaking a 3 km ribbon of oil from a ruptured fuel tank, the Queensland premier, Anna Bligh, said it was at risk of breaking apart overnight in what had the potential to become one of the country’s worst environmental disasters. The move to offload the vessel’s cargo outraged the local community, because it is within the Great Sandy Marine Park, a haven for dugongs, dolphins, and whales (Sandy, 2010).

Sea animals, the marine ecology, and the local community were in danger of being affected by the accident. Damage to one of the world heritage sites (the Great Barrier Reef Marine Park) also resulted from the leakage. CSR practice particularly contributed to repair the damage, even though it was not fully repaired. Compensation would mostly be imposed by the Australian government on the ship company. Also, the image of the company had been ruined by this tragedy and will take a long time to be restored. There appears to have been a misunderstanding of CSR in this case by the company that it interpreted CSR as largely being about paying compensation.
2.6.3 The contradiction of CSR and corporate security in Indonesia

Welker (2009) described another form of CSR as illustrated in Newmont Mining Corporation’s Batu Hijau copper and gold mine, operating in Sumbawa island, West Nusa Tenggara, Indonesia. A corporate security strategy was developed by the mine to guard the mining activities from local attackers. The attack on environmental activists was badly conducted by local young men, the first line of corporate defence supported by the mine. The activists labelled their attackers *preman*,\(^1\) equating them with the mafia-style thugs who have staked out their rural and urban turfs elsewhere in post-Suharto Indonesia (Welker, 2009).

Another example of using CSR for security purposes was exposed in the following illustration.

A mining company operating in Indonesia was revealed by Radar Banjarmasin, a local newspaper based in Banjarmasin, the capital city of South Kalimantan, Indonesia. The newspaper published material about a mining company operating in South Kalimantan, stating that once a new coal deposit was found (even though outside its mining lease area), the company carried out an illegal operation, made worse by the fact that the activity was carried out in a state production forest. This illegal activity was discovered by the Illegal Mining Unit officers of South Kalimantan Police Provincial Office. After the illegal act was made public, the company met and held discussions with the Director of Police Provincial Office to seek a possible solution (Hani, 2010).

This case demonstrated that the company took advantage of the hierarchical structure in the military organisation where subordinates should obey the instructions from higher ranks. If the negotiation process was successful, the problem could be peacefully solved. This example was a contradiction of CSR in that it was practiced only for security purposes, in an attempt to sustain a business and collect profits.

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\(^1\) The word “preman” initially derived from *vrijman* (Dutch) or “free man” then later referred to the military or police in civilian clothes (Ryter, 2001; Welker, 2009). Under the New Order, preman connoted thugs and renowned beneficiaries of numerous government-initiated construction and demolition projects, and also leased out security services and ran protection and extortions rackets involving businesses (Barker, 1999; Ryter, 2001, Welker, 2009). Nordholt (2002) traces the preman lineage back to youth gangs and jago, or semi criminals who acted as intermediaries between the villages and the Dutch colonial administration, policing the countryside and creating a climate of fear.
2.6.4 The necessity of communication in CSR

Communication is raised as a pivotal aspect of recent practice of CSR. Lack of communication may result in a serious problem. Natural resource extraction is a source of conflict among resource-extracting firms, between firms and local communities, between firms and authorities, among the various levels of governments, between local communities and local authorities, and within local communities (Azis & Salim, 2005; Resosudarmo & Jotzo, 2009). Corporate reputation has become an essential building block in the communication strategies of contemporary organisations. Increasingly, reputations are planned, managed, and staged by corporate actors seeking to establish and maintain themselves as legitimate players in society. Through reputational management, organisations hope to be regarded by stakeholders as bodies with souls (Christensen, Morsing, & Cheney, 2008).

A good reputation enhances profitability because it attracts customers to the company’s products, investors to its securities, and employees to its jobs (Christensen et al., 2008; Fombrun, 1996). However, some marketing scholars have argued that if a company focuses too intently on communicating CSR associations, consumers may believe that the company is trying to hide something (Christensen et al., 2008); these campaigns can create misleading information (Ongkrutraksa, 2007). In other words, CSR presents a subtle challenge to corporate communications: how to achieve a positive reputation for being socially responsible without communicating “too much” about it? In spite of these difficulties, organisations are rarely silent about their efforts to be responsible corporate citizens. Corporate communication has the potential to influence an organisation to change its behaviours to become more socially or environmentally responsible (Christensen et al., 2008).

It is wise to engage community relations expertise early in a project’s life, which could help to establish good relations with stakeholders early in the process, so that they will be more likely to support the project rather than oppose it. Good community relations practice could involve meeting with local stakeholders to determine their concerns about an enterprise and develop ways to meet those concerns (Tiwari & DeVos, 2009).
2.6.5 Law and CSR in Indonesia

A legal scholar suggests that CSR is a function of law and law is a function of CSR (Ostas, 2001). Thus, compliance with law is the first social responsibility of citizens, whether individual or corporate (Llewellyn, 2007). If governments at all levels do not take actions both in framing laws and in policy-making, then companies can take over and act in a surrogate governmental capacity (Garvin et al., 2009).

Moreover, many people still live in poverty. The inequalities between the rich and poor are glaringly obvious (Guharoy, 2010). In an attempt to seek a solution to this issue, the government passed the Investment Law and the Limited Liability Companies Law in 2007, introducing CSR in the legislation. This made Indonesia the first country to introduce mandatory legal requirements for corporate social responsibility (Rosser & Edwin, 2010).

Both laws determine that the main purposes of CSR are optimising the role of the private sector in building a welfare society as well as to reduce the potential for a social gap between a “company community” and a “local community” residing close to a company’s activities (Ardhanie, 2010). With the Investment Law, multinational companies are constantly being reminded by the Indonesian politicians that they must exercise CSR, which means putting some of their profits back into a local community for much-needed public services such as education and health care (Zorge, 2010).

Just before the parliament passed the Law, the Indonesian Chamber of Commerce and Industry (KADIN), Indonesia Business Link (IBL), Indonesian Employers Association (APINDO), and several business industry associations released a joint statement demanding that the national parliament withdraw the mandatory requirements for CSR contained in the draft law and instead provide positive incentives for companies to carry out CSR such as tax concessions. Furthermore, they argued that the mandatory requirements for CSR would damage the competitiveness of the Indonesian economy (Rosser & Edwin, 2010).

Whether subsequent government regulations are issued or not, however, the outcome in terms of the regulatory framework for CSR in Indonesia is already clear: the continuation for the time being of a voluntary system of CSR (Rosser & Edwin, 2010). This does not guarantee that CSR is fully endorsed or adequately implemented. First, it will be difficult to refute the
allegations of CSR being double taxation, and that this measure violates the aims of the business community. Second, there will be a potential hazard of managing funds unsatisfactorily (Purba, 2010).

In early 2012, the Government Regulation on social and environmental responsibilities was finally issued. This regulation consists of only eight articles, including how responsibilities are to be implemented and the sanctions imposed for companies that do not carry out their responsibilities (Minister of Law and Human Rights, 2012). In addition, the sanctions for irresponsible companies are detailed as being in legislation that has previously been enacted. However, it is not clear which legislation are referring to, because it is not written explicitly (Article 7 of Government Regulation 2012).

2.6.6 Partnerships in Indonesia’s forestry

A partnership strategy in forestry businesses is commonly practiced by multinational, medium, and small companies. At a local village level, there are many timber processing businesses in Indonesia. It is important to sustain timber supply to keep those businesses extant. Developing cooperation and partnerships with forest farmers is an important and challenging process to obtain a continuous supply of timber. The significant factors for small-scale growers in order to achieve successful partnerships with their trade partners include increased knowledge of the operations of commercial forestry, improved access to competitive markets, and reduced administrative and financial burdens to satisfy government requirements on small-scale forestry operations (Race et al., 2009). Developing partnerships is considered the “second wave of CSR” where companies need to develop them to carry out a range of responsibilities (environmental, social, and educational tasks), and to behave as responsible citizens (Guntensperger, 2008).

A different form of partnership has been created on the island of Java, Indonesia, with its teak forest, whereby local people are allowed to intercrop forest land with their own crops during the first few years of tree growth, in return for caring for the young teak trees (Mayers & Vermeulen, 2002; Peluso, 1992). The involvement of third parties in forming a partnership between company and community to some extent is an important element of forestry management practice in South Sumatra, Indonesia, as the third parties (commonly local governments) can provide various guarantees of land ownership necessary for individuals to
join a farmers’ group or enter an individual contract with a company (Mayers & Vermeulen, 2002).

The Industrial Forest Plantation (HTI – *Hutan Tanaman Industri*) located in South Kalimantan, is collaboratively managed under a partnership developed by a forest company and community with two different programs, namely a develop forest with communities program and a manage people’s forest program. The first program was introduced to manage HTI in collaboration with community group members, where each component of the entire work of HTI management is carried out by a community group in a particular location. The second program, land management in a non-productive area surrounding HTI areas, is collaboratively managed with local communities using a benefit-sharing system under certain conditions and over an agreed period of time (Djatmiko, 2009). A similar practice has also been organised in South Africa where landholders expect incentives, i.e., they obtain cash income at the harvest (Mayers & Vermeulen, 2002). In Australia, the most common form of partnership is by building individually secured tenure arrangements between landholders and forestry companies that are formalised into an agreement requiring companies to provide regular lease payments to landholders (Race et al., 2009).

### 2.6.7 Certification and CSR in the Indonesia’s forestry sector

Forest certification is a third party verification mechanism that certifies socially and environmentally responsible forestry practices (Vidal & Kozak, 2008). Most scholars regard it as market driven (Gulbrandsen, 2004; Rametsteiner & Simula, 2003; Taylor, 2005) because consumers want products sourced from woodlands under sustainable management (and guided by economic, social, and environmental considerations). Forest certification is considered to be one of the most effective mechanisms for ensuring the forest sector’s responsible practices (Vidal & Kozak, 2008).

Certification and labelling have emerged as market mechanisms for monitoring and promoting sustainable management in various resource-based industries, including agriculture, forestry, and fisheries. Forest certification complements forest and environment

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2 The paper presented in the Workshop on *Forest Community Development: illegal activity, human rights or a matter of corporate social responsibility*, conducted on 23-24 July 2009 in Banjarbaru, South Kalimantan, as part of data collection to seek different perspectives on CSR from various stakeholders, i.e. local government, academics, companies, local NGOs, and communities.
Certification is also a means of coping with the complex problem of achieving sustainable forestry, as has been demonstrated in Indonesia. For example, the country was formerly a main source of timber for China due to massive Chinese consumption (for example in 2003, China needed 244 million m3 of commercial round wood) both for domestic and export industries; domestic forest products were not sufficient to fulfil the demand, causing illegal practices associated with imported timber from producing countries, e.g. Indonesia and Vietnam (Stone, 2006). To combat global deforestation, some NGOs, such as World Wildlife Fund (WWF) and Forest Stewardship Council (FSC) suggest that an increase in the production of certified wood products may lead to more sustainability in the use of forest resources (World Wildlife Fund China, 2004).

In the national context, in its efforts to combat deforestation, the Indonesian Ecolabel Institute (LEI) was established in 1998. Under a joint certification program with FSC, LEI’s criteria and indicators are comparable to and compatible with FSC principles (Indonesian Ecolabel Institute, 2010). The certification also provides an opportunity for local communities to manage their forests sustainably. To obtain certification, community members that manage a forest are required to initially establish a forest management unit. With the FSC – LEI joint certification program, global aspects of certification processes were adapted to be applicable in national conditions (Indonesian Ecolabelling Institute, 2010). Table 2.1 outlines the features of FSC and LEI.

By 2010, LEI had certified 1.1 million ha of natural forests, 453,000 ha of plantation forests, and 21,000 ha of community forests throughout Indonesia. By obtaining certified forests, communities have benefitted from such things as the availability of spring water, availability of wood for fuel, and a better environment, with soil becoming more fertile and the villages becoming more shady and cool.

In this section I have highlighted some examples of many current practices of CSR that are triggered by crisis (Batruch, 2011), such as those faced by multi-national companies, after events that occurred in the Gulf of Mexico and the Great Barrier Reef. Also, companies still misunderstand CSR due to the fact that it is used to increase profits, for example for security.
and compensation payment. These examples, however, do not generalise all CSR practices around the globe.

Table 2.1: The main features of FSC and LEI

<table>
<thead>
<tr>
<th>Aspects</th>
<th>FSC</th>
<th>LEI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
<td>Constituency-based chamber of society, ecology, and economy</td>
<td>Constituency based chamber of community, businesses, civil society organisations, and eminent people</td>
</tr>
<tr>
<td>History</td>
<td>Established by civil society organisations to provide independent assessment and verification of forest management</td>
<td>Established by groups of independent individuals and civil society organisations to provide independent assessment and verification of forest management in Indonesia</td>
</tr>
<tr>
<td>Method of assessment</td>
<td>Performance based</td>
<td>Performance based</td>
</tr>
<tr>
<td>Personnel of assessment</td>
<td>No clearly defined requirements</td>
<td>Requirements are clearly defined and must be registered with LEI or its accredited personnel registration body</td>
</tr>
<tr>
<td>Decision making processes</td>
<td>Threshold decisions are made by assessors</td>
<td>Using analytical hierarchy methods, through layers of processes (assessment by assessors decision-making by expert panels)</td>
</tr>
<tr>
<td>Stakeholders involvement</td>
<td>Requires public consultation, but not specifically direct consultation; could be done through mailing list or other media</td>
<td>Direct consultations are required</td>
</tr>
<tr>
<td>Accreditation</td>
<td>Separated from standard development, but still related</td>
<td>Not separated</td>
</tr>
<tr>
<td>Scope of operation and standard development</td>
<td>Operates globally. Each national initiative develops standards based on FSC principles. No distinction based on type of forests.</td>
<td>Operates nationally. The standards are developed (principles, criteria, indicators, and verifiers) and differentiated for type of forests: natural, plantation, and community.</td>
</tr>
<tr>
<td>Policy on plantation</td>
<td>With cut-off year 1994</td>
<td>Without cut-off time, but based on specific sites by assessing the risk of conversion to plantation and threats generated to society and the environment.</td>
</tr>
</tbody>
</table>

Source: LEI (2010).

Figure 2.6 provides CSR concepts derived from the literature review presented in this section that explores CSR from various dimensions. The dimensions lead to a similar objective that is sustainability, in terms of business, economy and the environment. Even though business is largely seen as the source of severe environmental degradation, it also has the potential to bring developing countries out of poverty (Mayer, 2007). CSR practice in many developing
countries is in a stage of infancy and it is sometimes interpreted beyond its original idea, such as for security purposes and compensation (e.g. Newmont and BP). Political instability and weak governance systems are common problems in developing countries. These problems have caused CSR to move in directions that are different from its original principles.

Figure 2.6: The dimensions of CSR implementation

2.7 Summary

The various understandings of CSR reflect its implementation. The literature reviewed in this chapter explored business strategies and the ways in which CSR has evolved. A wide array of CSR aspects were presented in this chapter. CSR theories are still developing and debate is also continuing. There are noticeable differences between developed and developing nations in their mode of viewing CSR. Developed countries carry out successful negotiations in obtaining compensation following disasters created by multi-national firms (such as in the cases of the Gulf of Mexico and the Great Barrier Reef), although the environmental and ecological loss and damage cannot be measured by an amount in terms of money. CSR activities were also undertaken by firms in developed states by donating to charities or
engaging in volunteerism, stressing ethical and moral obligations. However, in some
developed countries CSR is in the hands of governments; businesses follow regulations and
pay taxes.

In developing countries, before applying CSR, many have argued that there was some
improvement needed, e.g., legal certainty, pro-rural community policies, reduction of military
involvement in businesses, enhancing partnerships between business and non-profit
organisations, and better communication between firms and local communities. From the
literature, in developing states are only concerned with reaping profit from companies
operating in their countries. Some nations (such as New Zealand and Indonesia) prefer that
CSR practices not be interfered with by the government. Nevertheless, major firms
strengthen their reputation by the application of CSR and attempt to make this concept a
reality.

In global commercial forestry, company–community partnerships are the dominant practice
of CSR to support social, environmental, and economic sustainability, as well as business
sustainability. Forest certification is also encouraged and has become a trend to fulfil
customers’ desire for timber sourced from sustainable forest management. The next chapter
introduces the evolution of community forestry developments in terms of Indonesian policies
and regulations. Analysis of policies enacted and the benefits for local communities are also
presented. The issuance of regulations in Indonesia to make CSR a legal requirement is also
explored.
CHAPTER 3
Evolution of the forestry sector in Indonesia

3.1 Introduction

At the start of the 21st century the total number of people in forest-dependent communities in Indonesia was estimated to be 22 percent of the country’s total population, or 50 million people (Ministry of Forestry Indonesia, 2011). Forests are important for their livelihoods. Forests also provide many benefits to society. The most recognisable is wood. It is used for a variety of purposes, including construction (buildings), furniture, and fuel (Crawford, 2009).

This chapter discusses the socio-economic value of forest resources as well as the dynamic changes of forest management policy in Indonesia. These are the contexts in which CSR must be achieved. The effects of competing interests of different stakeholders upon forests, which eventually create problems in forest management, are highlighted in this chapter. Forest certification was introduced as a tool that can assist to solve forest problems (e.g., deforestation, degradation, overlapping areas of usage, and exploitation of local communities) and, according to Vidal and Rozak (2008), this tool has been considered one of the most effective mechanisms for ensuring the forest sector’s responsible practices. There is also a requirement that companies adopt corporate responsibility. This includes their commitment to sustainability. Both certification and CSR provide ways for companies to achieve sustainability in terms of economic, social, and environmental outcomes.

3.1.1 Socio-economic value of forest resources

Forests provide a wide variety of social and economic benefits, ranging from easily quantified economic values associated with forest products to less tangible services and contributions to society (FAO, 2010b). Many societies depend for their livelihoods on forest resources. For example, indigenous tropical forest societies in many areas (e.g., the Amazon, Central Africa, Asia, and Papua New Guinea) still rely on hunting and gathering within forests for their subsistence (Borrini-Feyerabend et al., 2007). Since forest concessionaires now exist in their areas, these groups have lost their access to forests because their traditional
rights to enter forests were not established in legal documents (Higman, Bass, Judd, Mayers, & Nussbaum, 1999). Poverty and diminished levels of subsistence became problematic.

Business in forest resource extraction may lack the potential for poverty reduction given the limited ability of capital intensive forestry to absorb unskilled labour (Jagger, 2012). Awareness of the impact of business and its interplay with societal and environmental concerns has emerged, along with parallel growth of socio-regulatory pressure. This evolution of business and societal concern has led business to gradually increase responsibility for both social and environmental well-being (Panwar, Rinne, Hensen, & Juslin, 2006). Nevertheless, the business sector has been focusing on how to combat poverty, which has triggered the positive role of multi-national companies in acting through CSR (Kolk & Tulder, 2006).

As a basic source of livelihood, forests should be used and protected rather than regarded as immobilised capital to be exploited (Borrini-Feyerabend et al., 2007). In many countries where large scale tree plantings are established, rural communities and environmental groups have expressed various concerns about the effects of the plantations (Schirmer & Tonts, 2002). The negative effects of commercial logging on forest dependent people are obvious (Fisher, Srimongkontip, & Veer, 1997). These include:

- direct effects, such as reduced availability of forest products (including non-timber forest products) due to the effects of logging. Logged forests are also closed to local communities,
- indirect effects due to the increased marginalisation of local communities as national and local governments increasingly support logging companies, and
- increased competition for forest resources as migrant populations follow the timber industry, either to seek employment directly with, or provide services for, logging companies.

Stakeholders in different sectors such as agriculture, tourism, energy, and forestry place varying demands and claims on forest goods and land (Upton & Bass, 1995). Over the years, it has also been recognised that people, including those in developing countries, need wood. In the countries that are geographically located in Asia and the Pacific, particularly Malaysia
and Indonesia, logging has been an important industry because it can be a major source of state revenue (Fisher et al., 1997). For example, as of 2009, Indonesia produced about 34 million cubic metres of log timber. Part of the timber is processed into sawn wood, plywood and pulp, and is exported mainly to Japan, China, and South Korea (Ministry of Forestry Indonesia, 2010). Wood is also part of local communities’ basic necessities, particularly for fuel. Even in the UN Report of the World Commission on Environment and Development noted the important use of timber for fuel. It was reported that 70 percent of the people in developing nations use fuel-wood (Brundtland, 1987).

3.1.2 Socio-cultural value of forest resources

In many countries, granting of concession rights for commercial purposes is accompanied by the acceptance of social responsibilities for contributing to the well-being of local people. Some of these responsibilities are written into concession agreements and contracts by governments that arrange the terms. Other responsibilities, such as respect for cultural sites, may be required only through collaboration with local stakeholders (Higman et al., 1999).

Culture can be a very important part of a community. Systems of knowledge, beliefs, customs, and norms, and a wide range of culturally related activities can play a significant role in contributing to the sustainability of societies (Daskon & McGregor, 2012). For example, in agricultural practices, shifting cultivation (the clearing of forest areas for crop cultivation for a short time and then leaving them fallow or abandoned and another plot cleared) has been considered an unsustainable practice (Fisher et al., 1997). However, it has been argued that a similar practice in Kalimantan, Indonesia, was a successful adaptation to the environment (Dove, 1985). In Laos, where there have been long periods of fallow (10–20 years), shifting cultivation has resulted in food self-sufficiency and conservation of soils as well as forest regeneration (Chazee, 1994).

Rural people have often practised control and management of local forests in the past, and there are many instances of historical systems, such as community forestry, that still exist (Arnold, 2001). Governments, donors, and civil society have made considerable effort to create forms of community forestry relevant to current circumstances (Arnold, 2001).

In the 1970s and 1980s, the Indonesian government adopted a centralised, top-down approach to development that relied heavily on intervention within specific sectors to
promote strong economic growth (Dendi et al., 2009). The government often disregarded customary land rights over forests, disrupting customary resource management. Top-down government regulations that ignore the local social and cultural systems have degraded local knowledge and diminished the relevance of indigenous knowledge systems (Alhamid, Kanowski, & Ballard, 2009). This can cause huge social and ecological disruption (Borrini-Feyerabend et al., 2007). Also, communities have been alienated from their own land and become dependent on foreign sources of exploitation and management (Alhamid et al., 2009).

Considering the significant cultural assets within local communities, the industry needs to incorporate these into its work at conceptual and programmatic levels (Daskon & McGregor, 2012) because culture is vital and social development is sustainable: these two dynamics going hand in hand (Packalen, 2010). There is an indication that the management of forests for social and cultural functions is increasing in many countries, but the extent to which that has occurred is difficult to quantify (FAO, 2010b).

3.2 Benefit and constraints of forests to economic development

3.2.1 Forest resources are contentious

Thirty percent of the world’s forests are primarily used for production of wood and non-wood forest products, and nearly 1.2 billion hectares of forest are managed primarily for the production of wood and non-wood forest products (FAO, 2010b). Borrini-Feyerabend et al. (2007) stated that different perceptions about forests produce different understandings of the values, opportunities, and risks that the same environment has to offer. For example, it is generally agreed that as a basic source of livelihoods, the forest should be used and protected. Problems in forestry are often rooted in the diverging and competing interests of stakeholders such as the government, communities in forested areas, employees, investors and insurers, customers and consumers, environmental interest groups, and the general public (Upton & Bass, 1995).

In addition, people may possess a range of rights that directly concern the forest and its use (e.g., territorial rights, ownership of trees and other resources, rights of access, and
intellectual property rights). Therefore, social friction can occur, particularly if there are different interest groups involved in forestry (Higman et al., 1999). This can create conflict and socio-economic tension over a specific area of land. For example in Sumber Jaya, Lampung province, Indonesia, local farmers developed agricultural crops in a protected forest, which is legally prohibited (Arifin, Swallow, Suyanto, & Coe, 2009). In Bangladesh mistrust and conflict between local communities and forest authorities have hindered effective forest conservation (Mukul, Rashid, Quazi, Uddin, & Fox, 2012).

Contributions of forests to livelihoods of the rural poor have internationally been recognised as prominent issues in forestry. Another issue is distribution of control over forests. These issues are presently high on the international forestry agenda (Sikor & Nguyen, 2007). Many governments have initiated devolution programs that transfer forest management from centralised state bureaucracies to local actors (White & Martin, 2002).

Many countries have also developed mechanisms, including community-based forest management, to facilitate the participation and involvement of rural people in forest management (Edmunds & Wollenberg, 2003; Ribot, 2004). With its traditional knowledge of sustainable forest management, community-based forest management has been advocated in the discussion about forest management and sustaining livelihoods of local communities (Takahashi, 2008). With this knowledge, forest companies can benefit by involving local communities in forest management practices. Some research has indicated that these companies have been moving away from purely environmental issues to include economic and social issues in their corporate responsibility practices (Vidal & Kozak, 2008). A major study indicated that forest management is no longer principally the domain of state forestry departments, nor does it focus solely on the issue of sustainable timber production. Social considerations have emerged and indigenous people’s concerns are being taken on board (Shahwahid, 2006).

3.2.2 Deforestation

Deforestation is identified as one of several constraints affecting economic development, especially for countries where forests have become a backbone of national development. The FAO defines deforestation as the depletion of tree crown cover to less than 20 percent in developed countries and less than 10 percent in developing countries (FAO 1997). Another
study suggested that the term “deforestation” refers to a process where forests are cleared by human activities or destroyed by natural disasters, and then converted to other land uses or left as abandoned land (Wibowo & Byron, 1999). Deforestation has many detrimental socio-economic and environmental consequences (Myers, 1989). It leads to direct economic costs including loss of timber and food (Dauvergne, 2001).

Tropical forests comprised just over half of the world’s forests in 1990. Deforestation has been especially acute in tropical Asia, including in Indonesia. From 1960 to 1980, tropical Asia lost almost one-third of its forest cover, the world’s highest rate of deforestation (WRI 1997). One study found that over 200 million hectares of forest have been lost in the tropics; as well, large areas of boreal, temperate, and tropical forest areas have been degraded in quality (Upton & Bass, 1995).

A growing body of scientific research has revealed that the world’s forests are under stress. Furthermore, research on social and community conditions has documented growing uncertainty about the ability of forest-dependent communities to rely on forests for their livelihoods (Cashore, Gale, Meidinger, & Newsom, 2006). Debate between environmentalists, economists, and ecologists is continuing. For example, there has been a lack of agreement between economists and ecologists about deforestation. Economists have argued that deforestation is economically efficient, while ecologists generally disagree with this view, especially on the basis of species extinction and environmental sustainability (Wibowo & Byron, 1999).

In 2001, Indonesia was losing 1.5 million hectares of forest every year, representing on average a 1–2 percent annual decrease in its remaining forests (Walton & Holmes, 2000). Logging companies are largely responsible for the degradation of Indonesia’s forests. Large-scale logging started in the late 1960s and was continued until 1981 when the government introduced a log export ban policy (Dauvergne, 2001).

Greater poverty and people’s search for income frequently intensifies pressure on surrounding natural resources such as forests and water (Dauvergne, 2001). Given the immense number of its people living in poverty and their economic dependence, it is surprising that the Indonesian government did not consider them to be a major component in forest management until recently (Poffenberger, 2006). However, the government still
acknowledges communities’ rights to have access to forest areas which has been specified in current legislation, even though this rights is merely to use forests and forest products to support their livelihoods (Ministry of Forestry of the Republic of Indonesia, 1999).

Over the last three decades, forests in Indonesia have been used by the government based only on its economic interests. The country has achieved a long economic boom from forest resource extraction resulting in high pressure on forests since the 1960s (Barber, 1998). This situation has caused forest degradation in many parts of the country. In addition, weak institutions also play a significant role in the large area of degraded forests (Curran et al., 2004).

A major study has provided evidence that natural forest degradation in Indonesia has six main causes (Barber, 1998):
1). Forests are being cleared by a growing numbers of migrants cultivating subsistence and cash crops,
2). Large-scale commercial logging operations are being carried out under government licences,
3). Widespread organised illegal logging is occurring,
4). Natural forests are being converted to large-scale commercial agriculture and timber plantations,
5). Whole forests are being cleared for official transmigration settlements,
6). The expansion of mining, oil exploration and production, and other forms of industrial development has infringed on forested land.

In addition, forest degradation is caused by the unclear tenure status of upland communities, which creates opportunities for lowland migrants to move into forested watersheds in the upper areas (Poffenberger, 2006). Poor forest governance has also played a significant role in accelerating the degradation by abusing forests and land (Sayer, 2002). One assessment estimates that programs sponsored or encouraged by government account for two-thirds of all deforestation (Barber, 1998). Despite the government having an array of control mechanisms, these have generally been inappropriate, weak, or ineffective, and have made the management of forests more problematic.
Overall, the government’s control mechanisms have been regarded as policy failures (Upton & Bass, 1995). Wibowo and Byron (1999) have argued that the government’s approach was a failure because it resulted in unintended deforestation and an inability to prevent deforestation. For these reasons, attention has turned to the need for forestry to obtain a “social licence to operate” and for corporations in particular to practise CSR (Barber, 1998).

3.2.3 Management practices for forest sustainability

Sustainable development was first introduced in 1972 at the UN Conference on Human Environment (FAO, 2010a). A stronger value on the importance of sustainable development was advocated by the prime minister of Norway in 1987, who focused on the strong connection between people, resources, environment, and development (Brundtland, 1987). Following this speech, sustainable development has increasingly been practised by most countries in the world, including Indonesia.

The Indonesian government faces many problems in delivering on its national and international commitments to sustainable development. From a political perspective, the government needs quick and tangible solutions that address the immediate needs of Indonesian society, including food and income. Advice from scientists appears to be limited in offering realistic options about managing biodiversity to meet short-term needs while encouraging sustainable use over the long-term (Dutton, Djohani, Sastropradja, & Dutton, 2009).

In practice, sustainable development is adopted in forestry by promoting sustainable forest management. This is defined by the FAO as ensuring that “the goods and services derived from the forest meet present-day needs while at the same time securing their continued availability and contribution to long-term development” (FAO, 2008). Awareness of sustainable forest management has been increasing in many countries. Governments develop policies, NGOs create substantial schemes (e.g., forest certification), and scientists provide advice about how to adopt forest management in sustainable ways (e.g., Elkington [1998] with the triple bottom line). Also, many international institutions establish criteria and standards for achieving sustainability of forest resources. These include the International Tropical Timber Organisation (ITTO), the FAO, and the Forest Stewardship Council (FSC).
The current debate among them is about CSR, a concept that incorporates social aspects into corporate management strategies.

In the context of local communities, what local people really need in order to sustain their livelihoods is a fundamental change in resources ownership using a form of partnership that is beneficial for local and state actors (Alhamid et al., 2009). In the early 1990s, the thinking about livelihood development programs shifted from a top-down and narrow sectoral approach that saw the poor as a problem to be solved, to a more holistic approach that viewed them as potential actors in solving local development and environmental problems (Dendi et al., 2009). Community-based resource management, therefore, is an option in making efforts to increase people’s participation in public land management discussions (Wilson, 2005).

Problems can sometimes occur in community forestry. These include the complicated social and political relationship between government and community, social exclusion and uneven application of benefits within communities, and the lack of integration of indigenous culture and traditional beliefs (Chen, Shivakoti, Zhu, & Maddox, 2012).

In the Indonesian context, the government has promoted plantation forests, including small holder tree planting, to increase timber and fibre production (Kallio, Kanninen, & Rohadi, 2011). The area of plantation forest in Indonesia was 3.4 million hectares in 2005, making it the largest in Southeast Asia (FAO, 2006). Yet, wood-based industries still face a shortage of wood (Kallio et al., 2011). Therefore, the Indonesian government created a program, namely Community Plantation Forest or Hutan Tanaman Rakyat (HTR), that is expected to involve about 360,000 rural households (Emilia & Suwito, 2007). Another policy aims to develop community forestry in order to tackle rural poverty (Maryudi & Krott, 2012). These programs are considered two of many programs created by the Indonesian Ministry of Forestry (along with departments responsible for other sectors, e.g., the Ministry of Public Works and the Ministry of Agriculture) to alleviate poverty. In practice, although the programs have not been fully implemented, the percentage of people in poverty has decreased within a period of six years. From 2004 to 2010, the poverty headcount has fallen from 16.7 percent to 13.3 percent (World Bank, 2011).

The forestry programs, however, have attracted criticism. The disadvantages of those programs include a lack of mechanisms such as loaning systems or agro-forestry projects to
support farmers over the long waiting period before receiving income from the trees. In addition, policies have not been supportive enough to help communities access markets by means of fair and reasonable pricing structures for their forestry products (Kallio et al., 2011). In addition, corruption means bureaucrats and government institutions are unable to perform inspection regime effectively (Wibowo & Byron, 1999). Despite pro-community programs to halt deforestation, forest certification has been considered one of the most effective mechanisms for conveying the forest sector’s responsible practices (Vidal & Kozak, 2008). The following section discusses forest certification, including its emergence in global timber businesses and in Indonesia.

3.3 The emergence of forest certification

3.3.1 Global certification as a mechanism to achieve CSR

Forest certification is a third party verification mechanism that certifies socially and environmentally responsible forestry practices, commonly known as sustainable forest management (Vidal & Kozak, 2008). The mechanism has emerged as an experimental system for a new forest governance that goes beyond the state, and it combines legality and market incentives (Takahashi, 2008). Forest certification has been agreed to be identified as one of the most effective mechanisms for addressing the forest sector’s responsible practices (Vidal & Kozak, 2008). These practices concentrate on economic, environmental and social sustainability, which is closely linked to CSR.

Extending this argument, Aras and Crowther (2009) have focused on the development of models of CSR, specifically those concerned with sustainability. They emphasise that most analyses of sustainability are inadequate as they concentrate solely on the environmental and the social whilst financial performance, which is also imperative to the success of sustainability, is often ignored. As a result, most work on corporate sustainability does not recognise the need for understanding the importance of financial performance as an essential part of sustainability. Sustainability focuses on ensuring that the resource utilisation of the present does not affect the future. This creates concepts with which the corporation must engage to become sustainable (such as renewable energy resources, minimising pollution and using new techniques of manufacture and distribution), and thereby accepting the costs.
involved in the present for ensuring sustainability in the future (Aras & Crowther, 2009). Furthermore, they stated that CSR includes four aspects, i.e., environment, society, financial performance and organisational culture) in both the short- and long-term context. To achieve sustainable development it is necessary to first achieve sustainability, which can occur via four actions: conserving the environment (as this is essential for the maintenance of future generations); ensuring social justice (as an attempt to eliminate poverty and ensure human rights); maintaining economic activity (as this is the raison d'etre of the company); and developing spiritual and cultural values (where the corporate and societal values align in the individual) (Aras & Crowther, 2009).

A different perception about certification for achieving sustainability has been expressed, namely that it is essentially concerned with demonstrating conformance to a known set of requirements, commonly described in a standard (Crawford, 2009). In terms of products, certification is often used for a particular item for a specific purpose, such as strength, composition, safety, or some other characteristic. Crawford (2009) regarded certification as being applicable at three different levels:

- first party, where an organisation makes its own claims about a product’s conformance to a standard,
- second party, where an organisation might invite its customers to assess a product’s conformance, and
- third party, where conformance is assessed and confirmed by an independent third party.

Currently, certification is very much market-driven and serves as a tool to promote sustainable forest management (Shahwahid, 2006; Upton & Bass, 1995). Similarly, CSR is also market-driven. Claydon (2011) introduced a model of consumer driven corporate responsibility (CDCR). It demonstrates that, in order to remain profitable, consumer demands for CSR must be met. As a result, the corporation not only remains profitable but: engages in socially and environmentally responsible behaviour; obtains a higher reputation and esteem in the public sphere due to the adoption of CSR; subsequently expands the scope of its customer base which contains more consumers who demand CSR; hence adopts CSR, which attracts more customers making them more profitable (Claydon, 2011).
Both certification and CSR need a process. Figure 3.1 presents national and international requirements for forest certification processes, which need basic policy standards at a national level and several international decisions.

**Figure 3.1: National and international decisions required for forest certification**

<table>
<thead>
<tr>
<th>National level</th>
<th>International level</th>
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<tbody>
<tr>
<td>Basic policy initiatives:</td>
<td>Three factors required:</td>
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<tr>
<td>- Participatory approach of developing national forest policy</td>
<td>- Transfer of resources (such as finance, technical assistance, information sharing, research, &amp; technology) from rich to poor countries.</td>
</tr>
<tr>
<td>- Strategic &amp; enforceable legislation</td>
<td>- International principle settings &amp; standard harmonising</td>
</tr>
<tr>
<td>- Incentive setting for different stakeholders</td>
<td>- International agreement commitment (CITES, UNCBD, UNFCCC, UNCCD, and ITTA).</td>
</tr>
<tr>
<td>- Planning &amp; capacity building improvement</td>
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<tr>
<td></td>
<td>Forest certification</td>
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**3.3.2 Forest certification in the Indonesian context**

International pressure, especially boycotts of Indonesian wood products in Europe and the USA, has forced Indonesia to put forest certification into its national forestry agenda (Cashore et al., 2006; Muhtaman & Prasetyo, 2006). At the same time, there has been a desire within Indonesia to achieve greater market access (Stringer, 2006). In addition, domestic pressure has been high, which increased the demand for government and forest companies to improve forestry practices and policy as well as to promote certification as a tool for change (Muhtaman & Prasetyo, 2006). The benefit of a forest certification scheme for local communities is also apparent in that the scheme, as a market-based mechanism, provides the future option for them to enter markets for certified timber (Molnar, 2003). An added advantage is that the sale price of timber is higher because of product quality guaranteed by the certification (Takahashi, 2008).
Indonesia’s interest in certification was stimulated by several international initiatives. First, it was triggered by an international non-governmental organisation (NGO), namely Rainforest Alliance. After the incorporation of its SmartWood certification program into timber market businesses, this NGO was introduced in Indonesia when it assessed Perum Perhutani’s teak operation on Java in 1990 (Cashore et al., 2006). Second, Indonesia’s interest was stimulated by the International Tropical Timber Organization (ITTO) meetings in the late 1980s and early 1990s when members approved a set of “Guidelines for the Sustainable Management of Natural Tropical Forests”. Third, Indonesian interest was in part a response to the establishment of the Forest Stewardship Council (FSC) in 1993 (Muhtaman & Prasetyo, 2006).

In its early work in Indonesia, SmartWood built up contacts with several local NGOs, seeking information about its feasibility in the Indonesian forestry arena, where poor forestry and significant corruption existed alongside serious conflict between companies and local people (Cashore et al., 2006). Compiling various views about certification, Emil Salim (former Minister for the Environment) led a Certification Working Group within the Indonesian Ecolabel Institute. The institute had the main task of developing a system and standard, and the working group officially became Lembaga Ekolabel Indonesia (LEI), known as an independent certification body (Muhtaman & Prasetyo, 2006). In recognition of its diverse cultural traits and bio-diverse characteristics, Indonesia decided to develop its own certification scheme rather than adopt an existing scheme (Stringer, 2006). The LEI standard derives from international settings, namely FSC’s principles and criteria, ISO’s 14000 series, and the ITTO’s criteria and indicators (Muhtaman & Prasetyo, 2006). ITTO criteria and indicators (ITTO, 2010) are presented at Appendix 4.

The FSC developed the following 10 principles: compliance with laws and FSC principles, tenure and use rights and responsibilities, indigenous rights and responsibilities, indigenous

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3 The International Tropical Timber Organization is an intergovernmental organisation promoting the conservation and sustainable management, use, and trade of tropical forests. Its members represent about 80 percent of the world’s tropical forests and 90 percent of the global tropical timber trade.

4 The Forest Stewardship Council (FSC) aims to improve forest management globally by establishing a consensus on what good forest management means and by developing a certification and accreditation system covering all forest types independent of ownership or geographic location, including natural forests and plantations.

5 ISO 14000 is a series of international standard on environmental management, providing a framework for a system and supporting audit program development.
peoples’ rights, community relations and worker’s rights, benefits from the forest, environmental impact, management plan, monitoring and assessment, and maintenance of high conservation value forests and plantations (The Forest Stewardship Council 2010).

In order to obtain public and international confidence, LEI established a Joint Certification Program (JCP) with other international certification institutes in 2000, aiming to strengthen LEI as a certification body with respect to other forest certification initiatives, including the FSC. The JCP was established to convince foreign interests of the high degree of credibility of Indonesia’s nationally-based system (Muhtaman & Prasetyo, 2006). At the international level, only the FSC has produced standards that are explicitly for certification purposes (Upton & Bass, 1995).

LEI standards have been developed based on the required elements (Muhtaman & Prasetyo, 2006), which are presented at Appendix 5.

The standards developed by LEI were mainly encompassed the following systems (The Indonesian Ecolable Institute, 2009):

- Chain of Custody Certification system
- Plantation Forests Certification system
- Community-based Forest Management system
- Natural Forests Certification system.

In general, the following standards should be met before obtaining LEI’s certified forests accreditation (Muhtaman & Prasetyo, 2006):

- Social aspect: tenure system, economic development of local community, guarantee of social/cultural integrity, guarantee of workers’ rights.
- Environmental aspect: condition of the vegetation, condition of the wildlife, soil and water conservation.
- Production aspect: area status and security, planning and harvesting techniques, silviculture system and rehabilitation, timber management and reporting, organisation and administration.

In the course of its work, LEI has faced a number of constraints and challenges, including the perception that the FSC required an absence of conflict over rights to forest concessions, an
obligation that could rule out certification for nearly all of the country’s forestry concessions (Rowland & Simpoha, 1999). Other challenges include a problematic external environment comprised of inconsistent government policy, poor law enforcement, and corruption. This inconsistency has often caused severe negative impacts on local communities residing in customary forests.

To address these problems, strong efforts have been made by activists (e.g. NGOs and customary law communities’ alliances) to fight the often inconsistent government policy -- such as in the case of the Forestry Act 1999 being contradictory to the Indonesian Basic Constitution 1945. The activists proposed a judicial review in the Constitutional Court. With a number of clarifications and arguments proposed by the activists, the Indonesian Constitutional Court has finally issued a decision No. 35/2012 that has been recognised as a remarkable edict to formally acknowledge the existence of customary forests. In the decision, customary forest shall be distinguished from production forest. Under section 5 of the Forestry Act 1999, customary forest was part of state forest, which triggered a long debate and much controversy. NGOs, the combined customary law communities alliances, and parties concerned about customary forests opposed a particular section mentioned in the Forestry Act 1999. This section was inconsistent with the Indonesian Basic Constitution 1945, section 18B(2). Section 18B(2) specifically declares that: “the state acknowledges and respects communities with their customary law and traditional rights, and in line with community development and the principles of the unity of the Republic of Indonesia, as ruled by the existing laws” (The Government of Indonesia, 2012).

In view of the decision of the Constitutional Court, in future overlapping areas between forest concession holders operating in a state production forest and customary law communities can be avoided. This overlapping area has caused severe conflicts as local communities with their traditional knowledge had been disturbed by the existence of forestry companies in their vicinity. The claims of injustice from local communities had particularly been expressed through continuous demonstrations and protests to the companies. Sadly, the demonstrations had been answered by the state and companies with abusive actions (The Government of Indonesia, 2012).

During its process of evolution, LEI has become an independent accreditation body that certifies certification bodies (Nussbaum & Simula, 2005). As an accreditation body, LEI monitors and controls the implementation of the LEI certification scheme. One of LEI’s
functions is to ensure that a national capacity to conduct certification is put in place (Nussbaum & Simula, 2005). In theory, certification has the potential to address social and environmental concerns about forest operations, and is an important means used by consumers to verify that forest products have been harvested from sustainably managed forest (Cashore, Auld, & Newsom, 2004; Cubbage, Diaz, Yapura, & Dube, 2010). In practice however, evidence of a strong positive relation between the presence of FSC certification and an overall improvement of management practices remains slight (Blackman & Rivera, 2011; Cerutti, Tacconi, Nasi, & Lescuyer, 2011).

In the early 2000s, a decade after the first certification schemes were developed, about 91.8 percent of the 271 million hectares of forests that have been certified were located in Europe and North America. Remarkably, only 13 percent of certified forests were located in developing countries and only 5 percent were found in the tropics. The reasons for this disparity can be identified as: weak market demand for certified products in global markets; wide gaps between existing management standards and certification requirements; weak implementation of national forest legislation, policies and programs in developing countries; and the high direct and indirect costs of obtaining certification in developing countries (Durst, McKenzie, Brown, & Appanah, 2006). While forest certification is a voluntary and economically driven process, it may help to resolve a long and serious debate between foresters and other members of society over the environmental and social consequences of forest management (Vogt, Larson, Gordon, Vogt, & Fenzeres, 2001).

Certification has also altered the balance of power between various groups, including government, local communities, and business (Muhtaman & Prasetyo, 2006). Figure 3.2 illustrates the balance of power between government, local communities, and the private sector leading to the forest certification process in Indonesia. There is a strong need for policy changes in forest management which are implementable, less complicated, and simple in practice in terms of procedures and requirements. This reform can be set up in the process of certification. Communities also need a more transparent and positive relationship, and better communication with both bureaucrats and forestry business societies, so that they can take part in forest management. To encourage the private sector to be more competitive, incentives are expected to be created by governments at all levels. These incentives can stimulate business in the forestry field, and therefore employment opportunities can become available and partnerships with local communities can be developed. Certification is
expected to facilitate change at the policy, practitioner, and field implementation levels, so that the benefits of a forest can be more evenly distributed to communities surrounding that forest.

Recently, the LEI’s certified forests covered 1.1 million hectares of natural forest, 453,000 hectares of plantation forests, and 25,000 hectares of community forests (The Indonesian Ecolable Institute, 2009).

**Figure 3.2: Balancing power between government, local communities, and the private sector for forest certification in Indonesia**


### 3.3.3 Australian experience with forest certification

As a point of comparison for the forest certification process in Indonesia, it is worth reviewing the situation in Australia. Australia has had a turbulent debate over forest management and practices for many decades, which might inform the situation in Indonesia. Australian forestry recognises two distinct systems of forest certification: the Australian Forestry Standard (AFS) and the FSC system. In 2000, a group of experts in forest management set up the AFS which was later managed by Australian Standard Limited, established in 2003. Similar to the Indonesian Ecolabel Institute, Australian Standard Limited is a non-profit institution, and it was accredited by the Standards Accreditation Board.
of Standard Australia as a standard development organisation to supervise the development of the AFS (Crawford, 2009).

The AFS developed nine criteria of forest management: (1) a management system, (2) public participation, (3) protection and maintenance of biological diversity, (4) increasing forest product capacity, (5) encouragement of forest ecosystem health and vitality, (6) protection of soil and water resources, (7) contribution to carbon cycles, (8) improvement of natural, cultural, social, recreational, religious and spiritual values, and (9) enhancement of social and economic benefits.

Until recently, there have been over 10 million hectares of forests certified under the AFS, which is about 88 percent of Australia’s eligible native forests and plantations (The Australian Forestry Standard 2010). Some forest areas, such as those of HPV plantations, a Victorian forest plantation company, have gained forest certification from both the FSC and the AFS (HVP plantations, 2009). Companies are now shifting to the FSC for endorsement because of its international reputation.

Certification provides potential benefits that include both financial and non-financial aspects. The financial benefit it provides are profitable products that result from a high demand for certified wood products. One non-financial aspect is the benefit obtained by forest growers from being able to demonstrate to external stakeholders that forests are being managed in a sustainable way (Crawford, 2009). Furthermore, investors in the forest timber industry are becoming increasingly interested in corporate responsibility, as companies are being evaluated against triple bottom line outcomes. International buyers’ interest in certification has also been a significant driver for forest growers (Crawford, 2009).

