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**Survey of Indigenous Companies in Indonesia with
International Penetration and their CSR Programs**

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ABSTRACT

This is an exploratory study of selected indigenous companies in Indonesia, with impressive international presence, as well as their programs and practices concerning corporate social responsibility (CSR) as they relate to their corporate goals and corporate image. The 21st century reality has it that there is increasing pressure for corporations to take a greater role in addressing global societal issues such as eradicating poverty and environmental protection in developing countries. As the literature on global CSR and sustainable development indicates, the social and political pressure on companies with international penetration to create a more inclusive capitalism is increasing (Hart & Christensen, 2002). CSR, per se, is a high profile social and political issue, in the global discourse, mainly because of the growing stakeholder and consumer activism, more sophisticated stakeholder engagement, proliferation of codes, standards, indicators and guidelines on CSR, concept of accountability throughout the value chain, increased demands for corporate governance, transparency and reporting, that are driven by advances in information technology that sharpen the focus on CSR and enhance the speed of CSR information flow. In sum, the paper wishes to be a CSR advocacy for indigenous companies in the Republic of Indonesia, which is an emerging economy in Asia, which may well be generalized for all emerging economies of the world.

Key Words: Indigenous company; international penetration, corporate social responsibility

I. Introduction

There are three modes of *international penetration* according to the OLI paradigm or eclectic theory of Dunning (1993), i.e., via *export, licensing, and foreign direct investment* (FDI). John Dunning's OLI paradigm, which serves as the *theoretical framework* of the study, was first introduced in 1976 and refined by him several times since then (1988, 1993). It is a key contribution to the separation of international business studies (IBS) from international economics and trade theory and to the development of global strategy. Purposive selection of indigenous companies was used based on *tenure in the market, market leadership, international penetration, and broad CSR programs*, which for future researchers can be regarded as the *limitation of the study*.

International penetration of indigenous business entities from developing countries is a relatively recent phenomenon. Rugman (2005) termed them as *regional multinational enterprises* (MNEs). Operationally defined in this paper, *indigenous companies* pertain to homegrown business firms whose products have established impressive presence in the regional/international market. In the early part of the 20th century, only the developed economies of the West ventured into other shores, either through export, licensing, or via foreign direct investment (FDI). However, the late 20th century up until the 21st century saw the evolution of companies from the developing economies of the world, such as from the developing and emerging countries of Asia. At least, three homegrown Indonesian companies with strong international presence are presented in this paper, as well as their CSR programs, which are within the mainstream of CSR modality of global companies.. Their CSR programs directed to improve the economy and to help the poor are within the ambit of the advocacies of Prahalad (2002), who originated the phrase, “the poor at the bottom of the pyramid”; and Sachs (2005,2006), who wants to see “the end of poverty” within his lifetime, thus the title of his book; as well as the objectives of the UN's Millennium Development Goals on poverty alleviation.

II. Profile of Selected Indonesian Companies

The three *indigenous* companies presented in this paper are *purposively* selected based on their *long-tenure in the market* (all three are at least, half-a-century old), their *market leadership*,

international penetration of their products, and their broad CSR programs that benefit many people and communities in Indonesia.

1. *PT Djarum*

DjarumTobacco Company has been supplying the Indonesian market for over half a century, since its establishment in 1951. Through the years it has introduced many new brands and kretek products that have shaped the nation's tastes. The company is dedicated in the search for new and better products, in order to stay at the forefront of kretek development in keeping with its historical legacy. Kretek is the most popular type of cigarette in Indonesia. Blessed with rich soils and abundant rainfall, Indonesia produces some of the best tobacco and cloves (*Eugenia caryophyllata*) in the world. The Indonesian kretek cigarette, actually a mixture of tobacco, clove, and flavors), is renowned for its aromatic and pleasing taste and flavor.

The unique flavor of Djarum kretek has captured the imagination of a growing international audience. Its overseas market is projected to grow rapidly, aided by the focused development of appropriate products.

Djarum has been exporting its products to markets around the world since 1972. Its integrated distribution network, supported by international partners, ensures accurate and on time delivery. Djarum tobacco products have distinct flavor, taste, and branding, which have gained a loyal market overseas and are now available on several continents including Europe and the USA.

Key export markets include Australia, Belgium, Canada, Eastern Europe, Japan and the Far East, the Middle East, the Netherlands, Russia, Saudi Arabia, Southeast Asia, and the United States where it has captured 70 percent of the kretek market.