Both Australia and Indonesia developed standards that referred to FSC principles. However, in formulating the standards, both countries harmonised with national conditions. Figure 3.3 provides an overview of the similarities and differences between the LEI, the FSC, and the AFS as certification bodies that develop standards and criteria for sustainable practices in forestry.
The similarities of the principles covered in LEI and the FSC are the tenure system criterion and economic development of local communities (the term used by the FSC is slightly different). Although the AFS does not identify these two principles, it includes public participation. The FSC standards seem more general as they cover all types of forests in both developed and developing nations. Both LEI and the AFS recognise soil and water conservation, whereas the FSC does not refer to this principle. The LEI standards are more detailed than those of the other two institutions because Indonesia faces several factors or hindrances to achieve sustainable forest management. The certification scheme was created to fulfil increased interest in sustainable forest management practices. It has been argued that forest certification and ensuring standards represent a new basis of value creation and competition (Stringer, 2006).

Globally, forestry is evolving and with certification processes it is at the stage of reconfiguring national level initiatives in response to an increasingly contested environment (Stringer, 2006). The next section describes challenges in forestry in Indonesia, including
direct impacts of global financial climates; and the decentralisation of forest resources management, including advantages and disadvantages for forestry businesses.

3.4 Changes in the Indonesian forest industry sector

3.4.1 Impacts of global financial fluctuations on the forestry sector

In 1997, Indonesia suffered from the Asian financial crisis. The crisis hit Indonesia significantly; it markedly altered the socio-economic context surrounding forest management, where the crisis was particularly severe. Farmers and new migrants cleared more land, some to compensate for lower real incomes, some simply to obtain land, and others because of new export opportunities. In the wake of the crisis, plantations appeared ready to spread even more quickly in response to weaker local currencies, lower wages, and less restrictive investment climates (Dauvergne, 2001). At that time, international donor organisations encouraged companies in Indonesia to adopt CSR in an attempt to mobilise greater private sector funding for poverty reduction and sustainable development (Rosser, Atje, & Edwin, 2008a).

With international support, the social and political forces promoting reform (reformasi) pushed for democratisation of the nation’s political system and for increased transparency and accountability on the part of political leaders and state institutions. In particular, many of the reforms introduced during reformasi were aimed at curbing the high levels of corruption, collusion, and nepotism that had dominated Indonesia’s political and economic institutions during the Suharto New Order Period (Dauvergne, 2001). At this stage, it was also revealed that Indonesia was facing severe forest degradation. The country was a main source of timber for China until 2000, when the Indonesian government realised that it needed to balance its extensive forest industry with environmental protection and conservation (Stone, 2006).

Forestry firms tend to create temporary economic booms that inevitably seem to bust, creating economic cycles for local communities and national governments, until eventually these firms exhaust the commercial timber supplies and then go bankrupt or move on (Ross, 1996). Considering this situation, in respect to CSR practices organised by forestry
companies, one study suggested that they are determined CSR should be a voluntary activity. Therefore when economic constraints are faced, companies are provided with two options, either cutting back or discontinuing their CSR activities (Harwood, Humby, & Harwood, 2011).

3.4.2 Decentralisation in Indonesia’s forestry sector

Arguments for decentralisation include greater equity in resource access, greater management and economic efficiency in terms of reduced transaction costs, better matching of services to needs, mobilisation of local knowledge, and increased public sector accountability (Poffenberger, 1996). Before Indonesia’s decentralisation policy was implemented in 2001, most of the state revenues (including royalties and taxes) from mining and other natural resource extraction activities (including forestry) accrued to the central government, and provinces were heavily dependent upon transfers from the central government (Resosudarmo, Manning, & Napitupulu, 2009).

The shifting focus from central to provincial and district levels in the management of forest resources is also recognised in the Forestry Law 1999 which specifies that the central government transfer parts of its responsibilities to manage forests to the hands of provincial and district governments. The intention of this transfer of responsibility was to improve forest management effectiveness for provincial and district autonomy development. The detailed implementation of the mechanism is accommodated in the government’s implementing regulation (Ministry of Forestry of the Republic of Indonesia, 1999).

Decentralisation and devolution tend to hold out the promise of new support for community-based resource management. With forest management under local government jurisdiction, many experts in resource management have argued that communities will be able to negotiate collaborative agreements more effectively (Poffenberger, 2006). Decentralisation could also build trust and ultimately forge closer ties between the national government and Indonesia’s villages, the rural backbone of the nation (Bennett, 2002).

However, decentralisation was sometimes not as successful as initially expected. As in other South East Asian nations, Indonesian local government representatives often had limited accountability to constituent committees because many provincial and district officers still
saw their authority as emanating from above rather than from the communities below. In other cases, local government chiefs operated as authorities unto themselves, and the decentralisation of greater control to the province from the central government has only accelerated deforestation (Poffenberger, 2006). Something similar has occurred in Tanzania where a decentralisation system under joint forest management (state owned) and community-based forest management (village lands) is better managed than the ordinary state management, but uncontrolled exploitation of the forest has continued to occur (Mbwambo et al., 2012).

Under decentralisation, districts have extensive responsibilities for forests in their areas that, according to some studies, have caused forests to become even more degraded due to excessive exploitation (Poffenberger, 2006). Natural resources including forests may be capitalised on by local governments (e.g., the province and district tiers of government) for short-term gain rather than being well-managed to sustain profits over the long term (Bennett, 2002). The next section considers the management of natural resources, policies, and benefits for local communities in Indonesia.

### 3.5 Natural resource management in the Indonesian context

#### 3.5.1 Legal basis of natural resource management and livelihoods

To manage natural resources, the Indonesian government has passed a number of items of legislation both pre-independence (before 1945) and subsequent to independence. Indonesia recognises a legal structural hierarchy below the Law, and the practical guidance of a certain law is developed through the issuance of a government regulation. During the colonial era when the Dutch controlled Indonesia, ethical policies were created to demonstrate a concern for Indonesian people’s livelihoods. While the Dutch exploited natural resources of the East Indian colonies they also set up a policy aiming for the improvement of the prosperity and well-being of the indigenous population (Otto & Pompe, 1989). This concern was maintained by the Indonesian government after declaring its independence by formulating its policy to be included in the Basic Constitution 1945 (Otto & Pompe, 1989). The timeline detailing the evolution of legislation on natural resource management is outlined in Figure 3.4.
The policies and legislation on natural resource management were principally established to support local communities’ livelihoods while at the same time allowing the state to improve its revenue by developing the national economy. The foundation of legislation in Indonesia for managing natural resources is clearly stated under Article 33(3) of the Indonesian Basic Constitution (Undang-Undang Dasar 1945 or UUD 45): that land and natural resources are controlled by the government for the welfare of the greatest number of people.

After Indonesia declared its independence in 1945, forest management was first regulated under the Basic Forestry Law 1967 (BFL). This law declares that the state has the authority to control forest resources. It reflected the Government of Indonesia’s emphasis on economic development as it provided the state legal authority to plan and regulate all forest tenure and to use arrangements in its jurisdiction. In addition, at about the same time as the BFL was passed, three other important laws on natural resources exploitation were enacted, namely the Basic Mining Law 1967, the Foreign Investment Law 1967, and the Domestic Investment Law 1968. This era was the beginning of the Government of Indonesia setting up a legal foundation to extract natural resources for state revenue.

In 1999, the new Forestry Law was enacted to replace the BFL 1967. The preamble of the new law declared that forestry is a valuable natural resource for the country and has been a blessing from God given to Indonesia. Therefore, it should be properly managed on a
sustainable basis and controlled by the state for the people’s welfare and for the use of present and future generations (Ministry of Forestry of the Republic of Indonesia, 1999).

In the spirit of this preamble, detailed arrangements were presented in its articles, including the acknowledgement of customary law. For example, the state recognised rights of communities to their customary laws as long as they still existed their existence was legally acknowledged by the state, and the application of customary law did not conflict with the national interest (Article 4(3)). Valuing communities’ rights under this law improves on the previous Forestry Law 1967 that denied customary ownership and rights. As the law was interpreted, the state had full ownership of the country’s forests (Alhamid et al., 2009). Even though the new Forestry Law does not recognise customary ownership, the existence of customary ownership is still acknowledged by the state.

The Forestry Law 1999 emphasises that the state does not own forests, but its responsibility is to manage anything related to forests\(^6\). This includes a duty to manage forest areas and forest products, to establish or change forest areas, and to manage a legal relationship between people and forest or between people and forest area and forest products, as well as oversee legal actions relating to forestry. This law is also characterised by seeking people’s opinion. If the government has an important issue that needs to be decided and that has wide and strategic implications, the government should consult with people through the People’s Representative Assembly. However, recognition of community land does not mean that the communities have possessory rights over forest areas\(^7\).

This matter is particularly addressed as a consequence of management of forests being in the hands of the government (Article 4, Forestry Law 1999). Communities are given responsibilities only to manage forests and forest products on the community land. With this legal basis, a variety of laws on community-based forest management were passed with the intention of providing better livelihoods for communities.

As in the case of forest resources, the issuance of mining legislation primarily aimed for the development of the country and the improvement of its people’s well-being. The first law to administer Foreign Direct Investment (FDI) in mining was created in 1967. This law

\(^6\) General Elucidation of the Law 1999, paragraph 5.
\(^7\) General Elucidation of Forestry Law 1999, paragraph 10.
introduced a novel system to administer FDI in mining, namely, the ‘contract of work’ system (Bhasin & Venkataramany, 2007), which primarily governs the granting of concessions to foreign companies and sets out their mining rights/obligations. The contract of work system initially worked very well for Indonesia because the country was able to jump-start a very weak and largely inactive mineral sector. Thus it has become a major industry that has brought in a large number of well-established and highly competent mining companies (McKay & Bhasin, 2001).

In 2009 the renewal of the mining law was enacted; its preamble states that mineral and coal mining should be managed by the government and should be used for supporting national economic growth as well as enhancing people’s welfare and prosperity. The purpose of the law is also intended for the enhancement of revenues for districts, provinces, and the country. In addition, through this sector the country is able to create jobs (Law of the Republic of Indonesia No. 4 of 2009 concerning Mineral and Coal Mining, 2009). Those expectations can be pursued through community development programs or CSR. In regards to the Limited Liability Company Law 2007 that governs CSR programs, many corporations refuse to abide by the law. Indeed, the regulation itself is not contextual and comprehensive. In addition, the Indonesian government has not made all-inclusive reference to companies and has no competent institutional capacity to implement the law. However, the objection of the corporation is not based on those two drawbacks, but pertains to the regulation per se (Sumarto, 2007).

3.5.2 Concern about communities’ livelihoods

Devising policies that protect people’s livelihoods at the same time as they conserve the environment has been the focus of much study and debate in developing countries for several decades. This issue is highly relevant for Indonesia, where problems of poverty, unemployment, and environmental degradation remain pervasive (Dendi et al., 2009). In 2003, around 16 million Indonesians, or 7.5 percent of the population, were living on less than US$ 1 per day, the poverty line set by the World Bank (Kerstan, Dendi, Heile, Hilalah, & Haryono, 2004). One of several causes of the poverty is that policies do not support and improve rural communities. Rural people have lived in and around forests for hundreds of years, but state policies have often failed to grant communities formal rights to those forests (Larson, Barry, Dahal, & Colfer, 2009).
Even though international law has recognised the rights of indigenous people to participate in decision-making processes, in practice those rights are not exercised. The right to participation was also formulated under the International Labour Organization or ILO Convention No. 169 (1989) concerning Indigenous and Tribal Peoples in Independent Countries (ILO, 1989). This convention required national governments to embrace indigenous people’s participation in the making of decisions that affect them to allow those people to set their own development priorities; and to return to indigenous people land that they traditionally occupied. The Convention was formally issued more than 30 years ago, but no African or Asian countries have adopted it (Kuper, 2003).

The notion of livelihood is grounded in a dynamic and people-centred concept of development. A livelihood is understood as comprising the capabilities, assets, and activities for living. Livelihood is sustainable when it is able to maintain those factors for now and into the future (Carney, 1998; Kleih, Greenhalgh, & Oudwater, 2003).

In adjusting its policies to be more socially responsible, the Indonesian government has produced several pieces of legislation for forest companies relevant to villagers living in the vicinity of their operations; as well as other legislation that reflects the government’s concern about people’s livelihoods. Nevertheless, understanding the laws and decrees governing forest ownership and use is extremely complicated (Wrangham, 2002).

The majority of forest-related laws during the 1970s and 1980s were detrimental to the rights and livelihoods of traditional communities, that are based on customary law, as commercial timber extraction was privileged over local forest use. Government Regulation (Peraturan Pemerintah or PP) 1970 on Forest Exploitation Rights and Forest Product Harvesting Rights, PP 1975 (the revision of PP 1970), and PP 1990 on Industrial Timber Plantations did not provide equal rights to traditional communities compared with private or nationalised companies. PP 1985 on Protection Forest also minimised the role of traditional communities by centralising forest protection functions, which reduced the scope for local involvement or responsibility (Wrangham, 2002).

From the early 1990s onwards, the government started to develop its policies to improve communities’ welfare. The first pro-local community policy was the enactment of the Decree
of the Minister of Forestry in 1991 on *Hak Pengusahaan Hutan - HPH Bina Desa* (Forest Village Development by Forest Concessionaires). The attitude of village people to the laws, in particular the instruction of the Forestry Minister through the Decree on HPH Bina Desa, was relatively positive, however, it has generally proved a failure because it is far too top-down in orientation, ignoring the needs of the people (Borneo Research Buletin, 1999). Detailed discussion on this decree is presented in Sub-Section 3.5.4.

### 3.5.3 Emergence of community forestry in Indonesia

In Indonesian, community-based forest management is one of several initiatives developed by the Ministry of Forestry to improve the well-being of local communities (Safitri, 2009). This initiative was derived from the Dutch program on Java teak introduced in 1973, which enabled people to be involved in forest management. The Dutch program had been developed as a replication of the British colonial reforestation program in Burma, namely the *taungya* system. In Java, the system is named using the local term *tumpang sari*, providing opportunities to people to access teak forests to support their livelihoods through planting agricultural crops in tracks between teak plantations. The introduction of such a program in Java occurred mainly during the large-scale and uncontrolled destruction of massive teak forests; it was considered to be an inexpensive and simple way of protecting the forests from fires and illegal teak loggers (Peluso, 1990).

Community forestry development is derived from community development. There have been many definitions and understandings of community development. One definition is that community development is a process whereby community members take collective action and generate solutions to common problems; further, effective community development results in mutual benefit and shared responsibility among community members (Frank & Smith, 2006). Communities must be given information on the various management options available to them as new laws and regulations are issued. Clear, simple, understandable, and flexible guidelines need to be delivered to field-level forestry staff and community members. These guidelines must reflect the spirit and philosophy behind community forestry initiatives and lay out participatory processes to be followed, without imposing a rigid and uniform model encumbered with onerous bureaucratic steps (Campbell, 2002).
Despite the growing strength of rhetoric and opinion in favour of community rights on the one hand and the “people’s economy” on the other, new policies are still rooted in conventional, centralised management approaches; different actors seek to speak for the people through inter-related aspects (legal, social, economic, and ecological), and the situation is striking because of the discrepancy between rhetoric and practice (Campbell, 2002).

3.5.4 Policies to encourage local community involvement

Community development can be seen from ecological and human rights perspectives which are both necessary for the realisation of a community that is equitable and sustainable (Ife & Tesoriero, 2006). A number of terms have been associated with “community development”, including community, empowerment, development, sustainable, ecological, green, social justice, community-based, holistic, and participatory democracy (Ife & Tesoriero, 2006). Community development, as a vehicle, can be instigated due to a certain activity organised by a group of people to support social and economic growth. For example, in Ghana, many communities are involved in the cacao industry for improving the well-being of local communities (Campfens, 1999). Similarly, my research study focuses on community development in forestry, in which local communities are involved in acacia plantations.

Community has been defined by Mayers and Vermeulen (2002) as a group of farmers, individual local “actors”, or community-level units of social organisations such as product user groups and cooperatives. Another definition of community has been proposed by Ife and Tesoriero (2006) who defined it as a form of social organisation with five related characteristics. These are defined in the following ways:

- **Human scale**, is based on impersonalised and centralised structures, where community involves interactions at a scale that can readily be controlled and used by individuals;
- **Identity and belonging**, has value for the feeling of ‘belonging’, or being accepted and valued within the group. This understanding leads to the use of the term *member of the community*;
- **Obligations**, carries both rights and responsibilities, and requires certain obligations from its members. There is an expectation that people will contribute to “the life of the community” by participating directly in at least some of its activities;
• *Gemeinschaft*, implies a structure and relationship which encourage a community to enable its members to interact with each other in a greater variety of roles; and

• *Culture*, enables the valuing, production, and expression of local or community-based culture, which will have unique characteristics associated with that community.

The characteristics of research locations in this study are closely related to the above definitions, and typified by factors embedded within the society in South Kalimantan province. In the Indonesian government context, in developing its policies to involve people in forest management practices as well as to support the welfare of forest-dependent communities, a number of pieces of legislation have been enacted. The legislation has included government regulations, ministerial decrees, and ministerial regulations. The ministerial decrees issued include: Decree 1991 on forest village development, Decree 1995 on community forestry guidance, Decree 1998 on community forestry, Decree 2001 on community forestry (as a response to the government’s decentralisation policy in 1999), Government Regulation 2002, Ministerial Regulation 2004 on social forestry, Government Regulation 2007 (it was amended by Government Regulation 2008), and Ministerial Regulation 2007 on community forestry (Safitri, 2009). In addition, in 2008 the Minister of Forestry also formally recognised Village Forest by issuing Ministerial Regulation 2008 (Ministry of Forestry Indonesia, 2008b).

With an array of policies, the government attempted to be more community friendly in developing its legislation, which was triggered by its commitment in hosting the World Forestry Congress held in Jakarta in 1978. These various regulations also show the dynamic changes in the Indonesian political situation after President Soeharto stepped down in 1998 following 32 years in power. The development of policies is briefly outlined in Figure 3.5.

Figure 3.5 illustrates the development of legal policies in improving forest-dependent communities’ welfare. The political dynamic has influenced the changing regulations. After the New Order Regime, the relevant legislation often changed as a consequence of successive presidents. In Indonesia, the formal appointment of a new president is commonly followed by a new cabinet, including a new minister of forestry with a different view about strategy and policy on forest community development. The development of pro-forest community

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8 The Congress called upon government participants to take into account people’s involvement in forest management.
legislation at the ministerial level is also strongly influenced by higher (and more powerful) levels of legislation, such as the Forestry Law 1999 and the Decentralisation Law 1999.

**Figure 3.5: Socio-legal characteristics in the development of Indonesian legislation on improving forest-dependent community’s welfare**

<table>
<thead>
<tr>
<th>New Order Era</th>
<th>Reform Era</th>
</tr>
</thead>
</table>

**Political reform/ Economic crisis**
- Decentralisation Law 1999
- New Forestry Law 1999

**Integration of all legislations on community forestry**

Note:
- MD - Ministerial Decree
- GR - Government Regulation
- MR - Ministerial Regulation

Below I describe policies related to local communities who live surrounding forest areas (refer to Figure 3.5). The policies primarily aim to alleviate poverty and improve community well-being.

**The Ministerial Decree 1991 on the Forest Village Development Program**

The Ministerial Decree 1991 is particularly relevant to what is being addressed in this research study. The issuance of this decree was primarily intended to oblige forest concessionaires to be more socially responsible with communities living in and surrounding forest areas, by assisting communities to improve their welfare. The issuance of this decree

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9 Preamble of the Ministerial Decree No. 691/Kpts-II/1991 on Forest Village Development.
was regarded as a remarkable legal arrangement to involve local communities in forest management (Resosudarmo, 2002). A research study revealed that the government wanted to use a simple, easy, and an expeditious way of implementing its policy in its concern for local communities as a response to the World Forestry Congress (Safitri, 2009). Also, it is possible that the state production forests\(^{10}\) had all been distributed to concessionaires for a certain lease period of management, and therefore the government took a shortcut by imposing its policy through forest companies.

Another reason for issuing this policy was the government’s intention to safeguard forest areas from encroachment and to reduce the number of shifting cultivators. The decree shows a lack of regard for local people, since it provides them limited access to forests areas where they had lived for millennia.

There was, however, a compulsory responsibility for forest companies holding concession rights to provide funding for community development under this decree. This requirement is stipulated in an article of the Decree 1991, which implies a spirit similar to the concept of corporate social responsibility mandated under the Limited Liability Company Law 2007. Article 74 of the Law 2007 states that companies operating in Indonesia’s natural resource sectors -- or having activities related to natural resources -- must implement “corporate social and environmental responsibility” activities and allocate funds for these activities. Since local community development in forestry was first introduced in 1991 over 20 years have passed and the government’s concern over community development has not changed, although its implementation has been placed in the hands of companies (Limited Liability Companies Law, 2007).

Another compulsory article of the decree stipulated that the responsibilities of guiding and controlling should be differentiated from supervising. In the 1990s, the responsibility of forest management in the provinces was distributed between two different government agencies, namely the Provincial Forestry Office and Provincial Forestry Service\(^{11}\). The first institution was managed directly from central government and the second was under the

\(^{10}\) According to Forestry Law 1999, Indonesia differentiates forests based on its functions: conservation forests, protection forests and production forests.

\(^{11}\) Prior to the decentralisation period, the Ministry of Forestry had its representative in every province called the Ministry of Forestry Provincial Office. Since 2001, all of the Ministry Provincial offices have been integrated with the Provincial Forest Service since forestry is part of local government authority.
responsibility of provincial governments. In the practice of the Forest Village Development Program, the task of guiding and controlling was handled by the Provincial Forestry Office, while the Forestry Service managed that of supervising. This was slightly confusing and may have created overlapping responsibilities between the two government institutions at the provincial level. In addition, the decree did not provide detailed and clear explanations about what aspects of the differences about the two in terms of tasks, responsibilities, and budgets (The Ministerial Decree, 1991).

In the era of the Minister Djamaludin Suryohadikusumo, 1993–1997, the policy development became more marked, and several important policy initiatives relating to community forestry began to be implemented. The Decree 1991 was expanded into a new program, namely Forest Village Community Development, that obliged concessionaires to be responsible for villages within or near their concession area to mitigate some of the negative effects of their operations. The responsible actions include donation to health centres and soft loans (Wrangham, 2002).

The program has had many shortcomings and failures. For example, inadequate assessment has been made about the communities in planning processes, their rights to have access to land have not been acknowledged, and they have not been granted the rights to harvest timber for commercial purposes; also timber companies do not see any benefit from participating in the program (Kartodihardjo, 1998). As a result, failure to involve forest communities in forest management and to incorporate their rights and needs may encourage illegal logging, and therefore contribute to unsustainable forest management (Wrangham, 2002).

**The Ministerial Decree 1995 on community forestry guidance**

The issuance of this decree was aimed at rehabilitating production forests and protecting forests that were already degraded. It was the first legislation using the term “community forestry” during the New Order Era (Safitri, 2009). The rehabilitation activity was managed by forest communities represented by individuals, forest farmer groups, and cooperatives (Ministry of Forestry Indonesia, 1995). Each individual was permitted to manage an area of only four hectares and was bound into an agreement with a forestry office at a district level.
The activities covered under this decree include planning, planting, managing, protecting, harvesting, processing, and marketing. Such activities were similar to those of forest companies that had expertise, capital, networking ability, and market access. There are several requirements for those who participate in this program, e.g. to be involved in forest management planning, and protect the forest area from illegal loggers, forest fires, and forest encroachers (Ministry of Forestry Indonesia, 1995).

The government introduced this program for forest communities to participate in forest management. At the same time it aimed to rehabilitate degraded forest areas that had been abandoned by concessionaires (in production forests) and to provide for national parks, hunting parks, and other designated forests under a protection forest category. Interestingly, the participants were obliged to plant certain species directed by the government. Trees had to be a multi-function species, which could be categorised as non-timber forest products that could be used to support the communities’ livelihoods. With these complicated requirements, the program, which was initially set up to help communities have a better life, ended up with unsatisfactory results. Furthermore, with the limited knowledge that forest farmers had, the strategies proposed under this program failed (Safitri, 2009).

**Decree 1998 on community forestry**

This regulation provided a new opportunity for communities to be the main actor in forest management through a 35-year community forestry agreement (Safitri, 2009) by which they were able to access both timber and non-timber forest products (Sirait, 2009). Under this decree, the government acts as a facilitator and supervisor for this activity (Ministry of Forestry Indonesia, 1998).

The objectives in issuing this decree were mainly to enhance the people’s welfare, their quality of life, and their economic and social capacity, and at the same time improve forest quality, productivity, and safety (Ministry of Forestry Indonesia, 1998). Under this decree, local communities were able to manage forests through cooperatives (*koperasi*) (Ministry of Forestry Indonesia, 1998), well-known local institutions in most Indonesian villages.

Given this requirement, the decree seems to treat community forestry rights in a similar way as for a small-scale forest concession. Also, it was intended that other common obligations
that applied to large forest concessions, such as conducting large-scale and periodic forestry planning, would be carried out by local communities. It was revealed that communities were not able to fulfil these requirements due to their limitations in knowledge and capacity. Therefore, communities have had very little opportunity to obtain such rights (Safitri, 2009). Although this decree provides guidance to make it implementable, providing opportunities for the maximum use of the cooperatives, as well as providing advisors from universities, NGOs, and forest extension workers (Ministry of Forestry Indonesia, 1998), it was unsuccessful in improving communities’ welfare (Safitri, 2009).

Failure to achieve targets under this decree was also caused by the implementation of contradictory legislation and policies by the Ministry of Forestry, as well as lack of control from the government -- resulting in misunderstandings and confusing interpretations as well as misuse of the regulation. For example, a policy designed for granting small-scale logging concession rights in production forests was misused by some people or organisations to carry out logging operation causing forest destruction in Central Kalimantan (Safitri, 2009).

**Decree 2001 on community forestry**

This decree was enacted as a response to the government’s decentralisation policy in 1999 (Safitri, 2009). Indonesia’s national policy has gone through a massive change from a centralised government to a decentralised government with the downfall of the New Order Regime in 1998. In 1999, two main decentralisation laws were established: the Local Government Law (No. 22/1999) and the Law on Financial Balance between Local and Central Government (No. 25/1999). These laws created new models for revenue sharing, decentralising many functions then held by central government to the regional level, and fundamentally reforming the system of village-level government. Given the lack of clarity in the law about decentralisation in the forestry sector, the village-level-governance reform had the greatest potential to affect local communities (Wrangham, 2002).

However, after the issuance of these laws, the local governments were not adequately prepared for the development and implementation of subsequent laws and regulations at the provincial and district levels. They had little knowledge and inadequate experience of how to manage natural resources. In addition, limited information came from the central government; also its legislation was often inconsistent and overlapped with local regulations.
However, the main Forestry Law 1999 that was developed in reference to Local Government Law 1999 was appropriately addressed to all types of forest and forest areas and their management. It also acknowledged community forestry (EC - UNDP, 2005).

Decentralisation reforms in Indonesia have resulted in forest-dependent communities for the first time having an opportunity to legally trade timber within their customary rights to the forest, for a share in timber rents (Engel & Palmer, 2006). This was covered in the ministry’s five priority programs for the period of 2004 – 2009: mitigation of illegal logging in state forests, forest and land rehabilitation, forest industry revitalisation, increase of forest community welfare, and forest area designation (Information Centre, 2004).

In the period 1999–2004 the above five-priority programs had been focused primarily on combating illegal logging, controlling forest fires, restructuring the forest sector, rehabilitating forests, and conservation and decentralisation. The more recent programs have remained closely in alliance with the previous government’s priority program; however decentralisation has been omitted and been replaced by the target of increasing forest community welfare (Information Centre, 2004).

A month after the implementation of Law 22/1999, the Ministry of Forestry adjusted its community forestry policy by making a ministerial decree: 2001 (No. 31/Kpts-II/2001). The major change in the revised policy consisted of naming local government (notably district and municipality governments) as the single authority capable of granting community forestry licences. In the previous policies, this authority was in the hands of the Minister of Forestry. In addition, the Ministry of Forestry restricted the location where people could exercise their community forest licences. Community forestry was permitted only in protection and production forests, and was prohibited in conservation forests. The Ministry grants the licences only in state forest land that has been allocated for communities. Nonetheless, the Ministry of Forestry has never decided which forests are designated as community forestry zones (Safitri, 2006).

**Government Regulation 2002**

Soon after the issuance of this regulation (No.34/2002), the Ministry of Forestry attracted criticism from academics and NGOs, due to lack of support for the development of
community forestry. This regulation did not specifically refer to “community forestry”, but instead used the term “community empowerment”.

Furthermore, provisions regarding such empowerment had to be administered through ministerial regulation. This article was sufficiently clear for many forestry officials to be convinced that a ministerial regulation dealing with community empowerment was the only means of setting up a stronger legal basis for community forestry. However, subsidiary ministerial regulations mentioned under this regulation have never been enacted, even though efforts have been made. Experts in community forestry kept criticising the regulation. Since the existing regulation did not respect community forestry development there were attempts to revise the regulation. These attempts can be regarded as pro-community. The revised version of the regulation was later enacted under Government Regulation 2007 which was more accommodative of community forestry (Safitri, 2009).

**Ministerial Regulation 2004 on social forestry**

The main intention of the new Ministerial Regulation 2004 was to integrate all community-based forest management legislation under a single umbrella of legislation to create a national program, namely “social forestry”. This idea was fully supported by political determination from President Megawati Soekarnoputri. The 2004 regulation provided an opportunity for forest communities to have access to state forests. This regulation aimed to empower forest communities, particularly the poorest, in state or private forests through enhancing community awareness, capacity, and access to forests. Like previous legislation on community forestry, this regulation did not recognise the rights of ownership to forestland, only rights to use forest resources.

A major problem with the regulation was that it did not state in detail what kind of rights communities had and how secure any rights were. However, one article in the Ministerial Regulation 2004 states that the detailed arrangement of communities’ rights will be set up in a separate ministerial regulation. But the promise had never been realised until the new minister was formally appointed after President Susilo Bambang Yudhoyono came to power (Safitri, 2009).
Disappointed by the social forestry initiative, some officers in the Ministry of Forestry drafted another ministerial regulation on community empowerment. This initiative aimed to strengthen the legal position of Ministerial Decree 31/2001 that had been obscured by the social forestry regulation (Safitri, 2006).

**Government Regulation 2007 on Forest Management Planning**

This regulation was developed as a subsidiary legislation to Forestry Law 1999 and Government Regulation 2002 concerning Forestry Planning. The Government Regulation 2007 specifies local community development rights by providing communities with access to forest resources to improve their livelihoods. The communities are also provided rights to improve their knowledge as part of capacity building facilitated by government at different levels. Community development under this regulation can be organised through three different substantial options that are familiar to local communities, namely (1) community (village) forest or *hutan desa*, (2) community forestry, and (3) partnerships. The first option, *hutan desa*, offers local communities the opportunity to manage forests as a state protection or production forest. Management is further organised through a local institution, which is commonly established informally by community members (the Government of Indonesia, 2007).

As part of this regulation, **community forest** was designed as an effort to improve people’s welfare. The government puts communities in a position similar to those of their partners that hold a concession. However, with the limited knowledge that communities have, it would be difficult for them to manage forests as do forest concessionaires. This was the case even though specific provisions were set up so that, within local communities, governments could facilitate several forms of capacity building -- such as institutional and business development, technological advice, education and training, and market access (the Government of Indonesia, 2007).

The second option (**community forestry**) provides a legal opportunity for local communities to manage conservation forests (except biosphere reserves or *zona inti* national parks), protection forests, and production forests. Unlike *hutan desa*, to manage forests under this program, local communities are able to apply through a “cooperative” with a 35-year lease that can be extended (the Government of Indonesia, 2007).
The third option is a partnership program that is developed between local communities and forest companies in production forests. This kind of program is developed based on an agreement between the companies and local communities. The detailed provisions specify the three different options that would be set up under a separate new ministerial regulation (the Government of Indonesia, 2007). Therefore, communities are obliged to wait for the new regulation to guide them on the implementation.

**Ministerial Regulation 2007 on community forestry**

In reference to the enactment of the new Government Regulation 2007, the Minister approved a legal document regarding community forestry in the same year. This regulation was issued as a subsidiary policy of Government Regulation 2007 detailing the objectives, scope, rights, and responsibilities of communities applying for forest management. Similar to previous decrees, complicated requirements such as planning, paying tax from timber revenue, and reporting were imposed by this decree (Ministry of Forestry Indonesia, 2007).

This regulation provides substantial power to local governments (e.g., governors, heads of districts, or mayors) as applications are directed to these tiers of government. However, the decision for granting a lease is not in the hands of these local government leaders; their role is only in liaising between the applicants and the central government. Upon receiving an application, the local governments form a team to verify the required documents. The team consists of provincial or district forestry officers. If necessary, an NGO as a community’s facilitator can be included in the team.

After the verification process has been completed, if the application is accepted the team issues a recommendation to the head of local government who then passes the application to the Minister of Forestry. Before granting rights to a local community to manage a forest area, the Minister establishes another verification team at the national level to assess what had already been passed at the local level. With these long and tedious administrative processes, the decree offers a little chance for local people to manage forests. The regulation has been regarded as another form of “fake concern” from the government about improving local communities’ livelihoods.
The decree also provides a possibility for locals to manage forests with a special permission to manage community forestry, in either protection forests or production forests. Activities covered in the protection forests include using the area for income production (such as for agricultural activities), environmental services (i.e., essential or desirable resources and processes such as water and carbon sequestration that are associated with what is commonly referred to as “the environment”), and collecting non-timber forest products. In production forests, the government offers local communities the use of forest areas, freedom to plant timber species, use of environmental services, use of non-timber forest products, and freedom to collect timber products and non-wood species (Article 15).

**Ministerial Decree 2008 on Community Forests**

The enactment of this Ministerial Decree was mandated by Government Regulation 2007 concerning hutan desa or community forests (the second option as outlined in the Government Regulation 2007). Community/village forest (hutan desa) under the Ministerial Decree 2008 is specifically defined as a state forest, which is managed by a community living in a village, to be used for the community’s welfare. This decree was issued to provide communities with access to forest resources on a sustainable basis. This access is organised only through a local community institution. Therefore, individual access without possessing formal permission from the local institution is prohibited (Ministry of Forestry Indonesia, 2008a).

Communities merely have rights to manage forests, but do not have ownership rights, may not transfer the management, and may not use the property for bank loan applications (mortgages) or change the status and function of the forest areas. This decree is similar to the Decree 1995 in which local communities were granted rights to manage forest areas. The slight difference between the two decrees is that communities under this decree are able to use forest product services, as well as timber and non-timber forest products; whereas the Decree 1995 prohibits local communities from using timber products, and allows them only to plant and harvest non-timber forest products. The Decree 2008 permits local communities only to use timber in production forests, but each village may harvest up to 50 square metres of timber per year (Ministry of Forestry Indonesia, 2008a).
**Overview of forestry legal reforms**

In general, Indonesian forestry legal reforms have not corresponded with changing forestland tenure regimes. The communities’ rights on forestlands have not been made clear. Even the recent regulations create legal uncertainty for community forestry licences. The Ministry of Forestry did not indicate its strong political will to grant clear property rights to communities. However, property rights are essential for ensuring long-term communities’ rights to state forests. These facts demonstrate that forestry legal reform in the decentralisation period was reactive and artificial, not progressive and substantive. As a result, the policies of community forestry were more difficult to digest because they changed rapidly (Safitri, 2006). The government failed to develop programs that focus attention substantially on supporting local communities’ livelihoods. Therefore, as a result of these flawed programs there has been little reduction in the number of people living in poverty in Indonesia.

All the community-based forest management policies above reveal that expectations from customary or local institutional changes are high. However, it remains unclear whether customary control will lead to sustainable forest management. To manage and maintain forest resources at the same time can be expensive for local farmers who mostly live in poverty (Suyanto, Tomich, & Otsuka, 1998). There is also the risk of losing sight of ‘local customary law’ — that complex of tradition, law, custom, and belief that characterises so many forest communities. Customary law is recognised as an evolving and dynamic process of community decision-making (Wrangham, 2002).

In other words, oversimplifying and over-aggregating may unintentionally create communalist discourses (Wrangham, 2002). This loses sight of the fact that there are different groups within a community who will use different resources within the forest at different times and in different ways and will attribute different social meanings to the forest (Leach, 1999).
3.6 Summary

Production state forests in Indonesia have been distributed to forest concessionaires with leases. As a result, limited space is available for local people to manage state lands. Overlapping land use would occur if the government permitted a certain area to be managed by a private forest firm and local communities simultaneously. In conservation forests there is no permission for local communities to manage those forests. Local people would have only limited access to manage forest areas under the protection forest regimen, as specified in Article 15 of the Decree 2007. There has been criticism that the government-created programs provide little benefit to local people, and have been unsuccessful in reducing deforestation. Therefore, Indonesia has adopted a particular program to alleviate poverty by supporting community–company partnerships, and some regard these partnerships as a type of CSR practice. Table 3.1 presents the current status of community forestry access to the Indonesian forest areas, as indicated by its strengths, weaknesses, opportunities, and threats (SWOT analysis).

Issues identified in this chapter in respect to community–company relationships and government policies intended to improve local communities’ well-being include:

- The Forest Village Development Program as mandated by the Ministerial Decree 1991 identified that the government had introduced a community–company benefit sharing mechanism in its policy, but the program is far too top-down in orientation.

- The Forest Village Development Program is also regarded as partnership building and CSR implementation in the forestry sector. The program was criticised for ignoring the needs of local people.

- The regulations enacted by the government created complexity. This resulted in discouragement of communities from participating in forest management.

- Legislation was enacted by the government to create a short-term reduction of illegal logging (which the government believed to be organised by local communities).

- The issuance of the first regulation on community forestry (Ministerial Decree 1995) was aimed only at rehabilitating degraded production and protection forests. This created difficulties for local communities with limited capacities, expertise, funding, and knowledge.
• All the community-based forest management regulations were enacted because there were high expectations of customary or local institutions. It is yet to be determined whether customary control will lead to sustainable forest management.

• All legislation that aimed to alleviate poverty and encourage local community participation was ineffective because the legislation was too rigid and complex, and therefore it became difficult to implement.
### Table 3.1: Analysis of policies relating to community forestry in Indonesia

<table>
<thead>
<tr>
<th>Issues</th>
<th>Strengths</th>
<th>Weaknesses</th>
<th>Opportunities</th>
<th>Threats</th>
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| **Policies** | The policies provide opportunities for local communities to benefit from forest resources, either from forest managed collaboratively with firms or accessibility of forest areas. | - It seems the government is willing to involve local people in forest management, but cannot fulfil this intention as all areas in state production forest have been distributed to concessionaires.  
- With the complicated requirements for community forestry re managing forest areas, it is evident that the government provides little opportunity.  
- Lengthy procedures and complicated application processes for local people to manage forest areas. | - There is an opportunity for local communities to manage forest areas and this is clearly specified in the legislation.  
- The livelihoods of local people are improved. | - Lack of enforcement and control from the government will ultimately discourage local communities to participate in forest plantation development.  
- Policy implementation mostly does not support the marginal people who live in rural areas surrounding the companies’ operation, but instead only supports private companies, so as to boost the country’s revenue from forest plantation development. |
| **Scale** | Small scale for the effectiveness of the implementation (even though the maximum area is not specified) | - The leases granted for local people are for areas that have not been allocated to concessionaires; these areas are generally difficult to access.  
- Difficulty in finding a piece of land in a specific area available for community forestry. | Although the area is relatively small, if it was effectively managed it could become profitable. | Little interest exists in the community in managing the small forest area because of the difficulty in accessing the area. |
### People’s involvement
- Provide for local people’s involvement in forest management, so that they can benefit and generate income from forest resources.
- Combat illegal logging.
- Reduce the number of shifting cultivators.

- With limited capacity of local people and lengthy procedures to follow, few people are involved in these government programs.
- Lack of control from the government.
- Misuse of local people in the process of application; when the lease is granted, only skilled and experienced individuals will manage the forests without the real involvement of local people.

- Empower local communities in forest management practices.
- Improve local communities’ well-being.

The goal of the policies which is to improve local people’s livelihoods could not be achieved. Thus, local communities remain poor.

### Practices
Forest areas will be better managed with people’s traditional knowledge.

- Lack of monitoring and guidance from the government at all levels; therefore the programs may fail.
- The complex process of application discourages local people from submitting applications

The capacity of the local community will be enhanced.

The forest area planned to be managed by local communities continued unmaintained, likely resulting in forest decertification in the future.
Chapter 4  
Methods and Methodology

4.1 Introduction

My research was prepared to seek answers about the role of CSR in helping forest dependent communities to search for alternative sources of income, through certain programs designed by companies operating in Tanah Laut district. Increased income is expected to be a meaningful way for the communities to enhance their livelihoods. The experiences obtained from the various existing CSR programs were expected to enhance CSR implementation in the long run. At the outset, I described my research design briefly, and then data collecting approaches and techniques. A multiple case study method was employed in this research, considering that three companies were involved and specific research locations were selected in South Kalimantan province. Research questions were then framed to guide interviews and the process of analysis.

During my research study, several data collection approaches were used: in-depth semi-structured interviews, focus groups, a household survey; and gathering information from policy reviews, annual reports, newsletters, statistical data, newspapers, and other forms of publications. This resulted in a complex and rich dataset. To triangulate the data and meet the requirements of the research questions, I employed qualitative techniques. The decision to use quantitative or qualitative methods depends upon the research questions driving the study, prior work, the research design, and the expected contributions to be derived from the research (Edmondson & McManus, 2007). Richards and Morse (2007) stated that a researcher needs to identify which method is most appropriate.

This chapter presents research methods, covering the research design, research approaches data sources, case studies, and data analysis. The ethical protocol, contribution of the research, and future research that need to be undertaken are also included in this chapter. Various data collection approaches are used to gather data from various stakeholders. Further, the multiple case study method section presents justifications, the organisation of case studies and respondent selection process.
4.2 Research design

The overall design of a research project must be aimed at answering key research questions (Richards & Morse, 2007). The research design is directed to avoid creating situations in which the evidence does not address the initial research questions (Yin, 2009); and seeks to provide a framework for the collection and analysis of data (Bryman, 2012). With the limitation embedded in this research in terms of budget and time, data were gathered from the most relevant sources in the field sites. Due to the diversity of interviewees and data collected, my time was hardly sufficient to manage data, so as to identify that which was most relevant to the topic of this study. Therefore sorting out, selecting and grouping the data to be analysed was very challenging. Patience and motivation were particularly needed to organise such detailed work. Finally, I had some problems with accessibility when approaching targeted interviewees, particularly in the interviews with high-ranked government officials at national, provincial and district levels; as well as with senior managers of the companies. In addition, given the hierarchy in an organisation, I could not interview the lower levels of government and company staff without formal approval from the higher levels of management.

The research design and methods selected for a research project should be guided by the need to develop a coherent methodology that presents the project’s objectives and enables the researcher to answer key research questions. Four main elements of research design include type of data, data collection tools and procedure, type of analysis planned, and finding or selection of sites for collecting data (Edmondson & McManus, 2007). This research study employs qualitative methods because they can create understandings from data as the analysis proceeds (Richards & Morse, 2007). Also, qualitative research can cover multiple epistemological positions, theoretical frameworks, and research methods (Hesse-Biber & Leavy, 2004). The qualitative approach allows a rich description of phenomena and enhances understanding of the context of events as well as the events themselves (Bryman, 2008; Sofaer, 1999). Others declared that qualitative methods refer to original data collected through research interviews, surveys, questionnaires, or field research (Sovacool, 2014). Qualitative research also commonly values the maximization of participants’ voices and has ability to describe the complex phenomena (Patton, 2002). Unfortunately, this also means
that participants’ interview experiences necessarily varied in some ways, preventing exact comparisons across participants (Greene & Yu, 2014).

A researcher uses qualitative research when an issue under study needs to be comprehended at a complex and detailed level (Tavallaei & Abu Talib, 2010). Qualitative research also emphasises the conceptual framing of organized actions, events, processes and structures (Llewellyn, 2003). But a study revealed that qualitative approaches have limitations because they have problems with objectivity or reliability, and are too subjective (Hancock, 1998). To overcome the problems of an approach some researchers attempt to combine research paradigms (Bryman, 2008; Sharp, 2010). However, using this method also depends on the objective of the research itself. Not all research activities are appropriate for employing a combination of different approaches (Sharp, 2010).

Within the paradigm of qualitative research, the literature review plays a less significant role in the design of empirical work than it does in the quantitative paradigm (Cresswell, 2008). While qualitative researches are informed by the literature in their respective fields, their focus on open ended inquiry and themes that emerge from the data often includes an intentional de-emphasis of prior theory, so that their participants’ voices can be clearly heard (Greene & Yu, 2014). It was also noted that there is no clear agreement about qualitative research regarding the role and significance of theory (Tavallaei & Abu Talib, 2010). Other theorists point out that qualitative research can progress through a number of stages (Denzin & Lincoln, 2005). All of these features of qualitative research suited my purposes as I initially perceived them. From those opinions, I adopted the project stages with some modification for this research, which are grouped into the five items presented in Figure 4.1.

The five main stages are as follows:

- research preparation (develop research topic and purpose, research design and approaches, theoretical framework, and methodology);
- fieldwork to collect primary and secondary data;
- sorting, grouping, transcribing, and entering data;
- data analysis and refining literature;
- writing up and drafting thesis.
Figure 4.1: Timeline and stages of the research process

Stage one

**July – Dec ’10**
Organise a workshop, select research sites, and manage preliminary fieldwork

**Jan – March ’10**
Develop research topic and purpose, research design and research approaches, and conduct related literature reviews

**Apr – Sep’10**
Develop theoretical framework

**Oct – Dec ’10**
Construct methodology, research questions, and fieldwork guidelines

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Stage two

**Jan – March ’11**
Collect primary data (interviews, focus group discussions, household surveys) and secondary data (policy reviews, media, other publications - company profiles, annual reports, magazine, newsletters, statistical data, and other publications). Develop maps and collect newspaper articles

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Stage three

**Apr ’11- Jan ’12**
Sort out, group, transcribe, and enter field data

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Stage four

**Feb – Apr ’12**
Organise more interviews, focus group discussions, and secondary data

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Stage five

**Apr – Aug ’12**
Data analysis and refining literature

**Sep – Dec ’12**
Drafting

**Jan ’13 - Sept ’14**
Finalising
Identifying and approaching key interviewees were organised during the first stage. This was followed by the development of a research proposal and research design, literature reviews, methodology, and fieldwork preparation. A research design was set up to permit a flexible set of guidelines that would connect the theoretical paradigm to strategies of inquiry as well as to methods for collecting empirical materials (Denzin & Lincoln, 2008). Given the evidence in the local context during the preliminary fieldwork conducted from August to September 2009, I was able to structure further inquiries as formulated in the three main research questions. In addition, the discussion during the workshop organised in the middle of July 2009 provided a backdrop of local conditions, including issues addressed, characteristics of partnerships built, and outcomes expected.

In the second stage, I organised fieldwork activity, which was undertaken in two phases. The first phase involved in-depth semi-structured interviews with an array of individuals, including policy makers at central, provincial, and local government levels (top and medium managers), companies’ staff, and local farmers. The second phase was conducted in stage four.

Interviews with government officers were intended to investigate existing policies on forestry companies’ operations and participation in community forestry development. I conducted interviews and administered a household survey to local farmers to gather information on whether they were part-time or full-time farmers, their income generation, members of the family, monthly expenses, and assets. I also conducted interviews with staff of a local cooperative with whom several partnership agreements had been developed. This cooperative acted on behalf of local communities.

A focus group discussion was also organised at sub-district level with participants from forestry and mining companies, local farmers, and local government officers (sub-district and village levels). This was intended to allow participants to interact directly so that staff members of private companies, and representatives of local communities, involved in CSR activities could make their views heard.

I also collected articles related to CSR published in local newspapers during the period 2005 to 2010 (with the help of Lambung Mangkurat University students); analysis of the articles was organised at this stage to collect information about the most frequently published CSR-
related news relevant to the companies’ activities. Data were also gathered from company profiles, annual reports, magazines, newsletters, statistical data, and other forms of publications. At this stage, I developed maps (with the assistance of Tropenbos’ staff) to illustrate degradation processes in South Kalimantan, as well as sub-districts of Jorong and Takisung as these maps were combined with several interviews with local elders who had been living in the villages for more than five decades.

In the third stage, I sorted the field data, grouped them based on themes, then transcribed the data. I organised coding and generated variables from the data. A code or identifier was attached to each answer (Matthews & Ross, 2010). There were similarities and differences revealed from the answers in terms of opinions from the interviewees. I also developed a graph to present types of livelihoods in Tanah Laut district. Data on livelihood type is important to correlate with local farmers’ interest in building a partnership with forestry companies. I also prepared a graph using the material obtained from articles from newspapers.

The fourth stage also comprised the second phase of fieldwork, and included more in-depth interviews with socio-economists, a sociologist, a local government development planner, a demographer, foresters, environmentalists, NGOs, journalists, and several farmers. The objective of interviewing the professionals was to enrich the data that I had previously collected, and to gather information on aspects that need to be enhanced in terms of community–company relationships. The total number of interviewees involved in the two phases was 80.

Two focus group discussions were also organised. One was conducted in Asri Mulya village and another was undertaken in Ranggang village (see Table 4.2). Also, more articles were collected from local newspapers with the expanded period from 1990 to 2010. Data on people’s future expectations regarding partnership-building with the large forestry company and how to solve problems was obtained.

In the fifth stage, I organised data analysis, refined the literature reviews, drafted all chapters of the thesis, and completed the final draft. Discussion was managed by combining theories presented in Chapters 2 and 3 with research results to answer each key question, discussed along with using recent issues in CSR (detailed in Chapter 6). The final stage of the thesis
(Chapter 7) provides research findings, future possible research, and recommendations as well as contributions to theory, practice, and policy.

4.2.1 Epistemological considerations

This research study employs epistemological theory, which is explained by Blaikie (1993) and Bryman (2008) as focusing on knowledge. Epistemological issues highlight what constitutes appropriate knowledge of the social world (Bryman, 2008). The root definition of epistemology is the theory or science of a method, or can be named as a theory of knowledge; it presents a view of and a justification for what can be regarded as knowledge, what can be known, and what criteria such knowledge must satisfy in order to be called knowledge rather than beliefs (Blaikie, 1993).

4.2.2 Paradigm

I started this research with a paradigm to establish a firm direction of how CSR should be practised in Indonesia. The term paradigm is explained as a cluster of beliefs and dictates that for scientists influences what should be studied, how the research should be conducted, and how results should be delivered (Bryman, 1988). A more general view of paradigm proposes that it is a set of beliefs that are basic in the sense that they must be accepted on faith, and be well argued (Guba & Lincoln, 2004).

A paradigm is a special form of concept, which has gained importance not only in the social and related sciences but also in the philosophy of science, from where its influence on contemporary empirical research stems. Kuhn (1962) popularised the use of the concept “paradigm” in science, explaining that scientific paradigms determine the kind of questions researchers ask, how these questions are to be understood, what data to collect, and how to interpret research results to derive answers to these questions. Using the paradigm of how CSR should be practised in Indonesia and referring to research questions, the interviews were developed and expanded to collect relevant data.

This research employs methodological triangulation, which refers to more than one research method in measuring the same object of interest (Opperman, 2000) -- for example, using both focus group discussions and semi-structured in-depth interviews. Triangulation is considered
a way of overcoming problems of bias and validity (Opperman, 2000). Originally, triangulation was usually defined as:

1. division (of an area) into triangles for surveying purposes;
2. measurement and mapping (of an area) by the use of triangles with a known base length and base angles (Thompson, 1995). In other words, triangulation was first applied in the field of surveying, where use was made of the fact that if one knows three related measures in a triangle (e.g. two angles and a distance) one can calculate the other distances and angles (Opperman, 2000).

‘Social scientists have borrowed the term triangulation ... to help describe how the use of multiple approaches to a research question can enable the researcher to “zero in” on the answers or information sought’ (Singleton, Straits, & Straits, 1993, p. 391).

The data collected consisted of opinions, expressions, and numbers, as well as both primary and secondary data from various sources. Triangulation was therefore possible in this research.

4.2.3 The case study approach

Case studies employ a theoretical framework at the beginning of an investigation. Framing a theoretical background for a case study is necessary to develop research questions, analysis, and interpretation of findings (Yin, 2008). Case study research is similar to ethnography, in that it relates the meaning of certain elements, such as behaviour, language, and the interaction of the members of a selected group (Cresswell, 2007). Further, ethnography is described as a way of writing about and analysing social life stemming from both the sciences and humanities. A powerful rationale for ‘good’ ethnographic work is that it refers to Pragmatist Realist principles of truth, reality, and relevance-to-practice. Research based on these principles investigates the realities of ‘how things work’ in organisations (Watson, 2011), such as in the cases of forestry and mining companies via partnership building or CSR.

The case study method usually seeks what is common and what is particular about the case, but the end product of the research regularly focuses on those facts that are more uncommon. The following elements are embedded in the case study (Stake, 2005):

- The nature of the case, particularly its activity and functioning;
• Its historical background;
• Its physical setting;
• Other contexts, such as economic, political, cultural, and traditional beliefs;
• Other cases through which this case is recognised; and
• The informants through whom the case can be known.

Also, case study method provides understanding by pursuing research questions and it gains credibility by thoroughly triangulating the descriptions and interpretations (Stake, 2005). The choice of case study is based on its suitability for theory testing or combining both theory development and testing (Alexander & Bennett, 2005; Woodside & Wilson, 2004). In the previous chapters, this research presents theoretical frameworks of community development, CSR, and forestry development. In the study location, theory testing was organised along with the research process. A new theory would be expected to result based on a local context in the field site.

The case study method recognises three principles of data collection, which can help to deal with the problems of establishing the construct validity and reliability of the case study evidence (Yin, 2009). The three principles are as follows:

• Use multiple sources of evidence,
• Create a case study database, and
• Maintain a chain of evidence.

The first principle multiple sources of evidence is applied in this research by means of reference to previous sources of evidence, including other bodies of research. The second principle has to do with the way of organising and documenting the data collected for the case study. The required data base can be divided into two categories:

• The data or evidentiary base; and
• The report of the investigator, whether in article-, report-, or book-form.

The third principle, needed in order to increase the validity and reliability of the information in a case study, is by maintaining a chain of evidence. This principle allows an external observer (the reader) to follow the derivation of any evidence from the initial research questions through to the conclusions.
This research study uses multiple case studies. The primary reason for selecting a multiple case study approach is that it represents the critical case in testing theories (Yin, 2009). The evidence obtained from multiple cases is commonly more compelling and robust than that from single case (Herriott & Firestone, 1983; Yin, 2009). As described in previous chapters, theories framed for this research -- which covers government policies and regulations, CSR (corporate citizenship, and legal and ethical dimensions), community development (culture influence in developing the partnership) and the commercial forestry sector (with the creation of partnerships) -- were tested in research locations. The theories might be extended based on strategies developed by local forest companies and by means of relevance to local characteristics.

**Government policies and regulations** were discussed with references obtained from literature reviews. Similar government influences on community development and CSR practices were explored in other countries -- and various types of companies -- to find similarities and differences with Indonesian practices. Theories on the research topics were also investigated to strengthen the discussion. As regards Indonesia, policies and regulations were accessed via printed documents obtained from the files in the Ministry of Forestry in Jakarta, Banjarbaru (provincial level), and Pleihari (district level). The documents were collated particularly according to their relevance to CSR in the forestry field, improving people’s livelihoods, forest degradation data, previous research on government policies, papers, conference proceedings, and magazines. By contrast, for the mining sector related policies and regulations were obtained from face-to-face interviews with the company’s staff both in Jakarta and Jorong. Besides hardcopies, virtual documents were also collated from websites as using this method is quicker, easier, and more efficient than obtaining files from government offices. Recent policies were also obtained from interviews with senior officials at the central and provincial forestry offices. Also, at the district level, there were the minutes of a small meeting led by a senior official of the district forestry office.

The meeting discussed the partnerships being developed between local communities and forestry companies -- as well as constraints, challenges and ways to improve the partnerships. The role of local government was also canvassed, in order to facilitate partnership as a means to improve people’s well-being. Obtaining current government policies regarding CSR in mining from government officials was quite challenging. My experience was that these public servants were less interested in helping with my enquiries than that were the staff
members of the mining company. Therefore, locating documents from web pages was more effective. From the collated data, the trends in policies on community development, CSR, and commercial forestry businesses in Indonesia were revealed; and this information enriched discussion throughout the thesis.

**CSR** discussion has been extensive on the subject of corporate citizenship and its legal and ethical dimensions (Seeger & Hipfel, 2007; Waddock, 2007). A broad discussion including a wide array of opinions and perspectives on CSR was revealed from previous research studies. Different periods showed different focuses of CSR. To shape the discussion, I needed to limit this literature review to focusing on legal and ethical aspects of CSR in terms of theories, understanding, and practices. Several factors also influenced CSR interpretations such as culture, religion, politics, belief, and social characteristics.

The law on CSR as a product of government policies can be seen merely as one set of contingencies that organisations face in determining how to be socially responsible. Companies were expected not only to obey the law, but also to be concerned about ethics and morality in their CSR programs. This requirement was made because ethics and morality were considered to be at the same level of importance as the law (Seeger & Hipfel, 2007). CSR practised with the inclusion of specific social and cultural elements (Whelan, 2007) was also sought to enrich the discussion. In the field location with its diverse ethnicities -- including Banjarese, Javanese, and Bugis -- these two elements have a strong influence in community – company partnership.

**Community development** (CD) focuses on culture, as this factor is important in the discussion on theories and practices of rural communities. The research sites were chosen because they were typical of rural communities in Indonesia. Some studies also discussed this element in CSR-related activities, particularly those of forestry companies via partnerships. In addition, how the partnership was built in order to support forest-based livelihoods was discussed. CSR in the forestry and mining sectors has been implemented to encourage local communities to develop beyond the conditions that existed before these companies came to their villages.

As stated by Campfens (1999), CD was used as a means to increase standards of living; whilst Ife & Tesoriero (2006) argued it was about the promotion of social justice and human
rights. The discussion was then directed towards examining these views. In South Kalimantan, where the field-work for this research was conducted, I examined whether CD could raise the communities’ living conditions -- or was just a means for companies to carry out their CSR programs. If CD was meaningful and helpful in enhancing CSR, what were the strategies used, and how were they incorporated into programs and implementations? The monitoring and evaluation tools designed by the companies to ensure that CSR was practised effectively were also assessed.

**Commercial forestry sector** specifically highlights the community’s participation in the industrial plantation development by means of a contractual partnership agreement. The investigation of this research mainly focused on company–community partnerships and their advantages in reducing conflicts; also as a source of alternative income for local forest farmers, and as used by forestry companies to help local communities to maintain their abandoned land. Theories and practices referred to in previous studies were investigated to support the discussion. This study also addressed forestry plantation development with the involvement of local communities, in order to share the profits gained by forestry companies. Mutual benefits of partnership building between communities and forestry companies were investigated in Jorong and Takisung sub-districts. Constraints and challenges were identified, as well as ways to provide solutions to enhance CSR in the commercial forestry sector in Indonesia.

### 4.2.4 Exploratory, descriptive, and explanatory approaches

This research employs exploratory, descriptive, and explanatory approaches to analyse the research questions to increase its methodological strength. **Exploratory** research is characterised by “what” questions (Yin, 2009), aiming to define the questions or determine the feasibility of the desired research procedures (Yin, 2003). To seek the understanding of CSR held by local communities and forestry corporations, this research uses a “what” approach. Information about understandings of CSR was gathered through in-depth and semi-structured interviews. **Descriptive** case studies involve participants being free to “tell it like it is”, a complete description of a phenomenon (Yin, 2003, 2009). The study reported here describes socio-economic and socio-cultural contexts of the local communities, the past and current situations, including types of livelihoods, dependency on forest resources,
sustainability of income generations, traditional beliefs relating to natural phenomena, and so on.

“How” and “why” questions are more explanatory (Yin, 2009), highlighting cause-effect relationships, and how events happened (Yin, 2003). In the present research, data sought using these questions are concerned with the practices of CSR in forestry corporations in Jorong sub-district and whether they reflect the principles of CSR; whether the adoption of CSR reflects contemporary values; or whether CSR practice is only cosmetic. Furthermore, the enhancement of CSR through rural community development was investigated via in-depth interviews with community members, private companies, NGOs, and selected experts.

4.2.5 Preparation of forest cover maps

This research also drew on data contained in maps indicating the different variable of forest cover in South Kalimantan. The forest cover maps are used to support an analysis of forest changes in the research locations. Forest cover is influential for forest dependent communities who reside in the district of Tanah Laut. The communities, that previously based their livelihoods on forest products, have lost their source of income when the areas have been deforested. Therefore, the introduction and adoption of CSR for companies operating in the villages are meaningful for communities to possibly generate alternative income.

The maps were developed with the assistance of the Tropenbos’ staff who specialised in GIS (Geographic Information System), using ArcGIS software. Special methods were also employed to collect data in order to prepare maps. The data were categorised into primary and secondary data. The primary data were collected from questionnaires, field observation, and interviews with senior villagers (ground truth). Secondary data were sourced from spatial and non-spatial data. The collected data were analysed so that the underlying causes of deforestation and forest degradation could be presented. Figure 4.2 shows methods of identifying the dominant direct cause, and of analysis of underlying causes conducted to develop maps.
The details of spatial and non-spatial data are described as follows:

a. Spatial data
   - Satellite imagery of South Kalimantan Province;
   - Deforestation data in South Kalimantan Province between 1990 and 2010;
   - Data on forest concessionaires, industrial timber plantation and estate crops businesses. These are informative about deforestation in South Kalimantan Province; and
• Data on governmental administration boundaries of Jorong and Takisung sub-districts (the research locations).

b. Non-spatial data
• Primary data collated from interviews with senior members of indigenous local communities\textsuperscript{12};
• Demographic data collected from the Central Bureau of Statistics (the data is used to investigate the population aspect that is influential to deforestation);
• Socio-economic data sourced from the Central Bureau of Statistics (the data is used to investigate of micro-economic development which is correlated with the deforestation rate).

The maps enabled me to investigate the loss of forest areas; they were correlated with information from interviews about the difficulty of forest dependent communities searching for alternative sources of income to support their livelihoods. With the introduction of a partnership, the map analysis below might be meaningful and beneficial for companies to assist the communities in generating income.

\textit{Forest degradation and deforestation analysis}

Forest degradation is a process of decreasing forest quality caused by various factors including logging, forest fires, and natural disasters. Forest degradation in Indonesia has six main causes (Barber, 1998): forests being cleared by a growing numbers of migrants, cultivating subsistence and cash crops; large-scale commercial logging operations carried out under government licence; widespread organised illegal logging; conversion of natural forests to large-scale commercial agriculture and timber plantations; forests being cleared for official transmigration settlements; and the expansion of mining, oil exploration and production, and other forms of industrial development.

With severe forest degradation, forest dependent communities had lost their sources of income from forestry, especially from non-timber forest products for income generation.

\textsuperscript{12} Senior members of indigenous local communities are those who have lived in the villages for generations. They sometimes still practise traditional agricultural systems, such as shifting cultivation. This people provided information about the changes to forest areas within and close to villages.
Therefore, they were forced to seek an alternative source of income to support their livelihoods. If an array of CSR programs was offered by the companies -- particularly various types of skill training as organised by the mining company -- local communities might have been enabled to make a better living. To this end the understanding of CSR by natural resource extracting industries might be broadened to include capacity building.

Community projects of this kind carried out by resource companies could become the basis of specific government policy, to enhance CSR in the forestry sector. Capacity building for rural communities might be meaningful to be covered in CSR practices and later it can be advised to the government to formulate a specific policy in regards to the enhancement of CSR in forestry sector. The analysis was thoroughly conducted by looking at the changes from primary forest cover to secondary forest cover.

**Collecting field data**

Collecting primary field data or ground checking for developing maps was carried out at the locations that had been previously determined. The sampling location was chosen using purposive sampling technique, based on deforested and degraded land by looking at road accessibility. Activities conducted in the sampling location include land cover identification, and coordinate determination using GPS (Geographic Positioning System).

Interviews with local people were also organised to gather additional information on the history of land use at the location. The information on how local communities collect forest products, as well as the processing and use of the products was also collated, particularly that related to the situation before and after deforestation. The collected data from the interviews were cross-checked with spatial data, and these were used to analyse underlying causes of deforestation and degradation of the selected location and its surrounding areas.

**Dominant direct causes and underlying causes of deforestation and degradation**

Underlying causes of forest degradation could be determined by looking at dominant direct causes. The dominant direct causes were collected from deforestation and forest degradation maps and other supporting maps -- such as maps of forest concessions, timber plantation forest, estate crops, and the administration area of the sub-district where the research took place. Furthermore, the analysis of underlying causes of deforestation and forest degradation
for the district included consideration of internal factors, such as bushfires which often occur in the study locations.

**4.3 Research approaches**

Data collection occurred through selected key interviewees by focusing on information on partnership-building in five villages under the district of Tanah Laut. The villages were Asri Mulya, Asam Jaya, Swarangan, Ranggang, and Ujung Batu II. Considering several residents living in these villages have a direct relationship -- and have built partnerships -- with forestry and mining companies, the villages are used as elements in multiple case studies. The multiple case study approach was also used in that five villages (five case studies) and three private companies (three case studies) were involved in the research. The samples were carefully selected using purposeful sampling. Miles & Huberman (1994) defined purposeful sampling as similar to stratified random sampling. To obtain a stratified purposeful sample, the sampling frame is first separated into strata, then a purposeful sample is taken from each strata. Moreover, the specific criteria concerning sample size are not relevant for multiple case studies since the multiple-case studies do not use the type of representative sampling logic used in survey research (Yin, 1994). The companies and villages locations are in the district of Tanah Laut. Brief information about these case studies is presented in Figure 4.3.

The theories framed in this research study were used for guidance. The theories may also be tested and observed in targeted companies at what levels or degrees companies apply them. For example, theory of legal and ethical dimensions may be used to explore whether companies implement an array of legislation in Indonesia related to ethical perspectives.

The theory of corporate citizenship proposed by Waddock (2007) was used as a guide in answering of the question of how corporations change their behaviour in an attempt to be good citizens. Thus, this research study may explore whether their business practices reflect the principles of CSR -- including staff assigned to work on CSR, budget allocation, and annual business plans, as well as business policies and strategies. The theory of community
Figure 4.3: Case studies involved in this research

development will be used as a guide to explore the change dynamic of local communities: causes of changes, impacts of companies’ activities (positive and negative) towards communities, income generation variables (short-, medium-, and long-term), their perspectives on the natural resources business, and other related changes that affect their livelihoods, culture and, behaviour (Campfens, 1999; Ife & Tesoriero, 2006).

Communities living surrounding forest and mining companies were interviewed using their local language and dialect (Javanese and Banjarese) as using this strategy made it easier to approach them, and the interviewees would feel more comfortable about expressing their opinions. Among the key interviewees, three individuals spoke Banjarese.

4.4 Data sources

As an ethnographic approach is concerned with social life, it stresses detailed and accurate description (Babbie, 2007). To obtain data in this research, multiple sources of evidence were employed in the hope that they would lead to the same fact or phenomenon, a form of triangulation (Yin, 2009), e.g., difficulties due to forest degradation and difficulties due to CSR practices. The use of triangulation has some drawbacks, i.e. lack of awareness of the
different and inadequate ontological and epistemological assumptions relating to various theories and methods (Blaikie, 1991). In this research I used the following sources:

- The Indonesian policy reviews on community forestry and CSR produced by the government,
- Media (newspapers),
- Publications produced by the government, companies, and NGOs,
- Interviews,
- Focus group discussions, and
- A household survey.

4.4.1 Policy reviews

Babbie (2007) suggests that political and ethical issues are often closely related. CSR in Indonesia relies on political leadership, which makes the current policy on CSR mandatory; however the future of CSR is uncertain in terms of whether it will be voluntary or remain mandatory (Rosser & Edwin, 2010). CSR is also a matter of ethics, deriving from the views of governments or companies. Reviewing policies both from central government (Jakarta) and local government (South Kalimantan) enriched the data base for this research. Regulations reflect policy developed by governments. In this research the enacted regulations were analysed. They include the following decrees and laws:


b. Policies related to CSR:
   - The Decree of the Minister of Forestry Indonesia 1991 on Forest Village Development,
   - Limited Liability Company Law 40/2007,

These policies were developed as attempts of the central government to improve people’s well-being from natural resources, including forests. Also the support of local government on CSR implementation during the last five years was examined. This support can be viewed
from the policies that affect the operation of companies related to CSR. The dynamic changes of policies on CSR might directly affect companies and local communities.

The policies were obtained both from websites and forestry staff who handled the issuance of policies (Directorate of Social Forestry). At the time of requesting the regulations, I also conducted interviews with the Director and a senior staff member. Therefore, the information about the intention, background, and expectation of the enactment of policies, including constraints and future prospects was also tapped directly from the officers involved.

4.4.2 Media (newspapers)

The media plays a major role in presenting and analysing company activities related to CSR. It can reveal negative sides of CSR, and so data collection from the media was seen as a potential way of identifying the success or failure of CSR. This source of data is available in both hardcopies and virtual form. The vastness of the internet and its growing accessibility make it a valuable source for identifying the success or failure of CSR. This kind of source is available in both hardcopies and virtual form. The vastness of the internet and its growing accessibility make it a valuable source of documents. There are two kinds of virtual documents, i.e., websites and internet postings to message boards and forums (Bryman, 2008).

Media analysis was prepared using articles published in three of the local newspapers of South Kalimantan, i.e., Banjarmasin Post, Barito Post, and Radar Banjarmasin within a period of six years (2005 to 2010 inclusive). The articles that were examined referred mainly to information on the three companies operating in Jorong that were targeted in this study. In order to access the local newspapers, I wrote a formal letter to the directors and followed it up with a phone conversation to the people in charge or the person appointed to be in contact with me. The conversation was mainly about the focus and intention of the research, type of data being collected, timeframe spent to gather the data, and the research assistants assigned to this component of data-gathering (see below). Procurement of the data was also possible from the newspapers’ websites.

The data revealed the trend of dynamic issues on CSR in South Kalimantan, in terms of frequency, topic, conflicts, and other related matters. To obtain this type of data, I employed
nine research assistants recruited from Lambung Mangkurat University, who had been selected for possessing specific characteristics, namely that they were hardworking, patient, productive, consistent, and would be committed to the work. I explained clearly the intention, timeline, and how the data were being collected. Before they performed the given task, I asked them about their willingness and sought and expression of interest in organising this task.

About two months were spent in collecting these data. Before visiting the three newspapers, the students were equipped with a formal letter addressed to the targeted newspaper. The letter contained brief information about the research objectives, the specific aim of media collection, and when the data would be sought. Even though the students took the letter with them on their first visit, sometimes they still had difficulty entering the newspaper office. In these cases, I made a telephone call to the official in charge and explained what the students were going to research. The relevant articles were photographed and after finalising all the data collection the soft copies saved in the camera were printed out. To assist with data analysis, all collected articles were arranged based on the date of publication from the oldest to the most recent.

I also analysed current articles on CSR in a prominent Indonesian media outlet, namely *The Jakarta Post*. One of those was published on 23 June 2011 (see Appendix 7). The analysis was useful to examine the most contentious issue in CSR being discussed in the newspaper in Indonesia.

4.4.3 Company publications

This research uses a number of publications, including company profiles, annual reports, magazines, newsletters, publications, and posters. The reason for collecting these data is to establish reliability by cross-checking with the interviews, in particular when interviewing people from companies. The use of reliable publications is considered a form of triangulation (Yin, 2003). In case of the mining company, the annual reports were readily supplied by the staff in both electronic and printed book formats. A bi-monthly magazine, Bubuhan, was also published by the mining company, presenting detailed accounts of its relationship with local communities. To be more friendly and acceptable to local villagers, the name *Bubuhan* was chosen from the local Banjarese language – it means “friend”. Description of CSR activities
in forestry companies were mostly given in a verbal form that was tapped from the companies’ staff. Information about the companies’ profile was also available from their websites.

4.4.4 Interviews

According to Bryman (2008), semi-structured interviews rely on interview guidelines but it is still possible to ask further questions in response to what are seen as significant replies. This type of interview is most typically used in the collection of qualitative social data when one is interested in people’s experiences, behaviour, and understandings (Matthews & Ross, 2010). The interviews in this research were mainly conducted on the premises of the interviewees, either at their homes or on their farms during the day time when they were working on their land. Conducting interviews in their houses created a friendly environment as the interviewees felt comfortable being interviewed. The interview was even more convenient when it was held in an open space, such as a farm or garden.

The portable recorder was particularly used to record the interviews, as this equipment is considered inexpensive, easy carry, and capable of tapping interviews fully. With this mode of recording, no single word was missing and everything could easily be transcribed for subsequent analysis. To avoid fatigue from interviews and writing activities, after several interviews and prior to the next interviews, transcripts were produced.

In this research, I employed predominantly in-depth semi-structured interviews (1-2 hours) by asking interviewees for information and about their opinion in regard to events. Most villagers did not speak English. Because many respondents were from Java, I communicated with them either in Indonesian or Javanese. For respondents speaking Banjar (the local ethnic group), I spoke Banjarese. Communicating with language that is understandable created a positive relationship with the interviewees. Moreover, using this language I expected the interviewees might have a better understanding of the nature and objectives of this research and be able to provide more concise information.

The interviewees were selected using purposive sampling. Purposeful sampling is similar to stratified random sampling (Miles & Huberman, 1994). This method indicates that it is not representative of the total population (Yegidis & Weinbach, 2009). This sampling technique
is used to represent particular groups, or diversity in the population (Silverman, 2005). To decide a stratified purposeful sample, I divided the sampling into strata, then a purposeful sample was selected from each strata. This sampling scheme enabled a researcher to compare each group of interviewees (Miles & Huberman, 1994 cited in Onwuegbuzie & Leech, 2007). Then, the snowballing method was conducted to interview other key interviewees based on individual respondents often suggesting that certain people can be contacted regarding certain matters. Thus the process of interviewing people was undertaken until eventually redundant information was being obtained (Elmendorf & Luloff, 2001).

The selected farmer interviewees were stratified into village head and forest farmer group leaders; farmers; and cooperative heads and staff. The sampling design for purposive sampling was carried out by deciding on farmers who engaged in a partnership agreement with the forestry companies, including those who bind themselves to the small forestry company under an informal cooperation (not a legal arrangement). The villagers selected for their engagement with the mining company were those affected by the company’s operation as well as those who had a direct relationship with the company, such as the members of the community consultative committee (CCC).

Interviewees from the governments were selected particularly from those who handled and produced policies related to community forestry and CSR. The stratified purposive sampling was organised in the Indonesian Ministry of Forestry (central, provincial, and district levels). Forestry offices at central and district levels were divided into director and senior staff levels. At the provincial level, I interviewed a senior forestry officer, responsible for forestry planning. The purposive sampling for the companies was carried out in:

- central and site offices (the mining and small forestry companies), and
- site office (the large forestry company).

The companies’ staff at the site offices were stratified into senior managers, middle-managers, and field staff. The senior and middle-managers were chosen because these interviewees could provide a wide variety of perceptions, including the companies’ strategy designed for CSR, the types of CSR being practised, and the targeted villages or individuals. The field staff were expected to provide information on problems encountered in the field and how they were reported to the managers as well as on advice given to solve the problems.
All interviews were recorded and transcribed, so it would be easier to select which data were most relevant to this research study. To respect the interviewees, special permission should be requested for the use of audio-recording devices – I sought this permission prior to the interviews. The discussions were conducted in Indonesian, and were then transcribed as originally expressed. Some of the interviews were conducted in local Banjarese language and I translated and transcribed them into Indonesian.

Some attributes of the farmers’ demographic were regarded as possibly influencing their opinions. These attributes were gender, median age, median level of education, median size of farm-land, ethnicity, and median length of stay in the villages. Details about these characteristics of the farmers are presented in Table 4.1.

**Table 4.1: Key attributes of farmer interviewees (N=36)**

<table>
<thead>
<tr>
<th>Attribute</th>
<th>N=36</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male (n=30), female (n=6)</td>
</tr>
<tr>
<td>Median age range</td>
<td>41 to 50 years</td>
</tr>
<tr>
<td>Median level of education</td>
<td>Primary school</td>
</tr>
<tr>
<td>Median size of farm lands</td>
<td>3 to 4 hectares (some local Banjarese have 10 hectares)</td>
</tr>
<tr>
<td>Ethnicity</td>
<td>Banjarese (local ethnic group, n=6), Bugis(^{13}) (South Sulawesi, n=3), Javanese and Sundanese (transmigrant from Java island, n=27).</td>
</tr>
<tr>
<td>Median longevity of stay</td>
<td>30 to 40 years</td>
</tr>
</tbody>
</table>

Farmer interviewees were also categorised into full-time and part-time farmers. For part-time farmers, planting acacia can be a good investment for their children and grandchildren. As these farmers have another source of income to support their families, they mostly expressed positive views. Although a few part-time farmers held negative opinions, the majority of their opinions were positive. Mixed views (i.e., positive and negative views) were also expressed by those who identified themselves as full-time farmers. The typology of farmers can be seen in Table 4.2.

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\(^{13}\) Bugis comprises one of Indonesia’s ethnic groups, which is originally from South Sulawesi. These people are well-known as skilful sailors. The Bugis are also famous for their keen interest in fishing and motivation to cross the ocean either to trade or to catch fish; as well as to travel to most parts of Indonesia and some parts of neighbouring countries, such as Australia and Malaysia (Said, 2004).
Table 4.2: Typology of farmers who were interviewees (N=36)

<table>
<thead>
<tr>
<th>Typology of farmer</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-time farmers (n=18)</td>
<td>People who identify themselves as a farmer, and undertake agricultural activities as the main source of income, including raising cattle, livestock, and planting agricultural and timber tree species for occasional income.</td>
</tr>
<tr>
<td>Part-time farmers (n=18)</td>
<td>People who do not identify themselves as a farmer, yet undertake agricultural activities on their land. These people derive income not only from agricultural activities but also from other sources, including working at a local school as a full-time teacher, in small enterprises (e.g., a small shop in their homes), or as a trader, in government (village head), as employees in state enterprises, and as a labourer in a local company.</td>
</tr>
</tbody>
</table>

Interviewees working in the company, government and local cooperative were acknowledged for their key attributes, including age, gender, time employed, position, time in current position, and longevity of the institution. These interviewees were grouped according to attributes to analyse their responses. For example, median time employed in the organisation would have influenced their perspectives on a particular issue. The key attributes are presented in Table 4.3.

Table 4.3: Attributes of interviewees from companies, government, and local cooperatives

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Companies (n=12)</th>
<th>Government (n=10)</th>
<th>Cooperative (n=3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median age group of interviewees</td>
<td>41 to 50 years</td>
<td>51 to 60 years</td>
<td>41 – 50 years</td>
</tr>
<tr>
<td>Gender</td>
<td>Male (12)</td>
<td>Male (9), female (1)</td>
<td>Male</td>
</tr>
<tr>
<td>Median time employed in organisations (years)</td>
<td>10 years</td>
<td>25 years</td>
<td>4 years</td>
</tr>
<tr>
<td>Position</td>
<td>Executive director (2), division head (7), field staff (3)</td>
<td>Director general (1), director (6), division head (2), other (1)</td>
<td>Head (1), field manager (2)</td>
</tr>
<tr>
<td>Median time in current position (years)</td>
<td>5 years</td>
<td>3 years</td>
<td>3 years</td>
</tr>
<tr>
<td>Median longevity of the company/organization</td>
<td>15 years</td>
<td>n/a</td>
<td>5 years</td>
</tr>
</tbody>
</table>

To obtain updated data (such as the latest status of the forestry companies, their annual reports), and follow issues that emerged in the research sites, some key interviewees -- such as staff of the provincial forestry office, the head of a local cooperative, and several local
forest farmers -- were interviewed more than once. Some of the follow-up interviews were organised to obtain a different perspective of the same topic. For example, a local forest farmer was interviewed twice within a year; his later view was negative, the opposite of the previous conversation. Contrasting information was likely to emerge due to the unclear future of the forestry companies’ businesses. The large forestry company was in the process of bankruptcy, and was going to be managed by a new owner. This situation affected the opinions of those who had developed partnerships with the company.

I conducted two to three interviews per day; therefore it took me 25 days to complete the 67 interviews required. Within one or two days of conducting interviews, I spent one day to transcribe the collected data to prevent the task of transcribing from becoming overwhelming. For an additional 13 interviewees, I spent 10 days for interviewing during the second stage of field work. Sometimes, there were inconsistencies in the interview data, which Matthews and Ross (2010) acknowledge can occur. In such cases, I returned to the interviewees to cross-check the data. For example, the issue of converting acacia plantation into palm oil was explained one way by one respondent but differently by another. One said that converting acacia plantation was illegal without submitting a written request, either informal or formal, from the farmer to the cooperative. According to another farmer, his conversion was legal since he informed the cooperative gave him permission verbally; after which the cooperative submitted the written proposal to the large forestry company to abandon the agreement. In such a situation, I had to come back to talk to people in the cooperative and company for clarification. The weekly schedule of data collection is presented in Figure 4.4.

**Figure 4.4: Example of fieldwork schedule** (in one week)
4.4.5 Focus group discussions

Focus groups can be used for complementing other methods (Bloor, Frankland, Thomas, & Robson, 2001); they focus on a specific issue via group discussion (Bryman, 2008). The objective of the focus group was primarily triangulation -- using focus group data to compare with data on the same topic gathered by other methods (Bloor et al., 2001). It is also important to note that focus groups can provide a forum for research participants to play an active collaborative role in the research process. In this research, I organised three focus group discussions to compare data gathered from the interviews. The aim of the discussion was to collect data on the perspectives on CSR practised by the large and small forestry companies, and the mining company; as well as constraints, opportunities, and how CSR could be enhanced.

According to Bryman (2008), focus groups are less artificial than are many other methods because they are based on group interaction which is a normal part of social life. In this situation, people are able to discuss a particular topic in a friendly environment which is quite normal for them. As a result, there is a greater opportunity to derive understandings that fit with “lived experience”. Further, focus groups may also provide valuable additional information, especially about the reasons, rationalisation, and arguments behind people’s understanding of a topic (Poortinga, Bickerstaff, Langford, Niewohner, & Pidgeon, 2004). The focus group discussion was also considered a low cost method since the information given by the participants (who were previously interviewed) could be tapped at once and cross-checking the answers with other participants was also possible. The discussion lasted about three hours. A number of questions were proposed to the participants, including whether people forest development (MHR – Membangun Hutan Rakyat) could improve people’s livelihoods.

The focus groups were organised at the end of all interviewing to contest or qualify the data that were previously collected. Three focus groups were organised. The participants were recruited based on the face-to-face interviewees who had been vocal about their views on relationship-building between local communities and the companies. The first focus group was organised in Jorong sub-district and it was facilitated by Jorong sub-district officers. It was attended by representatives of the large forestry company, the mining company, local farmers, local cooperatives, and local governments.
The second focus group was assisted by the head of the village of Asri Mulya and the participants were farmers who developed a partnership agreement with the large forestry company. No representative from the company attended this focus group. The third focus group was conducted to collect data on partnership forming between local forest farmers and the small forestry company. This was supported by the forest farmer group leader in Ranggang village, and was attended by local forest farmers. The characteristics of the participants of the three focus groups are presented in Table 4.4.

Table 4.4: Characteristics of participants in the focus group discussions

<table>
<thead>
<tr>
<th>Forum</th>
<th>Participants</th>
<th>Age</th>
<th>Gender</th>
<th>Topics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Focus group 1</strong></td>
<td>10 participants:</td>
<td></td>
<td></td>
<td>- The relationship between local communities and the large forestry and mining companies</td>
</tr>
<tr>
<td>(organised at Jorong sub</td>
<td>- 1 person from sub-district</td>
<td>Mid 40s</td>
<td>Male</td>
<td>- Hindrances to the relationship</td>
</tr>
<tr>
<td>district, on (8 March 2011)</td>
<td>government,</td>
<td>30 - 50</td>
<td>Male</td>
<td>- Future expectation of the companies and communities</td>
</tr>
<tr>
<td></td>
<td>- 4 farmers,</td>
<td>Mid 30s</td>
<td>Male</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- 2 staff from the large forestry</td>
<td>Mid 40s</td>
<td>Male</td>
<td></td>
</tr>
<tr>
<td></td>
<td>company</td>
<td>Early 30s</td>
<td>Male</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- 2 persons from the local</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>cooperative,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- 1 field officer from the</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>mining company</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Focus group 2</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(organised at Asri Mulya</td>
<td>12 participants:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>village, on 23 February</td>
<td>- 1 village head</td>
<td>Mid 40s</td>
<td>Male</td>
<td>- The relationship between local communities and the large forestry</td>
</tr>
<tr>
<td>2012)</td>
<td>- 11 farmers</td>
<td>30 – 60</td>
<td>Male</td>
<td>company</td>
</tr>
<tr>
<td></td>
<td><strong>Focus group 3</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(organised at Ranggang</td>
<td>5 participants:</td>
<td></td>
<td></td>
<td>- Problems encountered</td>
</tr>
<tr>
<td>village on 25 February</td>
<td>- 1 person who was a forest</td>
<td>Mid 40s</td>
<td>Male</td>
<td>- Suggestions to improve the relationship</td>
</tr>
<tr>
<td>2012)</td>
<td>farmer group leader</td>
<td>40 – 50</td>
<td>2 male</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- 4 forest farmers</td>
<td></td>
<td>2 female</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Focus group 3</strong></td>
<td></td>
<td></td>
<td>- The relationship between the small forestry company and local</td>
</tr>
<tr>
<td>(organised at Ranggang</td>
<td></td>
<td></td>
<td></td>
<td>communities</td>
</tr>
<tr>
<td>village on 25 February</td>
<td></td>
<td></td>
<td></td>
<td>- Future expectations of local communities</td>
</tr>
<tr>
<td>2012)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Careful consideration of group composition is important, as suggested by (Bloor et al., 2001), as there should be sufficient diversity to encourage discussion. In the first group, for example, the participants were diverse and included a local government representative, local farmers, companies’ staff, and cooperative representatives. The recruitment of individuals to be invited to the first group was based on their understanding of CSR and opinions about the possible improvement of future relationships. The invitation was sent via hard copy and was signed by the head of the sub-district (camat). This was considered important to ensure that the invitees would attend the focus group.

Even though lack of punctuality was a slight problem at the start, overall the discussion was fruitful and stimulating since all participants expressed their views about the ongoing relationship between local forest farmers and the companies. The discussion was often confronting, with a positive opinion and attitude being shown by the companies’ staff, and negative views expressed by other participants.

The second focus group was organised for about two hours and mostly attended by local farmers. There were no representatives from the companies, and that made the discussion less contentious than in the first group. The participants were, however, able to show their feelings, such as anger and disappointment about the partnership with the large forestry company. The advantage of this group was that, since most participants were from the same village, they expressed their emotion openly because they all knew each other well. However, the disadvantage in this group was that a minority who supported the partnership were silent out of fear of being seen as viewing the relationship differently from other participants.

The third focus group was composed of a small number of individuals consisting of local forest farmers and a forest farmer group leader. Organised in the house of the farmer leader, the discussion was conducted in a relaxing environment. The major opinions were about future expectations of farmers from the partnership with the small forestry company.

4.4.6 Household survey

Surveys allow each individual to self-complete questionnaires (Bryman, 2008). However, in the field location, data collection using this technique needs specific adaptation in terms of
approaching key interviewees if some of the questions could be considered sensitive (e.g. monthly income, sources of income, total assets, total number of family members, and monthly expenses). In this case, a household survey was carefully prepared so as not to insult the prospective respondents. During interviews with farmers, I also conducted a household survey. Together with a research assistant, I recorded the household survey and made a note at once, so that no single word was missing. The collated data were then entered into a table for ease of subsequent analysis. This was carried out immediately after the interview. Two types of data were obtained: socio-economic data, and opinions. Opinions were sought regarding CSR practices and problems, and about expectations related to collaborative partnerships.

These methods of collecting data were undertaken in a friendly environment so that the interviewees would not be suspicious or feel uncomfortable. Also, during the interviews, no other people were present; I followed the advice of Bryman (2008) and discouraged as far as possible the presence and intrusion of others.

The sampling strategy for the household survey was particularly developed to ensure that the interviewees in the sample groups were comparable, and representative of the total villagers who had a relationship with the selected companies. The sampling groups were stratified into male or female, wealthy farmers, less-wealthy farmers, full-time and part-time farmers; as well as farmers who had problems with the companies and farmers who obtained a benefit from the partnership. The snowballing method was applied to search for other key interviewees based on a recommendation by individuals being interviewed. Snowball sampling is commonly used in practice, although less common in the statistical literature, which employs mostly the probabilistic formulations (Handcock & Gile, 2011).

To collect data from 24 households (8 households in each village), I focused on three villages, namely Asri Mulya, Asam Jaya, and Suarangan. Although some respondents lived in other villages, their opinions were regarded as enriching the data being gathered. In Takisung sub-district (Ranggang and Ujung Batu II villages), I interviewed local farmers to seek information about the relationship between forest farmers and the small forestry company.
At Takisung, 25 interviews were conducted with local forest farmers, the heads of forest farmer groups, respected persons (teachers, former heads of villages, and religious leaders), and housewives. At these villages, exploration of the relationship with the small forestry company was sought -- including obstacles, benefits, opportunities, and suggestions to improve the cooperation; as well as how the relationship could improve the livelihood of farmers and the environment, and how a better relationship with the company could be achieved.

**The use of data collection methods**

Data collection methods used were dominated by interviews (40 percent). Household surveys (7 percent) were part of in-depth interviews. These were followed by focus groups (18 percent) and media via local newspapers that report CSR activities organised by the companies (12 percent). The smallest percentages of data collection were comprised of policy reviews and publications (5 percent in each case). In particular, there were very limited publications from the two forestry companies (whether their annual reports, newsletters, internet-based information, or other methods of disseminating information). A pie chart of the percentage of each method used is presented in Figure 4.5.

**Figure 4.5: Percentage of the use of data collection methods**

![Pie chart](image-url)
4.5 Characteristics of case studies in this research

4.5.1 Selection of research location

The selection of research location was determined by the following factors:

- The province is recorded as the most challenging province due its size (the smallest land area compared to the other three provinces in Kalimantan, i.e., East Kalimantan, Central Kalimantan, and West Kalimantan). As of 2006, the forest area in South Kalimantan remained at only about 900,000 hectares, compared to the area in 2001 (987,000 hectares) (South Kalimantan Province, 2009b).
- The province has been identified as the eighth highest in national revenue contribution from non-oil resources (South Kalimantan Province, 2009a).
- Rapid forest degradation has occurred in the province. According to the statistics of the province, the forest area of South Kalimantan has been reduced drastically in the last 20 years.
- Two forest companies and one mining company were involved in this research: a large Singaporean owned forestry company (partnership building with people residing in Asri Mulya and Asam Jaya villages), a small Indonesian owned forestry company (partnership forming with farmers in Ranggang and Ujung Batu II villages), and a Thai owned mining company (associated with Swarangan village) – Figure 4.3. The forestry companies had been practising CSR in cooperation with local forest farmers under a partnership agreement. Moreover, the large forestry company presented its CSR activities in the workshop organised in July 2009.

4.5.2 Selected villages as case study locations

As previously mentioned, five villages located at the sub-districts of Jorong and Takisung were selected. The criteria used to choose these villages were the following:

- The individuals living in these villages had formed a partnership agreement with forestry companies;
- Much abandoned land had the potential to be managed cooperatively with forestry companies;
• The large forestry company had its concession rights and the mining company had its operation near these villages;
• The unique characteristics of villagers (multiple-ethnicities) participating in forestry activities made the study sites interesting;
• The evidence in the field revealed that land-use became competitive between forest plantation, palm oil, rubber plantation, and mining exploration; and
• The availability of markets for both acacia and mahogany would support partnership agreements.

The characteristics of each village are presented in Table 4.5.

<table>
<thead>
<tr>
<th>Sub-district</th>
<th>Case study 1</th>
<th>Case study 2</th>
<th>Case study 3</th>
<th>Case study 4</th>
<th>Case study 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Village</td>
<td>Jorong</td>
<td>Jorong</td>
<td>Jorong</td>
<td>Takisung</td>
<td>Takisung</td>
</tr>
<tr>
<td>Partner companies</td>
<td>The large forestry company</td>
<td>The large forestry company</td>
<td>The mining company</td>
<td>The small forestry company</td>
<td>The small forestry company</td>
</tr>
<tr>
<td>Predominant or sole species of tree</td>
<td>Acacia mangium</td>
<td>Acacia mangium</td>
<td>n/a</td>
<td>Mahogany (Swietenia macrophylla)</td>
<td>Mahogany (Swietenia macrophylla)</td>
</tr>
<tr>
<td>Age of plantation</td>
<td>5-6 years</td>
<td>5-6 years</td>
<td>n/a</td>
<td>8 years</td>
<td>8 years</td>
</tr>
<tr>
<td>Respondents selected</td>
<td>12</td>
<td>8</td>
<td>4</td>
<td>9</td>
<td>9</td>
</tr>
</tbody>
</table>

Respondents selected as presented in Table 4.5 were organised using a snowballing method with the following requirements, i.e. being engaged in a partnership agreement, having problems with the partnership, discontinuing the agreement, being successful partners for the companies, and having positive and negative views of the existing company operations at their villages. The requirements were developed to obtain a diversity of interviewees so that the collected data was also rich and varied. The stipulation was also made that collated data was able to answer the research questions. The samples were selected to provide specific cases of community – company relationships in the sub-districts of Takisung and Jorong.
The samples were also chosen because commonly farmers managed some of their lands by planting them with acacia or mahogany. Not all farmers were interested in planting forest tree species due to time constraints for the harvest (at least 7 years in waiting to obtain cash for acacia and 10 years for mahogany). Therefore, the samples used in this research are considered to reflect a cross-section of the entire population in the sub-districts.

### 4.5.3 Characteristics of private companies

The selection of private companies (i.e., the large forestry company, the small forestry company, and the mining company) to be involved in the research study was primarily based on the following considerations:
- The presenter of the workshop (the large forestry company) agreed to be selected as a research participant;
- The mining company’s officer was a participant in the workshop organised in July 2009 and had shown his willingness to be involved in this research study;
- The willingness of the companies to be visited for fieldwork arrangement following the workshop was clear;
- The companies’ staff members were approachable;
- The mining and forestry business activities in Jorong sub-district are often in conflict, in terms of land use, employment opportunities for local communities, concern over the environment, and income generation competition for national and local governments; and
- Despite the environmental degradation caused by its operation, an analysis of the CSR strategies in the mining company operating close to the large forestry company would significantly strengthen the discussion of CSR.