2. *Kaltim Prima Coal (KPC)*

Most KPC customers for coal are power generation companies, which include both conventional power plant and nuclear plants. KPC has products and the qualities that can match many power plant designs around the world. One of the factors that contribute to our customer satisfaction is

that KPC's transportation cost is lower than that of other producers, due to the proximity of the port to the mine and the strategic location of Indonesia. KPC is acknowledged as a reliable coal supplier with a competitive pricing policy. The quality and size of the coal resources and the ability to load large bulk carriers from its own world class terminal enabled KPC to build a diverse portfolio for long term contracts. These are the backbones of KPC's business.

As part of the company's commitment to produce a quality product, monitoring of the coal quality is a very important component in the planning, implementation, monitoring and control process of coal mining, preparation and transportation process. The Quality Control Team monitors the process 24 hours per day to ensure that there will be no rejected product. At the time of this report being published there has never been a complaint from a customer regarding negative impacts resulting from the use of our product. The continued extending of contracts indicates that the customers are satisfied that our products are of sufficient quality. Sales of KPC coal in 2007 reached 39.72 million tonnes. Based on the type of coal, 3.41% is Prima variety, 70.60% is Pinang variety, and 25.99% is Melawan variety.

Sales were mostly directed to the international market demand, which was 93.1% out of the total sales. Geographically, Asia Pacific remains the biggest market. Detail of sales by region can be seen in the following graphic:

Table 1: Sales by Region

Country/Region	Percentage (%)
Japan	23
China	19
Taiwan	10
South Korea	8
Mediterranean	8
India	7
Indonesia	7
Various European	6
Others	12

Source: PT Kaltim Prima Coal, 2010

3. *PT Semen Gresik*

PT Semen Gresik is engaged in cement industry, producing various types of cement, e.g., Type I Portland Cement, and various specific types and mixed cement. Cement is a basic construction material for housing and infrastructure, which is below food and clothing in a typical consumer basket. Founded in August, 1957, PT Semen Gresik is a state-owned enterprise, with initial installed capacity of 250,000 tons of cement per year. It went public on July 8, 1991 at the Jakarta Stock Exchange and Surabaya Stock Exchange and was the first state-owned enterprise publicly listed by offering 40 million shares to the public. Its shareholding composition was Government 73% and the Public 27%. As of July 27, 2010 the share ownership composition has changed, as follows: Government 51,01%, Blue Valley Holdings PTE Ltd. 24,90%, Deutsche Bank AG, London, 3.32% and public 20.88%. Through the years its production capacity has increased to meet the needs of the market; presently, the real installed capacity of the company has reached 16.92 million tons per year, and it covers about 46% of domestic cement market. Portland cement is all over Asia, Europe and US.

III. *CSR of Indigenous Companies in Indonesia*

In Indonesia, Corporate Social Responsibility is considered as important activities of corporation and is strictly regulated under CSR Law of the republic. The Ministry of Social Affairs takes responsibility and monitors every progress in the CSR performance of companies, yearly. A number of companies publicize the amounts they make in donation to philanthropic causes. Indeed it is one of the measures used by some rating companies when scoring corporate responsibility points. A donation is a measure of good corporate governance in terms of its ability to provide financial capital to a noble cause and advocacy that benefit society, such as the advocacy of the UN's Millennium Development Goals.

Corporate social responsibility (CSR, also called corporate conscience, corporate citizenship, social performance, or sustainable responsible business)[1] is a form of corporate self-regulation integrated into a business model. CSR policy functions as a built-in, self-regulating mechanism

whereby business monitors and ensures its active compliance with the spirit of the law, ethical standards, and international norms. The goal of CSR is to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. Furthermore, CSR-focused businesses would proactively promote the public interest(PI) by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of legality. CSR is the deliberate inclusion of PI into corporate decision-making, that is the core business of the company or firm, and the honouring of a triple bottom line: people, planet, profit.

The term "corporate social responsibility" came in to common use in the late 1960s and early 1970s, after many multinational corporations formed. The term stakeholder, meaning those on whom an organization's activities have an impact, was used to describe corporate owners beyond shareholders as a result of an influential book by R. Edward Freeman, *Strategic management: a stakeholder approach* in 1984. Proponents argue that corporations make more long term profits by operating with a perspective, while critics argue that CSR distracts from the economic role of businesses. Others argue CSR is merely window-dressing, or an attempt to pre-empt the role of governments as a watchdog over powerful multinational corporations.

CSR is supposed to aid an organization's mission as well as a guide to what the company stands for and will uphold to its consumers. Development business ethics is one of the forms of applied ethics that examines ethical principles and moral or ethical problems that can arise in a business environment. ISO 26000 is the recognized international standard for CSR (currently a Draft International Standard). Public sector organizations (the United Nations for example) adhere to the triple bottom line (TBL, i.e., people, planet, and profit). It is widely accepted that CSR adheres to similar principles but with no formal act of legislation. The UN has developed the Principles for Responsible Investment as guidelines for investing entities.