These companies are the subjects respectively of case studies 6, 7 and 8. The three company profiles are presented in Table 4.6.

**The large forestry company (case study 6)**

The large forestry company possesses an industrial forest plantation concession with an area of around 268,000 hectares. The company started its operation in 1998. From this location, the company extracts wood supplies for its pulp industry and wood chips for both the
Table 4.6: The profiles of the three companies

<table>
<thead>
<tr>
<th>The large forestry company</th>
<th>The small forestry company</th>
<th>Mining company</th>
</tr>
</thead>
<tbody>
<tr>
<td>The large forestry company manages a concession with an area of around 268,000 hectares in production forest, producing wood supplies for its pulp industry and wood chips both for the company’s group and other forest industries.</td>
<td>The small forestry company holds use rights of 700 hectares in South Kalimantan to grow mahogany for its furniture industry. The company does not have a concession and relies on local people’s private land to plant the trees.</td>
<td>The mining company has a contract area of about 11,500 hectares in South Kalimantan.</td>
</tr>
</tbody>
</table>
| The company applies two different programs of community development:  
  - Developing Forests with Communities; and  
  - Managing People Forests (Djatmiko, 2009). | The company entered different partnership agreements with local farmers:  
  - The company provides seedlings, funds operational and maintenance costs, and agrees to profit sharing during harvesting time; and  
  - The company provides fertilisers only and has sole rights to the harvest. Farmers receive profits based on the number of trees planted and volume of timber produced per tree (Moeliono, Trung, Utomo, & Andriani, 2010). | The company recognises community development programs as part of its role as a community participant. Under these programs, the company expects input and feedback from the community which are agreed upon and synthesised into a community action plan (CAP) (PT. Indo Tambang Raya Megah, 2008). |

company’s group and other forest industries. The plantations consist mainly of *Acacia mangium* which is considered a fast growing species suitable for local land characteristics (Djatmiko, 2009).

The company has developed two CSR programs, namely *developing forests with communities* and *managing people forests*. The first program covers a collaborative planting management between the company and groups of communities. The second program focuses on managing non-productive forest owned by communities located near the industrial timber plantation, with a benefit-sharing mechanism in a certain agreed period of time. These projects are carried out under an agreement with local institutions called *koperasi* (cooperatives). In this research I investigated in which aspects the communities obtain benefits from the companies through their CSR programs and what role cooperatives (*koperasi*) play to help people in bargaining with the company.
The small forestry company (case study 7)

This research study also examined CSR practice in a small forestry company, a furniture production company, based in Surabaya, East Java. The furniture being produced was exported overseas. The company established its branch in South Kalimantan province because it developed its own plantation there. There are two reasons for having the branch at the research location. First, it is easy to control and monitor the plantation, and second, the company is able to form a partnership with local farmers by developing effective communication with them.

The raw material for furniture produced by the company, is mostly mahogany, supplied from several places, including South Kalimantan. This province is known to have a great potential for growing mahogany species. The company obtains the species for its products from both self-planting and supplies from local private forest farmers (personal communication with the local forest manager during the preliminary fieldwork conducted in September 2009). The company holds use rights for 700 hectares in South Kalimantan and does not have concession rights.

In South Kalimantan, the company entered into two forms of partnerships with local farmers, i.e.:
1). The company provides seedlings and covers operational and maintenance costs. At harvest time, profits are shared between the company and the farmer, with the agreed share of 60-40 after deducting costs.
2). The company provides only fertilisers and has sole rights to the harvest. All profits to individual farmers are calculated based on the number of trees planted and volume of timber produced per tree.

The mining company (case study 8)

To gather more valuable data and information, and to be able to compare CSR practices in a different sector, fieldwork was also conducted with a mining company operating in South Kalimantan. The company was established in 1991 and has a contract area of about 11,500 hectares. The mining company has its operation in the same sub-district as the large forestry company. Therefore, local communities have been aware of what is understood as CSR, as
its practice has been managed by both companies. Obviously, local communities can also learn from an array of CSR activities that were comparable, and assess which activities benefited them. Critics can be tapped which company introduced ‘CSR’ but has provided negative impacts for local communities.

The thesis would also be enriched by analysis of the differences in the companies’ CSR strategies, approaches, and implementations. In addition, several points of contrast might be presented to strengthen the discussion. An array of data will be obtained from the two companies. These include: characteristics of the interviewees from the companies’ staff, their views and understandings, staff assigned to handle CSR, how to understand communities’ needs, and how to solve CSR-related problems. Several types of data about CSR organised by the forestry and mining companies were sourced from the same interviewees (local communities); therefore, the data was easily comparable after the interviewing process. This data included their understanding of CSR, key problems being encountered, and possible solutions to these problems.

Local communities are also educated by the different CSR approaches of the forestry and mining companies, so that comparison of their views would significantly contribute to the discussion of this thesis. Extractive industries are always an interesting topic, but the analysis of the companies’ operations and their problems with CSR-related activities are complex. Moreover, there has been a land use conflict between the two companies, triggered by a regulation that mandates mining companies can operate legally in a state production forest area, with formal permission from the Minister of Forestry. The issuance of the regulation has created problems in field implementation. The discussion of the conflict has contributed to the development of this thesis, as these overlapping laws affect the implementation of CSR. Approaches to CSR taken by the mining company might have contributed to those of the forestry company; this influence is especially important in analysing the factors that should be encompassed when a company tries to implement CSR.

Lack of understanding of CSR by a certain company may be discerned from this research; and substantial input can be supplied to the government through its policy development, to require companies to be more socially and ethically concerned. The government can substantially use these inputs to establish an influential policy that is suited to local conditions, and the dynamic changes of local communities. The diverse cultures of
communities, that have different ethnicities, is a challenge when CSR is introduced by resource companies. The constantly changing communities are even more challenging when individuals with different characteristics are involved in the CSR programs set up by the companies. Specific approaches and recommendations should result from comparing CSR -- as implemented by both the mining and forestry firms -- to enhance future CSR programs.

The company’s mission has the stated aim to promote the development of society by acting as a good citizen and contributing to economic growth. Its main office in Jakarta employs a staff cohort of 2,500 people working in different subsidiary companies comprising both genders and various races, religions, and nationalities. The company recognises community development programs (known as one of its CSR practices) as part of its role as a social participant. Under these programs, the company expects input from the community that is agreed upon and synthesised into a community action plan (CAP). CSR activities programmed by the company are varied. These include road construction, fresh water treatment, school building construction, scholarships for primary students, and skills training.

4.5.4 Characteristics of local communities

Apart from investigation of CSR programs designed by those companies, local community characteristics may also be identified and examined. These include mixed communities consisting of the Banjar ethnic group (local indigenous people), Javanese people, and other ethnic groups from different parts of Indonesia (such as the Makassar of South Sulawesi and the Sundanese of West Java). Javanese comprise the majority of the local population (i.e., they are mostly migrants from Java). Unique characteristics of different ethnic groups are likely to influence the number of conflicts that could arise (based on the interview with the head of Jorong sub-district, South Kalimantan). Barber (1998) also supports this perception that the transmigration program set up by the government between 1969 and 1993 cultivated competition between local populations and new arrivals for resources surrounding a village site, which increase the likelihood of conflict.

Most local villagers being interviewed were farmers who undertake agricultural activities as their primary source of income. Although some local farmers have other employment from non-agricultural activities, part of their income was still derived from planting trees and crops. These types of farmers can be identified as full-time and part-timer farmers. Full-time
farmers are those who work full-time on their land planting agricultural crops and forest tree species; while part-time farmers have full-time employment in non-agricultural activities, such as working for a mining or palm oil company, or working as a teacher or a village head.

4.6 Data analysis

The primary data collected from interviews, focus groups, and household surveys were audio-recorded and hand-written. The combination of these methods (audio-recording and handwriting) is useful; in particular, the first method is helpful to find the details of the interviews and the second method to seek important points from the interviews. The second method makes it less time consuming to search for any particular information that needs to be cross-checked. The transcriptions were written in Indonesian language, as it was an easier way to record the emotional expression of the interviewees. Having used transcription for direct quotation, categorisation of themes, identification of positive and negative views, and other types of data for the analytical process, I translated them into English. It is also important that all interviews be transcribed, in order that thematic analysis be employed in relation to those interviews (Mitchell, 2008).

The recorded interviews were saved as electronic files. The process of identifying meaningful contents and responses, regarding the key research questions asked in interviews, was carried out after all interview transcripts and the interview record had been completed (Mitchell, 2008). The transcripts of the interviews were analysed using thematic analysis. Thematic analysis is a method for identifying, analysing and reporting patterns (themes) within data. It may help to organise and describe data set in detail. However, frequently if it goes further than this, it can interpret various aspects of the research topic (Braun & Clarke, 2006).

Thematic analysis is seen as a foundational method for qualitative analysis (Braun & Clarke, 2006). One of the benefits of thematic analysis is its flexibility, being a method that is essentially independent of theory and epistemology (Aronson, 1994; Braun & Clarke, 2006; Roulston, 2001). Through its theoretical freedom, it provides a flexible and useful research tool that can potentially provide rich and detailed, yet complex, data. Employing thematic analysis means the researcher should always look at the data during the research process,
because thematic analysis is on-going, a way of working with data that operates from the raw data and remains in touch with it throughout (Matthews & Ross, 2010).

Socio-economic analysis of the villages was also undertaken. This critique is correlated with the partnerships being built with the companies to suggest answers to questions, such as how the partnership can support the livelihoods of local communities, how beneficial acacia plantation is for them, and whether there is any particular species that is most favourable for them. The analysis of socio-economic conditions of local communities was also conducted from the data that were collected during household surveys.

I also employed institutional analysis in this research. As observed by Ostrom (2010), there is a close link between the development of public policy and institutions. Her opinion highlighted that public policy is primarily intended to facilitate the development of institutions that bring out the best in humans (Ostrom, 2010). Institutional analysis is also helpful to better understand the effects and constraints of elements such as the institutional setting (Wibowo, 2012), and the processes involved at the initial stage of developing a company – community partnership. In this context, institutional analysis can be used as an approach whereby impediments and drawbacks within a local institution can be investigated (Wibowo, 2012). Impediments can be explored not only within an institution, but also as they affect inter-institutional or inter-party relations.

The institutional analysis framework is also considered a reliable analytical tool, particularly when one is studying how variations in local institutional arrangements affect natural resource governance (Anderson, 2006). Institutional analysis enables one to investigate problems which individuals or organisations face, and to understand how the application of certain rules can lead to the solving them. In regards to CSR, institutional analysis enables one to focus attention on how a particular CSR program is implemented (in terms of strategies, budget plan and source, target villages and individuals, local institution establishment, etc.). In addition, if the decentralisation process occurring in Indonesia is to be effective, it requires the construction of accountable institutions at all levels of government (Ribot, Agrawal, & Larson, 2006). Institutional analysis also enables one to investigate the effectiveness of CSR in supporting the well-being of forest dependent communities.
Media (newspaper articles) were also analysed according to topics, the number of articles published, and their length. The topics chosen were environmental degradation and conflicts arose that were caused by companies’ operations -- particularly articles that correlated with CSR activities.

4.7 Ethical protocol

Researchers in the social sciences, perhaps to a greater extent than other researchers, have an ethical obligation to their colleagues, their study populations, and the larger society because they explore social lives of other human beings. The inclusion of private social lives, various policies, practices, and even laws may result in interviewees being offended. Therefore, researchers must ensure the rights, privacy, and welfare of the people and communities that form the focus of their studies (Berg, 2009). A fundamental ethical rule of social research is that participation should be voluntary (Babbie, 2007). Among the basic principles of ethical social scientific research is the notion of doing no harm, which is intended to avoid physical and emotional (psychological) harm (Berg, 2009).

In this research I prioritised the protection of the participants’ rights during data collection. Therefore, I did not, and will not disclose the participants’ personal details to any individual and/or institution or to other parties (apart from my academic supervisors and sponsoring institution), in any circumstances. Furthermore, Babbie (2007) advised that the seriousness of ethical concerns is evident in codes of ethics. These codes deal with issues of voluntary participation and not harming subjects. In this research, local traditions, beliefs, and any form of local culture should be taken into consideration. For example, I did not conduct interviews late on Friday mornings since Muslims should go to their mosques at that time.

I also endeavoured to establish rapport with the local people so they felt comfortable to freely express their opinions, without any pressure or fear that their views would be revealed to other parties. I applied the National Statement on Ethical Conduct in Research Involving Humans when seeking approval to undertake my fieldwork, in accordance with the Charles Sturt University guidelines for ethical research. My application was submitted on 11 November 2010 and received approval on 17 January 2011 (Ethics protocol number 2011/002).
4.8 Summary

This chapter began by describing how this research study was constructed. A framework of research methodology and stages of organising the research activities was also presented. The reasons for choosing multiple case studies were also discussed in this section. With different methods being used in this research, triangulation was adopted to minimise problems of validity and bias.

That section was followed by descriptions of my research approaches, data collection sources, and research sites. The number of respondents, their attributes, and techniques used for collecting data were also presented. The reasons for selecting a case study approach were discussed, as were those for choosing the companies and villages that were used in the multiple case studies. The means used to analyse the data was detailed; this included describing the importance of the adoption of thematic and media analysis.

The contents of this chapter focus on the best approaches – including advantages and disadvantages – to be applied for tapping data from various respondents. The next chapter contains the results derived from two fieldworks, newspaper articles, company publications, policy reviews and maps, organised from January to March 2011 (the first stage) and from February to April 2012 (the second stage). The themes that were revealed, the problems that emerged, and the desires from both companies and local people to improve better relationship are presented.
Chapter 5
Results and analysis

5.1 Introduction

This chapter provides an overview of research locations, demographical data, sources of income for the communities, and deforestation. This is followed by the results and analysis from my fieldwork for this research. The results present a synthesis of thematic analyses of reflecting many aspects or issues that contribute to the understanding of CSR by two forestry companies (large and small national companies), and a multinational mining company. I refer to these case studies as those of a large forestry company, a small forestry company, and a mining company to preserve the subjects’ anonymity.

The results presented in this chapter cover:
- company operations (forestry and mining);
- stakeholder perspective on this operation;
- stakeholders’ views on whether the operation reflects CSR; and
- stakeholder perspective on how company operations can be enhanced to better reflect contemporary standard of CSR.

CSR understandings from different stakeholders in forestry and mining operations in South Kalimantan were tapped from interviewees who voluntarily participated in the research study. Each individual expressed personal opinions (positive and negative). How socio-cultural and socio-economic factors influenced CSR practices in forestry and mining companies was also investigated, as residents in the research locations originated from various ethnic backgrounds. Public perceptions were also explored through media analysis by examining three newspapers published in South Kalimantan.

Data to support the analysis presented in this chapter were mainly derived from primary sources, i.e., semi-structure interviews, focus group discussions, and household surveys. The secondary data sources used were policy reviews, media, and publications.
5.2 Research locations

South Kalimantan is rich in natural resources. Even though the province is the smallest in land area compared with the other three provinces in Kalimantan (i.e., West Kalimantan, Central Kalimantan, and East Kalimantan), South Kalimantan has ranked as the eighth highest in national revenue contribution from non-oil resources (South Kalimantan Province, 2009) – see Figure 5.1. However, this abundance of resources has had negative outcomes for the environment in the province. Many mining companies have a promising business in the area.

**Tanah Laut district**

Jorong and Takisung sub-districts are geographically situated in the south eastern part of South Kalimantan province. According to data published by the local government in 2011, the total area of abandoned dry lands or critical lands in the Tanah Laut district was estimated at 70,000 hectares out of its total land area of 363,000 hectares (Bureau of Statistics Centre, 2011) – see Figure 5.2. This unmaintained land is potentially available for growing acacia or mahogany under a partnership agreement scheme.

The total population in Tanah Laut was around 300,000 in 2011, with the district’s population growth estimated at 5 percent. The livelihoods of people in Tanah Laut were mostly based on the agriculture and forestry industry sectors. Agricultural sector has played an important role in improving people’s well-being and it was noted that the district revenue was mainly sourced from this sector (around 32 percent). Whereas forestry sector with the total permanent production forest around 71,000 hectares, the estimated log timber production was approximately 13,000 cubic meter (Bureau of Statistics Centre, 2011).

**Jorong sub-district**

Figure 5.3 presents the locations of Jorong and Takisung sub-districts and shows that both are located beside the Java Sea. Jorong is the primary location of this research study. Many mining operations have occurred in this area, which have had a direct impact on its forest cover. In reference to the district statistics, among sub-districts in Tanah Laut, the biggest
Figure 5.1: South Kalimantan and its surroundings
Figure 5.2: Tanah Laut district
number of mining companies is located in Jorong. These companies have contributed to the drastic decline of land cover in a major way.

Forest and land areas in Jorong are managed for a number of purposes including fish nurseries, housing, mining, forestry, and agricultural activities. It was reported the timber plantation in the sub-district was estimated only 3,600 hectares and increased dramatically to about 17,000 hectares within five years. During the period of 1995 – 2010, the annually recorded land area under timber plantation gradually increased: from about 17,000 hectares (1995), to 21,000 hectares (2000), but it had a stagnated in 2005 to a similar area as that recorded in 2000. The 2010 figure shows 22,000 hectares of timber plantation - as presented at Figure 5.4. As a result, forestry businesses have played an important role in economic development in Jorong, allowing people to work within this sector.

Massive deforestation occurred in this sub-district between the period of 1990–1995, which affected a total area of more than 20,000 hectares; it decreased sharply between 1995-2000
Figure 5.4: Total area of timber plantation of Jorong (hectares)

Source: Tropenbos Indonesia (2011)

(to 11,000 hectares) and between 2000-2005 (to 1,400 hectares). During the period between 2005-2010 it was reported the deforestation was estimated 48 hectares - see Figure 5.5. The decrease was primarily caused by limited areas of forests remaining for logging.

Individuals residing in three villages, i.e. Suarangan, Asri Mulya, and Asam Jaya, were selected as the target for interviews. Most interviewees are transmigrants from Java who moved to these villages in the 1970s. The interviewees in Jorong include farmers who have developed a partnership with forestry and mining companies, government officers at sub-district and village levels, the head of local cooperative and its staff, and the companies’ manager and staff.

The three villages have a different size land areas. The smallest sizes are Asri Mulya and Asam Jaya, which each cover a similar area of 9 square kilometres, while Suarangan covers 175 square kilometres. Most residents in these villages are farmers who undertake agriculture activities as their primary source of income. The soil type of Jorong is mainly latosol, alluvial (near the coast) and yellow podsolon complex. Two rivers flow through the location, namely the Suarangan and Sabuhur. These rivers have played a significant role in
supporting people’s livelihoods in a region where many rely on the agriculture and forestry sectors, as seen in Figure 5.3.

In 2007, the mining sector was reported as occupying the highest rank in economic contribution (18 percent) to the district of Tanah Laut. This was followed by the construction sector which accounted for 15 percent. The sectors with lower contribution percentages in local economic development were: agriculture; manufacturing industry; electricity and drinking water; trade, hotels, and restaurants; transportation and communication; and local financial institutions, and services (District Development Planning Agency & District Statistic Centre, 2005 - 2007). The cooperatives that exist in most villages in Indonesia, were also available in this sub-district. According to the study conducted in 2005, the number of cooperatives in Jorong was 12 (District Development Planning Agency & District Statistic Centre, 2005 - 2007). The local cooperative is able to support local economic development. Local cooperatives also played a crucial role in developing the relationship between local villagers and companies, in terms of developing a contractual partnership agreement. The company built an agreement with a local cooperative, not with individual farmers (see Appendix 2). Therefore, farmers could only join the community forest project via a local cooperative.
According to the District Statistics 2011, the total population in Jorong was around 30,000, spreading over a total area of 628 squares kilometre, which contains 11 villages (Bureau of Statistics Centre, 2011). Four of the villages (Jorong, Asri Mulya, Asam Jaya, and Suarangan) were selected as research sites. They were inhabited by forest farmers who had a connection with a forestry company.

**Takisung sub-district**

Populated by around 28,000 residents, Takisung has a total area of 343,000 square kilometres, consisting of 12 villages. There are three types of soil in Takisung: alluvial, latosol, and gleisol. These soils are fertile and productive, and suitable for planting crops. As a result, most residents in Takisung work in the agriculture sector, with the next largest group employed in trade, hotels, and restaurants (the service sector) (Investment Coordinating Agency, 2012).

Takisung sub-district is not much different from that of Jorong, being a rural area with agriculture activities as its people’s main occupation. Like Jorong, Takisung is dominated by Javanese transmigrant inhabitants who moved to Takisung in the 1960s and 1970s. However, local indigenous communities (Banjarese) still live in groups in the villages in this sub-district.

Apart from agricultural tree species, such as coconut, cassava, jack-fruit and rice, these villages are surrounded by many areas planted with rubber and forest tree species. The change of forest cover was very distinctive from 1990–2010. A forest farmer stated that the drastic reduction of forest cover was primarily caused by massive palm oil plantation in the areas of Takisung.

The severe reductions in forest cover occurred between 1990 and 2010, when extensive palm oil plantings occurred in the area. FAO also recorded that the area of tropical forests declined in many parts of the world, including in Asia (Business Standard, 2014). Deforestation recorded in the period between 1990 and 1995 was around 5,000 hectares, but decreased drastically in 1995 - 2000 to about 1,000 hectares, and again to only 94 hectares between 2000 – 2005, then continued to drop to 21 hectares in 2005-2010. Figure 5.6 shows the severe
deforestation in Takisung between 1990 and 2010, which forced people to find an alternative to forestry work in other sectors.

**Figure 5.6: Total area of deforestation in Takisung** (hectares)

![Bar chart showing deforestation in Takisung between 1990 and 2010](image)

Source: Tropenbos Indonesia 2011

Figure 5.7 consists of three maps, i.e. Maps 1, 2 and 3. Map 1 presents forest and non-forest cover in Jorong and Takisung sub-districts in 1990. In that year, forest cover in the sub-districts was only about 20 percent of total land area, while in 2010, there was no forest cover found in Takisung, and the remaining forest in Jorong was found in the main-land, that was around 0.10 percent of the total land area (as presented in Map 2). Map 2 presents deforestation in Jorong and Takisung between 1990 and 2010. As shown in the map, deforestation mostly occurred along the rivers. Rivers are commonly used for transportation, including transporting timber. People also had easy access to fell timber in the forests near the rivers, and could use the rivers to transport logs to the market. Therefore, forests that had existed in their vicinity were almost extinct.

With the extinction of forests, local communities attempted to find an alternative income from the companies operating in natural resource extraction near their villages. Therefore, the villagers formed a cooperative to enable them to develop a relationship with the companies (there was little possibility for an individual villager to liaise with these companies).
Figure 5.7: Forest and non-forest cover in 1990 and 2010, and deforestation in Jorong and Takisung between 1990 and 2010

Map 1: Forest and non-forest cover in Jorong and Takisung in 1990

Map 2: Forest and non-forest cover in Jorong and Takisung in 2010

Map 3: Deforestation in Jorong and Takisung between 1990-2010

Legend
- Road
- River
- Deforestation
- Forest
- Non Forest
- Tanah Laut District
The cooperative is a common micro institution in many villages. In Takisung there were eight cooperatives, which is fewer than in Jorong. The cooperative was believed to be able to assist local villagers by supporting their economic development. For example, a cooperative can lend money to an individual who needs to finance a venture with unpredictable costs. A cooperative can also provide financial support to establish a small business, including household businesses. Household businesses include small grocery shops within homes, a catering business, and compost production.

In contrast with Jorong, the agriculture sector in Takisung played the biggest role in economic contribution to the district of Tanah Laut in 2006. About 50 percent of economic development has been sourced from this sector (District Development Planning Agency & District Statistic Centre, 2005 - 2007). Land became a valuable asset for local communities. In comparison to Jorong where acacia plantation was mainly overseen by a forestry company, most local farmers in Takisung planted mahogany because of their own interests (refer to Chapter 4). Two villages, i.e., Ranggang and Ujung Batu II, where local farmers have been developing a partnership with the small forestry company, have been selected as research locations. The village setting in this sub-district is not much different from that of Jorong.

Much of the land in Takisung was dominated by palm oil plantations, but some local people still believed that planting forest timber species would provide more benefits and better future income than palm oil. Moreover, planting forest trees is preferable as they can create shade and a generally better environment. Despite palm oil domination, forest tree species were still found in many areas in these two districts. Rubber trees were, however, the most popular trees among local villagers, because they can provide a readily available and regular cash income for the owners. In a personal communication (2 February 2011), a local individual said that within six years of planting, one hectare of rubber trees can consistently produce 300 kilograms of latex per month (the price of latex at the time of the interview was Rp. 18.000 per kilogram, equivalent to US$ 1.90.

5.3 Results: Companies, communities, government and the media

This section explains forestry company operations with the inclusion of various understandings of CSR from different stakeholders, i.e., local communities, the two forestry
companies, government staff, and other stakeholders. The interaction of different but interrelated stakeholders was developed through partnership collaboration on a series of activities, for example planting acacia and growing mahogany. Characteristics of the relationship are substantially distinctive to each company. As became apparent from the interviews, each firm interpreted CSR in a different way.

Figure 5.8 presents an overview of CSR practices in forestry and mining in Tanah Laut district, that was derived from my field data 2009-2012. The CSR concept is described in two dimensions, i.e. business context and livelihoods context. In the business context, CSR was practised by the companies by integrating CSR into their policies and plans. The policies and plans were developed based on the companies’ capacity to achieve their goals.

According to the companies’ goals and capacity to practise CSR, they operate their business by developing a relationship with local communities. Local communities’ response to developing this relationship was positive because they sought an alternative income to support their livelihoods. While the relationship was being built, positive and negative perceptions on the practices of CSR emerged from both the companies and the communities.

However, the company – community relationship could still be improved by means of a consensus derived from focus group discussions, that would require some changes from both the companies and the communities. This improvement was identified as increased effectiveness of CSR via relationship building.

5.3.1 Forestry operation

In-depth semi-structured interviews were organised with the large forestry company manager during field works and detailed information was tapped regarding the company’s operation. Further, he described how forestry firms in South Kalimantan, including the large forestry company, have reduced their concession areas in terms of size because of many problems they encountered. Indeed, many have collapsed. The problems included the conversion of forest areas to mining and palm oil plantations. Business in the mining and agriculture sectors has been promising for profit making, and involves less risk compared to the forestry sector business -- in particular developing timber plantation on private lands is very risky due
Figure 5.8: Overview of CSR practices in forestry and mining in Tanah Laut district (derived from researchers’ field data 2009-2012)

- **Business context**
  - CSR concept
  - Company’s goals & capacity
    - Policies and plans
  - Local community’s goals & capacity
    - Supporting livelihoods

- **Livelihood context**
  - Operations & relationships
    - Company perceptions: positive, negative
    - Community perceptions: positive, negative
  - Effectiveness of CSR
to a lack of commitment from the landowners. For example, in waiting until one rotation has ended (usually about seven years), local forest farmers can become impatient and cut down the growing trees.

Local villagers have been involved in the forestry business since the companies have had an operation in the villages. The forestry firm started its partnership operation in 1996 via the company’s community involvement programs, namely developing forests with communities (mengelola hutan bersama masyarakat or MHBM) and managing people’s forest (mengelola hutan rakyat or MHR). The first program covers a collaborative planting arrangement between the company and groups of communities. The second program was intended to manage non-productive land owned by communities for acacia plantation. The land was geographically located near the industrial timber plantation program organised by the company.

Interaction between both community and companies has been framed for this research through the second program (MHR), which the company regarded as CSR. However, one villager had a different view of CSR:

> CSR is about how to improve our lives, continuous income generation with the support of companies operating in our village. Guidance and monitoring are significantly needed for a better implementation of CSR

An interviewee residing in one village might have a different opinion from that of another local villager. An individual living in another village declared:

> We don’t need any form of grants (such as seedlings and cattle), then after that is finished, no more interaction with companies. Post-granting, it is eventually necessary to always have continuous communication and information about what the companies have granted for local communities

Forest companies and local people valued the partnership as both can produce benefits. However, in the interviews with villagers it emerged that constraints and challenges have been faced by both parties. Overall, referring to Figure 5.9, the specific issues were identified in the forestry business sector.
On forestry operations, those who delivered positive opinions had different backgrounds, in terms of wealth, gender, age, social status, employment, and personal priorities. For example, with regard to planting trees as investment, a house-wife declared her support for a partnership with a forestry company, because it provided advantages. Therefore, she wanted to keep the trees until the company harvested them; she was not willing to sell her land because of her future goal to hand her property down to her children (see Photo 5 in Appendix 1). Despite not being as wealthy as her neighbours, she had her own plan for the future. To meet her daily needs and to support her husband’s income, she worked as a labourer in an oil palm company, as well as growing some crops in her yard.

Another interviewee, on the other hand, regarded planting trees as additional income for his family as he had not enough time to maintain his lands because of other jobs he had to be responsible for. His income was collected from different sources, included letting a space to
be rented for a restaurant by a local businessman, regular money transfer from his son, raising cattle and an acacia plantation.

Negative views drawn from the villagers were that the plantations were not growing well due to several factors, including unsuitable soil conditions (near the coast), and prolonged drought causing forest fires. Other unavoidable factors that influenced forestry operations were selling land in order to acquire cash for urgent needs, and impatience while waiting for the plantation rotation to end.

Different numbers of positive and negative views on forestry operation were tapped from individuals who had different backgrounds in terms of farm size, forestry area, employment, age, and gender as shown in Table 5.1. Mixed views have been determined. The data shows that even though some local farmers had other jobs as a source of income (part-time farmers) their points of views were still negative. These individuals expected their lands to be more productive, resulting in more frequent income generation. The age span of the group that expressed negative views (30 – 50) is commonly regarded as the productive age range. This group can be categorised into full-time and part-time farmers. As part time farmers they are able to collect incomes from various sources for current and future expenses.

Table 5.1: Characteristics of farmer interviewees with positive and negative views about forestry companies

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Positive views (n=7)</th>
<th>Negative views (n=33)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farm size</td>
<td>2-3 hectares</td>
<td>0.5-1 hectares</td>
</tr>
<tr>
<td>Forest area</td>
<td>1-10 hectares</td>
<td>1-2 hectares</td>
</tr>
<tr>
<td>Mode of employment</td>
<td>Part-time farmers</td>
<td>Full-time and part-time farmers</td>
</tr>
<tr>
<td>Age</td>
<td>40-75</td>
<td>30-50</td>
</tr>
<tr>
<td>Gender</td>
<td>Male and female</td>
<td>Male</td>
</tr>
</tbody>
</table>

Part-time farmers who expressed positive views also had other sources of income from non-farming activities and forest plantation. This group felt more secure in terms of income for their family, because their livelihoods depended not only on land use, but also working for a private company -- or they had other jobs, as for example, teachers, traders, village leaders, or
managers of their own shops. This view was supported by a part-time farmer in the statement below (*both husband and wife were working in local private companies*):

*I don’t want to sell my land where healthy acacia has grown up. I want to keep the land and acacia for my children in future.*

Farm size and forest area also influenced the perspectives of forest farmers. Those, who had more land tended to renew the partnership when an agreement expired. Yet, this group preferred to be in a “wait and see” position about whether the partnership agreement would work according to the commitments of both parties; and whether profits would be collected upon harvesting. This view was supported by the following statement:

*I am going to wait and see, if the company is faithful to the agreement, I would continue the contract agreement; but if the company did not keep its commitment, I would prefer not to continue the contract. One rotation period is enough for me.*

From Table 5.1, it is evident that the age and gender of interviewees were associated with different perspectives. For example, those aged over 60 believed that planting acacia would provide positive impacts in many respects, such as fresher air, more water sources, a shady environment, and profitable investment. These elderly people were not worried about income, since they were retired persons who were financially supported by their children. Gender was also associated with certain opinions. A female interviewee, for instance, tended to regard a partnership positively. She considered that the partnership with the forest company could provide benefits, as she and her husband earned money from other types of employment.

By contrast, negative views were predominantly given by male interviewees, probably because males generally acted as a family leader and were responsible for generating income for their families. The knowledge of local farmers on CSR -- can be categorised into two groups, knowledgeable and less knowledgeable -- influenced their understandings of CSR. Table 5.2 shows their perspective on CSR based on those categories.
Table 5.2: The knowledge about CSR amongst farmers, Jorong district 2011 (n=40):

| Knowledgeable about CSR (n=14) | - Farmers who have been educated by mining companies on CSR, as these farmers have received grants from the mining companies under CSR programs, and are able to compare CSR in forestry with CSR in mining  
- Farmers who have been severely affected by company’s operations and can claim compensation  
- Farmers who have had opportunities to join training organised by the company  
- Farmers who received grants from the company (i.e., scholarships for their children, machinery equipment for building a home industry, water treatment, etc)  
- Farmers who read about CSR activities through the company’s newsletters |
| Less knowledgeable about CSR (n=26) | - Farmers who have little knowledge on CSR, only observed a partnership to seek an opportunity to maintain their abandoned lands for acacia plantation  
- Farmers who foresee profits can be cultivated in the future from acacia  
- Farmers who expected to aggregate cash income for their families  
- Farmers who follow their neighbours to join a people’s forest plantation program  
- Farmers who see plantations as investment to be handed down to their children |

Farmers who were knowledgeable about CSR had both positive and negative views about CSR activities. Less knowledgeable farmers had only positive opinions on CSR due to their simplicity of thought and their expectation of future benefit.

The issues presented in Figure 5.9 are analysed into the following sub-topics:
- The nature of the relationship between communities and forest companies;  
- The initiation of a partnership relationship in forestry operations;  
- Cooperative roles in developing the relationship;  
- Lack of information;  
- Lack of communication;  
- Lack of transparency and trust;  
- Selling land; and  
- Disappearance of forest areas.

The nature of the relationship between local communities and the large forestry company

On entering Jorong sub-district, it was apparent that forestry plantations were dominated by Acacia mangium, a fast growing species. According to the company staff, this particular species is suitable for local land conditions. The Minister of Forestry granted a concession
area of production forest (around 268,000 hectares) to the large forestry company to be managed for industrial forest plantation (*hutan tanaman industri* or HTI). When it started its operation in 1998, the company was expecting to use its acacia wood products for sawn timber, wood chip logs, and wood chips to supply both the company’s pulp industry and other company forest industries (Unifiber, 2010). At the time of my field-work, there were about 300 employees working in this company.

Of the 268,000 hectare concession area, it has not been possible to use about 30 percent. Two main causes of this situation can be identified. First, the area was officially earmarked by the provincial government for other uses (*area penggunaan lain* or APL). APL is a term used by Indonesian provinces to apply a landscape restoration policy for provincial planning. Under this policy, non-productive state forest can be rezoned to function as APL, which later can be converted legally to other uses such as agricultural activities (*hak guna usaha* or HGU).

The second main reason for restricted planting was that the overlapping area of mining and palm oil firms’ operations with the forest concession area has dramatically reduced the size of the lands available for acacia planting. Conflict between firms was unavoidable. Indeed, the large forestry company brought the case into court which entailed financial outlay. This situation was described in the following statement:

*Some parts of the company’s concession area have been severely encroached upon by mining activities and palm oil planting. We have spent a lot of money to bring the case into court but the process is very slow. That’s the hardest problem that we currently have*

Photo 6 in Appendix 1 presents one of the overlapping areas between forestry and mining companies’ concessions. The Ministerial Regulation 2009 regarding forest area status and functions specifically declared that 10 percent of the company concession areas can be used for other purposes as long as a formal approval has been given by both the Forestry Minister and a forest company that holds a concession. However, in this situation, this company was having problems. The mining and palm oil firms had encroached onto the concession area, but had not had formal approval from either the Minister of Forestry or the said forestry company.
The complex problems being faced by the company eventually affected its production target and the partnership being developed with local farmers. This was also acknowledged by a forestry official at the provincial level:

*It was written in its annual report that the percentage of the company’s total production was very low, even less than 10 percent of its target (more or less 500 thousand cubic meters per year). In contrast, compared to the other two forestry companies in South Kalimantan, their production was 70 percent of their targets.*

Apart from the complex problems being faced by the company, another primary cause of the company’s performance was the drop in the global price of pulp and paper that occurred in 2008. From the literature, it was revealed that the pulp and paper price had fallen from around US$ 200 in 2007 to US$ 70 per tonne in 2008 (Eastmen, 2008). The forestry office staff believed the fall had severely affected many components of the company’s operations, including its CSR program.

Financial deficit thus could not be avoided since the selling price of the timber was not balanced with its production costs. This situation was also confirmed by the company’s annual report (Unifiber 2010), which declared that the company has been facing a difficult financial problem. To make matters worse the company program in private lands was not as successful as initially planned. The following paragraphs reveal some of the issues faced by the large forestry company and their impact on CSR.

The company staff member who had experience working with local communities explained that before CSR was widely recognised in the Indonesian forest industry, all aspects of the company’s work needed tens of thousands of labours recruited from local villages. The type of work was popularly called *gema palagung*; it included land clearing, land spraying, planting, maintaining, and harvesting. After CSR was introduced and a government policy was set up, the inclusion of local people in the company’s work, which was later defined as CSR policy, was also practised by the company. He concluded whether CSR exists or not, the company definitely needs local communities in its forestry operation. This view was supported by the following opinion:
...when talking about CSR then, from before it was widely known, we have practised CSR, even before the Limited Liability Company Law 2007\textsuperscript{14} was issued. If our company did not work with local villagers, the company could not operate and our production target could not be achieved...

CSR was merely a set of understandings from a company that involved local people in the firm’s operation, whether or not the involvement could benefit local villagers. A forestry official in Jakarta considered that this practice was part of a hidden agenda of the company’s by showing its implementation of CSR, when in reality the company just wanted the achievement of its production target.

\textit{The relationship between local communities and the small forestry company}

The small company has been known for its furniture processing industry, and has its own plantation. The raw material for its furniture is mahogany supplied continuously from Java and South Kalimantan. The company does not manage a concession area, but only holds use rights for mahogany plantation in an area of 700 hectares, located in Jorong, South Kalimantan. According to the information from a provincial forestry office, the minimum area for concession required by the government is 4,000 hectares. The company, based in East Java province, has been producing furniture for overseas markets. The mahogany was being intensively planted in the company land area and in private lands of villagers. In South Kalimantan, the mahogany was planted in private lands under partnership arrangements. The partnership was described by the company as CSR and has two forms:

- A formal written agreement in which the company provides seedlings and covers operational and maintenance costs. Upon harvesting, profit will be shared 60:40 by the company and forest farmers, after deducting all the operational costs.
- A non-formal agreement in which the company provides only fertilisers, and farmers are requested to sell their timber to the company.

To explore further the relationship between the company and local farmers, I interviewed 14 forest farmers residing in the villages of Ranggang and Ujung Batu II. The Ranggang

\textsuperscript{14} The Government of Indonesia enacted the Limited Liability Company Law in 2007, in which one article states: ‘companies managing natural resources shall practise social and environmental responsibilities in their business management’.
farmers did not enter a partnership agreement with the firm, while forest farmers living in Ujung Batu II had entered into a formal agreement with the company. Photo 3 in Appendix 1 shows one of local farmers residing in Ujung Batu II who entered a partnership agreement with the small forestry company. In the background there is mahogany timber planted on his land as well as crops being planted for more immediate income generation.

The initiation of a relationship

This particular sub-section examines a relationship developed between local forest farmers and the two forestry companies, i.e., the large and small forest companies. People’s forest plantation program organised by the large forestry company was mainly intended to manage non-productive lands owned by local villagers (as seen in Photo 2, Appendix 1). The objective of the people’s plantation forest program was to manage non-productive lands. Two advantages were offered to local villagers. First, the abandoned lands could be maintained by the small company and second, upon the ending of one rotation, the landowners could have 40 percent of the benefits, while the company would take 60 percent of the total profits gained. The objective of a relationship built between farmers and the small forestry company was primarily obtaining timber from mahogany planting. Collaborating with the small forestry company was advantageous for the farmers as they did not have to think about where they would sell their mahogany timber. The small forestry company would buy their timber at the market price.

At the early stage of the program, many local farmers were attracted to it, and tied themselves into a partnership agreement. Not only could the program generate income in the future, but also forest farmers did not have to be worried about maintaining lands. As explained by a community member, looking after lands is expensive:

Maintaining land is expensive, when farmers are still struggling to earn money to buy staple food for their family. Their income can’t rely on agricultural crops. Then, by joining the program they don’t have to spend money to look after their lands...

Even though at the outset, both parties could gain advantages from planting acacia and mahogany on the private lands, the implementation of the program was not as smooth as expected. As declared by socio-economic and sociological experts, preliminary assessment
of local companies’ needs is particularly vital to plan CSR related activity programs. The company would be obliged to overcome many constraints, as outlined later in this chapter.

Meeting their production targets was the ultimate goal of both forest companies. To meet its production plan, the large forestry company managed not only its concession area but also some abandoned private lands owned by local communities for acacia plantation (plasma) and mahogany. In planting acacia, a strong commitment from both sides (company and community) is urgently needed to maintain the private lands. This work was legally arranged with a formal contractual agreement. The abandoned lands were situated near the concession area so it was relatively easy for the company to manage both kinds of plantation area. The main aim of planting acacia in private lands was to meet the company’s production target. This contrasted with a statement by a company staff member who declared that the company desired to grow together with local villagers:

...The main purpose of people’s forest plantation is the company wants to grow and work together with local communities. When the company grows, the local communities also grow. Then, the collaboration was built via a local co-operative or forest farmer group, which was set up by our company and local villagers...

The program was first introduced in 2006. At the start of the program, total private land available for planting was about 300 hectares, of which each individual had one or two hectares. Around 200 households participated in the program. Later, it expanded little by little as other members of the communities joined in.

In 2009, there was a total private land area of about 2,700 hectares managed by the large forestry company under the people’s forest plantation program. The planned target area was around 5,600 hectares. Further explanation received was that the cost for maintaining land was set at Rp. 8 million per hectare (around US$ 800). Thus, the total expenses for land maintenance were approximately US$ 2.1 million. However, from that amount, most spending money was for non-technical expenses. With the complex problems faced by the company, and considering the high cost of maintaining lands, the partnership agreement with local forest farmers was struck by several impediments. The company profit gained from selling timber was not balanced by the expenses borne.
According to global wood pricing, acacia was on the market at US$ 80 per cubic metre ("Global wood price," 2011). In one hectare (for example the acacia is planted four by three spacing) could produce about 830 trees. With a diameter range of the acacia between 10 – 15 cms, it needs about 10 trees for a cubic metre. Thus, in one hectare, the company could collect timber about 83 cubic metre (the selling price is estimated US$ 6640 per hectare). In 2,700 hectares of land, the company could obtain estimated cash US$ 17.9 million. This dilemma is reflected in the following statement:

...our company spent a huge amount of money to pay non-technical expenses, such as meetings with community members, paying compensation to local villagers who claimed the lands are under their ownership, etc. The situation is such that the more problems we have the more money we will spend to solve the problems...

Meetings with community members were often organised at the outset of setting up the people’s forest plantation program. The money was used for transportation costs for villagers attending the meetings, food, drink, paper, and other expenses. Within a village, several meetings for discussion with the community were conducted to give detailed information about the program. Compensation was mainly intended to pay landowners who claimed the land belonged to them. The lands were situated in the company’s concession area and the status of the lands had changed when they became part of the land use area or APL. Claimants also indicated that the land is rich in coal below the surface. If the land was sold to a mining company, the price could be astonishingly high.

To resolve the overlapping land problem between private property and the concession area, as clarified by a company official, it depends on several options:

- If the individuals had legal evidence to show possession of the land, the case was processed based on private property law;
- If both the company and individual had legal evidence of possession, the case would be processed through the State Administration Court (Pengadilan Tata Usaha Negara or PTUN); and
- If the individual could not show legal evidence of possession, it became a criminal case.
In facing such problems, the company needed extra unpredictable amount of extra funds to process the claims. As part of CSR practices, the company also provided an opportunity for farmers to plant agricultural crops on the lands while the acacia trees were young. Planting crops is possible when the trees do not cast much shade, thus permitting agricultural plants to grow. At these early stages of plantation (the first two years), assistance from the Ministry of Agriculture was needed to produce mixed-crops with trees and agricultural plants. This technique is known by the global term the taungya\textsuperscript{15} system, and locally as tumpang sari. In the field location, local villagers were growing acacia along with rice and corn plantations. The system used was also based on the village development program initiated by the Ministry of Forestry in 1991.

A problem arose when the acacia was about five years old, given the fact that local farmers were not patient enough to wait until the end of the rotation. Many changed their minds and found what seemed like a better opportunity of planting palm oil on their lands. Many therefore sold their lands to a palm oil company operating in their villages and cut the acacia down illegally, showing a lack of commitment to the agreement. The large forestry company, ironically, had completely lost its investment in land preparation to support the acacia until it was well-grown. According to an individual from the company, there were about 300 hectares of acacia that were changed to palm oil plantation. The partnership agreement, that was formed to provide a benefit for both local farmers and the company, ruined the relationship between the parties.

The small forestry company started to develop a relationship with local forest farmers, as the company needed mahogany timber for its furniture processing industry. After observing its mahogany being planted on the villagers’ lands, the company believed that its furniture industry would not face a raw material supply shortage. The senior manager of the company encouraged local communities to plant mahogany as the firm would buy the timber upon harvesting it. He compared the present program organised by the company with the previous government policy for planting a certain species. The government programs had no future plan on how to market the species that they suggested be planted. This was reflected on by a senior manager of the company:

\textsuperscript{15} A study indicates the taungya system was invented in Myanmar (Burma), which means hill (Taung) cultivation (ya). It originated from a local term for shifting cultivation, and was subsequently used to describe afforestation method. The taungya system consists of growing annual agricultural crops which mixed with forestry species during the early years of forestry plantation establishment (Abugre, Asare, & Anaba, 2010).
...compared to the program introduced by the government before, when on harvesting them there was no market for the products. Mahogany has a certain particular market. We will buy mahogany timber from local villagers at the market price, so forest farmers do not have to be worried about where they are going to sell their timber...

He was confident that his company would receive a continuous supply for his furniture processing industry as mahogany varieties are available in South Kalimantan, sourced from both farmer’s interest in voluntarily planting mahogany and the government’s policy of *gerhan* (*gerakan nasional rehabilitasi hutan dan lahan* – national forest and land rehabilitation movement) to plant the species.

**Detailed arrangement of partnership collaboration**

At the two forestry companies, there was evidence that they developed a relationship that, according to them, could be termed CSR—albeit in different ways. The large forestry company, which was represented by its official, stated that its relationship with communities residing in Jorong sub-district can be evidenced by employing local farmers either in its concession area or on private land. On private land, particularly, both the company and local farmers entered into a legal contractual agreement with the expectation that both parties could keep their commitment. The agreement was not built on an individual basis, but through forest farmer groups or a local cooperative.

Each type of task needed to manage the land being planted with acacia is handled by local communities at the landowner level. To work on their own land they were paid by the company according to a current local wage standard. These types of tasks include planning, land clearing, planting and fertilising, plantation maintenance, plantation protection, harvesting, and timber transportation. This arrangement can provide local farmers with readily available cash income while waiting for the acacia to be harvested. The company’s senior manager declared that by providing farmers with these jobs, the company could help them to maintain their lands, while at the same time the farmers could obtain cash income from their lands. This practice can be categorised as CSR. The agreement developed was expected to provide profits for both parties. To be more enforceable, the agreement was approved by the head of the village where the individuals resided, as well as by an official
from the sub-district office. The agreement was valid for the duration of one rotation of acacia plantation (which is a minimum seven years) from when the acacia was first planted until the harvest (see Appendix 2).

A number of formal documents were needed from local farmers for them to be able to join the plantation program. These included a land ownership document which could be a written document issued by a village head, approved by the head of sub-district, and witnessed by respected persons living in the village. A written statement was required from a village head (approved by the sub-district head) that the land is not under dispute. Other documents to be attached to the agreement included:

- a receipt that the landowner had paid taxes,
- a legal document from the forest farmer group and personnel involved in that organisation, proof of identification,
- a letter from a member of the forest farmer group to appoint a group leader to act on the member’s behalf,
- a location map, specified technical work for plantation programs defined by the company,
- a management plan, a budget, and
- a letter from heirs (children, grandchildren, or other appointed persons).

When employing local villagers in this company’s concession in state forest, each type of work is formally arranged with a written contract, containing working hours required, the number of labourers required, the budget needed for the job, and other detailed arrangements. Figure 5.10 is a diagram showing the relationship between the community and the large forestry company for establishing forest plantation on both state and private lands.

Similar to the partnership agreement arranged by the large forestry company, the small forestry company organised a written partnership agreement with local communities. In the agreement, local communities were obliged to look after the mahogany and to sell it solely to the small company. Responsibilities of the company included providing fertiliser and guaranteeing to buy mahogany timber at the market price.

To build friendship and collaboration with local forest farmers, the company invited three leaders of the Takisung forest farmer groups and two district forestry officials from Pelaihari
Figure 5.10: The partnership arrangement between local communities and the large forestry company

![Diagram](image)

...we took them to our furniture processing industry to prove that we are not telling a lie. We are really serious, and want to build a relationship with communities, and request them to sell their mahogany to our company. We also brought them travelling around to nine scared places in Java for Muslims...

This kindness, however, did not place any obligation on the local farmers. Some farmers were more concerned about timber prices. In other words, as long as the company bought timber at a higher price than the local market, individuals would be pleased to sell their timber to this furniture company, even without signing a formal agreement or participating in an arranged field trip.

Cooperative roles in developing the relationship

The role of the cooperative was mainly to assist farmers and the large company in developing a relationship and establishing acacia timber plantations. Thus, the cooperative mentioned in these paragraphs was that which assisted and guided local forest farmers living in the villages...
of Asri Mulya and Asam Jaya, who were interested to build a partnership agreement with the large forestry company. According to an individual working in the cooperative, the assistance provided to local communities included *inter alia*: a mediation between the forestry company and local farmers if there was a dispute; detailed assistance with administration matters; as well as controlling and monitoring whether the cooperation was progressing well.

The relationship between this forestry company and local farmers was formed because the company manages the community’s abandoned lands by planting the lands with *Acacia mangium* under the people’s plantation forest program. The initiative came from the cooperative after it observed that extensive dry-land areas were found on much private land located in Jorong sub-district. A senior manager said:

...after observing that in Jorong, many farmers’ lands were dry, abandoned, and unmaintained, and the company wanted to plant the lands, why not? It is a good opportunity to work together...

However, the cooperative’s effort to encourage local communities to develop a partnership with the forestry company was not troubled from the start. This was due to the fear of local farmers that the company would assume ownership of their lands. As one of the cooperative’s senior staff explained:

...the company wanted to plant the abandoned lands with acacia, but communities did not want to as the lands are under individual ownership, and they are worried that the land will be grabbed by the company and they could lose their properties...

As presented earlier, for most local communities, maintaining land is very expensive and thus they cannot afford it. Therefore, the cooperative encouraged communities to be involved in planting acacia because doing so would later support community livelihoods and ensure the villages would have a better environment.

In the beginning, local communities were unwilling to participate in planting acacia due to their fears. The large forestry company and local villagers were facing difficulty in overcoming what appeared to be a deadlock. Thus the cooperative acted as a mediator and endeavoured to find out how the people’s forest program could become a reality. Before
consensus was achieved, local farmers needed an individual or organisation to guarantee that the relationship would succeed. The cooperative finally took this role in 2006.

Both the cooperative and local forest farmers voluntarily entered into the partnership agreement. The reconciliation was finally achieved with promises made by the large forestry company that it would help them in applying for a land ownership certificate. At the time of entering an agreement, local people only possessed a document written by head villagers to prove the lands belonged to the forest farmers. Those who were interested in the people’s forest program handed over the document to the cooperative, to be forwarded to and processed by the company and cooperative. CSR practices in this relationship were indicated by the strong support from the company given to local forest farmers. For example, within three years of plantation, the company promised to provide loans to the forest farmers. Moreover, the large forestry company made a promise to provide cattle for those who participated in the program.

The cooperative has successfully changed people’s attitudes by showing that timber can support household income. If the land is managed properly, it can be very productive. However, as the program continued, several issues emerged. One was that around 300 hectares of acacia had been replaced with a palm oil plantation. The primary reason behind this, as reported by interviewees, was that individuals needed a ready cash income and planting acacia was associated with less certainty. In addition, several commitments made by the company (e.g., providing loans from the third year of plantation and regular provision of fertiliser) had not been met. According to a local farmer:

...the company promised to grant regular fertiliser and give a loan in the third year of plantation, but nothing happened. I also needed quick cash to visit my family in Java and to find a job for my daughter, so I changed the acacia to palm oil and made an agreement with a palm oil company...

A related view was expressed by another interviewee from Jorong sub-district:

...if the lands are planted with rubber trees, we can collect regular cash income, while in planting acacia we can’t do anything with the lands, just waiting with no certainty of when the acacia is going to be harvested...
Palm oil plants can be harvested at the age of four years. The harvest can occur twice a year, and each time can provide cash to the value of Rp. 1,800 per kg (an estimated US$ 0.20). One hectare of rubber trees can produce 1,500 kg per harvest.

*Lack of information*

Some individuals entered a partnership agreement with a forest company because they followed their neighbours who had signed the agreement. They were hoping that in the future, farmers would receive large profits from acacia, although planting it meant that landowners could not use their land for agricultural crops. Information on the acacia planting program was insufficient, and farmers’ knowledge was very limited, but local communities were willing to join the partnership agreement on the basis of several promises given by the company -- without expecting that later the program might become problematic. A community member expressed the following opinion:

...the large forestry company has designed a good program by planting acacia in abandoned land, but a lack of information sharing on the program had made local communities misunderstand and misinterpret the program...

The cooperative, as a mediator between local forest farmers and the large forestry company was also blamed by local communities for providing limited information on the acacia program. This resulted in disappointment among the farmers, especially about the time set for harvesting the acacia. As one of the interviewees said:

...what made people worried, curious, and upset was when the acacia was going to be harvested. Local communities kept waiting and expecting profits from the harvest to buy staple food and other needs. It was time to collect profit from acacia but there was not a single piece information available about when the trees were going to be cut down...

Local communities preferred planting rubber trees, as rubber trees provided certainty about the harvesting time. Rubber trees are often planted in the area as this species is easy to grow, has low maintenance costs, and continuously provides income. It seems that rubber trees have been favourite trees for local villagers to plant, as the products would be easy to market, the latex does not need to be transported to be sold, as a buyer comes to their village to
collect it and pay for the rubber product on site -- and the harvesting time can be predicted. However, when planting acacia, farmers cannot derive any exact information from the company about the proper time to cut the trees down. This view was supported by an individual in a village:

...compared to rubber trees that have a certain harvesting time, it is not clear when acacia is going to be chopped down and sell the logs sold...

Lack of communication

Many local forest farmers were disappointed by the agreement made with the large forestry company. The uncertain harvesting time and the company’s inability or unwillingness to keep its promises were among the obstacles faced. The problems were mainly the result of insufficient communication between the parties. Hence local community members complained about the unclear content of the partnership agreement. One community member (who did not participate in the people’s forest plantation program) said:

...local communities were complaining of an unclear agreement, but they cannot do anything since they did not keep a copy of the agreement; as such the evidence is not enough to seek clarification...

It seems the lack of understanding and information were primarily caused by farmers not keeping a copy of the agreement made with them. The above interviewee added that the agreements were in the possession of the cooperative and forest farmer group heads. These individuals appeared to avoid providing the forest farmers with copies of the signed agreement because the more farmers knew about the contents of an agreement the more they would protest to the company, the cooperative and the head of the forest farmer group.

A company staff member later declared in one of the focus group discussions that the company was currently suffering from the impact of the global economic crisis that occurred in 2008. This problem, however, has never been communicated with local forest farmers. As a result, local communities kept wondering when their acacia plantation was going to be harvested.
Later, as the company was facing economic problems, it initiated a strategy to sell the acacia timber to local people at the local market price. This strategy provided two advantages. First, the company could obtain a profit (despite it not being much), and second, local communities benefited by purchasing cheaper timber -- a kind of embracing local communities through timber plantation. This strategy was first suggested by a provincial forestry staff member, as a state enterprise operating in Jorong had implemented a similar scheme in order to be saved from bankruptcy. He also suggested that the large forestry company was on the verge of collapsing.

*Lack of transparency and trust*

The relationship between the large forestry company and local villagers was ruined by a lack of transparency in terms of the agreement content. Moreover, communities did not trust their leader who also acted as a forest farmer group leader and a cooperative head. Their village leader should have been acting on behalf of the community, not as the company’s representative, for which he received a monthly salary from the company.

The small forestry company, on the other hand, promised local farmers’ groups and mentioned in the agreement that it would provide fertilisers regularly; also that the farmers would be paid for applying fertiliser to mahogany on their lands. In reality, as declared by a farmer, the company only provided fertiliser twice in two years in most areas, and in some areas only once; moreover the individuals responsible did not receive any payment for the work involved in applying the fertiliser. Milton Friedman (1970) declared that there was a lack of social conscience amongst corporations whereby public companies apply only minimal ethical obligations beyond maximizing profits and obeying the law. Gray & Milne (2002) also considered that there is a potential for conflict between their economic interests, and social and environmental duties.

Lack of transparency became a main problem because local people did not keep a copy of the agreement. When they complained about lack of information and communication, local people did not have the evidence needed as they did not possess the legal document. All the documents were kept in the village office which was burnt in 2008 because of a forest fire. Lack of transparency was also shown by the cooperative, as it promised local forest farmers access to loans after three years of plantation, but the promise was never fulfilled.
Selling land

Villagers need readily-available cash for important occasions, as well as to support their livelihoods. The events that local people commonly spend extra money on include marriage, circumcision, newborn baby ceremonies, and family visits or funeral ceremonies for their relatives in Java. In many cases, the only property people can sell is their land. The expression of the farmer being interviewed can be seen in Photos 1 and 4 (Appendix 1). Unpredictable expenses seemed to be the main factor for farmers. Waiting for acacia to be harvested was not a possible option for obtaining cash. As a result, they sold their lands to a palm oil company at a very low price. Even though acacia had grown well on their lands, they did not take it into consideration as long as they could obtain cash for them. They cut the acacia down and the palm oil company replaced it with palm oil plantation.

A different view was expressed by a local cooperative staff member who declared that the arrangement between local communities and the palm oil company was set up by planting palm oil on private lands (plasma). This was formally arranged as a requirement to apply for a loan from an Indonesian national bank. This system was strongly encouraged by the government in order to support the development of a micro-economy. The agreement was formally signed by the three institutions, i.e. the palm oil cooperative (namely KJW), the bank, and the palm oil company.

The loan application would need a land ownership certificate as a mortgage. If individuals did not have the certificate, the cooperative could help them to process the relevant application form. The cost of the process was covered by using money borrowed from the bank. At the time of processing, local villagers handed over a legal paper signed by the head of the village. It was subsequently named “sporadic”\(^{16}\), a local term for the written ownership document.

The landowners could allow their land to be managed by a village cooperative using a minimum of two hectares and maximum of four hectares. Landowners with less than two hectares could join with other landowners for the purpose of the issuing of the certificate

\(^{16}\) The name ‘sporadic’ is commonly used by local villagers for a legal document showing possession a land title. The document was written by the head of village. This document was later used to apply possessory rights over the land.
under one name, which was supported by a formal legal paper issued by the local cooperative. At the time of the cooperation discontinuing (after 11 years), the certificate could be broken down to the original land-owners. The cooperative would return the loaned money to the bank after receiving payment from KJW, which was collected from the harvest within five years of the initial plantation. Detailed information about this situation is presented in Illustration 5.1.

Despite many constraints in developing a relationship between forestry companies and local communities, the majority of interviewees had the expectation that it could be improved through better transparency and communication.

**Disappearance of forests**

During my field-work, I organised specific interviews with local villagers about forest disappearance in their area. Before forestry and mining companies existed in the area, people who lived there relied on forest resources to generate income. When a forest no longer existed, local villagers had to seek other sources of income. Even though many local residents worked in the forestry companies, not all of them were able to earn money from them. The companies became the subject of local communities’ attention and came to be included in their social circle. The interviewees are local people who have been living in the villages for decades. One of the interviewees was an indigenous farmer who practised shifting cultivation. He lived up in the hills, and his age was about 90 years.

He added that when he was a shifting cultivator in the 1960s, many massive trees were in the area. His opinion was similar to that of another interviewee from the same locality, who declared that heavy logging had occurred in the area in 1965. He said:

...in the past when I first arrived in this area, massive trees were easily found in this village. People just chopped down the trees for many purposes, such as for building houses, making furniture; or just burnt them and threw them away to make spaces for building their houses, planting crops, building pens for cattle, and for other uses...
Illustration 5.1: How farmers sell land

The issue of selling land has become a debatable topic among certain interviewees, which included the large forest company staff, forest farmers, and cooperative staff. A forest company senior staff member showed his frustration because acacia planted on villagers’ lands was cut down and the lands were sold to a palm oil company. This problem was also shared by a local cooperative staff member, who worked with and communicated directly with local communities, as the cooperative liaised between the large company and local villagers.

Further, it was explained that the company had spent a lot of money to grow acacia until it grew well. The total area of the land converted to palm oil was about 300 hectares, which was not a narrow space. Local villagers sold their lands were also interviewed, and there were several reasons behind this issue. First, the acacia was not growing well and they were worried that the profit they gained upon harvesting would be very little. Second, acacia was severely burned during the dry season. Third, they needed an amount of money to visit their family in Java. As local villagers did not obey the agreement, the company brought the case into court for a legal process. However, the company did not blame local villagers, but reporting that a palm oil company has provoked local villagers to convert acacia into palm oil.

A local cooperative (KJW) responsible to develop palm oil plantation, however, needed an original certificate as a proof of land ownership to apply loan to a bank. The bank used the certificates as mortgage. Therefore, KJW collected the certificates that were handed over from the farmers, who joint voluntarily in plasma palm oil. The bank kept the certificates for 11 years. When the agreed period ended, the certificates would be returned back to the landowners.

He further stated that several crops were planted, including corn, rice, bananas, vegetables, and cloves for local people’s staple food and also to sell for income generation. The history of forest disappearance was also evidenced by the distinctive land cover in Jorong and Takisung sub-districts, South Kalimantan, between 1990 and 2010 (Maps 5.4 – 5.6).
maps show the different features in terms of forest areas. South Kalimantan was identified as a highly desirable place for mining operations and many mining firms started their business activities in the province. For example, a mining company started its business in Jorong in 1991. Since then, as indicated in the maps, the forest areas have gradually diminished noticeably.

With the large number of mining companies operating in Tanah Laut, agriculture activities conducted by local farmers were obviously disturbed. For example, fresh water is not as available as it is used to be. A local villager expressed his view:

...obtaining fresh water is now difficult, it used to be quite easy to get water as rivers and creeks have deep water, but since many companies have been operating in our village then only a little fresh water has been available...

Before 1990, forest companies also took advantage of the available aggregate natural forests for their quality timber products. The quality of timber from natural forest is better than that from plantation forest. At the same time, widespread logging was intensively organised by forest concession holders. The increasing population rate was another cause of forest disappearance. In the district of Tanah Laut, the population increased by about 4 percent in the period from 1980–1990 (District Development Planning Agency & National Institution for Technology Research and Development, 2007). In addition, the dramatic increase in the number of mining companies operating in South Kalimantan added to the loss of forest cover.

As mentioned earlier in this chapter, in 1998 there were 470 (local, national, and multinational) mining companies in South Kalimantan (Banjarmasin Post, 2008). In the period between 1990 and 2010, the forest cover was substantially reduced. In the 1990s, huge areas of forest were cleared for many purposes, including: transmigration programs introduced by the government to move some people in Java to South Kalimantan; logging concessions for the sale of timber; agricultural plantations; residential areas; and mining activities. The large forestry company in this research started its operation in 1998, and the mining company received a concession from the government in 1991.

In summary, the section above presented benefits, constraints, and challenges being faced by companies operating their business in the forestry sector. These conditions can be improved
if carefully handled. The intensive communication expected by most forest farmers needs to be enhanced both by direct interaction and through a local cooperative. Thus misunderstandings can eventually be minimised. Providing effective communication looks like a simple task but if it is not carried out, the impact can be severe and the company could lose its profits. Moreover, the most important source of credibility and a positive image for the company through CSR practices would gradually be lost.

To compare a different CSR practice in a mining company with those of the two forestry firms, the following section presents the analysis of stakeholder opinions on a mining company operating in Jorong, the same field site as the large forestry firm. Some interviewees are the same individuals who were interviewed about CSR in the forestry sector. Therefore, to manage time effectively, they were interviewed about forestry and mining issues at the same time.

5.3.2 The mining company

The mining company is a multinational firm that has been operating in Jorong since 1991. It has a contract area of around 11,500 hectares. From its mission statement, the company has shown its awareness of the importance of caring for people living in areas surrounding its operation. There is a clearly stated aim “to promote and contribute to the development of society by acting as a good citizen and contributing to the economic development”.

The company, one of six subsidiaries of its parent company the headquarters of which are in Jakarta, employed 296 staff working on the company site in Jorong. In contrast with the two forestry companies, CSR practice in the mining company was apparently well-organised, as described by a company officer and a local villager. CSR was characterised by five primary activities: community relations, capacity building, infrastructure development (i.e. roads, school buildings, and water treatment), operational activities, and environmental and natural disaster relief (i.e., providing aid when there is flooding in the village). All related activities were facilitated and controlled by assigned staff. CSR being practised in the company was named community development or CD. To support its program, the company created a forum within the community in which the company could facilitate CD activities. The forum was named the Community Consultative Committee or CCC (Forum Komunikasi Masyarakat or FKM) (Prabowo, 2010).
Community relations cover the participation of the firm in various religious celebrations such as Ramadhan, Ied fitri, and Ied mubarack; community days such as beach safety celebration days; education (e.g., scholarships for students); and activities to support the community’s health (i.e., health checks for babies and senior people). Capacity building included micro economic development, such as home industry training provision, which supported household incomes for the long-term. Infra-structure assistance aimed to develop constructions such as roads, mosques, and water treatment facilities. Operational activities focused on CCC meetings, gatherings for CCC organisers, and other meetings. Environment and natural relief covers activities intended to help local villagers suffering from floods and other natural calamities. Considering the company will stop its operation in 2014, the activities have been focused on skill trainings, for example, plumbing and mechanics training for the unemployed young male.

As explained by one of the company staff, CD was interpreted as empowering communities (from a wider perspective) in order for the company to receive a ‘social licence’ – the community’s approval to undertake operations in their area. The following statement was made enthusiastically by one member of its staff:

...CD is about empowering communities, relating to a social licence; then, in the field this process will cause the company to be accepted by communities. To handle this work, the company staff have been trained in knowledge of “empowering”, including spiritual, mental, moral, economic, social, and social capital aspects; how to make a decision, social mapping, chairing a meeting, etc...

The practice of community development by the mining company was managed through a ‘ring’ system, which was organised based on priority and budget allocation. The closer the area to the mining operation, the more priority it was given by the company in organising community development. As shown in Figure 5.11, the work of the company on CSR through community development was implemented primarily at six villages, namely Jorong, Suarangan, Karangrejo, Batalang, Simpang Empat, and Asam Asam. These villages are situated closest to the mining operation, and are heavily affected by the mining activities. The company identifies these villages as Ring 1.
The interviewees expressed their opinions in predominantly positive or negative ways. These individuals were distinguished by their characteristics in several ways, including farm size, forest area possessed, employment mode, age, and gender. This variation is illustrated in Table 5.3.

A company staff member declared that with the full-time engagement of company staff in every activity with local communities, its CSR activities are more successful than those of the forestry firms because monitoring and evaluation are included in its CSR programs. As the company will terminate its operation in 2014, activities have been focused on training that could support local people’s livelihoods after the firm ceases its operation in Jorong. The firm was expecting that local villagers could be more independent, and not continue to rely on the companies for their livelihoods. This opinion was supported by one interviewee from the mining company:
Table 5.3: Characteristics of interviewees and their views (n=8)

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Predominantly positive views (n=5)</th>
<th>Predominantly negative views (n=3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farm size</td>
<td>1-5 hectares</td>
<td>0.5-1 hectares</td>
</tr>
<tr>
<td>Forest area</td>
<td>0-2 hectares</td>
<td>0-1 hectares</td>
</tr>
<tr>
<td>Employment mode</td>
<td>Part time farmer</td>
<td>Full time and part time farmer</td>
</tr>
<tr>
<td>Age</td>
<td>40-60</td>
<td>40-50</td>
</tr>
<tr>
<td>Gender</td>
<td>Male and female</td>
<td>Male</td>
</tr>
</tbody>
</table>

...we still guide and mentor local people after joining a training program we’ve organised. We are expecting that the skills they have gained in their training can support their livelihoods. The period in which we were able to escort the communities would be three years after the company stops its operation in 2014...

As indicated by the mining company, its staff will support communities until 2017. The firm’s hope is the training participants would be able to practise what they learned from their training. The company will seek to overcome problems related to the implementation of particular training skills. For example, obtaining a machine to make tofu for establishing a home industry was difficult and the equipment was expensive; unhesitatingly the company purchased it for the villagers, who had a strong motivation to establish a small business.

Despite the successful CSR program managed by the firm, one interviewee had a negative view on the company’s CSR implementation. In light of the abundant profit that the company has earned from the area, he believed that too small a part went to local people. Therefore, according to him, the government should be concerned about villagers’ welfare. In Jorong, there are abundant natural resources but local communities obtain only limited benefits from them. The system has not been well-managed, and benefit sharing seems unfair as only a limited number of people (such as small local firms that work collaboratively with the mining company and workers employed in the mining operation) derive advantage from businesses in natural resources.
That interviewee compared Jorong with a mining area in Vietnam, where local people had been accorded priority by the Vietnamese government. The mining exploration at easily accessible sites is being managed by local communities, which ensures less operational cost. Conversely, in remote areas with difficult access, mining is being organised by multinational companies possessing giant and expensive exploration machinery. In addition, at the time of interview, this interviewee was hoping that Rp. 1,- out of profits gained from the price of every ton of coal produced, could be distributed to local communities. He estimated that at the time of the interview, the coal price was Rp. 900.000,- per tonne (around US$ 90).

The role of the Community Consultative Committee (CCC) in CSR

The chairman of the CCC was appointed by community members and normally was a respected person\textsuperscript{17} or ex-village head. CCC members consisted of respected individuals (who had been selected by the community) and representatives from the company. The company did not intervene in recruiting training participants, all of whom were selected by the CCC. However, the company determined standard criteria for the participants. For example, in a banana planting program, the company required that the interested participants had an agricultural background and owned their land\textsuperscript{18}. Successful achievement of the program’s goals was verified by the skills of its capable participants.

To organise a training program, the CCC submitted a written proposal to the company, that had been approved by a village head. The CCC has regular intensive meetings between May and June every year. This appeared to be the period in which the company organised budget planning. The company sought input for CSR programs being planned for its annual budget preparation. It also expected the CCC to learn about a management system which was also being developed by the company. The system consists of Plan, Do, Check, and Action stages, and ensures the community development program has been established by and for the communities. The government and the company, as well as communities, work collaboratively to implement the system. The diagram of CCC is presented in Figure 5.11.

\textsuperscript{17} A respected person may be interpreted here as someone whom most local villagers respect because of his or her: reputation in local organisations, religion, education, or previous village leadership.

\textsuperscript{18} Some farmers do not have their own lands, and have to work on other farmers’ land as labourers.
The villagers residing in Ring 1 have priority in receiving assistance from the company. The six villages cover a total area of around 200 square kilometres, consisting of: Jorong (26 square kilometres), Suarangan (175 square kilometres), Karangrejo (15 square kilometres), Batalang (23 square kilometres), Simpang Empat (65 square kilometres), and Asam Asam (56 square kilometres). All the CD programs organised by the company are primarily focused in these villages, with the budget allocation level they receive at 80-90 percent of total outlay. The remaining budget is divided among the three outer rings (rings 2, 3, and 4).

Ring 2 was set up by the company to organise activities that involve communities living in Jorong sub-district. For example, a road was constructed and a mosque was built for people living in the sub-district. Ring 3 covers activities for the wider area of the district of Tanah Laut. These activities are usually organised collaboratively with other companies and government agencies. Ring 4 includes activities conducted within the province. The ring arrangement is presented in Figure 5.12.

![Figure 5.12: The ring arrangement for community support organised by the mining company](image)

The only hindrances faced by the firm in practising CSR were the variety of trainee education background levels and nepotism. The more educated participants would be more active and could more easily understand the material used in the training; and claims were made that the CCC leader practised nepotism, as only his relatives and friends were recruited to join the
series of training sessions conducted by the firm. However, a staff member enthusiastically explained that even though some impediments were still being faced, the company kept encouraging the training participants to self-develop the knowledge they had gained in order to support their livelihoods.

**High expectations of CSR**

Successful CSR activity was not only indicated by the number of training opportunities provided and the number of participants, but also by having opportunities for every individual. The role of the CCC is significant for the successful implementation of CSR. Two positive opinions were obtained from the company: first, with the existence of the CCC the company found it easier to communicate about, and coordinate the implementation of, CSR programs; second, CSR activities were also better controlled and monitored, as the company only had certain contact persons in the CCC.

Even though views varied among villagers the expressions were dominated by positive opinions, declaring that CSR being practised by the mining company have provided good impact for people’s livelihoods. Negative side of the CSR practised by the mining company was nepotism in selecting training participants. Attempts had been made by the company to overcome this problem by advising the CCC members, but the decision to select the trainees was fully in the hand of CCC. The mining company was aware that some minor problems were still being faced but with the spirit of all the management levels, it was believed that CSR can be better organised. Figure 5.13 provides overview of perceptions of the mining company.

As presented in figure 5.13, local villagers also provided positive and negative perspectives on CSR organised by the mining company’s operation. With various trainings conducted by the company, the positive view was the capacity of local villagers was improved as they became skilled after joining the trainings. Therefore, they can earn income from their skill to improve their livelihoods. The negative perspective was expressed by the villagers that only limited number of trainees recruited by the company.

The mining company was also aware of the significant positive impact of publishing its CD activities, as well as its internal management activities. Several publications were issued
Figure 5.13: Overview of perceptions of mining operations in Jorong

Mining operation

- The relationship is developed through CCC (Community Consultative Committee)
- Full-time engagement of company staff

Perspectives from the company:
Positive:
- Easier communication & coordination
- Better control and monitoring

Negative:
- Nepotism in selecting training participants

Perspectives from local villagers:
Positive:
- Better skilled to improve livelihoods

Negative:
- Limited number of villagers in training participation

regularly by the company, including bi-monthly and monthly newsletters—*Bubuhan* and *Banpu Insight* respectively—as well as annual reports and the company profile. The first (bi-monthly) newsletter publicises activities relating to CD activities organised in several companies’ operations in Indonesia, and the second (monthly) publication provides information about companies’ operations in several countries including Indonesia. Brief information on CSR strategy organised by the mining company is presented in illustration 5.2.

In summary, CSR program in forestry sector was designed based on the limited understanding of CSR as it was expressed by the forestry company’s manager. Target production was the final goal of CSR practice in forestry operation. In contrast, as seen in its mission statement, the mining company has fully understood what should occur for the success of CSR to help local communities. Even though, some minor problems were still being faced but with the spirit of all the management levels, from top managers to field staff, CSR can be better organised.
Illustration 5.2: The mining company’s approach to CSR

The CSR practice in the mining company was tapped from its senior officer responsible for community development (CD). The staff argued that the CD program in the company was part of CSR. A primary factor to encourage its CD program was the main head of the company kept encouraging his staff to make every possible effort to make the programs successful. A regular meeting was also organised in the company, discussing constraints and a possible solution for the ongoing CSR program as well as a future plan. Furthermore, staff were specifically designated by the company to guide and control the program.

In addition, a newsletter was used by the company to publish its CSR activities. The name of this newsletter is Bubuhan, a local word which means friendship. The name Bubuhan was chosen to show the spirit of CD: to always respect and acquire knowledge from local communities (Prabowo, 2010). A bi-monthly newsletter was being used to disseminate information about the company’s CSR practice to broader communities, such as government, communities in other areas, and shareholders.

Apart from the efforts to demonstrate successful implementation of CSR in the mining company, funding was also provided for the programs. The approximate budget for CSR was Rp. 1.4 billion (around US$ 150,000) per year. It was sourced from the aggregated production, from which the budget allocation for CSR was US$ 8 cents per tonne of coal.

Source: primary data source from the interviews [c6, c7] conducted in March 2011

The following section would be the various perspectives on the companies’ operations, which were delivered by relevant stakeholders at Jakarta, Banjarmasin, Pelaihari, Jorong and Takisung.
5.3.3 Stakeholder perspectives on company operations

In this section, I will report on various perspectives of the forestry and mining companies’ operations from different stakeholders. I differentiate the views of stakeholder groups, i.e., villagers (small stakeholders), companies, and government at all levels. These types of interviewees had mixed views about company operations. In forestry business concerns, conflict of interests dominated stakeholder perspectives. The companies’ intention to work with local communities was mainly in order to achieve its production target, whilst local forest farmers could capitalise on their land, cultivating profit for the future. In the mining business, those who did not have an opportunity to work in the mining process, or participate in skills training, viewed the mining operation negatively. Only a limited number of people made positive comments because benefits were cultivated by them, such as being able to work in the mine, or be a sub-contractor of the company (such as a labour or food supplier).

The categorisation of these groups is as follows:
- Villager perspectives on forestry and mining operations;
- Each company’s views on its operation; and
- Government perspectives.

Villagers’ perspectives on forestry and mining operations

The perspectives obtained from local villagers of the large forestry operation varied. Upon the initiation of the partnership agreement, communities were not willing to set up a cooperation with the company because they were concerned that otherwise it would make promises that never became reality. Communities have likely experienced the easily broken promise made by a company, although the promise has been formalised into a legal written agreement. Therefore, local communities have become sceptical and demonstrated reluctance to engage in a partnership with the company. Their anticipation existed from the outset, before a contractual agreement was formally signed. In addition, the communities have foreseen that the agreement would not have worked and was only a piece of paper; that a lack of ethical values would likely emerge upon the agreement implementation. In such a case, a local cooperative as a form of credible grassroots institution could play a significant role in persuading them that the partnership would help them in generating additional income from timber tree plantation. A local cooperative
guaranteed that the program would be well-organised as mentioned in the agreement. This situation was reflected in the following opinion:

...however, communities need someone who is going to be responsible, who can be trusted and relied on, and can guarantee that the cooperation will work well, nothing will happen in the future...

At the end of the seven year rotation period, the local villagers found there was no sign of when harvesting would occur. As a result their lands could not be used for other planting activities (such as palm oil, rubber trees, or other agricultural crops). Therefore, there was a possibility that local communities would harvest the acacia without informing the company. Another broken promise made by the company was that it would lend some money to the villagers. This view was expressed by one interviewee:

...The villagers were complaining about the promises made by the company. The promise was made that after the acacia was one or two years of age, the company would lend some money to the villagers but until now, the promise has never becomes reality, which made villagers really upset and they don’t trust the company anymore...

He added information about what local communities would do if the acacia was not harvested at the due time:

...if when it comes to harvesting time, there is no signal given by the company to chop the trees down, villagers will cut them down so they can use the lands for other purposes. If we plant our land with timber, we can’t do anything. We are just waiting for the plantation to be harvested. We are farmers and normally we work our lands for planting crops...

This comment shows the strength of local communities’ concern about commitment and consistency. They were calculating how much money they would make from the acacia trees. CSR cannot be demonstrated if there was no benefit given by the company to local communities. Lack of commitment and consistency resulted in disappointment for these communities. Therefore, it was still questionable whether the company was responsible
towards local people living surrounding its operation by providing them with jobs, additional income, and skills.

While many villagers had negative opinions on the acacia plantation, some have been consistent with their views that planting forest trees could be a good investment for their children and grand children (see Photo 5 in Appendix 1). These particular farmers kept the acacia growing and were not willing to either sell the land or cut down the timber to fulfil their needs.

Planting trees could also improve the quality of the village surroundings in terms of fresh air and shady residential areas. Instead of the land being abandoned, it could be managed productively, as was argued by a local forest farmer:

...If we live in a village that has many trees being planted, the environment looks healthy, green and shady, not so hot during the dry season...

An interviewee who is Banjarese added that he had an expectation that planting acacia would be beneficial in providing additional income for his family. However, he will wait and see until the acacia is harvested at the end of its rotation, and will judge whether the partnership works well. He supported his view with the following statement:

...I will see if the partnership can provide enough benefit then I will continue with a further arrangement with the large forestry company; but if the cooperation could not work and the company is not committed, then I will cancel the partnership agreement...

In the interview, he explained that the location of the acacia is distant from their residence, and that they have possessed their lands for millennia that were handed down from their ancestors. My observation was not a single tree could be found in their yards, which were very narrow, as the houses were built side by side and close to each other.

In Takisung sub-district, where most transmigrants from Java lived in the villages of Rangang and Ujung Batu II, residents preferred to use their money to buy more lands than anything else. As a result, more villagers have enough land to plant mahogany. However, some villagers were not confident that planting mahogany could provide income in the future.
These individuals preferred to plant rubber trees on their lands. Therefore, the mahogany planting program offered by the small forestry company was not widely up by local farmers, although the company attempted to provide benefit to them as part of its CSR practice.

Another source provided information that some local forest farmers have decided to sell their mahogany to the local market. However, farmers wanted to sell their timber to the firm, they could phone the company’s staff at any time, and it would be pleased to come and buy their mahogany. This view was supported by that of a local forest farmer:

"...I can ring up the firm at any time if I want to sell my mahogany to the company, but the company does not mind if I want to sell it to the local market..."

From this information, it can be assumed that there is no binding arrangement between local forest farmers and the small forestry company, even though the company has provided fertiliser. The assumption by the farmers has been that the company probably has sufficient timber supply from somewhere else. This type of partnership was not arranged with a formal written agreement.

**Company views on its operation**

Opinions have been expressed by the large forest company staff that socio-cultural background has strongly influenced the cooperation it receives from local people. In some villages (Asam Asam and Jorong), where local Banjarese people lived, cooperation with the large forestry company has been going well. The characteristics of local culture have a positive impact on the partnership, as Banjarese obey and respect farmer group leaders who are normally called *guru*[^1]. In accordance with its ethnic characteristics, the acacia plantation has been well-maintained by this group, as a senior manager stated:

"...I love Banjarese people, they are committed. The acacia trees planted by these people are growing well and are healthy. We have never had any problem with them. Their characteristics are different from the transmigrants living in this area, some of them can’t be trusted, lack of commitment..."

[^1]: My research assistant who is a local ethnic Banjarese informed me that individuals whom people respect are usually called “guru”. People obey these individuals as they are religious, wise, and have a respected family background.
Compared to the Banjarese, the Javanese are natural cultivators. It was readily observed that residential areas in the two villages had vegetables, spices, fruit trees, and some forest tree species in their yards. Also, Javanese are faithful to their leaders only if they are trustworthy and honest. If villagers found their forest farmer group leaders were dishonest, it would be difficult to regain members’ loyalty. Dishonesty was shown by one of the forest farmer group leaders, which affected the partnership being developed between local farmers and the large forestry company.

Another obstacle being faced by the large forestry company was insufficient staff to handle the program, as controlling such a huge area with limited staff was almost impossible. While the company staff was aware that in the implementation of the people’s forest plantation program there had been many hindrances to progress from the company point of view, there were a challenge to be met. Working with various challenges can be a source of workplace motivation.

Planting acacia with local communities on their lands not only provides benefit to villagers, but is also an endeavour by the company to create a better environment. One of its officials preferred to stay in a remote camp provided by the company instead of living with his family in town:

...If we have green surroundings, it is a good place to live. Everywhere we can see a nice view with the green colour of acacia plantation. I like staying here even though my family is staying away in town. The environment is healthy, the air is fresh and the food is good...

Thus, willingness to live in a better environment was shown not only by local villagers, but also by this company individual. The positive views expressed showed confidence the forest plantation could be managed sustainably.

**Government perspectives**

According to one government official, the kind of partnership agreements made between local communities and the two selected forestry companies are not genuine partnerships, because the obligation of the companies is only to provide fertilisers. No equal rights exist in the agreement developed in both Jorong and Takisung sub-districts. According to him:
...from what I have heard about your case study in Jorong, I can say that it was not a genuine partnership mandated by Government Regulation 2007. Although the company’s staff stated it was working with local communities as a form of community empowerment, it was bluffing...

The government officer further explained that under Government Regulation 2007, community empowerment was to be supported by partnership building between forest concessionaires and local villagers. Empowerment under this policy covers methods of developing cooperatives; training local villagers to plant forest trees using the best silvicultural practices; and managing group members in a small local organisation. The guidance under this regulation was clearly to provide the necessities for capacity building in local communities. Compared to those of the outer islands, local communities in Java are well-developed in terms of institutional management and, as such, do not need government interference. The relationship established in Jorong has never been reported to a provincial forest agency and it has occurred in private lands. Therefore, the government does not have any authority to interfere.

The government can only enforce the rule in state forests. However, to support partnerships involving state forests, the government is obliged to enhance local institutional development, such as cooperatives. In addition, it must equip local communities with silvicultural knowledge. Knowledge of methods of creating farmers’ groups, and strategies for the management of local institutions (such as cooperatives), are needed to help local farmers develop a better and mutually beneficial relationship with forestry companies. These opinions were delivered by a senior forestry official.

In Takisung, much private land was planted with mahogany. There were three sources of seedlings for mahogany plantation in this area. First, communities planted their own mahogany by purchasing seedlings with their own money; second, the seedlings were provided by the small forestry company; and third, they were granted by the government. Particular seedlings from the government were available under a certain program called gerhan. This program was initiated by the Ministry of Forestry as part of the national rehabilitation movement or gerhan (gerakan nasional rehabilitasi hutan dan lahan) organised during 2004 – 2007. The program can be implemented in state forest, where it is known as rehabilitation; if its implementation is on private land, it is termed re-greening.
The mahogany species was selected in *gerhan* in reference to the policy that was formally agreed by all levels of government. The initiation policy considered four requirements for planting a certain species, i.e., land suitability, the ease in finding seedlings of selected species, budget availability, and the community’s interests. The government also allocated funds for tree maintenance during the first three years of planting. Based on the interview with district forestry officials, mahogany was specifically chosen because this species is easy to grow, and has low maintenance costs and good market access.

Even though local forest farmers favoured planting rubber trees, the plantation program would be negotiated based on percentages. It was finally agreed that on their private lands, rubber trees were allowed to be planted in 40 percent of the total land area, and another 60 percent should be allocated for mahogany. Thus the government could still implement its policy and local communities’ interest in planting rubber trees could be accommodated. The following opinion was expressed by a senior government official:

...*if the government asked local people what kind of tree species they wanted to plant, the answer must be rubber trees. Then, we must try to seek a win-win solution. The government would still be able to implement its program and we could also accommodate the interests of local people. Then, we agreed to choose the best alternative: 60 percent of their land would be planted with mahogany and the other 40 percent would be for rubber trees*...

Illustration 5.3 provides a brief information about a challenging program aimed at building a relationship between the small forestry company and local communities residing in the village of Ranggang, Takisung sub-district. Opinions from a government official and local communities are briefly presented in the case study, on matters including imposing government policy on a rehabilitation program and why local farmers planted mahogany on their private lands.

There are similarities and differences in perspectives, of both positive and negative kinds of the companies’ operations. In the beginning, the forest companies and communities did not predict that the collaboration would encounter many difficulties. The companies did not
seem to take any precautionary measures in their business, such as in the case of the large forestry company suffering from collapse which eventually affected its partnership with local people. In a broader context, the company was in danger of losing its brand image, which would result in difficulty to regaining public confidence.

Illustration 5.3: Planting mahogany for a better market price

Forest farmers in Ranggang village have been planting mahogany for many reasons. First, fertile land there is suitable for mahogany; second, its low maintenance costs; third, easy market access with the prospect of a good price; fourth, for investment purposes, the land planted with mahogany can be handed down to their children; fifth, their villages can have a better environment and fresher air; and sixth, mahogany planting has been in line with government policy.

Mahogany plantations were set up as government policy under the national rehabilitation movement program (gerakan nasional rehabilitasi hutan dan lahan, or gerhan), even though in the beginning it was difficult for the government to convince local communities to plant mahogany, their preference being for growing rubber trees. Forest farmers believe that rubber trees could provide a ready-cash income and produce regular harvests of latex.

This mahogany plantation policy might be due to a close link between the local government and the small forestry company. According to the interviewees, the company has invited forest farmer group leaders and government staff to visit the company’s processing industry in East Java. However, despite the company providing incentives, the farmers did not want to sell their mahogany to the company unless it paid a higher price for their timber than did the local market. The company also endeavoured to grant fertiliser and seedlings to local farmers to build a close partnership. It was hoped that there would be mahogany timber available in the future for raw material supply to support its furniture industry business.

Source: Primary data collected during February 2011
5.3.4 Stakeholder views on whether the operation reflects CSR

Differing views were expressed by different groups of interviewees, who interpreted CSR in different ways. The variation in views was likely to result from a different understanding and interpretation of CSR. Local communities’ views reflected those of local people with forest farming backgrounds and residents who have been most affected by the company’s operations. The companies referred to all three of those participating in this research study -- i.e., the large forestry company, the small forestry company, and a mining company -- that have been operating at the research locations.

The government representatives are those who were working in the governments at central, provincial, district and sub-district levels. Most of their works would be relevant to local communities, in terms of making policies and designing programs. This group of interviewees also has knowledge of partnerships between local communities and companies, regulations, and various government programs on community forestry development.

The views collected were differentiated according to the following groups of interviewees:

- Local communities’ views,
- Company views, and
- Government views.

Views from local communities

A local farmer compared CSR practice in the forestry company with that of a mining firm. Further, he believed CSR being practised by the large forestry company was not of a high standard. He was appointed by community members to be a group leader who was also a contact person in an ongoing relationship between villagers and the mining firm. He added that CSR practice should continually be explained and guided by the company. Control and monitoring were ultimately necessary for the successful implementation of CSR. He said:

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20 The mining company he referred to was not the mining company being investigated in this research study. That mining company was also operating in Jorong.
...CSR being practised by the large forestry company is not CSR. I experienced CSR being implemented by a mining company in this village, and believe that CSR should be based on continuous communication, control and guidance. These efforts need to be made seriously if the company wants their CSR to succeed...

The cooperation had been by signified by a signed partnership agreement between local villagers and the firm. Strong support for the partnership was also provided by the head of village in signing the agreement. Even if he was hesitant about putting his signature on the paper he had no choice. The reason behind his hesitancy was that during the process of entering into agreement he was not requested to involve himself in the discussion, and when everything had been set up; he was the last person to sign the agreement.

He did not want to impede the almost finalised arrangement of the cooperation. His doubt was expressed thus:

...in the beginning of the cooperation, the village head had never been requested to be involved in the discussion. The role of the village head should be taken into account in the discussion; as such I can provide suggestions and advice. I was the last person to sign, so I had no choice but to put my signature on the paper, because I don’t want to delay the agreed commitment from making further progress...

In implementing CSR, a main factor for the company to consider was respecting village leaders. The company should not merely discuss related matters with forest farmer group leaders. A village leader has authority over anything that happens in the village. Also, he was the person responsible for the whole area of the village and his contribution should have been given priority. His said:

...when problems happen in the ongoing relationship, I can’t do anything; I can’t help local communities, as from the beginning I was not involved in the discussion and arrangement process...

From the interviews and focus group discussion, it was revealed that a hidden agenda has existed in the large forestry company, related to the question of whether CSR practice was of genuine assistance to local people in generating income. The agenda that motivated the
company staff was achieving a production target. Partnerships began, and various efforts were made by a number of people, including company staff, local cooperatives, villagers, village heads, and forest farmer group leaders. However, some local villagers understood that what the company described as CSR practice was only lip service. His view was along the lines that socially responsible actions are primarily carried out to improve a company’s image (Herman et al., 2012)

Negative impacts on the partnership were not only faced by the large and small forestry companies. The mining activities being conducted were also observed to have negative implications for local people living on the coast-line (Suarangan village), in terms of sea water pollution and huge deposits of under-water sand. These sandhills that were spread over the sea-bed by the company have caused problems for fishermen’s nets. The sands were merely set up to assist the company’s ships as a baffle for oversized waves. This opinion was expressed by a group of local villagers in a small shop in the village21. For example:

...what made the fishermen in our village upset was the sands being spread by the company on the sea-bed have caused the nets to get stuck under the sea. This really disturbed us when we tried to catch fish...

Local fishermen are among many stakeholders that have felt direct negative impacts from the mining company operation. The incident did not reflect the theory that a business should conduct its governance and CSR policies ethically, in order to be a ‘responsible citizen’ that can meet the expectations of the public (Hurst, 2004). In addition, although the mining business contributes largely to state revenue and strengthens the national economy, at a local level it causes problems affecting local people (Garvin et al., 2009).

Companies’ views

CSR as it was viewed by the large forestry company was only about communities’ inclusion. Despite the complex problems it was experiencing, CSR as a partnership with local communities was still being practised by the company, and still generated positive feedback

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21 I interviewed this group of people on my preliminary field work organised in 2009. In this area it is common for people living in the villages to have a long chat with their neighbours at local small shops; particularly after lunch time, local villagers tend to seek fresh air and have a kind of socialise.
from local communities. This was particularly so for villagers who thought that planting acacia provided many benefits. Several company staff were also dedicated to their work as they came from a forestry and loved being on the site maintaining acacia. Whether or not the company’s practices have reflected CSR, the company needs local communities to work in its massive timber plantation development. As maximising profit is still the primary goal of a business (Friedman, 1962), firms often neglect elements of CSR including ethics and the environment.

In the case of the small forestry company, CSR was being implemented because of the company’s willingness to develop a positive relationship with farmers from whom it could buy mahogany timber for its furniture industry. Some relationships were formalised into an agreement, while others remained informal.

In the mining company’s operations, assigned individuals continually assist with the CSR program until it is successful, and seek solutions if problems are encountered. The mining company is responsible to the communities in line with its national CSR program, and specifically for community development at the mine site. These three companies, therefore, have different interpretations of CSR that are reflected in their policies and activities.

**Government officials’ views**

A senior government official indicated that CSR practised by the large forestry company was like a shortcut to accelerate timber production, so that the company received maximum benefits, whilst its concern for the local community has been a minimal. According to a forestry official:

*...CSR activities were only a cunning strategy of the company’s, as the company would obtain two benefits: a good image and tax incentives...*

Further, the government official added that a partnership is achieved only if the parties have a mutual benefit, but local villagers were used merely as a labour supply. The company’s responsibilities were outlined in detail in the agreement; however in practice it has met almost none of them.
5.3.5 Stakeholder perspectives on how company operations can be enhanced to better reflect contemporary standards of CSR

I collated stakeholder perspectives on how this company’s operations could be enhanced to better reflect contemporary standards of CSR from in-depth interviews and a half-day FGD. Local individuals expected that CSR in forestry should copy the practices of a mining company; and that they should always be intensively guided and controlled. Participants in the FGD described enthusiastically what they wanted from acacia plantation programs on private lands. The FGD attendants delivered their views partly in order to be heard by company staff, as individuals from forestry and mining companies were also present at the FGD.

The views from local communities, companies, and governments at all levels, as well as from other parties can be grouped into the following sub-sections:

- Forest farmer perspectives on better implementation of CSR;
- Company perspective on the enhancement of CSR practice; and
- Government views on supporting CSR standards.

Forest farmer perspectives on better implementation of CSR

At the FGD, most participants expressed their intention to continue the partnership agreement with the large forestry company, as long as clear detailed information and written commitments were given by the company -- for example about the harvesting time. Strategic systems could also be adopted such as staggered planting times for acacia rather than extensive planting at the one time:

...planting acacia is actually providing benefit for local communities. What people need is a continuation of the cooperation; for example, this year the planting can be managed in one hectare, next year acacia can be planted on another one hectare of land. In the future, the harvesting could be organised continuously...

Planting acacia can also enhance the community’s knowledge about silviculture, specifically how to plant and maintain acacia:
...for those who have direct involvement in acacia planting, local villagers will understand and learn how to plant and maintain acacia...

Better implementation of the relationship between the large forestry company and local villagers could also result from supplying information on the draft agreement. Individuals who were interested in developing a partnership could read the contents of the agreement before participating in acacia planting. Further, he stated that if the program were well-organised it would change the mindset of local people. For example, cutting trees down had been a common form of unacceptable behaviour, but after cooperation was built with the company, local villagers would think twice before felling them:

...if the program could be well-organised, this would change people’s mind-set. For example, it is a habit of local people to chop trees down without thinking about any risk or other negative impacts; but after the partnership agreement was set up with the company, local communities would seriously consider many aspects before cutting the trees down...

The perspectives given by local people in regard to this partnership differed from those of local forest farmers living in other villages on the small forestry company’s efforts to improve partnerships and its CSR program, to support people’s livelihoods. Several suggestions were provided by a forest farmer group leader to enhance this ongoing cooperation. The following statement contains one of them:

...if farmers require some money to fulfil their needs, the company could buy mahogany even though it is not ready to be cut down because the trees are still too young. At the end of the rotation period (within 10 years), the company could cut the trees down whenever they wanted for their industry...

His advice was based on his experience that sometimes local villagers need money unexpectedly. In such a case, local people could borrow money from the company with whom they developed a partnership agreement. The loan would be organised using the mahogany trees they possessed as surety. Another view of how to improve the partnership with the company was as follows:
...there might be an option for CSR practice of granting cattle with benefit sharing of 50:50 percent when the cattle are sold, without any responsibility of the company to provide fertiliser while the plantation grows in the first three years...

Cattle raising is one of many reliable income sources for local communities. If the company could provide support for this kind of income generation, rather than fertiliser, it would be more beneficial for villagers. In rural areas where people’s livelihoods rely on cattle raising, providing cows to local villagers would be more helpful. After the cattle are sold, the money will be equally shared between the company and the farmer, without deducting how much money the farmer spent for providing grazing land or how much the company initially spent to buy cattle. This simple arrangement was believed by forest farmers to be an acceptable form of assistance.

In regard to CSR practice associated with the mining company, local villagers were expecting that the company’s operation would not harm their livelihoods on the coast-line. As explained during interviews with local people in Suarangan village, most were fishermen; the company’s system of impeding oversized waves from the sea by installing sand baffles underwater was definitely harmful to local fishermen. The company’s concern for local people’s livelihood is crucial in order to obtain a social licence to operate. CSR would also have been difficult to implement if the villagers were resistant to the mining company’s operation.

**Company perspectives on the enhancement of CSR practice**

The large forestry company staff declared that the budget allocated for CSR was sufficient for the successful implementation of CSR activities, as a sufficient budget can solve any problems happening in the field. The following opinion supports this view:

...As we had enough budget funds to practise CSR, we weren’t worried about any hindrances we could face in the field. As you see, many local villagers claim the acacia was planted on their land. We can pay those who have enough legal documentary evidence that the land belongs to them...
A further opinion was that there have been many similar cases in the concession areas. These should be resolved fairly by the company without hurting local villagers, who claimed that the land has been handed down from their ancestors. Providing compensation to the claimants would be a win-win solution.

In the case of the small forestry company, taking local forest farmer group leaders to witness the company’s processing industry would be an option to attract farmers. Even though, furniture making was not an interest of local people, they could learn about the timber industry. For the mining company, on the other hand, mingling with local people in a relaxed situation would be beneficial to developing a relationship with them. As a result, issues could be informally discussed and solutions sought in a friendly manner. A mining company representative declared that his home was away in another province, so he often chose to work beyond his contract hour, enabling him to socialise with the local communities. This ability to form a close relationship with local communities appears an important factor for the success of CSR. This opinion was given by a senior official of the mining company: without taking part in communities’ activities, the company would not understand their culture, behaviour, habits, and problems.

**Government view on supporting CSR practices**

A senior government official in Jakarta stated that the government was interested in encouraging the collaboration but the nature of partnership has not been fully understood. He explained further that the government should intervene when the position of a community was weak, but gave no further explanation of his opinion. This perspective was slightly different from that of a provincial forestry staff member, who declared that the government could not be involved in the on-going partnership because the plantations are located on private land. It was right and duty of landowners to manage their own lands.

Another view from a female senior government official was that in CSR practice as managed by a forestry firm, community empowerment should cover several aspects, including: how to create and develop cooperatives; training of local communities to foster knowledge of planting and maintain trees; also how to create a farmer group and develop a local organisation, and other information that enhances local institutions. The government could
also set and control timber prices as it does in the case of rice; also information about timber prices could be published widely so local communities could have easy access to it.

She added that grants of seedlings as organised by the small company did not constitute a partnership or CSR because they were not associated with equal rights. In such a case, the company expected merely to ensure its business continuity. By contrast, the expectation of local communities in developing the partnership was based on tebang putus\textsuperscript{22}, where farmers cut the trees down for urgent needs, such as cash for a marriage ceremony for their daughters\textsuperscript{23}. If the company intended to practice CSR, equal rights should be given priority. Thus the company should also be concerned about the expectations of local communities.

The senior government officer further said that these equal rights should be set up in terms of income and profit generation. Local villagers should put a value on their labour for working on their own lands. Her view was supported by the following statement:

\begin{quote}
...partnership is indicated by having a similar level of advantage in terms of income generation. Equal sharing should be organised based on a community’s contribution. People’s knowledge of tree cultivation should be improved while valuing their labour on their properties fairly...
\end{quote}

She suggested that the local government should encourage local communities who planted forest trees on their lands. Incentives should be created for these communities to motivate forest farmers to plant more forest tree species, as well as for others to plant them. In Jorong where many people sold their land (\textit{with its five-year-old acacia}) to a company for planting palm oil, she advised the government to improve to improve local institutions in the villages in terms of management, human resources capacity, and knowledge about working in an organisation.

From the analysis above, it is evident that each stakeholder had a willingness to improve cooperation. A number of suggestions for improvement were made by individuals. Better

\textsuperscript{22} An Indonesian term for felling trees based on farmers’ needs. Any time the farmer needs money, he or she can cut down the trees and sell them for ready cash, usually needed for special occasions, such as marriage, circumcision, and death. \textit{Tebang} means ‘to fell trees’, and \textit{putus} means ‘stop’, the overall meaning is the agreement can be stopped at any time when the farmers need to cut down the trees.

\textsuperscript{23} In Indonesia, traditional ceremonies commonly need a great deal of money as hundreds of people are invited.
CSR practice in the future depends on stakeholders making time to discuss problems together, to seek improvements.

5.3.6 Newspaper analysis

To gauge the breadth of opinion on company–community relationships expressed in the newspaper, I organised media discourse analysis. The articles being collated were from three popular local newspapers, and related to a mining company’s operations. A summary of public perceptions about CSR is shown in Figure 5.14.

Positive and negative views appeared in the local newspapers regarding the mining company’s activities. However, negative information dominated their pages. This tendency would eventually influence the company’s brand image as declared in an article recently published in the Jakarta Post (Appendix 7). The grouping of the articles according to topic was arranged to highlight the most dominant issues and when the articles were published. Also, I measured the length of articles (in cm) to indicate the likely importance or interest of the topic to the public. The grouping was organised as presented in Table 5.4 and the graph (Figure 5.15).

Figure 5.14: Public perceptions published in the media
From the period 2005 – 2010 inclusive, there were a total of 42 articles about the company in the three newspapers. The issues covered included royalty payments, the environment, overlapping areas with forestry, flood, reclamation, infrastructure, education, and religious celebrations.

Table 5.4: Issues in the three local news papers (number of articles and column length)

<table>
<thead>
<tr>
<th>Issue</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>Total column length (cm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overlapping area with forestry</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>14</td>
<td>459</td>
</tr>
<tr>
<td>Reclamation problem</td>
<td></td>
<td>3</td>
<td>4</td>
<td></td>
<td></td>
<td>1</td>
<td>467</td>
</tr>
<tr>
<td>Environment</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td></td>
<td>3</td>
<td></td>
<td>417</td>
</tr>
<tr>
<td>Flood</td>
<td>1</td>
<td>1</td>
<td></td>
<td>2</td>
<td></td>
<td></td>
<td>182</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>2</td>
<td></td>
<td>84</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td>124</td>
</tr>
<tr>
<td>Religious celebrations</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td>44</td>
</tr>
<tr>
<td>Royalties</td>
<td>1</td>
<td></td>
<td></td>
<td>2</td>
<td></td>
<td></td>
<td>172</td>
</tr>
<tr>
<td>Total</td>
<td>1</td>
<td>4</td>
<td>5</td>
<td>10</td>
<td>22</td>
<td></td>
<td>1949</td>
</tr>
</tbody>
</table>

Table 5.4 is represented as a bar graph in Figure 5.1 which shows the number of articles using the height of bars, with the aggregate newspaper column length shown at the right side of the graph. Table 5.4 shows the aggregate column length for each topic recorded in each year (in centimetres), indicating the likely importance of the issue of resource company activity in articles published in the media (as stated by a journalist, interviewed on 5 February 2011). The greatest amount in column space was about overlapping areas between other sectors and forestry, and appeared in 2010. The second greatest number of column centimetres was about reclamation problems which continued to feature throughout 2007 and 2008. Photo 6 in Appendix 1 shows the forestry area that has been overlapping that of mining activities, as an example of a negative impact of the issuance of the Ministerial Regulation 2009 on the status and function of forest areas.
The collected of articles on CSR practices published in the three selected newspapers were mainly about negative issues conducted with the mining company. This company ran a giant mining business operation. Therefore, from the journalists’ perspective, mining activities were more visible than were forestry operations. Mining would generate more wealth and thus would have a more negative impact on the environment.

This inference is supported by the following article:

*based on a research conducted by the Regional Environmental Impact Controlling Agency (Badan Pengendalian Dampak Lingkungan Daerah or Bapeldalda), South Kalimantan, reclamation of around 20 percent of the total mined area has not yet been organised. The 20 percent covered in an area of between 15 – 20 thousand hectares [Radar Banjarmasin, 7 February 2007]*
A local indigenous person, who had lived in the mining area for decades, claimed that the area had belonged to his ancestors. He was reported as saying that:

_reclamation is just sweet talk and lip service, in fact, the mining companies left tens of lakes full of polluted dark water [Banjarmasin Post, 24 December 2008]_

From Figure 5.15, the highest number of articles (14) was about the overlapping area between mining activities and state forest (see also Photo 5 in Appendix 1), of which 13 emerged in 2010. The occurrence of the contentious actions was mainly in 2010. In response to this issue, the provincial police office paid considerable attentions to this illegal activity, and put a police line around the mining operation, which made the activities stop. Even visiting parliamentary members from Jakarta who came to the mining area, in an an endeavour to approach and negotiate with the police director to remove the police line, were not successful.

Five articles about the reclamation problem appeared within the period from 2007 to 2010, showing the company did not take any responsible actions to effect reclamation. Reportage of environmental issues addressed an environmental disaster affected by the mining operation in Tanah Laut district. Almost every two years since 2005, flooding has been identified in Jorong. When flood has occurred in the location, the firm has provided assistance to local villagers affected by this natural disaster. Flooding was also said to be mainly caused by the mining operation.

The articles indicated that the three community development activities reported, i.e., in infrastructure, education, and aid for religious celebrations -- were organised by the company as a positive and supportive program for the communities. Infrastructure articles covered road and school building constructions. Road construction was primarily useful for local farmers to access their farms, as normally farms are located far from residential areas. The CSR program in education was associated with various training skills programs held in order to assist villagers develop home industries. Donation were given by the company for any occasion related to the Muslim religion, but only one article about this activity was published (in 2008). The “royalty” category informed readers that the royalties owed by the mining company had not yet been paid to the provincial government. Only one article about this issue was found in the newspaper (published in 2005).
I also analysed current articles on CSR in a prominent Indonesian media outlet, namely the Jakarta Post, in an edition which was published on 23 June 2011 (Appendix 6). An article entitled ‘Should CSR obligations be binding in RI?’ (*RI is an abbreviation for Republic of Indonesia*), was about whether CSR practice is obligatory or voluntary for Indonesian businesses. Since the enactment of the Limited Liability Company Law in 2007, this issue has been debated in both the media and other forums. From the perspective of an official from the large forestry company, no matter whether CSR should be imposed by the government or CSR regulation should be enforced, the company must involve local communities in its acacia plantation, otherwise it could not run its business. The involvement included employing local people in its concession areas and in its cooperation with local communities in private lands.

Plantation of acacia and mahogany in private lands organised by the large and small forestry companies was not categorised as an appropriate CSR activity. Other factors that make for better environment should also be included in their CSR practices, such as: making bio-pore holes, using compost rather than chemical fertiliser, reducing the use of plastic bags, and other ‘go green’ activities. The article also highlighted disputes between private companies and wider society. This is relevant to the prolonged conflict between the large forestry company and local communities in Jorong – as a result of which - some locals have sold their lands to a palm oil company. Furthermore, the article stressed that the enduring conflict could significantly harm the company’s production target, as suggested by the company’s experience with its acacia plantation partnership.

### 5.4 Summary

According to forestry companies studied in this research, the inclusion of local communities in massive industrial forestry plantation is a form of CSR practice, regardless of the unfair benefit sharing mechanism designed by the companies. In its carefully worded program description, one of the companies has shown the wider communities (stakeholders and shareholders) that it has embraced local communities in its plantation development. However, the partnership developed with local villagers in private lands as a form of CSR was merely a cunning strategy in the achievement of its production target. The large forestry company was aware that in its concession areas in state forest have been problematic. There have been
difficulties such as overlapping areas with mining company operations and the palm oil plantation industry; also many lands in the areas were claimed by local people. As a result, the company could not expect its timber production to come only from its concession areas.

Despite the company’s hidden agenda, many community members were willing to continue the planting program in private lands for several reasons. First, the plantation can be handed down to their children and grandchildren. Second, planting forest tree species can provide shade and fresher air for their villages. Third, forest timber plantation can also be a good source of fresh water. Fourth, many still believed that planting tree species could provide cash income in the future. The opinions of most of the program’s participants were mainly positive, although they wanted several improvements to be made by the large forestry company – such as better communication, more information, and adequate guidance.

The small forestry company, on the other hand, approached local communities by inviting them to visit its furniture processing industry in East Java and taking them to sacred Muslim places. This arrangement was intended to persuade local communities to sell their mahogany solely to the company; as the senior manager of the company attested the quality mahogany planted by local communities was prospective benefit for its furniture industry. Also, to create a better relationship with local forest farmers, the company provided fertilizers in order to aid mahogany cultivation. However, local forest farmers considered that their mahogany timber would only be sold to the company as long as the company bought it at a higher price than the local market.

However, a number of forest farmers still believed that the company had good intention of developing a relationship with them. Accordingly, the farmers have been looking after their mahogany plantation. Their opinions were that better quality mahogany timber would result in a better price. An experienced farmer suggested that to improve the partnership, the company should not grant fertilizer to local forest farmers but give them assistance with cattle and offer a loan scheme. A loan scheme could be arranged by offering a loan to farmers in need of cash using mahogany as a mortgage. Positive views still predominated about the relationship being developed from government, local communities, and the company.

The CSR practices of the mining company were found to be better organised compared to those of forestry companies. The motivation shown by a senior manager in always
encouraging the staff to engage in CSR will lead towards its successful implementation. Also, the appointed staff members were asked to always monitor, control, and evaluate CSR activities which ensured these goals were achieved. Clearly, many interviewees from local communities expressed positive views on the CSR programs being developed by the mining company.

The key results identified from this chapter include:

- Complex problems were faced by the large forestry company, e.g., part of its concession area was officially designated by the provincial government for other uses (area penggunaan lain or APL); and the overlapping operational area of mining and palm oil firms with the forest concession area has dramatically reduced the size of the lands available for acacia planting. The large forestry company also faced a difficult financial problem. As a result, to achieve its production target, the company developed a partnership agreement with local communities on private lands. The partnership was formed in a way that acknowledged the company applied CSR, despite its narrow understanding of this concept as involving local forest farmers in acacia plantation to achieve its production target -- rather than helping local farmers to improve their livelihoods.

- Similarly, the small forestry company implemented CSR in mahogany planting in private lands of villagers using a partnership arrangement. The company’s understanding of CSR was limited to providing assistance to local villagers to grow mahogany with seedlings and fertilizer grants, as well as market access for the mahogany timber. The company offered to buy the villagers’ timber at the market price. However, the offers and grants provided by the company could not stop the villagers selling their timber to other buyers. The villagers argued that the company did not keep its agreement, and the practice of CSR was only focused on continuous timber supply for its furniture processing industry.

- There was a lack of information and explanation from the large forestry company on the acacia planting program. The villagers also had limited knowledge of their rights and responsibilities based on the agreement. A scholar suggested that in partnership arrangements, local communities should be informed of their rights and responsibilities (Mayers & Vermeulen, 2002). As it happened, local communities were willing to join the
partnership agreement in view of several promises given by the company without knowing that later the program might become problematic.

- Lack of communication was also revealed as a substantial issue in the company – community relationship. The roles of the forest farmer group leaders and cooperative heads were important in solving this problem. Instead of mediating between the parties, these individuals had worsened the communication problem so that it remained unsolved. The agreements were in the possession of the cooperative and forest farmer group heads but they appeared to avoid providing the forest farmers with copies of the signed agreement. The reason for this secrecy that the more farmers knew about the contents of the agreement the more they would protest to the company, the cooperative and the head of the forest farmer group.

- The relationship between the large forestry company and local villagers was ruined by a lack of transparency in terms of agreement content, resulting in a lack of trust of the villagers in their leaders (e.g. forest farmer group leaders and cooperative heads) and the company. These leaders should have been acting on behalf of communities, not as the company’s representative, despite the fact that they received a monthly salary from the company. These issues appeared to be one of the hindrances in implementing the partnership or CSR activities in this forest plantation industry.

- The selling of land was another hindrance to the partnership being built between the large forestry company and local communities. It was revealed that many farmers sold their land with its well-grown acacia to a palm oil company at a very low price because they needed cash for several purposes. The land sale were also caused by several problems in the partnerships, such as lack of information, transparency, and trust.

- Local culture appeared to have an influence on the partnership. The ethnic groups involved in acacia plantation were the Javanese and Banjarese. The Banjarese were more obedient than the Javanese, particularly to the farmer group leaders. The leaders as guru were normally respected and religious persons. The acacia plantation has been well-maintained by the Banjarese ethnic group, which has been a favourite of the large forestry company.
• CSR activities in the mining company appeared to be better organised compared with those of the forestry companies. This reflected a better understanding of CSR by the mining company. The CSR activities were aimed at future needs of local communities rather than their immediate needs. These activities were found beneficial by local people as they covered training and micro-economic development. Although, some minor problems were revealed, local communities particularly those residing in Ring 1, took advantage of these activities to support their livelihoods.

• Newspapers play a crucial role in disclosing information about CSR as organised by the companies, particularly in determining public opinion of the company – community relationships published in their pages. Their coverage of CSR activities was dominated by those of the mining company. Naturally, from journalists’ perspective, mining operations were more visible, generated more wealth, and would have a more negative impact on the environment than forestry activities.
Chapter 6
Discussion

6.1 Introduction

The findings presented in Chapter 5 revealed positive and negative views about the CSR practices of the three selected companies. On this basis, the companies should identify constraints and convert them to challenges to run their business in natural resource extraction in South Kalimantan. This chapter presents a discussion related to the key research questions. The analysis and dissemination presented in this Chapter are guided by the theoretical framework described in Chapters 2 and 3.

The three major research questions will be analysed in three separate sections, each of which briefly presents a mind map to observe how companies practise CSR globally and assess why they behave as they do. The hidden agenda of the three selected companies clearly emerged after carefully assessing their implementations of CSR, their poor understanding of this concept, and the strategies being used to achieve their business goals. Local communities, on the other hand, needed to be continually informed about the on-going relationship -- a simple form of respect -- as they believed they had become hosts to newcomers, namely, companies having operations near their villages.

6.2 Diverse understandings of CSR and its principles

There is evidence that companies have diverse understandings of CSR that affect how it is accommodated in their business strategy. The reasons behind their implementation of CSR were sometimes designed to be in such a way that they were beyond the grasp of local communities.

Figure 6.1 summarises an array of understandings expressed by the large and small forestry companies, the mining company, and local communities. The figure also shows an overview of narrow understandings and interpretations of CSR that only focus on corporate strategy, such as profit motives and attempts to be seen as a good corporate citizenship. Contradictory attitudes or behaviours were shown by the companies in the implementation of CSR, which
could clearly be seen in their activities, causing the paradoxes in the plantation partnership being developed with local communities.

Figure 6.1: The paradoxes of CSR practices in Jorong sub-district, Indonesia

It is relatively easy to identify situations in which the very success of a company’s corporate strategy results in negative social and ecological consequences (Waddock, 2007). From the results presented in Chapter 5, a hidden agenda is revealed as the reason why the large...
forestry company has adopted CSR in its business strategy. This agenda of the company’s was contradictory to its stated understanding of CSR. Experts have explained that CSR should be correlated with ethical values, or moral obligation (Seeger & Hipfel, 2007). In this way, contradictions between a firm’s theory and practices such as that just described can be avoided.

Mixed views on CSR collected from the different villagers and corporations showed that there was no common understanding about CSR. The forestry corporations’ view of this subject differed from that of the mining company. Their understandings substantially influenced their CSR programs. Local communities expected the programs to assist them to increase their income generation. Further analysis, including theories, understandings and practices of CSR, is presented in the following paragraphs.

6.2.1 The large forestry company

As declared by Archie Carroll (1979), to show ethical responsibility is to conduct business morally -- to do what is right, just and fair. In the early stage of developing a partnership agreement with local communities, the large forestry company had been encouraging in its attitude to them. Its intentions were written in a legal formal document containing detailed provisions about the rights and responsibilities of the landowners via their forest farmer group. Yet, upon its field implementation, the first party (the company) lacked commitment. The agreement had only ‘looked good on paper’ as it was contradictory to the implementation at the field site, which later created problems. As a result, the company has been saddled with a bad reputation and tarnished image. Although, the Forest Service Partnership Guide defines partnerships as “…people, organizations, agencies, and communities that work together and share interests” (National Forest Foundation, 2005, p. 5), it appeared the large forestry company neglected the guidance provided by the National Forest Foundation (2005).

Ethical responsibility has not been shown in this respect, as the company has ruined the trust of local communities in partnerships. Therefore, instead of helping communities to generate an alternative income from the plantation, the company has annexed the unmaintained private lands, to be used for developing timber forestry plantation. The large forestry company has ignored ethical principles because it was entirely focused on profit maximisation, by
endeavouring to expand the plantation. It also behaved unethically in breaking the provisions mentioned in the contractual partnership agreement.

The very detailed agreement had been formulated only to persuade local communities to let their lands be planted with acacia. This ploy has successfully induced local communities to voluntarily participate in timber plantation development, without considering the future impacts of their participation. Under the appearance of ‘CSR’, the company showed stakeholders (e.g. local and central governments, NGOs, and media) that it had behaved ethically and was concerned about local communities, without revealing its stratagem. Also, there was no single institution responsible for monitoring the implementation of the agreement; therefore, when a problem emerged, there was no institution provided by the partnership agreement to find a creative solution for local communities. Significantly, the heads of village and sub-district had no intention of assisting local communities, although they had already signed the agreement as witnesses.

In such a case, not only the company lacks ethical values in its business but also the local government at village and sub-district levels. Despite being the most powerful stakeholders in their area, they showed no willingness to act on behalf of local communities, neither did forest farmer group leaders that should have been on the landholders’ side, in supporting local communities to fight for their rights.

The large forestry company’s view of CSR was based on its own understanding, no matter whether the community received a positive or negative impact from its CSR strategy. Several underlying factors have contributed to the CSR practices of the large forestry company. These include:
- A profit motive;
- An effort to attract broader communities to its operation;
- Improving the capacity of local institutions; and
- An endeavour to be a good corporate citizen.

**Profit motive**

In business management, it is necessary to foresee future benefits of relationship building with local communities, including aspects of local village society not directly related to
resource markets, such as culture, type of livelihoods, custom, and habit. It is also important to carry out cost and benefit analysis prior to establishing a contractual agreement with local landholders. Failure to conduct this process could create complex problems. For example, the company lost some of its investment when many villagers sold their land along with the five-year-old acacia to other companies, the total area sold being around 300 hectares. The loss included expenses associated with previous land clearing, seedlings, planting, and maintenance.

The large forestry company dealt with landholders merely on the basis of business-as-usual, focusing on profit and achieving timber production targets. Garriga & Mele (2004) indicate that a company’s practice of CSR can be categorised according to instrumental theory, where CSR is only a means to collect profit so that the business - community relationship is intended to produce one-sided economic benefits. This situation reflects four aspects of social reality, i.e. economics, politics, social integration, and ethics. These four aspects are the focus of hypotheses in the most relevant CSR theories and related approaches (Garriga & Mele, 2004); and have originated from four aspects in any social system: adaptation to the environment (related to resources and economics), goal attainment (related to politics), social integration and pattern maintenance or latency (related to culture and values) (Parson, 1961). The economic benefit of the business – community relationship is closely related to Friedman’s theory that the only responsibility of business towards society is profit maximisation (Friedman, 1970). Therefore, ethical theories have not been referred to in the account of the relationship between local communities and the large forestry company. These theories are based on principles of “the right thing to do or the necessity to achieve a good society” (Garriga & Mele, 2004, p. 60).

Mayers and Vermeulen (2002) argued that partnerships should incorporate closeness and equity, and also seek power equilibrium. Closeness as explained by these scholars, in terms of interaction and communication, was clearly identified in the partnership in Jorong -- although it was still very limited and managed through local institutions (FFG and local cooperatives). Equity does not mean equally shared, but is simply about proportionate power and a balance of the parties’ interests.

A partnership is defined as groups of individuals or organisations that agree to work together on specific tasks, sharing the risks as well as the benefits (Mayers & Vermeulen, 2002;
The partnership agreement with benefit sharing of 60:40 (between the company and landholders) was only replicating the previous experience of an acacia plantation program conducted in another province. The senior manager of the company, who designed the MHR program, had worked in another firm and applied its scheme in the large forestry company. Greater profit (60 percent) went to the company because it financed and organised each component of the whole acacia plantation establishment. The local communities obtained less (40 percent) than the company because they merely let their abandoned land be planted with acacia. The communities had no obligation to expend resources on the plantation. With the predetermined benefit from the sharing mechanism, the company foresaw profit that would be realised upon harvesting the acacia. The company believed that within an eight-year rotation period, a predictable timber supply could be achieved.

However, in CSR practices, social welfare improvement should be a top priority (Steiner & Steiner, 1994). In the research location, the indication of better social welfare was simply determined by the villagers’ ability to purchase a motorcycle. The multiple uses of this mode of transportation made it popular among local villagers. For example, it can be used for transporting them to work, including to their farms, and delivering their children to schools. Indeed, they can use it as a taxi enabling them to collect cash outside working hours; or let it to be rented temporarily to workers coming from other districts, provinces, or islands.

A similar indication was observed in the villages in cases where some individuals planted their land with rubber trees. A local villager stated that their community status symbol was a motorcycle. However, the fluctuation of the latex price becomes an issue: when the price falls the villagers sell their motorcycle, and they buy a new one when the price increases. Therefore, income generation is influential in the consumption patterns of local communities. CSR in the large forestry company has not played an important role in supporting long-term and regular cash generation for landholders, as expected by local communities at the beginning of the cooperation. As a result, the company’s CSR practice has not yet enhanced their livelihood.

The contractual agreement between local communities and the large forestry company was used as an umbrella for a number of deals between the parties (Mayers & Vermeulen, 2002), rather than giving genuine assistance in maintaining unproductive land. For example,
maintaining private land for the purpose of the company’s business was understood to be quite risky as the land does not belong to the company; nor does state land to be managed by the company.

According to Hyakamura et al. (2007), in this kind of situation, a company’s operation is driven by the profit motive. If its financial condition was stable, its budget for CSR would be carefully determined by the company, so that the overall financial performance of the company would not be affected. The data shows that maintaining one hectare of private land costs Rp. 4 million (approximately US$ 400), which is 50 percent of the total plantation maintenance cost per hectare. The remaining 50 percent might be allocated for non-technical expenses, such as extinguishing bushfires with labour procured from the landowners, and meeting arrangements with local communities to organise the initiation of the partnership. With total private land of about 2,700 hectares, the company allocated funds for land maintenance of approximately US$ 1.08 million (Rp. 10.8 billion or thereabouts).

Later in 2012, when its data collection was next reported, the large forestry company was hit by severe financial turmoil, so that its survival was threatened. Instead of gaining in profitability, the company missed its timber production targets and lost much of its income. As a result, it was sold to an investor. Financial problems had been suffered by the company since the late 1990s, so that it was strongly affected by the global financial crisis. The new investor was having a corporate conglomerate, that included forestry and mining businesses in Jorong in its portfolio. The management of the newly purchased forestry company was informed it would be absorbed into that of the mining division, so that its forest concession area might be used for mining activities.

A new management strategy on MHR was introduced with the possibility of rubber tree plantation replacing acacia. This replacement might be organised after the end of the rotation (around 2013 – 2014). Rubber trees were chosen simply because they are the trees most favoured by villagers, compared to other popular species planted in the villages. Also, from in-depth economic analysis, rubber trees are considered more profitable both for the company and local communities.
An effort to attract broader communities to its operation

Establishing a partnership agreement with landholders on the basis of acacia plantation provided multiple benefits for the large forestry company as discussed in Chapter 5. Using this agreement it attempted to build its image, so that its operation would be well-recognised by local communities, shareholders, government at all levels, and other elements of wider society.

The company strategically designed two programs (refer to Chapter 5) -- developing forests with communities (mengelola hutan bersama masyarakat or MHBM) and managing people’s forest (mengelola hutan rakyat or MHR) -- that clearly highlighted the importance of the community’s involvement in commercial timber plantation. These two programs were described by the company as CSR.

In a broader context, both programs showed stakeholders -- in particular investors, shareholders, consumers, and governments -- that the company allowed local communities to participate in the timber plantation industry. The names chosen for the two programs could strategically enhance the company’s brand image, as local context has been put into consideration in forest management. This window-dressing is relevant to Davis’ theory of CSR which takes into account the local context in business practices (Davies, 2002). However, the local context seems very broad in this general theory. Indonesia is a diverse country with approximately 17,000 islands; and about 300 ethnic groups, each of which has a distinctive culture. Therefore, the term “local” in this research was restricted to the people, economics, and culture of specific places within the two sub-districts, Jorong and Takisung.

Upon the implementation of these “community sound” programs, the large forestry company declared CSR practices had been built into its management strategy under a legal partnership agreement. However, a theory of partnership (Mayers & Vermeulen, 2002) has stated that business development through partnership might be an alternative solution for timber companies facing a shortage of timber supply. There are several ways in which concession holders, such as the large forestry company, may cooperate with local communities (Ravikumar, Andersson, MWangi, Guariguata, & Nasi, 2012). Local communities also face quite a challenge in practising commercial forestry; thus they have a strong willingness to build partnerships with companies as a possible strategy for handling problems such as the
lack of technical expertise and market access (Nebel, Jacobsen, Quevedo, & Helles, 2003). Others argue that forestry should be encouraged in areas where communities reside, in order to take advantage of mutually beneficial opportunities (Nepstad, Azevedo-Ramos, & Lima, 2005). Ravikumar et al. (2012) identified three main types of cooperative partnership agreements between local communities and forest concessionaires:

- benefit-sharing agreements,
- management sharing or co-production agreements, and
- forest management out-grower schemes.

Benefit sharing agreements offer opportunities for profit-sharing to members of local communities -- whilst management sharing provides contracts that assign specific forest management responsibilities to community members, and specify the compensation for performing such actions. Like benefit sharing, management sharing is a broad category of possible arrangements between concession holders and communities. Many tree-growers in Indonesia are actively managing timber resources along with forest concession holders. In this situation, tree-growers sell their products to concession holders at mutually agreed prices (Nawir, Santoso, & Mudhofar, 2003). This type of partnership represents both benefit sharing and management sharing, indicating that these types of cooperative arrangements are not mutually exclusive (Ravikumar et al., 2012). Forest management out-grower schemes offer contractual partnership agreements that ask local community members to sell their products - - harvested from their individual or community land -- to the concession holders for a mutually agreed price (Vidal, 2004). Out-grower schemes are commonly practised in South Africa (Mayers & Vermeulen, 2002). The partnership developed in Jorong was categorised as a benefit-sharing agreement, whilst the Takisung partnership was typical of forest management out-grower schemes.

Similar practices to those of Indonesian forestry companies have been revealed in other countries. Blowfield (2005) observed that partnership forming may be effective in building relationships with communities and other stakeholders; indeed, this strategy has become a global business trend. These theories, however, did not examine how partnerships could provide benefit to local communities, or how they could improve the welfare of local villagers. In particular, there is no indication given of how this strategy could support
livelihoods of villagers in terms of regular income generation while they are waiting for forest tree species to be harvested.

Much of the discussion in this thesis has referred to MHR, as this program was organised in local people’s private lands. For broader communities and stakeholders, the title of the managing people’s forest program could be interpreted as: first, managing forests that were likely to belong to local communities; and second, profiting from forests that were planted and maintained by local communities. With such a program, the company could create a sense that it belonged among landholders. Thus timber plantations would be well maintained and could produce good quality timber. The company’s expectation of an alternative timber supply from private land could be fulfilled (see Chapter 5).

By joining the MHR, local villagers were to derive income from land maintenance. As landholders they had a right to be given wage to maintain their own land. In the agreement (see Appendix 2) it was clearly stated that:

> In the case of private land being managed for industrial timber plantation, the land holders had to be encouraged to maintain their land. For such work, the landholders would be entitled to receive payment based on the standard rate applied in the area.

Also, the work had been organised on a contractual basis regarding place, time, and workers involved. However, some villagers complained that the company did not comply with the formal legal agreement. The landholders had never been employed; instead the company hired obedient and industrious workers from Java, which made local villagers feel deeply disappointed. Profit-making and social responsibility are generally in conflict (Rosser et al., 2008b), as companies can easily violate social obligations for profit maximisation. As a consequence the company neglected ethical value embedded in CSR. Despite several hindrances faced by the company and local communities in sustaining the relationship, a positive future partnership is still possible. It was revealed in one of the focus group discussions that both parties still fully believed that planting acacia could provide some advantages for them and would possibly be continued.
Improving the capacity of local institutions

CSR is understood by the large forestry company as involving communities in commercial timber plantation. To involve local communities and develop a relationship with them, it was necessary to approach local institutions. The local institutions acted as representatives of local villagers. The establishment of these institutions (e.g., cooperatives and forest farmer groups or FFGs) to mediate between the companies and landholders was necessary for ease of communication, as well as control and monitoring of the program. The main role of these institutions was to form a bridge between the company and local communities because it was not possible, with its limited staff and resources, for it to communicate directly with the large number of people who owned the area covered by the agreement (around 2,700 hectares of land). Institutions are enduring regularities of human action in situations structured by rules, norms, and shared strategies, as well as by the physical world. The rules, norms, and shared strategies are constituted by human repetitive actions and situations.

An institution can also be understood as a regular behaviour pattern sustained by mutual expectations about the actions that others will take (Crawford & Ostrom, 1995). The rules and norms in the forestry company – community relationship had been established via the partnership agreement. Each party should follow rules and norms as written in the provisions of each section of the contractual partnership agreement. Scholars have stated that locally evolved institutional arrangements governed by established communities and secured from outside forces have sustained resources successfully for centuries (Dietz, Ostrom, & Stern, 2003). Legal agreements were signed by the cooperative or FFG on behalf of communities, which meant that a single individual who owned land was unable to enter into a partnership agreement.

At the initiation stage of timber plantation, the cooperatives or FFGs were responsible for many tasks -- for example, searching for abandoned lands and seeking the owners of the land. They convinced villagers to voluntarily join the program, as they had been assured that the company would perceive its commitment as written in the obligatory agreement; and that there would be liaison between the two parties. Local cooperative and FFG heads would also control and supervise the plantations. As acknowledged by Mayers and Vermeulen (2002), third parties can provide various guarantees of land ownership, the main requirement for individuals to join a local farming institution.
Because of their responsibilities, in some ways local institutions acted similarly to the company’s staff -- that is, as an extended arm of the company. A local farmer stated that there was an incentive given by the company to the heads of cooperatives and FFGs. Therefore, these groups have dual roles, working on behalf of both the communities and company. A summary of the dual roles of local cooperatives and FFGs is presented in Figure 6.2.

**The company’s endeavour to be a good corporate citizen**

The main goal of businesses (apart from making profit) is to build (good) corporate citizenship (Waddock, 2007). Prior to practising MHR, the large forestry company organised CSR practices including some aid for a local school: a grant of several computers for primary school students. This grant, however, could not provide long-term benefit to local communities. Therefore, MHR was introduced to help landholders manage their unmaintained land, and thus the profit would be proportionally shared between the company and landholders upon harvesting the timber.

The preamble of the agreement specifically mentioned that:

*In the land owned by villagers, where located near the surrounding concession areas, there was grass, bush and other evidence of unproductive land. This land can be managed cooperatively by the large forestry company and local communities in a way that is beneficial for both parties.*

By adopting this program, attempts were made by the company to be a good corporate citizen. Its initiation was fully supported and received a good response from government at both sub-district and village levels. The local government role in supporting the relationship is consistent with Confucianism which has very much influenced businesses in Asia (Whelan, 2007). Whelan (2007) also argued that in contrast with Western business -- in which contracts remain fixed for the entire period agreed -- in Asian businesses contracts tend to relate to be interpreted differently according to the conditions at the time (Backman, 1999 in Whelan, 2007).
Figure 6.2: Dual roles of local cooperatives and forest farmer groups (FFGs)

The large forestry company expected a local cooperative/FFG to:
- protect forest plantations from illegal logging and forest fires
- supervise local farmers in tree maintenance
- guarantee land farmers’ landownership rights
- guide local communities on plantation maintenance.

Local communities expected a local cooperative/FFG to:
- guarantee the company will not take the land
- ensure the company will commit to the agreement
- apply fairness in partnership arrangements
- communicate appropriately regarding the partnership agreement
Therefore, lack of commitment is common in Asian business. Although not all business actors behave in an irresponsible manner, the contractual partnership agreement like that developed between local communities and the large forestry company can be changed at any time -- according to social, economic, and political situations. In such a case, the company’s relationship with local communities via the binding contract could be changed and would not be restricted to the agreed contract period. The economic condition of the company was revealed as the main cause of the partnership problem. Thus the ethics and morality of CSR seem to be have been excluded from the relationship building process.

In the case of the partnership, the head of sub-district showed his approval by signing the contractual agreement. With his signature, the government became involved in the partnership. This was considered a form of intervention from the local government. Government intervention in business society is common in Asia, and is rooted in Confucianism, where each individual is expected to obey “social norms of conduct”. These norms apply to five groups of relationships, i.e., that between ruler and subject, father and son, husband and wife, elder son and younger son, and elder person and younger person. According to Confucius, it is important that “the government should work for the greatest welfare of the people and the best economy for the nation” (Hsu, 1932 in Whelan, 2007). Therefore, for the sake of people’s welfare, the government can intervene in any form of business, in particular where there is an involvement of a large number of citizens.

As is common in Asian business practices, the company broke its commitment as recorded in the agreement when its financial situation changed, and became unstable because of the economic crisis in 2008. Moreover, in 2012, another company took over the business which caused substantial changes to its management. Of approximately 300 staff members employed in the old company, the new management only retained 10 individuals, because the new company recruited new staff members. This situation also made the partnership more uncertain and the local community observed its unclear status on the future benefits for its members of acacia.

Given that businesses’ orientation is profit (Hyakumura, Seki, & Lopez-Casero, 2007), many observers believe that companies apply CSR practices mainly with the objective of being a good corporate citizen and improving their brand image. CSR is thus used only for cosmetic purposes. Business activities may not run smoothly if the company had a negative reputation.
In addition, a firm’s being part of the community is widely believed to make its business sustainable.

### 6.2.2 The small forestry company

By contrast with its profitable processing industry in East Java, the small forestry company had a very limited number of employees at its operation in South Kalimantan. The company appeared to be using minimal staff to gain maximum profit. It had a minimum number of people employed in its small office in Jorong which had minimal facilities. There were only two staff members working in this office that handled its management and dealt with local communities. CSR implementation was found to be a vehicle to maximise its economic performance. Behind CSR, there are several goals, e.g., alternative sources of timber supply, endeavouring to attract farmers and local government, and a profit making strategy, as explained below.

**Alternative sources of timber supply**

The small forestry company regarded forming a partnership with local villagers as a way to find an alternative source of raw material for its furniture industry. The manufacturing operation was managed in East Java; it consisted of two factories and employed about 300 workers. As its timber supply came from its own plantation area of only 700 hectares, the company could face a shortage of timber supply, which would impede its business sustainability. The issue of timber shortage was the main reason for the partnership -- thus a similar strategy to that developed by the large forestry company has been used.

The small forestry company has been aware of the need to build a partnership with local communities to ensure its business sustainability, and the partnership is a part of its CSR practices. CSR in this context was used by the company as a vehicle to support its business through ensuring a sustainable raw material supply; this behaviour showed it had a poor understanding of CSR.
Endeavour to attract farmers and local government

As well as attempting to be good corporate citizens, a majority of private companies, including forestry corporations in Indonesia, also focus on profit making by means of a continuous timber supply. This intention was evident in a statement made by a senior manager of the small forestry company, that he had not been worried about a raw material shortage for his furniture industry as he trusted that farmers in Takisung, South Kalimantan, planted good quality mahogany in their lands. His intention was to approach local farmers to persuade them to sell their mahogany solely to his company.

One of the firm’s key strategies was inviting three local FFG leaders from Takisung sub-district and two district government agency staff to visit its furniture industry in East Java. Another key strategy used by the company was to develop a good relationship with mahogany farmers by granting them fertiliser. The main purpose of this grant was to help the mahogany to thrive, and therefore ensure good quality timber could be produced. With better raw material, the company can sell its furniture at a better price, resulting in greater profits. The farmers would also be pleased to be able to make their mahogany healthy and profitable.

In order to impress the government officers and FFG leaders, a Moslem religious tour was also organised by the company. All the costs were covered by the company. However, this effort failed to motivate FFG leaders to interact with the company, by selling their mahogany timber exclusively to it, as evidenced in the following opinion:

"we are not interested in selling our mahogany to the company; there are many local buyers available in the district who can buy our timber at a higher price than that offered by the company..."

Another view was expressed by a farmer:

"we don’t want to lock ourselves into a written agreement with the company, because we are unwilling to limit ourselves to selling our timber exclusively to the company...

The negative response given by the farmers influenced the perspective of the senior manager of the small forestry company. From two interviews conducted at different times with the
senior manager, it was clear his perceptions changed. At the first interview he was confident that he could succeed in his expectation of obtaining a timber supply from local villagers. In contrast, at the time of the second field visit, he was pessimistic about his relationship with local communities because he experienced little commitment from them.

Thus, the arrangement made by the company did not place the FFG leaders, or their members, under a sense of obligation. During interviews with the leaders, they said that they would not sell their mahogany to the company, unless it paid a higher price for the timber than local markets. The local communities appeared to be acting as a ‘price setter’ in this situation.

As stated above, the company also endeavoured to attract government staff by hosting them on a visit to its two furniture factories in East Java, together with FFG leaders. There were two reasons that the company designed this self-serving strategy. First, it intended to seek general support from the district government under which it operates. Second, the company would probably have tried to induce local government authorities to devise a policy that required local farmers to plant mahogany as part of the central government initiative program (Chapter 5). The company arranged the whole trip for the government staff members with all costs covered by itself, which is considered a corrupt practice. These government staff members would have been aware of the implications of receiving this benefit. Not surprisingly, they did not provide this information; I obtained it from local FFG leaders.

Table 6.1 presents the company’s expectations of local farmers and the district government officials as a result of granting a free field visit to its industry in East Java, and providing fertilizer to local farmers in Takisung, respectively. Company-community partnerships in the forestry sector are based on predetermined strategies to support the company’s business interests. Similarly, for what has been done by the small forestry company in granting such an arrangement, specific expectations would have been designed, as presented in Table 6.1.

The strategic approach designed by the company had a positive impact according to one of the interviewees from the government. In contrast, it was later revealed during a focus group discussion in Takisung that several landholders had exchanged the young mahogany for rubber trees out of impatience.
Table 6.1: The small forestry company’s expectations from its strategic approach to farmers and government staff

<table>
<thead>
<tr>
<th>Types of grant</th>
<th>Company expects from the farmers</th>
<th>Types of grant</th>
<th>Company expects from the government staff</th>
</tr>
</thead>
</table>
| Free visit (n=3) | - Selling mahogany solely to the company  
- Taking part in controlling and monitoring the plantation  
- Maintaining the plantation  
- Social acceptance by local communities |
| Fertiliser (n=15) | Growing quality timber for the company furniture business |
| Free visit | - Supporting its business in the local area  
- Imposing its specific policy program for farmers to plant mahogany (e.g., under people’s forests or national program on land rehabilitation-gerhan)  
- Taking responsibility in controlling and monitoring mahogany plantation |

Similar to communities in Jorong, villages in Takisung are also in favour of rubber trees due to several factors indicated in Table 6.2. Table 6.2 shows the different characteristics of four species (e.g., rubber trees, palm oil, acacia, and mahogany) planted by local villagers. These factors have been influential in the process of rubber trees becoming a favourite species for villagers. They include price, time of harvesting, environmental impacts, maintenance, frequency of harvest, marketing, and financial transactions.

**Profit making strategy**

Several efforts have been made by the small forestry company to boost profits. These include constructing a factory in Jorong, granting mahogany seedlings to landholders, and approaching government officials at both central and district levels.

**Constructing a factory** in Jorong could be used to show local communities that the company had a serious intention of building a relationship with villagers. However, from an economic perspective, it costs less for timber to be processed in a local factory if it is transported to a
Table 6.2: Characteristics of four species commonly planted by local communities (data collected from farmer interviewees) n= 36

<table>
<thead>
<tr>
<th>Factors</th>
<th>Rubber trees</th>
<th>Palm oil</th>
<th>Acacia</th>
<th>Mahogany</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price (median)</td>
<td>Latex US$ 1.2 (Rp. 12.000) per kg</td>
<td>US$ 1.8 (Rp. 1.800,-) per kg</td>
<td>Kalimantan: US$ 50 (Rp. 500.000,-) per m3</td>
<td>US$ 165 (Rp. 1.650.000,-) per m3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Java: US$ 240 (Rp. 2.400.000,-) per m3</td>
<td></td>
</tr>
<tr>
<td>Rotation time</td>
<td>- 5 years (latex)</td>
<td>4 years</td>
<td>7 years</td>
<td>10 years</td>
</tr>
<tr>
<td></td>
<td>- 25 years (timber)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental impacts</td>
<td>- Grass cannot grow, prone to flood</td>
<td>Dry out surrounding farmland</td>
<td>- Land becomes infertile</td>
<td>- Grass can grow</td>
</tr>
<tr>
<td></td>
<td>- Prone to forest fires in dry season</td>
<td></td>
<td>- Dominant/spreading species, other species cannot grow in its surroundings</td>
<td>- Soil becomes more fertile</td>
</tr>
<tr>
<td>Maintenance</td>
<td>Easy</td>
<td>Difficult</td>
<td>In the first three years</td>
<td>In the first three years</td>
</tr>
<tr>
<td>Frequency of harvest</td>
<td>Every day (harvests of about 10 kg each day)</td>
<td>Every 6 months (1 hectare can produce 1,500 kg every 6 months)</td>
<td>Every 7 years (one rotation)</td>
<td>Every 10 years (one rotation)</td>
</tr>
<tr>
<td>Marketing</td>
<td>Easy (collectors pick up latex every day at front doors)</td>
<td>Average (need to inform the company to collect palm oil from their houses)</td>
<td>Easy (the company will organise the harvest)</td>
<td>Average (need to call a buyer for the harvest)</td>
</tr>
<tr>
<td>Financial transaction</td>
<td>Collect cash at the front doors</td>
<td>Cash can be gained right away or after waiting for several days</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall popularity with farmers in study site</td>
<td>High</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
</tr>
</tbody>
</table>

Note: 1 US$ = Rp. 10.000,-
processing plant in Java. Commenting on this economic perspective, the senior manager observed that building a factory can provide several advantages, including: less transport cost for timber processing; the furniture produced can be immediately exported; the ready availability of workers in the villages; and the location of the factory being close to its plantation.

Nevertheless, some hindrances were still being faced by the company. These included lack of continuity in the timber supply since many local landholders refused to sell their mahogany to the company, its own plantations being too immature to harvest. In the interview organised in 2012, the senior manager expressed the opinion that he had looked at an alternative timber species available in the villages in order to boost profits. *Acacia mangium* plantations like those established by the large forestry company were an option. Since the large forestry company had a complex problem with its business operation, including its processing industry, the small forestry company could take over the harvesting of the acacia for use in its furniture.

**Granting of mahogany seedlings to landholders** was organised by the company to enable it to forecast available timber supply and profitability gain over a 10 year period. Strong efforts have been made by the company to develop mahogany plantations on private land, including the granting of mahogany seedlings and approaching forest farmer group leaders to monitor and control the plantations. The district government also provided a guarantee by forming an agreement with the company, that the government would encourage local communities to plant mahogany and the timber would be marketed solely to the company. The agreement was enthusiastically formulated by the forestry firm’s district staff after the company showed the interested parties its factories in East Java. The government staff saw it as a good opportunity for villagers and a way to support income generation. On one hand, the company successfully enthused these local government officials about supporting its business. On the other hand, local landholders were not easily approachable, as several farmers stubbornly resisted the company’s overtures.

There was a substantial impediment to the seedling grant strategy organised by the company. As mentioned above, some farmers cut down the mahogany and planted rubber trees instead. Several reasons for farmers to fell the young mahogany saplings and replace them with rubber trees were identified, i.e., frequency of latex harvest, the ease of market access, and
speedy financial transactions (see Table 6.2). A wealthy environmentalist farmer in Takisung regretted that if only they could have patiently waited for another five years, their mahogany would have been highly profitable. Also, the ability of these trees to generate income would be similar to that of rubber trees, or even greater. The maturation period for rubber trees to reach the point where they produce latex is five years. The landholders in this case only looked at their short-term economic value without exploring their long-term environmental impacts.

Approaching government staff at both central and district levels was also an objective of the company in order to maximise profits. Beside several discussions with senior forestry staff, the senior manager of the company attended a meeting in Jakarta. On these occasions, he expressed his interest in obtaining access to financial resources through a loan from a banking facility. In Indonesia, the forestry business sector has not been supported by the financial system; banks are unwilling to provide loans to forestry companies due to their high risk levels and long-term financial return structure. By contrast, the operations of companies that have agricultural businesses are facilitated by bank loans. This situation was made possible by policy designed to support agricultural sector development, which involved several government institutions (e.g., the National Development Planning Board, Parliaments, and the Ministry of Agriculture). The small forestry company manager desired that the same treatment given to agriculture businesses should be available for the forest industry sector. However, this endeavour has not produced any favourable response from the government. At the district level, the company maintains a good relationship with forestry staff members and wants them to impose a policy aimed at developing mahogany plantation.

6.2.3 The mining company

A range of activities had been conducted by the mining company that were intended to build a good relationship with local communities, as it endeavoured to be a good citizen. The junior staff assigned to handle community development understood that, without being guided by the continuous support of senior staff, these activities would not have been successful. In addition, the staff members were well-trained before being given their CSR responsibilities. In order to guide and facilitate local communities, the company educated its staff to be knowledgeable in properly handling activities, and interacting with locals. The mining company was aware of the importance of communicating its activities to wider
society. Also, there has been a clear recognition within the company that corporate responsibility matters (Waddock, 2007).

**Brand improvement orientation**

The displaying of the company’s logos, as well as the promotion of its mission and activities, in any form of media release revealed that it expected to be recognised, and therefore anticipated that its brand image would be improved. In addition, by sponsoring sporting events the company appeared on television, as well as in newspapers and magazines, and thus enhanced its corporate reputation. It also publicised its CD activities often in local newspapers to demonstrate its responsible practices.

In its lavishly produced annual report, the company also advertised its successful CSR programs; its concern for local communities residing near its operations; and the usefulness of these programs in helping local people to enhance their livelihoods. This information was presented in bi-lingual form (English and Indonesian), so that broader communities could easily understand it and be made aware of the firm’s programs, resulting in a better company image.

**A shortcut process to be socially acceptable**

The company practised CSR in a wide range of CD programs, with the intention of becoming socially acceptable. The company’s approach in this regard was to fulfil the local community’s needs, although sometimes there was a lack of economic and social analysis shown in the grants provided. Also, after these grants had been provided to local communities there was no follow-up evaluation of the programs, or further guidance given from the company. As a result, no long-term relationship was built. For example, local communities needed seedlings for banana planting. However, follow-up actions had never been organised, such as advice on how to maintain banana trees, how to treat disease outbreaks, and where the villagers could market the bananas. Thus being socially acceptable does not always mean fully providing for villagers’ needs, but might be seen as merely trying to please them in the short term.
Attempts to be a good corporate citizen

Company managers are willing to some extent to make the company look good to investors and employees in the broader social context, where demands that they act as a “good citizen” have dramatically increased in recent years (Waddock, 2007). To this end, various attempts have been made as reflected in the company’s website and annual reports, as well as on some sign boards in the entrance of the company’s office. For example, in its annual report of 2010, it states:

*We successfully made concrete gains in all areas, further supported by tangible improvements in Quality, Safety and Environmental (QSE) Management, Good Corporate Governance (GCG) and Corporate Social Responsibility (CSR) aspects*

Its company profile states:

*Our management places a high emphasis on good corporate governance and achieving the highest standards in our business practices, corporate social development, health, safety and employees’ welfare. We strongly believe in sustainable development and the creation of long term value for our shareholders*

Another proof of its attempt to be a good citizen is shown in one of its mission statements:

*To promote and contribute to the development of society by acting as a good citizen and contribute to the company and society*

These intentions which have been embedded in the company’s management, and formulated into its various policies and programs have led to cosmetic actions, and the covering up of negative impacts of its operation on both society and the environment. There is evidence that most mining companies are now more aware of, and responsive to, community concerns about the impacts of CD programs than formerly.
Rectifying environmental degradation

There has been clear evidence in the field site that environmental degradation has occurred as a result of the company’s operations. While several publications from the company show various CD activities, compared with the negative impacts from its operation, these CSR activities were small compensation. They were therefore most likely created to cover up the destructive environmental effect of the mining. Substantial profits were gained from its production (in 2012 the company produced one million tonnes, and from 2007 to 2009 its annual production was 3 million tonnes – see Table 6.3) but the budget allocation for CSR remained very small (it amounted to US 7 cents per tonne). Therefore, with a limited budget for CSR activities, not every individual in the affected villages could have the opportunity to benefit from them. Some villagers were pessimistic, saying that it would have been better if their areas had not been subjected to the companies’ operations at all as the environment had been destroyed. They preferred their area to be the quiet and peaceful village that it was before the companies came to manage businesses in natural resource extraction.

Some interviewees also attested to the fact that only a very small number of local people can work in the company’s business. Therefore, only members of this minority were economically advantaged by its presence. The remaining villagers were still working in other sectors, such as teaching, trade, smallholder businesses, agriculture, and fishing.

To sum up, key characteristics were identified in CSR practices undertaken by the selected large and small forestry, and mining, companies. These companies showed strong similarities and differences, in terms of their understanding of CSR, program design, activities organised, local arrangements, staff assigned, support from senior management, budget allocation, problems encountered, communication strategy, and publications. These are presented in Table 6.3.

From the different characteristics presented at Table 6.3 (which shows the contrast between the forestry and mining companies), CSR in the mining company is evidently better managed than in the large forestry company. Strong support from senior managers is important in making the company socially responsible and leading it to employ personnel skilled in handling CD.
### Table 6.3: Key characteristics of CSR practices in the large forestry and mining company

<table>
<thead>
<tr>
<th>Key characteristics</th>
<th>The large forestry company</th>
<th>Mining company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understanding</td>
<td>The involvement of local communities in both the concession areas and private lands.</td>
<td>In practice, CSR is named as Community Development (CD) and interpreted as empowering communities in order to obtain social licence.</td>
</tr>
<tr>
<td>Program</td>
<td>People’s forest plantation program.</td>
<td>Divided into five main activities: (1) community relations, (2) community empowerment, (3) infrastructure, (4) operational activities, and (5) environmental and natural disaster relief.</td>
</tr>
<tr>
<td>Activities</td>
<td>Planting forest tree species (<em>Acacia mangium</em>)</td>
<td>Charities, building and road construction, various trainings programs leading to villagers being economically independent, as the training can support local communities’ livelihoods.</td>
</tr>
<tr>
<td>Location</td>
<td>Villages located near the company’s concession areas.</td>
<td>Villages that are affected most by company’s operation (Ring 1).</td>
</tr>
<tr>
<td>Staff assigned</td>
<td>One staff member who tends to handle several types of works (e.g. silviculture, production, marketing, controlling, and communication).</td>
<td>Staff well-trained in handling community development.</td>
</tr>
<tr>
<td>Support from senior manager</td>
<td>Minimal support.</td>
<td>Full support</td>
</tr>
<tr>
<td>Budget allocation</td>
<td>50 percent of budget allocated for land maintenance (around US$ 400/hectare).</td>
<td>About US$ 150,000 per year (aggregated from its total production, allocated at US$ 7 cents/tonne) – production in 2012 was one million tonnes; 2007 – 2009: the production was 3 million tonnes per annum.</td>
</tr>
<tr>
<td>Overall problems</td>
<td>- Overlapping of its concession areas with mining, palm oil, and residential areas;</td>
<td>- Nepotism in training participants, as they were selected by Community Consultative Committee (CCC);</td>
</tr>
<tr>
<td></td>
<td>- Many local communities broke the agreement, by selling their lands to a palm oil company; and</td>
<td>- Varied education backgrounds of training participants; and</td>
</tr>
<tr>
<td></td>
<td>- Encountered many land claimants in its concession areas</td>
<td>- Lack of implementation of skills obtained in the training course.</td>
</tr>
<tr>
<td>Communication strategy</td>
<td>To be organised through local cooperative and forest farmer group leaders.</td>
<td>To be managed through CCC.</td>
</tr>
<tr>
<td>Publications</td>
<td>Not available.</td>
<td>- Monthly and bi-monthly newsletters;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Annual report; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Environmental story book for children about concern over a mining operation.</td>
</tr>
</tbody>
</table>
Both companies have had complex problems, such as overlapping usage areas in their concessions, land claims, and nepotism. However, the companies organised different solutions to these issues. Table 6.4 compares the forestry and mining companies’ strategies for managing problems in the field.

Table 6.4: Problem solving strategies used by forestry and mining companies

<table>
<thead>
<tr>
<th>Forestry</th>
<th>Mining</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Bringing the case into court (<em>overlapping areas and selling land</em>)</td>
<td>- Approaching provincial police office (<em>overlapping areas with forestry</em>)</td>
</tr>
<tr>
<td>- Reporting problem to provincial police director (<em>overlapping areas</em>)</td>
<td>- Discussing problems in regular internal meeting (<em>lack of implementation</em>)</td>
</tr>
<tr>
<td>- Requesting the claimants to show legal documents to prove the lands are under their ownerships (<em>land claims</em>)</td>
<td>- Conducting intensive communication with CCC members (<em>nepotism</em>)</td>
</tr>
<tr>
<td>- Paying compensation for those who can prove they own the lands (<em>land claiming</em>)</td>
<td>- Organising a regular informal meeting and communication with CCC members (<em>nepotism</em>)</td>
</tr>
<tr>
<td>- Relying on cooperative and forest farmer group leaders (<em>communication, control and monitoring</em>)</td>
<td>- Keeping up engagement with local communities from top level manager to field staff (<em>nepotism</em>)</td>
</tr>
</tbody>
</table>

Source: interviews conducted during February 2011

6.2.4 Local communities’ response to CSR activities

The analysis of the understanding of CSR expressed by local communities can be briefly presented using five categories.

- Local communities need to be respected, as companies manage their businesses close to villages. In many cases, when firms start operating in a village, their only focus is profit making and production target achievement. Social consideration for neighbouring villagers has been limited. Firms do not yet fully understand the inequity of this situation, which triggers tension in their area of operation,
- Local communities need more action on CSR (e.g., effective communication and regular interaction). They have not judged that CSR being practised by forestry companies has provided any benefit for improving their well-being. Poverty-focused outcomes have not yet been evaluated. Communities have an opinion that if any problem was being faced by the companies, the said communities have never been informed. They expected that any constraint that emerged should be reported, as each party in such agreements generally shares information about issues affecting the partnership,
- Building a partnership without appropriate monitoring and guidance from companies is a recipe for failure. Communities have an opinion that the company has ignored their existence, and they have never been contacted,
- FFG/cooperative leaders should be on the communities’ side, not the opposite, despite receiving regular incentives from the companies,
- Commitment is an important factor in sustaining the relationship.

Each of these will be dealt with in turn in the following sections.

**The value of respecting local communities**

Companies operating in a certain area tend to be ignorant of local communities who have been at the location for tens of years. Indeed, some indigenous people have been living in their traditional lands for millennia. These companies strongly believe that as long as they possess an approval from the government (especially multinational companies with an approval from central government), they can manage the available natural resources as specified in the legal document. These companies are then focused only on profit making, not respecting such things as cultures, customs, and types of livelihoods in the communities affected by their operation. If this situation continues for long, it can easily trigger a serious conflict. To avoid this problem, respect for customary law is important; also companies should engage with the local society, especially by understanding the dynamic process of community decision-making (Wrangham, 2002). Failure in this regard means business activities may not be acceptable to those communities they affect.

Local communities need an acknowledgment of their attachment to their location. They need to be highly respected, which sometimes fails to rate as a priority in business management plans. Informal interactions are worthwhile, especially communicating with respected
villagers, such as village heads and religious leaders. This was considered a basic informal procedure to be followed when some companies have started their business in a certain location. When operating in most Indonesian villages, companies would find that practising CSR helped them follow Davies’ principle (2002) – that business must always take account of the local context of its activities

**Local communities need more actions on CSR**

Many local communities have expected more interaction with companies, based on CSR. Under a partnership agreement with forestry companies, more benefit can eventually be gained from their lands, through knowledge of silviculture practices, land maintenance, timber measurement, and marketing options. Also, an understanding of *tumpang sari* practices for the tree species being planted would be an advantage they could acquire.

Continuous communications will also be needed, in particular about the financial situation being faced by the company which strongly affected the future partnership. One of FFG leaders expressed emotionally that the large forestry company had cut off the communication. Even, its staff who was used to have a regular contact, was unwilling to respond his call. This attitude has dramatically changed his perspective on MHR program, which was previously positive. Within a year it became negative. Nevertheless, communication is pivotal in maintaining the cooperative partnership. Failure to meet this particular factor can cause complex problems.

A different opinion was tapped from local villager interviewees about the mining operation in their village. They believed each member of the community needed to be treated equally, no matter how far their villages were located from the mining activities; as long as their lives were affected by the company’s operation they would deserve to benefit from any activity conducted under CD programs. The similarity between local communities’ views on CSR in the mining company and forestry sector concerned the urgent need for monitoring and guidance of community development programs.

**The importance of monitoring and guidance**

Building partnerships without continuous monitoring and guidance from companies is a recipe for failure. Farmers strongly expected more than just partnership based on short-term
benefit, in which CSR had what they considered to be a limited effect. With intensive monitoring and guidance, close communication between the parties is steadily developed, resulting in a well-maintained relationship. Relationship building between companies and local communities is believed to play an important role in CSR implementation (Eells & Walton, 1961), although this action is considered beyond the company’s direct economic or technical interest (Davis, 1960).

The forestry companies hoped that most of these management tasks would be fully handled by FFGs or local cooperatives. However, within the limited capacity of these institutions, it might not be possible to always monitor and provide guidance for plantations spread among different villages and with a very large total land area. For example, a local cooperative ‘Jasa Mandiri’, that has organised Managing People’s Forest (Mengelola Hutan Rakyat or MHR) programs with the large forestry company, manages about 1,200 hectares spread over three different locations (see Appendix 3). Therefore, the company’s program on MHR was not fully successful.

**Ineffectiveness of FFGs and cooperatives**

FFGs and local cooperatives were initially established to be parties to partnership agreements. These local institutions were specially created for this purpose, and were legally recognised as business partners in forestry and agricultural sector companies in Indonesia. Given the limited capacity of the companies to deal with large groups of landholders, these institutions would assist a company to interact with their members.

As conflicts emerge in the partnership, these local institutions should take a substantial role in mediating between the parties. The villagers had high expectations of the role of the FFG and cooperative leaders in negotiating with the forestry companies, as the FFG members are also community members. The leaders of the local institutions involved were also chosen by community members, although the idea behind these groups’ formation came from the forestry companies who established the partnership. Their operations are meant to help villagers to interact with companies. Therefore, the roles of the FFG and cooperative leaders should be to take the communities’ side, regardless of the fact that they receive a regular incentive from the companies (see Figure 6.1). However, as they were financially supported by the company, it was difficult for local institutions to be independent. Any complaint from
the villagers about the partnership could hardly be resolved by these organisations, due to their lack of bargaining power and limited capacity to deal with a large number of individuals (Mayers & Vermeulen, 2002).

Many community members criticised the roles of these local institutions, partly because they were powerless when the communities were in dispute with the companies. Some villagers said in a cynical tone that the FFG/cooperative leaders had a very weak bargaining position when it came to negotiation with the company, because they received money regularly from the company. At the initiation stage of the partnership, these institutions played a crucial role in mediating on behalf of both parties, which made them very powerful. Indeed, the copies of the agreement are in the hands of these institutions, so they have sufficient evidence to be able to strongly negotiate with the forestry companies on behalf of their communities. Also, their roles can be to build regular dialogue between the forestry companies and villagers. It seems that these institutions took advantage of receiving funds from the companies, and ignored their responsibility of seeking solutions when problems arose.

**Commitment is a significant factor in sustaining the relationship**

Strong commitment is needed in building a partnership. Moreover, the partnership between the forestry companies and communities was formalised as a contractual agreement which became law, so that both parties had to abide by it. Failure to meet their commitments under the agreement caused complex problems for both parties. This example suggests that commitment is the most important element in any practice of CSR.

When one party could not keep its commitment, the other party would be disappointed. If minor problems cannot be discussed when they arise, they can later become complicated problems. Given that the large forestry company and local communities have different interpretations of CSR, the significant point in this case is that these parties can discuss their differences and seek a possible solution to the problems. The company can use the influence of the local cooperative, forest farmer groups, heads of villages, or heads of sub-districts who approved the legal agreements, to overcome the communication barrier. These actors were intended to be negotiators with the expectation that they would be independent. Also, communication models can be developed that use conflict situations and clashes of interests to generate win-win responses (Deetz, 2007).
Figure 6.3 provides a list of problems that can be informally discussed through a mediation process that is expected to result in the improvement of the people’s forest plantation program.

**Figure 6.3: Problems may be solved via mediation**

Many local communities did not understand the role they would be expected to play when the partnership was developed. They did not know their rights and responsibilities as written in the agreement. Regarding the partnership, the only information they had was that within three years of plantation they could receive a loan from the company; and that they could maintain their land and receive payment for their labour. Short-term benefit was the focus of local communities, although they had limited information.

In summary, the CSR practices organised by the companies involved in this research study are presented in Figure 6.4. The focus of CSR organised by the companies differed, as the large forestry company stressed the increase of people’s livelihoods and maintaining
abandoned private land. Similarly, the small forestry company highlighted people’s welfare in its CSR activities, and assisted local farmers to market their timber. The mining company also arranged a list of activities to improve the capacity of local communities. However, those actions taken under the name of CSR practice were questionable. It is doubtful whether they have been in line with CSR principles in terms of ethical values, being a good corporate citizen, integrating social and environmental concerns, and improving community welfare.

Figure 6.4: Practices of forestry corporations and CSR principles

6.2.5 Questionable CSR practices in the large forestry company

Indonesian CSR practices, particularly in Tanah Laut district, are influenced by the government -- having been clearly recognised in its legislation since 1991 (in forest industry); and particularly promoted in 2007, with the issuance of the Limited Liability Company Law and Investment Law. The large forestry company, to some extent, was confident, it could
practise CSR, according to its own understanding, because it seemed to be following the relevant rules and dictates of the government. This view was candidly stated by one of the company’s officials.

Sadly, some companies may use loopholes to avoid their social obligations or move their operations to jurisdictions with less strict regulation. In some cases, companies may determine that it is actually cheaper to continue acting in a socially questionable and even illegal manner; and simply to pay fines or penalties as a cost of doing business. When this issue has emerged, there has been debate about the bottom line effect for companies value of the morality embedded in CSR. Therefore, CSR practices have been organised by the company merely to comply with government rules or to apply ethical considerations superficially.

It is impossible for the government with limited staff and resources to supervise companies’ activities on CSR in great detail, particularly for the whole forest concession holders having operations across Indonesia. It is not difficult for companies to hide their social irresponsible activities in order to avoid sanctions. In addition, the government has not yet issued specific criteria and indicators as guidelines to be used to control the activities of the companies regarding CSR. The only references are the Government Regulation No. 47/2012, as a subsequent implementing regulation of the Limited Liability Company Law 2007. However, the regulation lacks clarity. In one of the sections the regulation stated that if a company fail to conduct social and environmental responsibilities sanctions may apply, but it does not provide further detail about on types of sanctions, e.g. fine, penalty, or administration sanction

In the Indonesian context, CSR has become a mandatory legal requirement. Its status as national legislation is debatable, however, particularly for the business fraternity, which demands that CSR should be practised voluntarily. It has also been highlighted by the European Commission that interaction with between companies’ stakeholders should occur on a voluntary basis (European Community, 2002). It is, therefore, important to assess the interrelation of ethics, morality, and the law -- although these discrete entities generally look the same because they embody a code of conduct.
Seeger and Hipfel (2007) argued that efforts to legislate for CSR might have limited outcomes as companies only usually take minimal action and avoid the larger issue of moral obligation. Similarly, in their CSR programs, the large and small forestry companies only focused on sustainable timber supply for their businesses. The reason for building partnerships was to help local communities to obtain alternative sources of income and enhance their livelihoods via timber plantation. In the case of the mining business, CSR seemed only intended to attract communities to the idea that the company was caring. As a result, local communities granted the company a license to operate. Compared to environmental destruction caused by the mine, the actions taken to improve the communities’ well-being were considered minimal in terms of moral and ethical values.

On the other hand, the loss of managerial control of business through excessive government regulation may cause an erosion of support for CSR. The commercial timber plantation organised by the large forestry company involved in partnership building appeared to operate only for the purpose of boosting timber production. Therefore, in terms of the partnership, the company took minimal actions to keep its commitments and disobeyed articles of the agreement (Appendix 2); neither has it shown any concern for moral principles in implementing its program.

Morality and ethics tend to be flexible depending on the changing values of stakeholders, while law often imposes detailed strictures regarding responsibilities and is thus more inflexible. Corporations need the flexibility and capacity to respond to the ever changing behaviours and attitudes of diverse individuals within their communities. Also, balancing the competing values of stakeholders is highly challenging; and the law cannot accommodate every possible moral contingency (Seeger & Hipfel, 2007).

In accordance to local experts from the university in South Kalimantan, perspectives on whether CSR should be voluntary or mandatory still vary. A sociologist declared that CSR should be voluntarily practised, because it would have a significant positive impact on a company’s image. However, this practice represents a deep moral obligation for the company management. For example, the large forestry company has greedily exploited natural resources; in return it should provide a program that improves the environment and allows local communities to have a better livelihood. In order to achieve this positive image, the company should bear all financial costs involved, which makes the CSR process very
expensive. In contrast, several interviewees from academia (a forester and social economists) argued that CSR practice in Indonesia at the moment should be mandatory, and regulations legally binding. In other words, corporations should be obliged to apply CSR under a certain regulation.

The term ‘CSR’ was rarely used in public discourse in Indonesia prior to the mid-2000s, yet the Indonesian government has over the years introduced numerous laws and regulations requiring companies to engage in certain types of socially responsible behaviour, -- such as reforestation or forest rehabilitation (similar to the programs managed by the large forestry company) -- although in most cases these have not been properly enforced (Atje, 2008). The latest legislation covering CSR, enacted in 2007, showed a Confucian influence in that government could interfere in the scheme which was originally based on voluntary practices. This policy, however, was strongly opposed by coalitions of interest groups, e.g., powerful members of Indonesia’s capitalist class in the form of multinational companies and domestic conglomerates (many of which are owned by ethnic Chinese Indonesians).

Another issue arising from CSR being mandatory is that if companies were bound by certain requirements, such requirements would create opportunities for Indonesian government officials and politicians to demand bribes from Indonesian companies. In this case, support for CSR would be eroded; and the value of this practice would be substantially reduced if its basis in moral obligation was weakened when it became a legal requirement. In her argument, Sandra Waddock (2007) declared that major economic players, such as financial analysts, investors, and corporate leaders strongly support CSR as a voluntary principle, but prefer to avoid more regulation of their activities.

6.2.6 The small forestry company: How CSR is understood

With a weak understanding of CSR, the small forestry company vigorously attempted to develop partnerships with local communities living in different villages in Tanah Laut district using mahogany plantation. The company had given strong consideration to the community’s characteristics and followed its intention to create a cooperative partnership scheme. Therefore there were two options as to how the partnership would be built -- with both a formal written agreement and an informal arrangement. Approaches were not only made to local villagers via FFG leaders, but also support was sought from local government
authority (see Table 6.1). The small forestry company also developed a partnership with local communities without fully referring to the principles of ethics in its business strategy. Approaches have been made by the company to show its concern on building a partnership with local communities, although it was only a fake relationship with business sustainability becomes a primary goal, as explained below:

- The primary goal of developing a partnership in mahogany planting was to sustain timber supply for its furniture industry,
- Several approaches had been made by the company to engage local communities in mahogany plantation (see Table 4.6). The company also demonstrated its “ethical” concern by granting free seedlings and fertiliser to local forest farmers, with a strong intention of obtaining mahogany timber from local forest farmers to support its business. Therefore, ethical values have been counterfeited by the company so as to sustain its industry,
- Also, as the majority of local people are Muslim, the company “generously” provided a religious tour to sacred places in Java in order to attract forest farmer group leaders to help the company to grow mahogany. The tour had been considered as an induction, demonstrating the unethical manner of the company’s conduct,
- To reduce the transportation cost for timber from Kalimantan to Java, the company planned to build its timber processing industry in South Kalimantan. Therefore, instead of being transporting across the sea, mahogany could be processed in the local area. The company declared that the industry proposal was used to show local communities that it was seriously willing to build a partnership with the communities. However, the main purpose of building the factory was to cut transportation costs,
- By constructing a processing industry in the area, the company demonstrated its clear understanding of the high value of mahogany timber. The company expected the community could also learn that its mahogany timber was potentially marketable and had high value. Therefore, it encouraged communities to plant and maintain mahogany trees properly, resulting in good quality timber products.

The analysis of whether CSR practice organised by the small forestry company reflects CSR principles is presented in the following sections.
**CSR practice for sustainable timber supply**

Similar to the large forestry company, this firm’s CSR was mainly practised by providing seedlings and fertiliser for the mahogany plantations. Investment has been carefully made in order to cultivate profit in the future, with an expectation of a rotational period of about ten years. It is undeniable that the company essentially focuses on profit making, and is fully aware that its CSR practice only serves to hide its real agenda. Various approaches were made to achieving its profit goals, as briefly presented in Table 6.1. However, the inducements offered to senior government staff undermined the local authorities that are influential in a policy decision-making process. Thus, in many cases even if the company is involved in social irresponsible behaviour the government authorities may not be in a position to take action due to the company’s close relationship with local authorities. This community development practice clearly went far beyond CSR principles.

Social and environmental concerns were accordingly highlighted by the small forestry company. This type of rhetoric was enthusiastically uttered by the senior manager in both interviews (I interviewed the senior manager twice); he declared that planting mahogany can provide multiple benefits for local communities, as well as improve the village environment. Various responses were given by local communities about the ‘generous’ grants from the company. Many responded positively by engaging in a partnership agreement with the company, while some negotiated with it without being tied into a formal written agreement.

**The response from local farmers**

Those farmers who received seedlings from the company were obliged to enter into a rigid agreement, which made their mahogany harvesting and marketing arrangements inflexible. In contrast, farmers who only obtained fertiliser were able to negotiate with the company, and had no responsibility to tie themselves into a cooperative planting and harvesting mechanism under a formal legal agreement. Flexibility about when, how, and where to sell their timber was the main focus of this group of farmers. In some cases, they have gradually turned themselves into opportunistic farmers: when it would be highly profitable then they have voluntarily sold their timber to the company, after simply comparing the timber price offered with that of the local market. Therefore, the fertiliser grant that was provided by the company became ineffective and less valuable.
Factory construction and policy maker influence

Factory construction in the village was one of a series of approaches and efforts made by the company to demonstrate its credibility, creating a good image and earning the trust of the community and local government. Particularly, from local communities’ perspectives, the existence of the factory in their villages was clearly intended as evidence that the company was responsible, reliable, and a good partner to work with in mahogany plantation. The factory construction, however, did not change the farmers’ perspective or give them a positive attitude to the company; their view was that the company only concentrated on profit making rather than genuinely practising CSR.

From information given by the ex-forestry official from the district authority, it emerged that the factory establishment in the village was all his suggestion. Another attempt to propitiate this policy maker was revealed in a short interview held in the forestry department central office in Jakarta. His presence in Jakarta was previously arranged by the company’s senior manager. The manager had a meeting and he wanted the ex-forestry official to accompany him for the meeting. A close relationship between the former district policy maker and the manager was apparent, as district forestry policy decision making was strongly influenced by the high determination of the company to develop its business in the district. Constructing a factory was thus considered a substantial means of satisfying the government’s requirements at district level.

To show its commitment to supporting the company’s business, the district forestry office developed a facilitation agreement with the company to the effect that the local government would strongly encourage its citizens to plant mahogany. The formal written agreement was a guarantee that the government’s policy would strengthen the company’s business, and was formally signed by the head of the forestry district and the company’s manager.

The existence of the factory was one of the company’s methods of building trust among local communities; it expected them not to worry about where to sell their mahogany timber on harvesting it. A market was readily available, as the factory distinctly reminded them. With a contractual partnership agreement, the company aggressively promoted multiple advantages from relationship building with the communities, e.g., enhanced local economic development, creation of job opportunities, and supporting the government’s policy on
rehabilitation programs. Therefore, CSR as conducted by the small forestry company has moved far away from the original principles of CSR. Morality that should be embedded in CSR has been replaced by profit orientation.

6.2.7 The mining company versus commercial forestry business: Subjective understanding of CSR

Waddock (2007) argued that corporate behaviour has been widely criticised because it emphasises corporate citizenship, which is merely a smokescreen designed to divert attention from the negative impacts inflicted on society and nature by corporate activities. The mining operation has created air and water pollution, as well as noise, that negatively affected local people who lived nearby. In addition, the mine has caused severe environmental degradation and destroyed its ecological surroundings. To cover up its irresponsible behaviour, CSR had been programmed and incorporated by the company into its strategic management plan. The company had also issued various periodical magazines in order to publish its CSR-related activities. Thus it intended to send the message to communities and other stakeholders that it had been doing well and had been concerned for local communities living adjacent to its operation. The magazines were also used as a means of presenting the company as having a sense that they have ethical and moral obligation.

Being a good citizen by publicising various benevolent activities will impress the public, while behind the scenes, the peaceful villages with their healthy natural environments have been damaged, showing the dark side of success. As the governments at all levels have likely been approached by the company to support its business, any environmental damage caused by its operation will be difficult to repair. The government seems to take the position of pretending that nothing has happened -- and accepts a biased report showing the company has been responsible towards the society and environment. The company’s irresponsible behaviour was likely tolerable because its activities have contributed significantly to the state revenue.

Compared to the two forestry companies, the mining company revealed various activities in support of CSR have been undertaken with mainly positive results. However, after observing its operation, it was clear the environment has been severely damaged, as the extraction process has left huge craters, and the land used for mining has become unfertile. Despite its
program for reforestation, the forest tree species being planted suffered from stunted growth.
The dark side of the company’s activities remained hidden behind its good business performance as reported in a number of its publications, e.g., the annual report, newsletters, several other publications, and its website.

Critics of CSR practices in mining companies have argued that they are only considered as cosmetic activities, that are a lower priority than commercial outputs and go beyond legally required behaviour. These practices are undertaken in order to satisfy social needs and demands (Trebeck, 2009). Therefore, the communities’ satisfaction is a major goal for these companies, which later receive a social license to operate. Similarly, the mining company operating in Jorong attempted to organise various grants and training courses, to enhance its image and become socially acceptable, while hiding the environmental damage produced by its prolonged operation. Sometimes, the selected company in Jorong would agree to provide whatever the villagers demanded, just to avoid disappointing local communities.

The company has operated profitably for many years, as attested by a staff member; from 2007 to 2009, the mine produced coal at the highest level, accruing about 3 million tonnes per year. However, such abundant profit has had negative implications as the mine operations have adversely affected local villagers who live nearby, due to the dust and noise created, as well as by reducing the fresh water supply. A critical view was also expressed by a local NGO official that local communities have suffered deeply from the effects of the mine, so that its physical and psychological impacts are difficult to cure. The suffering of local communities seems not to have been reported to the government authority; or perhaps a control-measure given by the government has not been properly applied to cover the effects on communities of the mine’s business.

The small budget allocated for CSR has been inadequate to fund restoration of the destroyed environment or to enhance local communities’ livelihoods, or even to reduce the current high levels of environmental pollution. Its publications present glowing reports of successful CSR activities, but no mention of the paradoxical nature of these activities as seen in the damage the company has caused. It may be concluded that these programs conducted by the company are not CSR, as it has damaged the environment and local society has been suffering from its mining activity.
To conclude, the practices of many corporations in Indonesia have merely referred to their own understandings of CSR, which do not reflect authentic CSR principles. These principles were originally focused on ethical and moral values embedded in the companies’ management practices. For example, the unfortunate changes in the financial situation of the large forestry company have weakened these values, causing complexities in the ongoing partnerships being developed with local landholders.

Conversely, the ever-changing behaviour of local communities has made the CSR situation problematic, because sometimes it has consisted of illegal activities that severely reduced the value of the investment the companies had made. Lack of commitment and communication were among the biggest issues emerging from the partnership. The intervention of third parties is particularly needed to seek a solution with these community – company relationships – a role that can be taken by local institutions (e.g., FFGs or local cooperatives) or local government at the lowest levels (district or village tiers).

The following section analyses how to instil CSR principles in forestry corporations in Indonesia, which are relevant to their current situation and based on contemporary values. Options produced by the analysis of how CSR can be enhanced through forest community development are also presented.

6.3 Analysis of the adoption of CSR by corporate forestry

The following analysis of how to adopt CSR principles in corporate forestry is presented under four headings:

- Key roles of forest community development;
- Strategies to improve adoption of CSR in forestry corporations in Indonesia;
- Strategies to enhance existing CSR practices through forest community development; and
- The role of governments in facilitating CSR in forestry.

6.3.1 Key roles of forest community development in CSR practices

In Indonesia’s forestry business, community development based on CSR concepts has not been formally regulated yet. However, its practice has been implemented since the issuance
of the Ministerial Decree on Forest Village Development Program (VDP) in the early 1990s. Under this decree, forest concessionaires are obliged to be concerned about communities living in and surrounding their concession areas so as to improve communities’ welfare. Upon the enactment of the decree, however, some criticism was directed at the government that its responsibility for community livelihoods was simply transferred to private forest companies. It seems that the state production forests had all been distributed to concessionaires under a certain lease period for their management. Therefore, the government took a shortcut by imposing its policy on forest companies.

In addition, it was said that this concern over community involvement in forest management was merely a response to the World Forestry Congress which was convened in Indonesia in 1978. The Congress highlighted the vital role of local communities in forest management, as it used the theme “Forest for People”, encouraging delegates of the Congress to reform forestry policy to be more people-friendly than previously. In contrast to this shifting paradigm of forest management policy, the decree mentions clearly that it was not formulated to be “pro-community”; it states that the reason behind the enactment of the decree was to safeguard forest areas from people’s encroachment and reduce the number of shifting cultivators. Therefore, the decree was particularly enacted to prevent local communities from engaging in illegal timber collection from state forest as forest encroachers and shifting cultivators.

The introduction of forest concessionaires was not specifically reported either by the central forestry office or provincial forestry staff to local communities who had freely accessed the concessions’ forest areas. This situation was contrary to the spirit of the World Forestry Congress for which Indonesia has been a host country. At the time the Congress was organised, CSR was not as widely recognised as at the present time. It seems that CSR practices in forestry are believed to have been motivated by this congress.

The spirit of concern about communities initiated at the congress is reflected in the recent global use of the term of CSR, requiring companies to be responsible for communities’ long-term and sustainable livelihoods. In this research study, CSR implementation is seen as slightly different from VDP programs imposed in the past, in terms of location and structural organisation. The location of CSR in the forestry sector (also called as MHR) is in private land, whereas VDP was organised in state forest albeit in concession areas. The structure of
MHR is developed through local cooperatives or FFGs, while VDP was specifically conducted via village heads. Another distinctive feature of MHR is that it is managed with a formal written agreement, similar to common business practices. In contrast, VDP was implemented as various forms of aid, such as building houses and schools, as well as the introduction of various agricultural practices (Safitri, 2009).

The community–company relationship, therefore, is not primarily developed via individuals. Forest community development plays a vital role in the interaction, relationship, and partnership with forest companies. Accordingly, the role of the grassroots organisation needs to be strengthened so that it has a stronger bargaining power. However, the ability of the FFGs and cooperatives to improve local institutional capacity is questionable, because the partnership agreements have been made using private property. Local cooperatives, FFGs, and NGOs could voluntarily provide facilitation or advocacy, but handling so many forest community groups would be almost impossible given the limited number and low capacity of these local institutions.

6.3.2 Strategies to improve adoption of CSR in forestry corporations in Indonesia

To adopt CSR based on its classic principles (addressing social values), first one should understand morality and ethics, and how these factors can be merged into corporate management strategy. This enquiry is a difficult endeavour. It seems from its current situation that CSR implementation has moved away from concerns of morality, and is not focused on social equity. For example, the large and small forestry companies sought alternative timber supplies but claimed that in the process they have applied CSR practices. Besides that strategy, several hidden motives have been revealed that, as in many other business practices, were closely connected to the profit imperative.

Nevertheless, CSR practice can be modified in response to a modern society in which communication and transparency are greatly enhanced by advanced technology, such as mobile phones, the internet, and radio communication. With these types of assistance, communication should not be problematic. Therefore, social concerns can be better managed, in particular by promoting intensive communication which has been considered a pivotal issue by local communities.
It is important to understand the socio-cultural values of local communities prior to CSR implementation, so that CSR programs can be formulated based on the socio-cultural dynamic in the multiethnic villages where mixed-cultures of Javanese, Banjarese, Bugis, Sundanese and other ethnic groups reside. The local socio-cultural dynamic should be integrated with CSR programs (Davies, 2002). Forest communities, which consist of a variety of distinctive characteristics and have diverse needs, require in-depth research so that appropriate CSR programs can be implemented that show sensitivity to local contexts.

Given the dynamic changes of local communities, CSR should also be flexible to follow trends and adapt to new circumstances. The forestry companies need to promptly observe and readily respond to the needs of the ongoing cooperative partnership. For example, rubber trees and palm oil have been considered favourable species for local communities to plant on their land. Convincing villagers to keep the almost mature forest tree species is very important. The companies should inform them that the trees are more profitable than rubber trees and palm oil plantation, and also that they produce a more environmentally friendly plantation that that of the two agricultural tree species. Thus, the illegal harvesting of forest trees can be minimised.

6.3.3 Strategies to enhance existing CSR practices through forest community development

To deal with very dynamic communities, it is worthwhile to develop dialogue among private companies operating in the district, in particular with facilitation from local government. In forestry, where CSR practices are distinct from those of mining companies, there needs to be negotiation to build a uniform understanding about CSR application. These understandings might be directed at how to improve community welfare via generation of regular income from forestry plantation.

Specific guidelines or criteria for how CSR should be applied have not yet been made available in Indonesia, in particular for companies managing natural resources as mandated by the Limited Liability Company Law 2007. This lack of guidance becomes problematic, particularly when there are diverse opinions about the nature of CSR and how it should be applied in the forestry sector and within communities. It is important, however, to negotiate among the primary stakeholders about the planned criteria and guidelines for CSR
development. Such guidelines would enable CSR to be better understood and effectively implemented. Experienced stakeholders (e.g., forestry companies and local communities) should be the main actors in developing the criteria. These negotiations need to adequately account for the ground truth at village level, as that is where the impacts of forestry are usually most acutely evident.

The importance of assigning a staff that enables a company to constantly engage with local communities should be highlighted. These personnel can handle non-technical responsibilities, so that CSR can be highly focused on the improvement of the cooperative partnership with local communities. It is suggested that the appointed staff be well-trained in communication, socio-cultural knowledge, and relationship facilitation (at least this factor has been addressed by the mining company). However, its senior employee who handled CSR (partnership arrangement) was also in charge of production, management planning and other technical matters. Multiple tasking of a staff member in this context is known to be ineffective and inefficient. The employee cannot focus on his/ her role in the company. It seems the large forestry company spent minimum budget resources on paying wages but was willing to cultivate maximum profit. To ensure a successful company-community partnership, the company needs to employ experienced staff for non-technical jobs, as this important factor is highly needed by local communities engaged in the partnership (see section 6.2.3).

Rather than adhering to the abstract principles of CSR, a trade-off between the classical interpretation and current circumstances might be a better way to adopt CSR in Indonesian forestry. The adaptation of this ideal to the ever-changing situations of both corporations and local communities might be negotiated between the parties involved. Yet, the support of government at all levels plays an important role in enhancing the community – company partnership, a relationship that provides multiple benefits for forestry development in Indonesia. CSR programs should accordingly deal with the range of resources available within communities, such as natural resources, human resource capacity, finance, and local institutions. The maximum usage of these assets needs to be explored, by means of which CSR activities can be better organised resulting in maximum positive impacts.

Figure 6.5 provides an overview of the enhancement of CSR in Indonesia’s forestry sector. Local governments at sub-district and village levels can effectively be involved in partnership
building, by providing guidance and advice to local farmers. Local governments can also supply substantial information on these partnerships and their related problems to the central government. This information might be an important input for developing policy relating to

**Figure 6.5: Enhancing CSR in Indonesia’s forestry sector**

![Diagram showing the relationship between forestry companies, forest communities, local governments, FFG/local cooperative/NGO, and policy at national level.](image)
a forestry company – community relationship, e.g., it could be accommodated in a concession permit given by the central government to a forestry company. Therefore, local forest farmers and forest farmer groups could benefit from the forestry companies’ operations in their villages.

Local government with the support of pro-community policy at national level provides a strong influence on the forest company – community relationship (represented by large arrows). The four components that have been placed at the top of the figure are considered to be the primary and important roles factors in better implementing CSR. Also, the role of the Forest Farmer Group, local cooperative, or NGO can be very important in facilitating partnership building in order to enhance CSR in the forestry field in Indonesia. Therefore, forest farmers’ well-being can be significantly improved.

6.3.4 The role of governments in facilitating CSR in forestry

The government might be the most influential stakeholder in facilitating CSR programs. The capacity of forest community development actors needs to be enhanced so that they have more bargaining power when dealing with companies. The role of local governments (particularly at sub-district and village levels) is vital in ensuring local institutions have a better position at the negotiating table, so that when disputes arise with the company, a win-win solution can be cooperatively managed. As seen in the case of the partnership agreement between the large forestry company and local communities, local governments at sub-district and village levels were formally involved by putting their signatures on the agreement. Therefore, approval had legally been given to the company-community relationship. These levels of governments should be effectively involved for the entire period of the agreement, not merely at the commencement of the partnership. Lack of involvement from local authorities may cause enduring conflict between companies and local communities.

I have referred to an opinion expressed by Westphalen (2012) regarding the community – company contractual partnership agreement. This type of agreement cannot be categorised as part of a company’s CSR program because the agreements are similar to binding contracts, as
practised in business society. Rather, the CSR concept should cover ethics (Lockett et al., 2006; Seeger & Hipfel, 2007); the partnership agreement between the large forestry company and local communities did not include any ethical element. Continuous timber supply and profit making are the only focus of the company in building the partnership agreement with forest farmers. Moreover, the company did not refer to the content of the agreement in field implementation and showed a lack of commitment to it. Therefore, conflicts emerged and became widespread in the villages. If commitment by both parties (companies and local communities) was lacking, the contractual partnership agreements cannot be categorised as part of CSR as suggested by Mayers & Vermeulen (2002).

To overcome this problem, strong commitment needs to be built by both parties as both have entered into an agreement. The agreement was formed as a legally binding contract, with the consequences that both parties were required to abide by their rights and responsibilities therein. In addition, cooperatives and local government need to continually control and supervise whether the implementation of the agreement was according to plan. If not, the partnership between local communities and forestry companies would need to be reviewed and evaluated. Then a decision would need to be made as to whether the partnership should be continued. In such a situation, the roles of cooperatives and local government become very important. Supports from NGOs on behalf of communities would also be required to resolve problems with the companies.

Also, farmers’ exchange programs might be helpful, especially for those who are experienced, so that they are able to gain more knowledge from farmers living in other areas (within the district, or in other districts or provinces). This program is particularly useful for farmers to pool their knowledge of how to develop a cooperative relationship with forestry companies.

According to the spirit of decentralization, in which the government at district level plays an important role in forestry resource management, any community-related activities need to be effectively facilitated. Capacity building for those members of its staff responsible for CSR activities is crucial. The staff should be engaged with the majority of local villagers, not just communicating and interacting with FFG leaders. Sometimes, these FFG leaders are only concerned about their works on their own land rather than being responsible for farming
activities of the whole membership (*in interviews with several FFG leaders, they stated that their own forest area was larger than that of the other FFG members*).

### 6.4 Summary

Respect is a significant factor to be considered when interacting with local communities. This regard should not necessarily be shown with a formal approach; informal actions might be more acceptable.

For several reasons, forestry companies are poorly informed about the full implications of development. Therefore, they have a very limited view of CSR as reflected in many of their forestry activities that involve local communities. Nevertheless, in the case of CSR practices organised by forestry companies, local communities would benefit from having their capacity and knowledge improved. As such, they can voluntarily provide free, prior, and informed consent (this term is popularly used by many scholars) and negotiate how CSR is to be expressed in their context.
Chapter 7
Conclusion

7.1 Introduction

This research was designed to investigate the relationship between forestry companies and local communities in Indonesia, as a means to a better understanding of the concept of CSR. The company-community relationship was essentially assessed against the framework of CSR principles and understandings. As my research revealed, often understandings and perceptions of CSR are informed by a simplistic interpretation (e.g., in terms of public relations, sponsorship and aid provision).

The emerging policy context for CSR in Indonesia has also triggered companies to reflect on, and build, positive relationships with local communities. The company-community relationships I reviewed for this research covered various activities, such as establishing forest timber plantations and silvicultural training. These forest timber plantations offered potential long-term investments with benefits for both the companies and communities involved. However, during the wait for plantations to be harvested, problems often emerged, such as illegal action by local communities in search of a ready cash income by means of selling land or felling timber without permission from forestry companies.

The emerging policy related to CSR also has motivated companies to practice some form of CSR. With the implementation of CSR, the national government has an expectation that companies utilising natural resources are sharing some of the benefits with local communities; and therefore, that the well-being of local communities is being enhanced.

To address the above issues, this research was framed by the following key research questions:
1. What is the understanding of CSR by selected local communities and forestry corporations in Indonesia?
2. To what extent do the practices of forestry corporations in Indonesia reflect the principles of CSR?
3. How can CSR be adopted and enhanced through forest community development?
This final chapter presents the major findings emerging from this research as guided by key research questions (above). The findings consist of four focal areas, as described in Figure 7.1 (below). A version of this figure was presented in chapter 1 to illustrate the theoretical areas of my research. In the version presented below, I have added the major findings in relation to the four theoretical areas.

**Figure 7.1 Four focal areas of research findings**

**Government policies & regulations**
- CSR is typically framed by a narrow interpretation, such as the requirement for companies just to meet the existing policies and regulations;
- Indonesian policy on CSR was first issued in 1991 (related to the Forest Village Development Program) and much has changed in terms of understanding about CSR, so reform is warranted;
- CSR in Indonesian law (No. 40/2007) shows simplicity of understanding, with a focus only on budget allocation;
- Local communities need greater guidance from the District government agencies about CSR;
- Providing market information to communities would assist their negotiation with forestry companies.

**Corporate considerations & practices**
- Moral and ethical values in CSR are often poorly understood by companies;
- CSR is better understood in mining companies, that often focus on long-term benefits for local communities, however implementation remains challenging;
- CSR in the forestry sector is often implemented via contractual partnership agreements, but fulfilling all aspects of agreements can often be ignored;
- Improving communities’ capacity (e.g. in understanding an agreement, managing an organisation, silvicultural practices) is needed to maximise the benefits from corporate partnerships;
- The media can play an influential role in promoting CSR, such as by providing examples of positive and negative practices.

**Commercial forestry sector**
- Local context (customs, culture and understanding) should be considered in developing business strategies;
- A common understanding of CSR needs to be established by all prospective partners before designing specific CSR programs;
- Forestry companies still have limited information about the full implications of their operations on community development, which undermines a deeper understanding of CSR;
- A ‘good neighbour’ relationship needs to be developed rather than just a profit-oriented partnership;
- Greater informal interaction between the company’s staff and local communities would enhance relationships (the essence of CSR).

**Community development**
- Local institutions (e.g. forest farmer groups, farmer cooperatives) could play a stronger role in building company-community partnerships, however so far their roles have been limited;
- An improvement in the capacity of local institutions would be beneficial for CSR;
- Local NGOs can assist communities to increase their capacity to enhance CSR (e.g. by providing an understanding about their rights and responsibilities mentioned in an agreement).
7.2 Government policies and regulations

- Companies are required to operate within the existing legislation and policies. By obeying the law, the governments at all levels have an opinion that companies have fulfilled a formal legal process to operate their businesses and become a good corporate citizenship (Waddock, 2007). The companies operating in extractive industries have become legally accepted, and this status is generally seen within the corporate world as meeting the needs of CSR (Carroll, 1991). However, obeying the law is insufficient for companies to legitimise their operations. As explained by one senior staff of a large forestry company, as long as local people involved in the forest plantation development, the company had applied CSR no matter whether the program contributed to the improvement of people’s livelihoods or not. The government should regularly control over and monitor the operations of the companies. Failure to include these elements, CSR implementation would not be possible, and companies would interpret it according to their own understandings.

- In the forestry sector, the previous policy relating to the Forest Village Development Program (1991) was an attempt by government to improve the benefit sharing between forestry corporations and local communities. Under this policy, the government had an understanding of the importance of company-community benefit sharing, although the specific term of ‘CSR’ was not yet understood or applied in Indonesia’s forestry sector. The characteristics of company activities under this policy were similar to what is now understood by the current concept of CSR. As such, this policy needs to be updated so it explicitly incorporates discussion about CSR (e.g. goals, principles). Upon implementation of a revised policy that explicitly refers to CSR, the government should monitor and guide the industry’s practices. Ongoing government scrutiny appears important due to past experiences in Indonesia where several policies and programs relating to community forestry have been found to generate little positive benefit for local communities (Tropenbos, 2008).

- The understanding of CSR by the government is mentioned specifically under the Limited Liability Company Law 2007, where companies should allocate sufficient budget funds to undertake CSR, although no specific amount of funding is mentioned.
in the Law. However, the simplistic understanding of CSR by most company staff revealed a narrow perspective, with a focus largely on the budget allocation for CSR (e.g. whether the budget allocation for CSR been met). Nevertheless, the role of government is not just to dictate that companies invest some of their profits in CSR, but also to provide greater guidance and support for them in establishing successful CSR programs. Successful approaches to CSR could also be published in the media to encourage other companies to better understand and practise CSR – in other words, to go beyond which is mandated in the legislation.

- The government has made some efforts, but even the enactment of a new legislation depends on strong governance. Currently governance is quite weak, particularly where forestry occurs. As the implementing regulation of the Limited Liability Company Law 2007, the government passed Government Regulation No. 47/2012. The regulation requires the social and environmental activities to be reported in the company’s annual report and be explained at the shareholders’ meeting. Companies, that do not conduct social and environmental responsibilities, would receive sanction. However, the regulation does not mention the detailed forms of sanction. It just mandates that the sanction is based on the provisions of existing regulations, but it does not specifically states in which regulation (e.g. number and year of issuance).

- However, it is difficult to monitor whether the reporting made by companies were based on real activities or not. Many reports submitted by companies to the government (e.g. Environmental Impact Analysis report) revealed lack of control and monitoring by the government. As a result reports are considered as less important and expected to have low impact on local communities. Therefore, CSR provision in the Limited Liability Company Law is found to be less effective.

- The government needs to develop mandatory comprehensive reporting, containing data on what companies actually did and the impacts on local communities. Based on comprehensive field monitoring, the actual activities relating to CSR should reflect what was originally agreed between the parties.
• Strong controls, with incentives and penalties, need to be created by the government so that natural resource extracting businesses in Indonesia can be competitive yet sustainably developed. As a result of such development, local communities should have direct benefits that improve their well-being in terms of working opportunities, providing services, or improving their human capacity (e.g. training opportunities).

• For companies, implementing activities that relate to CSR should have a direct positive impact on local communities, such as capacity building and helping develop educational programs, the government needs to provide incentives (e.g. positive media). The publication may motivate other companies to conduct activities that reflect the ethical values of CSR.

• In contrast, for companies that conduct their businesses irresponsibly and have low or negative impact on local communities, the government needs to provide clear and strong penalties (e.g. fines, trade sanctions). In response to being issued with such penalties, companies should develop an annual program of activities that explicitly refer to the concept of CSR and that tangible positive impacts flow to local communities.

• The lowest levels of government (i.e. sub-district and village levels) are often called upon to guide local communities about their participation in the development of timber plantations, and so are in a strong position to negotiate with the corporations. These tiers of government are usually positioned near rural communities, so government staff in these offices could observe the daily activities of the companies and local communities. Their proximity and understanding of company-community agreements and practices puts these government staff in an excellent position to influence and facilitate the implementation of CSR.

• The government could become more active in communicating the market prices of the species predominantly grown and utilised by local communities. If communities are better informed about prices, then this may motivate them to maintain plantations until the optimum time of harvest, and give them a stronger position from which to negotiate benefit sharing with the companies.
Despite several mechanisms and tools introduced to achieve sustainability (broadly across social, economic and environmental elements), including forest certification and related community improvement policies, many analysts remain sceptical about the outcomes of activities to achieve this goal. My research revealed that there is an apparent trade-off between the idealistic achievement ideal form of CSR, and taking into account the local circumstances and what might be a realistic goal. Bridging the expectations between local communities and companies about what is possible and achievable via CSR is an important task when discussing and designing specific programs for CSR.

To address the suffering of communities caused by companies’ operations as presented in section 6.2.7, the government is advised to provide a social sanction that may be applied for companies behaving in an unacceptable manners -- for example, by sending a warning notification to companies’ manager that their operations have negatively affected local communities and the environment (e.g. from water and air pollution).

Further, creating an environmental court for companies that have acted unethically may be helpful in stimulating them to behave positively. Recently, the Indonesian government has actively trained judges to handle an environmental court for companies that contribute negatively to the environment and communities.

The government is also urged to establish a task force to monitor and control companies to ensure that they conduct their business ethically (see sections 6.2.5, 6.2.6 and 6.2.7). The task force should consist of different stakeholders, i.e. academics, NGOs, government, business people and private companies associations.

If unethical behaviour by companies under those sections is revealed, it is necessary for the government to establish a regulation and enforce it, to the effect that companies carrying out business in natural resources management must apply ethical principles. The requirement should be formally written into any concession issued by the government. In the case of companies that have acted unethically, a particular
sanction can be enforced or their lease can be withdrawn. This strategy is expected to be effective in combating unethical corporate behaviour.

- The role of local governments is particularly important to facilitate the company–community relationship and to ensure companies act in a more socially responsible manner. Local governments are the first government entities to observe that companies have neglected CSR.

- Continuous control from governments at all levels would help to encourage companies to be more concerned about society. The governments should seriously tackle this issue to ensure companies act in a socially acceptable manner.

- Creating an incentive system on the part of the government is particularly helpful to stimulate companies’ social consciences about their operation. This system might also be effective in supporting companies to be more naturally competitive in carrying out their businesses.

- In the event that companies act unethically, government may create a ‘punishment’ for them, such as disclosing the activities that have not been in line with ethical principles and publishing them in the media; the punishment could be included in the taxation system (e.g. paying more tax) or take other forms that may improve the behaviour of companies in this regard.

- The government needs to apply a reward system for companies acting in a socially responsible manner by publicizing them in the media. This reward would be meaningful as the public would be led to form a positive opinion that the selected companies had been doing good.

### 7.3 Corporate social responsibility

- The practices of many corporations in Indonesia merely refer to their own understandings of CSR, which do not necessarily reflect the global view of CSR principles. The global principles of CSR were originally focused on the ethical and
moral values embedded in a company’s management practices. However, as companies change (e.g., by mergers with, and acquisitions of, other companies), these values can be confused, dissolved and misunderstood, causing new complexities and problems in the ongoing relationships with local communities, and in particular for decision about how to interpret the concept of CSR.

- CSR in Indonesia’s commercial forestry sector is often interpreted through the lense of a contractual partnership agreement with local communities. Local communities as land owners typically participate voluntarily in commercial timber plantations. The period of the agreement is usually based on the rotation period of timber plantation. For example, *Acacia mangium* plantations are usually harvested after a period of 7-8 years. Within this period, forestry companies are expected to create activities involving local communities so that some form of short-term cash income can be earned, such as mixing planting of agricultural crops with forest timber species and employing local communities in timber plantations on their own land. However, my research found it is common for forestry companies to forget or ignore this responsibility, causing local communities to lose an important opportunity for gaining short-term income.

- CSR appeared to be better understood by the mining company I assessed. The mining company operating in Tanah Laut district focused on long-term benefits of CSR practices, such as improving training and micro-economic development opportunities for local communities. Even though nepotism was sometimes found in the recruitment of trainees who have close ties with staff of the mining company, the skills training did appear to enhance the communities’ capacity and therefore, enhanced their livelihoods by generating additional income.

- The ethical principles underpinning CSR practices should be more strongly embedded in a company’s overall business strategy. Honesty and responsibility should be adopted as underlying principles in developing a relationship with communities who surround a company’s operation. This reform could significantly contribute to the well-being of the communities. For example, in the company-community relationships explored in this research, the company could have made a greater
commitment to be honest and responsible to improve the capacity of local forest farmers, as was its express intention in the original agreement.

- When considering ethical principles, a company–community relationship should also be carefully and sensitively managed throughout the period of the agreement. Sometimes, the relationship was found to be tense when respected local people were not directly involved in negotiating agreements (e.g. when village heads and religious leaders were excluded from negotiations about agreements). Failure to meet this fundamental prerequisite of CSR appears to have led to disputes. This is especially important in rural areas of South Kalimantan, where rural communities draw on their religion as a fundamental framework for living.

- The media plays an important role in wider perceptions of CSR, but these practices need to be seen by companies as far more than just brand management (i.e., beyond just trying to project a positive image in the media). While the media plays an important role in CSR (e.g., representing and voicing different opinions about development issues), its role can be complex – it often accepts paid advertising while providing critical analysis of the forestry sector. Cooption of the media by companies may undermine the media’s independent role in ‘brokering’ positive and cooperative relationships.

- Specific guidelines or clear criteria on how CSR should be applied in different sectors are yet to be developed in Indonesia, in particular for companies managing natural resources covered by the Limited Liability Company Law 2007. However, I recognise that there are diverse opinions about how the CSR concept should be expressed, particularly in the forestry sector, so this is likely to be a challenging task. To develop these guidelines or criteria, considerable negotiation between the primary stakeholders (e.g. forestry companies and local communities) should be undertaken so the local context is carefully understood. Such guidelines would enable CSR to be better understood and effectively implemented.
7.4 Community development

- Community development associated with the commercial forestry sector was established to support a timber plantation activity. This forest community development was also to be led by a head of forest farmer group. While the heads of farmer groups were appointed by the companies and approved by local communities, but their role was still very limited. Their roles were only seen in the beginning of contractual partnership building. When the timber plantations had mature, a lack of responsibilities for forest farmer groups was revealed; indeed an interviewee declared that the important documents regarding the partnership agreement had been lost.

- Considering the substantial role of forest farmer group heads, their capacity needs to be improved. Training in building an organisation is necessary for them so that their roles can be influential in the organisation; and they can be actively involved in mediating a company-community relationship.

- Partnership building with forestry companies has emerged as a fundamental mechanism in improving the capacity of local communities, in terms of developing local institution (via cooperative or forest farmer groups), micro-economy (long-term investment in forest timber plantation), and rights and responsibilities (as a party in a contractual partnership agreement). Therefore, this partnership establishment can support forest-based livelihoods (Ife & Tesoriero, 2006).

- Local independent institutions or non-government organisations existing in Tanah Laut district can play a crucial role in improving the capacity of local communities and forest farmer groups. Regarding NGOs, especially those that are independent in terms of being self-financed, their active roles in assisting communities are important, because their activities are not influenced by any financial sponsor. Their actions can be significant in providing a full support to the communities. As local NGOs have been familiar with local communities, it is perhaps easier for them to develop communication with and to listen to the communities’ desire, to discern the best-practice options for CSR and partnership forming.
If forest community development could be better-managed, this type of rural community groups can be supportive in enhancing CSR practices in the commercial forestry sector in Indonesia. The involvement of all stakeholders to establish the community development is crucial, particularly to engage local communities in timber plantation activities to improve their livelihoods.

7.5 Commercial forestry sector

- As declared by many business actors, undertaking a business undertaking must always consider local context, although community-related activities are considered beyond the firm’s direct economic or technical interest. In the context of Indonesia, particularly that of the Tanah Laut district, with its diverse understandings, cultures, customs and types of livelihoods, these social factors should be taken into account in the companies’ community-related programs.

- The understanding of CSR is diverse among companies having operations in Indonesia. A unification of CSR understandings would significantly play an important role in the programming of CSR. This understanding is influential in making CSR activities more concerned with community livelihoods, based on ethical and moral considerations. Especially in the case of forestry companies having operation in Tanah Laut district, concern over community’s welfare improvement has not been their first priority; rather they have focused on searching for alternative timber supplies to sustain their timber-based businesses.

- The forestry companies often disobey articles mentioned in the contractual agreement (an example of an agreement is presented in Appendix 2). The agreed commitments are written into a formal type of a cooperative partnership, but their implementation has been limited, resulting in lack of trust from the communities to the companies. Moreover, no individual in the villages reminded the companies of their commitments, neither the heads of forest farmer groups nor village leaders.

- For a number of reasons, forestry companies still have limited information about the full implications of development. Consequently they can have a very narrow view of CSR. These drawbacks can be observed from their forestry activities that involve
local communities reflecting their inadequate knowledge of CSR. Nevertheless, with CSR practices organised by forestry companies, local communities expected their capacity and knowledge would be improved. Therefore, they could voluntarily grant Free, Prior and Informed Consent to the companies having operations near their premises.

- Another significant aspect of CSR is building a sense of ownership of forest plantation among stakeholders involved (e.g. village leaders, forest farmer group leaders, cooperative heads, local forest farmers, and companies). Communities and companies are not only required to establish business partnerships, but also neighbourhood relationship so that both parties derive benefits.

- Informal interaction by the companies’ staff with communities might be useful to seek the roots of problems in the partnership and bring these problems to their management, so as to find an effective solution (possibly without an exorbitant cost). Compared to members of local communities residing in other islands, local individuals in the research sites are relatively easy to be handle, because of their unique positive characteristics (religious, considerate, and honest).

- It was revealed that the companies provide a financial support to village leaders, and therefore, the leaders’ decisions were influenced by the company. This situation created tension in a village where most villagers entered an agreement with the company. Moreover, illegal activities, such as selling land and logging mature trees occurred in several places in the villages.

7.6 Key findings from this research

This research summarises key findings that emerged from data collection in Tanah Laut district that may contribute to policy development (for government), business management strategy (for companies having operations in South Kalimantan), best-practice of partnership building in South Kalimantan and other parts of Indonesia (for all stakeholders). These include:
• Understanding and perceptions of CSR among the forestry and mining companies having operations in the research location are often framed by a narrow and simplistic interpretation, e.g., public relation and sponsorship. They showed a common failures to appreciate that CSR is fundamentally about forging strong, trusting and mutually beneficial relationships between corporations and communities.

• Several inter-linked factors contribute to a forestry company’s approach to CSR, i.e. maintaining business profitability, securing future resource supplies, maintaining a cooperative relationship with local communities that surround the companies’ operations, as well as building and maintaining a positive media image.

• Extractive industries, like forestry and mining, often operate in the context of specific ‘affected’ communities, therefore companies can identify and develop a tangible approach to CSR that is beneficial to local communities (e.g., organising skill training, establishing micro-economic institutions, and helping with marketing strategies).

• Government plays an administrative and regulatory role – creating the policy environment – for the commercial forestry and mining sectors in Indonesia. Therefore, government is invariably part of the operating environment for corporations and communities, and so plays a part in shaping CSR. Indeed, when CSR is thought of more broadly as ‘social responsibility’ it becomes incumbent on all stakeholders to make a positive contribution.

• Corporations are often perceived to have larger personnel capacity and financial resources than local communities, so are often expected to lead and guide CSR. However, with support from NGOs and perhaps other entities (e.g. local government), local communities could also develop their understandings about what approach to CSR is most preferred in order to negotiate their preferred ‘operating environment’ with corporations and government.

• It is important to avoid seeing CSR as a formulaic procedure or a fixed recipe, but instead seeing CSR as a concept that should be nuanced and interpreted within a local setting and adapted over time (e.g. contractual partnerships should be periodically reviewed and updated). Also, CSR should be viewed beyond just a profit/loss
arrangement, and be used to encourage local communities to develop their enterprise capacity and improve their livelihoods.

7.7 Future research needed to refine understanding of CSR

- This research revealed some local communities residing in South Kalimantan province had become resistant to specific forestry companies expanding their operations in the proximity of the villages located near companies’ operations. This reluctance was due to negative experiences with previous agreements. It has been suggested that these forestry companies should engage local experts (e.g. sociologists and socio-economists) to facilitate a better understanding of what all stakeholders involved (e.g. local forest farmers, forest farmer group leaders, local cooperative leaders, forestry company managers, local governments, and village leaders) could achieve from a new agreement. More research on how CSR can be understood and applied by Indonesian forestry companies may lead to improved forestry company operations, including those having businesses in South Kalimantan and enhanced livelihoods for local communities in rural areas in the province – a win-win situation (Sabadoz, 2011).”

- On a related point, more detailed research about how specific forestry companies can better develop CSR initiatives would be valuable. Such research could investigate what package of activities and support would be most useful for CSR in the Indonesia’s industrial forestry plantation businesses to be achieved, particularly via company-community partnership scheme.

- Considering the important role of local institutions (e.g., forest farmer groups, farmer cooperatives), further research on how best to strengthen them would be helpful. In turn, this research could provide further clarity about how local communities can understand and develop CSR initiatives.
7.8 Contributions to theory

The theoretical contribution from this research can be formulated as described below.

- Companies will not change unless they are forced to change. Such force would consist of the existing laws on CSR and communities’ livelihoods support, governments, NGOs, farmers’ organizations, the companies’ image and public relations enhancement, as well as the media that publish companies’ CSR-related activities.

- Many smaller procedural changes to make improvements can aggregate to a substantive result. Therefore, continuous monitoring and control from an assigned powerful organisation could support a better understanding and practice of CSR.
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Appendix 1: General village scenes from field work organised in February 2011
Appendix 2: An example of a partnership agreement between a forestry company and Forest Farmer Group

**Agreement**

**People’s Forest Management between**

PT. Hutan Rindang Banua and Forest Farmer Group

Today, on Thursday dated October the thirtieth, two thousand and seven (30-10-2007), we the undersigned agreed to the following:

1. Vice President Director of PT. Hutan Rindang Banua, acting on behalf of PT. Hutan Rindang Banua (PT. HRB), a limited company which is based in Banjarmasin, and was established under the public notary (including budget arrangements) of No. 313 dated 10 December 1994, inclusive of its latest changes, and was validated by the public notary of Beny Kristanto, No. – dated 5 April 2001...................................
   The person above is noted as the **FIRST PARTY**.

2. Name: H. Asmuri, SH.
   Address: Sebamban, 10 July 1954
   Age: 54
   Occupation: Farmer
   Acting as the advisor of Forest Farmer Group, residing in Muara Kintap village, Kintap sub-district, Tanah Laut district, on behalf of the MHR group, based on a letter of transfer of responsibility, dated 30 March 2008, following a legal procedure of the MHR group........................................
   The person above is noted as the **SECOND PARTY**.

The first and second parties are henceforth designated as **EACH PARTY**.

**EACH PARTY** accepts the following terms:

1. The first party is a commercial company which manages industrial forest plantation (hutan tanaman industri or HTI) in Tanah Laut District, based on requirements of, and existing regulations enacted by, the government;
2. In the surrounding area of the first party’s operation, de facto there are lands possessed by the community, and de jure the community holds a legal document recognised by existing regulations, where the lands are located outside the HTI concession area managed by the first party;
3. Natural resources (land/soil, water and solar energy existing on these lands, which are in the form of bush or unproductive land, can be managed collaboratively on a sustainable basis by the first and second parties, because benefit can be cultivated by each party;
4. Each party understands and agrees to their obligation to grow HTI on the land owned by the second party under the Managing People’s Forest scheme (Mengelola Hutan Rakyat or MHR) to establish HTI in Muara Kintap village, Kintap sub-district, Tanah Laut district.

**Article 1**

**General terms**

a. **The HTI area of** is the land or state land which was allocated by the government to be managed with concession rights given by the government to the first party, namely Industrial Forest Plantation Concession Rights (Hak Pengusahaan Hutan Tanaman Industri or HPHTI). The rights were formally legislated under the Ministerial Decree No. 196/Kpts-II/1998 dated 27 February 1998 and with reform No. 86/Menhut-II/2006;

b. **The operation area of MHR** is the area located in the surrounding HPHTI areas, which have never been managed by the first party, and de facto/de jure are owned by the second party;
c. **Forest Management Unit (FMU)** refers to a part of the MHR area of operation where the HTI is being established;

d. **Managing People’s Forest (MHR)** is management of non-productive land owned by the first party, located in the surrounding area of the HPHTI operations of the first party. The land is prepared for HTI establishment in such a way that each component of the works for the purpose of HTI establishment is prioritised to be carried out by the second party, in a certain agreed period in a certain area and location. Pertaining to the work managed by the second party, the second party will be entitled to receive wages based on the standard rate referred to in the contract/working contract agreement. The benefit from forest products is determined via net profit sharing after deducting all production costs for HTI establishment at the end of the rotation or at the time of the timber harvest;

e. **Service reward** is a certain amount of money paid by the first party to the second party/working group, and/or the third party/contractor, which is given as a reward for the work organised for each component of industrial forest plantation management, based on the working contract agreement and a supervisory report made by the first party;

f. **Profit sharing** is sharing of profit gained from forest products collected from lands under the MHR programme, which is calculated from net profit after deducting all components of HTI establishment including costs for harvesting and transportation, which is determined as 40 percent for the second party and 60 percent for the first party;

g. **Rotation of the plantation** is a certain phase of plantation, extending from the initial period of planting until logging/product harvesting (lasting a minimum of seven years from planting);

h. Types of works undertaken for HTI include:
- Planning
- Land clearing
- Planting and fertilizing
- Maintaining plantation
- Protecting plantation
- Logging/harvesting
- Transporting timber;

i. **Annual plan** is a planning activity for HTI establishment organised by the first party covering one year of operation under government legislation, i.e. the Ministry of Forestry and Estate Crops;

j. **MHR agreement** is an agreement under the Managing People’s Forest (MHR) scheme, including annexes within this agreement both included in the original copy and additional items, revised or changed in accordance to the articles of this agreement;

The annexes of this agreement include:
1. Annex I: A written statement of land possession, that can be issued by a village head and acknowledged by a sub-district head and a respected person;
2. Annex II: A written statement from a village head and that is acknowledged by a sub-district head to verify that the land is not in dispute;
3. Annex III: A receipt for the payment of land and building taxes *(Pajak Bumi dan Bangunan or PBB)*;
4. Annex IV: A membership list of the Forest Farmer Group if the proposal to join MHR is organised via FFG/personal identity card *(Kartu Tanda Penduduk or KTP)*;
5. Annex V: A letter of authorization from a group member;
6. Annex VI: A map of the MHR location and its boundaries;
8. Annex VIII: A time frame for HTI establishment;
9. Annex IX: Company data/total production cost of HTI establishment;

The annexes above are embedded in this agreement. Under this agreement, a mentioned annex should be understood as an annex of this agreement. A mentioned article should be understood as an article of this agreement, unless determined otherwise.
k. **The third party** is another party which is appointed by the first party and/or the second party, as agreed by each party, to organise one or several more works undertaken for HTI in the MHR area in a manner consistent with the second party’s rights, such as prioritizing employment of members of the second party, unless the second party is not willing to work in the area;

l. **Supporting programme** is a programme that can be conducted by the second party, covering agribusiness activity, *tumpang sari* and other programmes under the Forest Village Development (*Pembangunan Masyarakat Desa Hutan* or *PMDH*) scheme, with reference to the community’s needs and local conditions;

m. **A written statement of land possession** is a formal document stating and/or determining ownership rights over land which is issued by the government based on existing regulations;

n. **Timber Piling Place** (*Tempat Penimbunan Kayu* or *TPN*) is a place which is part of a location/operation in MHR, where timber as raw material is being stockpiled piled after being collected from HTI products;

o. **Operational cost component of HTI activities**, is the total cost incurred by the first party for HTI establishment, covering:
   1. Total cost calculated using from each component of HTI establishment, such as planning, surveying, land preparation, planting, fertilizing, maintenance, protection, etc.;
   2. Costs related to production, such as logging expenses, collection, transport to the final destination at the factory, and cost of measurement, etc.;
   3. Cost of workers, determined as 20 percent of the total operational cost;
   4. Overall costs related to land, such as tax on income derived from forest resources (*Provisi Sumber Daya Hutan* or *PSDH*) or tax levied by the central/local government;
   5. Other costs which were incurred by the first party related to HTI establishment and/or production which are acknowledged by the second party, such as those for supervision, human resources, construction and other necessities.

**Article 2**

**Location and land area coverage**

In establishing HTI, the first party operates in collaboration with the second party, where the second party transferred the land located at the Kintap site, in the village of Muara Kintap for the use of the first party;

The location mentioned in the first paragraph of Article 2, is under the administration of Jorong sub-district, Tanah Laut district, consisting of open wooded grassland, wild bush, a mixture of both, or non-productive areas, to be managed by the first party for HTI establishment, the boundaries of which are as follows:

- **Southern**: Herman/Anang Aib;
- **Northern**: Forest Farmer Group of H. Suriyan;
- **Eastern**: Community land;
- **Western**: Location of PT. GIST.

The total land area of 1500 hectares is collaboratively managed under the MHR scheme, in which each party has agreed to organise boundary measurement collaboratively on the date set (according to the formal information attached), to determine the exact location, boundaries and land area which is to be handed over from the first party to the second party.

**Article 3**

**Rights and responsibilities**

3.1. The rights of the first party:
   3.1.1. Preparing the HTI management plan;
   3.1.2. Arranging field activities covering all components of HTI management, controlling and assessing works conducted by the second party and/or another party under the HTI management;
   3.1.3. Maintaining, controlling, and assessing works conducted by another party in the HTI management;
   3.1.4. Choosing a market for timber which is a group industry owned by the first party.

3.2. The rights of the second party:
   3.2.1. Knowledge of the HTI management plan for the land transferred to the first party;
3.2.2. Receiving a service payment for work under the HTI management which has been conducted by the second party;
3.2.3. If work under the HTI management is able to be conducted by the second party, the second party has the right to obtain a work contract from the first party;
3.2.4. Collection of profit from the HTI harvest after deducting all components of production costs for HTI establishment.

3.3. The responsibilities of the first party:
3.3.1. Maintaining land which has been handed over by the second party for HTI in accordance with the time frame;
3.3.2. Giving rights to the second party, which have been set out under this agreement;
3.3.3. Sharing responsibility with the second party for protecting the land being managed from forest fire.

3.4. The responsibilities of the second party:
3.4.1. Guaranteeing land security against disturbance by other parties;
3.4.2. Complying with the overall agreed points of agreement;
3.4.3. Guarding and securing HTI areas;
3.4.4. Preventing and controlling forest fire/dangerous blazes in the agreed area and the surrounding areas;
3.4.5. If a member of the second party is given a working contract, he/she is responsible for conducting the work according to the system and procedure determined;
3.4.6. Paying land and building tax applicable to the land being managed for the MHR scheme;
3.4.7. Refrain from transferring, guaranteeing, leasing, or otherwise committing, the land subject to this agreement to other parties

**Article 4**
**Working contract**

If the second party is able to conduct any component of HTI establishment, the first party will issue a working contract agreement, to be used as a legal document to manage the work;

The arrangement of work for each component is managed by means of the working contract agreement which is issued by the first party.

**Article 5**
**Service value and profit sharing system**

5.2. **Service value**
Service value for the work of HTI establishment is paid to the second party and/or the third party as a compensation for the work conducted, which is calculated using a standard rate (per hectare) and based on supervisory reports on the work being conducted. The standard rate for each component is based on the existing standard rate being applied in the same year;

5.2. **Profit sharing system**
5.2.1. The costs covered in the profit sharing system are the overall costs incurred by the first party in managing the operational activities of HTI as mentioned in article 1;
5.2.2. Timber production from the MHR area is calculated by means of timber stockpiles, an evaluation organised collaboratively by both parties, while timber measurement is recorded in a measurement report, which is signed by both parties;
5.2.3. The percentage of profit sharing is 40 percent for the second party and 60 percent for the first party. The profit sharing is managed according to net profit gained from selling timber to a group industry owned by the first party, after deducting production costs as mentioned in point 5.2.1. above;
5.2.4. The payment is organised after the timber measuring and approved by a senior company officer of the first party. The profit sharing takes place within 30 (thirty) days after a supervisory report is made.

**Article 6**
**The agreed period**

This agreement is valid for a rotation period of HTI, starting from the time the agreement is signed. The agreement can be renewed based on the re-commitment of each party.
Article 7
Risk

7.1. If anything untoward should happen, including actions causing damage/loss of the plantation, resulting in failure to harvest the plantation, such as land encroachment, land disputes, illegal logging, land claims, forest fire, government policy which causes the loss of rights of each party, the loss should be covered by both parties and no party can claim such loss;

7.2. If adverse circumstances occur as mentioned in point 7.1, profit sharing can be reduced or abandoned by each party.

Article 8
Rights transfer

The right to benefit from profit sharing can be transferred to other parties, if:

8.1. A member of the second party passed away, and the rights can be transferred to an appointed heir;

8.2. The land ownership status (i.e., the right to own land) is transferred to other parties based on legal verdict, or other circumstances which lead to legitimate rights transfer also as to benefit from the MHR operation area.

Article 9
Law and dispute

9.1. Each party accepts that for the ongoing partnership, any point that has not been recorded in this agreement, will be arranged based on the existing regulations of the Republic of Indonesia;

9.2. In the event of any dispute regarding the agreement, each party agrees to attempt reconciliation by means of an informal negotiation, but if it cannot be resolved, the dispute will be brought before the district court.

Article 10
Other circumstances

10.1. This agreement is recorded in two original copies with stamps, each of which has been legally acknowledged;

10.2. Any point arising in future, which has not been discussed in this agreement, will be discussed by both parties and made an addendum which is embedded and inseparable from the document which forms this agreement;

10.3. This agreement is made, read and understood by each party on the date agreed, and signed without any force or pressure from any other party;

10.4. This agreement cannot be changed, added to or abridged, unless agreed by both parties.

Asam asam, March 2008

Parties to the agreement

The first party

Vice President
Director

The second party

Advisor of Forest Farmer Group

Witnesses

1.
2.
3.

Acknowledged by

Kintap sub-district

..............................

Muara Kintap village

..............................
## Appendix 3: Total land area under people’s forest plantation program managed by the large forestry company

<table>
<thead>
<tr>
<th>Site</th>
<th>Block</th>
<th>Plan (hectare)</th>
<th>Total plantation (hectare)</th>
<th>Local institutions</th>
<th>Location</th>
<th>Sub-district</th>
<th>District</th>
</tr>
</thead>
<tbody>
<tr>
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<td></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Kintap</td>
<td>Pandansari</td>
<td>-</td>
<td>-</td>
<td>56.86</td>
<td>11.79</td>
<td>68.64</td>
<td>(* Local coop Jasa Mandiri</td>
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<tr>
<td>Satui</td>
<td>Sei Danau</td>
<td>500</td>
<td>-</td>
<td>16.56</td>
<td>-</td>
<td>16.56</td>
<td>Local coop Kintap Bersatu</td>
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<tr>
<td></td>
<td>Sei Serai</td>
<td>500</td>
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<td>27.83</td>
<td>-</td>
<td>27.83</td>
<td>Kintap Bersatu</td>
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<tr>
<td></td>
<td></td>
<td>-</td>
<td>10.80</td>
<td>-</td>
<td>10.80</td>
<td>Kintap Bersatu</td>
<td>Pasir Putih</td>
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<tr>
<td></td>
<td></td>
<td>-</td>
<td>55.19</td>
<td>91.01</td>
<td>91.01</td>
<td>Kintap Bersatu</td>
<td>Pasir Putih</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Jorong</td>
<td>Kuningan</td>
<td>Asam Asam</td>
<td>835</td>
<td>-</td>
<td>310.95</td>
<td>253.38</td>
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<td>Katai Katai</td>
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<td>545.15</td>
<td>76.90</td>
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<td></td>
<td></td>
<td>-</td>
<td>163.04</td>
<td>537.82</td>
<td>700.86</td>
<td>Jorong</td>
<td>Jorong</td>
</tr>
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<td></td>
<td></td>
<td>33.64</td>
<td>-</td>
<td>18.43</td>
<td>18.43</td>
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<td>Jorong</td>
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<tr>
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<td></td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td>(* Local coop Jasa Mandiri</td>
<td>Asam Asam</td>
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<tr>
<td></td>
<td></td>
<td>2,369</td>
<td>-</td>
<td>1,019.14</td>
<td>1,065.16</td>
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</tr>
<tr>
<td>Teluk Kpy</td>
<td>Batu Kemudi</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>118.64</td>
<td>FFG Tani Pacakan</td>
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<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>59.66</td>
<td>178.30</td>
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<td>Talaga 2</td>
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<td>Rantau Buda</td>
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<td>-</td>
<td>17.23</td>
<td>17.23</td>
<td>FFG Mantaa Statei</td>
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<td></td>
<td>2,435</td>
<td>-</td>
<td>-</td>
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<td>2.79</td>
<td>FFG Tani Suka Maju</td>
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<td>295.71</td>
<td>299.43</td>
<td>FFG Tani Pacakan</td>
<td>Pacakan</td>
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<td>-</td>
<td>4.63</td>
<td>-</td>
<td>4.63</td>
<td>FFG Hutan Banua</td>
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<td></td>
<td>179</td>
<td>-</td>
<td>74.57</td>
<td>-</td>
<td>4.63</td>
<td>Asam Asam</td>
</tr>
<tr>
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<td></td>
<td></td>
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<td>-</td>
<td>5,607</td>
<td>1,209.47</td>
<td>1,641.97</td>
<td>2,776.87</td>
<td></td>
</tr>
</tbody>
</table>

Note: (*) Research participants
Appendix 4: ITTO criteria and indicators

1. Enabling conditions for sustainable forest management
   • Policy, legal, and governance framework
   • Economic framework
   • Institutional framework
   • Planning framework

2. Extent and condition of forests

3. Forest ecosystem health

4. Forest production
   • Resource assessment
   • Planning and control procedures
   • Silvicultural and harvesting guidelines

5. Biological diversity
   • Ecosystem diversity
   • Species diversity
   • Genetic diversity
   • Procedures for biodiversity conservation in production forests

6. Soil and water protection
   • Extent of protection
   • Protective functions in production forests

7. Economic, social and cultural aspects
   • Socioeconomic aspects
   • Cultural aspects
   • Community and indigenous peoples’ rights and participation.
Appendix 5: The required elements for developing LEI standards

- There is a focus on TPTI (selective cutting) and other forest management requirements set by government.
- Criteria and indicators are tailored specifically to Indonesian forest conditions (57 indicators: 21 on production, 19 on the environment, and 17 on social requirements).
- Verifiers are those who are responsible for checking that forest management is implemented according to the standard.
- Emphasis is placed on the system applied by the forest management unit.
Appendix 6: Guidelines for interviews

**Guidelines for interviews with companies’ staff**

1. **What is your understanding of corporate social responsibility (CSR)?**
   - What is your perspectives of communities living in surrounding your corporation operation (e.g. needs, interests, long-term goals)?
   - What are the socio-economic characteristics of communities residing nearby the company’s activities?
   - How do you know about CSR practices in forestry business sector?
   - What are the key drivers for your company to implement CSR?
   - How do you put CSR into business strategy in your company?
   - Does CSR practice have any impact to your business?
   - Do you view CSR should be practiced voluntarily or should be mandatory?
   - How do the local communities respond on the practices of CSR?
   - Why do in many cases, the operations of the companies near the communities’ proximity create conflicts?
   - How do you understand that CSR can help companies to develop a relationship with communities?

2. **What are the business-economic characteristics of Indonesia’s corporate forestry sector?**
   - What are your business-economic characteristics in terms of goal and risk?
   - What challenging factors that your company have to operate business in forestry sector?

3. **To what extent does the practice of your corporation reflect the principles of CSR?**
   - In your view, what are the CSR principles and how are these principles put into practice?
   - How have forestry corporations changed business practices in Indonesia to achieve CSR?
   - What are the triggers for corporations to change their business in order to achieve CSR?
   - How does CSR affect corporations’ business performance?
4. How can CSR be adopted by forestry corporations in Indonesia to reflect contemporary values and how can CSR be enhanced through forest community development?
   - How do changes by forestry corporations in Indonesia in achieving CSR in terms of organizations, behaviour and attitude?
   - How is CSR able to lead to systemic changes nationally
   - According to your opinion, how can CSR be enhanced or harmonised with the present forest community development?

**Guidelines for interviews with forest community individuals**

1. **What is your understanding of corporate social responsibility concept?**
   - Do the practices of CSR by forestry companies have any implication to your livelihoods?
   - How do you expect companies’ practices on CSR to suit your needs?
   - In your opinion, do companies respect local culture and local traditional belief to local communities?
   - Have forestry/ companies in operating their business behaved based on ethical values?

2. **What are the characteristics of forest community in Jorong sub-districts?**
   - What are the values of socio-culture and socio-economic paradigm to communities?
   - How forest community development can build a close relationship with forest companies?
   - Since the companies have had operations close to their proximity, do they affect the socio-culture and socio-economic conditions of local communities?
   - Do you expect that companies change their behaviour?

3. **How do companies’ operations can support forest sustainable development?**
   - Have companies’ practices on forest management are based on sustainability?
   - How do you expect their forest management practices for better environment?
   - How can governments facilitate the relationship building between companies and local communities?
Household survey

1. How old are you?
2. What area do you farm?
3. What is your main farm enterprise?
4. What proportion of your household income, or needs, comes from farming?
5. What, exactly, provides your other income or resources?
6. How many assets (i.e., property size; numbers of animals; plantations or crops) do you have for the purpose of maintaining your livelihood?
7. How long have you farmed here?
8. What sort of formal education do you have?
9. How many members of your family are living here?
10. Do your family members contribute to your household income?

Guidelines for interviews with staff of the governments

1. What are the characteristics of forestry companies having operations in South Kalimantan Province?
   - Do their practices reflect the principles of sustainable forest management?
   - What is your opinion about CSR?
   - How should CSR be practiced by forest corporations in Indonesia?

2. What are the characteristics of forest community development in South Kalimantan?
   - What are the livelihoods of communities before companies having operation in South Kalimantan?
   - What are the responses of community on CSR practiced by companies?
   - Do the CSR practices enhance communities’ livelihoods?
   - How can forest policies support the relationship building between forest companies and communities?

3. In your opinion, should CSR be practiced voluntarily or mandatory?
   - If voluntary practice, what are the indicators that CSR practices reflect the contemporary values?
   - If mandatory, how government can facilitate better CSR practices?
   - How the government can develop guidelines for practices, and monitoring and evaluation?
Appendix 7: An example of an article on CSR issue in Indonesia, published in Jakarta Post, 23 June 2011

CORPORATE SOCIAL RESPONSIBILITY

SPECIAL ISSUE

Should CSR obligations be binding in RI?

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In the last 10 years, Corporate Social Responsibility (CSR) has been increasingly adopted by businesses in Indonesia, primarily driven by multinational companies, later inspiring local companies as it is seen as a good strategy for sustaining businesses.

When in 2007 the Corporate Law No. 40 included an article that mandated companies to take responsibility for social welfare and environmental protection with punitive sanctions for non-compliance, a debate ensued due to its ambiguity in terms of definition.

Various discussions revealed that the term 'social' in the law is not the same as CSR terminology adopted internationally. However, one thing that is widely accepted is that CSR is not merely transplanted from the parent company but a percentage of corporate profits.

This definition is actually the definition of so-called corporate social responsibilities, or conduct social welfare programs and maintain the environment, but the definition of CSR as adopted by the international business world is broader than that.

It comprises wider definitions than just donations to a community or a contribution toward community development. CSR encompasses respect for labor and environmental standards, combating corruption and discrimination, as well as sustainable consumption.

A new update of the Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises released in 2011 indicates that 42 countries are signatory governments upholding their commitments to promoting high standards of responsible business conduct.

The 42 signatory countries comprise the 30 OECD member countries and eight non-OECD countries (Argentina, Brazil, Egypt, India, Lithuania, Morocco, Peru, and Tunisia). Costa Rica, Colombia, Jordan, Serbia, and Tunisia have also announced their intention to be signatories to the non-binding OECD Declaration on International Investment and Multinational Enterprises, which will give the guidelines a major boost.

The main achievement of the update includes the incorporation of a new chapter on human rights, with reference to the UN Guiding Principles on Business and Human Rights.

A new provision encourages companies to cooperate in promoting Internet freedoms.

The guidelines are the first intergovernmental agreement in this area. The update also includes new provisions on tax governance and tax compliance.

The global principle that should be adopted is to control social and business activities to ensure social gains.

Companies that adopt CSR or the inclusive business model benefit from increased profits, innovative creation, streamlined labor processes, and strengthened supply chains. From the inside, they help poor communities with basic needs, increasingly come through as a new organization.

What does this mean for Indonesia? The business climate in Indonesia is now adjusting to globalization, where the new companies are operated with social value chain requirements.

Risks and promises of CSR implementation have been reinforced with emerging local-sector-specific guidelines such as the guidelines for CSR in the environment, social welfare, and local government.

Many good examples exist and are to be promoted as best practices. During an international conference in Jakarta earlier this week, entitled "Accelerating Progress Towards Millennium Development Goals through Inclusive Business," several companies shared their experiences.

Prominent Indonesian companies were represented in this conference, including Anggora Text, Garuda Food, Nusa Benua, Randi Market, Tob Asia, and Unilever Indonesia.

They conduct CSR activities in order to: increase the contribution of the community to achieve a long-term commitment and perseverance.

There are also expectations from the private sector toward the government as facilitator and regulator, which include the provision of subsidies or incentives for those who adopt CSR programs, as well as better information.

The media and CSR organizations play a vital role in promoting and spreading the message to the wider public. The media indeed is a business entity, hence it should be profitable.

However, media corporations are in a crucial position to educate the private sector that relies on advertisements. On one hand, voluntary but responsible business practices are more effective if they are beyond compliance.

On the other hand, local companies are involved in national business practices without room for error or fear of the law.

If this situation continues, the economic will become unstable, with numerous impacts on investment or trading business. It is, therefore, important to create a new playing field for businesses in Indonesia.

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