A. Profile of CSR of the Three Indigenous Companies. Let's take a look at the CSR practices of these companies:

- 1. PT Djarum.** As a global enterprise that simultaneously maintains deep community roots, Djarum is keenly aware of the need to protect and preserve the environment, for the continuity of life as we know it and benefit of future generations. Starting with Kudus, its hometown, Djarum has practiced good environmental stewardship since 1979. Its initial efforts in Kudus have now blossomed into a massive tree planting initiative throughout Java, with the purpose of re-greening, preserving local ecosystems, preventing erosion, creating shade and helping water catchment.

On a global scale, Djarum actively preserves endangered Indonesian plant species by cultivating them in a controlled environment. Intensive research, cultivation and care are invested to save these endangered plants for the benefit of the planet. This vision of a green and thriving planet continues to inspire Djarum in its efforts towards environmental stewardship. The company strives to make the world a better place, one tree at a time.

Another key CSR project of Djarum is on education. Education is without doubt a fundamental human right that is key to improving our capacity and unlocking our potential, as well as to improving society. Access to education is more crucial than ever in a world where information is power.

In 1984 Djarum established a fund committed to raising the level of education. The Djarum Scholarship is given to assist highly qualified Bachelor degree candidates in finishing their degrees. This scholarship also provides soft skills training and encourages character development through leadership and entrepreneurship seminars, outbound sessions, practical skills training, and other activities. Since the inception of the program, over 6,000

Djarum Scholarship recipients have successfully obtained their Bachelor degree in 71 universities throughout Indonesia.

2. Kaltim Prima Coal (KPC)

KPC has formulated various community development programs to improve local economy, to alleviate poverty, and to improve the quality of life in the community. The company maintains a strong focus on the support of community health and education, infrastructure, livelihood in term of agribusiness, apprenticeships and skills training, and culture.

To ensure that there is sound and sustainable capability to generate future economic growth in the region, KPC's community development programs are aimed at increasing self-reliance.

KPC provides community development support in the following broad areas:

- Agribusiness; providing local farmers with initial investment and training required to enable self-sufficiency.
- Health and Sanitation; aiming to prevent common disease such as tuberculosis, malaria and dengue fever by giving assistance to community on the knowledge of these diseases.
- Education; providing incentives for teachers to move to the Sengata area and scholarship for students.
- Infrastructure development; aiming to develop the public infrastructure to give the comfort for community.
- Small and Medium enterprises development; providing training and low interest credit for small businesses – with the aim enabling self-sufficiency.
- Cultural and natural conservation; aiming to keep the community social order by conserving nature and culture
- Community and Government capacity empowerment

These seven areas and the programs are described in more detail in the KPC 2006 Sustainable Report. Partnership with community representatives, NGOs and local government are considered crucial to the success of KPC's community development programs. Relationship with these partners also help KPC to define its priorities for community funding. To date, KPC has spent more than US \$ 50 million on community development programs in East Kalimantan and it is continuing to fund these initiatives from a budget of US\$5 million each year.

KPC actively participates in sustainable development initiatives which are based on the integration and balance of economic, environmental and social priorities. To achieve this KPC will:

- remain the supplier of affordable energy and a contributor to the alleviation of poverty, improved health, and better quality of life;
- perform community empowerment programs to encourage regional economic development based on local potential; and
- build and maintain partnership with local communities, governments and stakeholders using mutual trust and mutual respect principles.

The management of KPC commits to providing the leadership, resources and support to achieve these Sustainable Development outcomes.

3. ***PT Semen Gresik.*** The aim of the responsibility and commitment of the Company in the social field is to create a sustainable “positive emotional relation” with the society. The scope of the Company CSR activity in the social field comprise of infrastructure development, religion, education, social welfare, health improvement, art and culture revitalization, disaster emergency response, and sport.

Religion. The perfection of faith and piety for God through Madrasah (Islamic School), Pesantren (Koranic studies for children and young people), Social/Religious Activities and

house of worship is the Company's commitment to make a contribution in the society's character building and moral development. The kind of activities in this field include fund assistance for renovating and building house of worships, celebration of religious days, Ramadan, routine recitation, imam and khatib workshop, assistance for KBIH (guidance group for the pilgrim) Semen Gresik as well as for Semaan and Dzikir Ghofilin.

Education. One of the important aspects in the development of Indonesia is to increase the level of human development. Fund assistance for that aspect includes scholarship, curriculum upgrade, visual aid, seminar, obligatory rural social action internship, courses, and teachers upgrade, is the form of Company's concern for human development.

Social Welfare. Assistance for social activity include charitable action, national day celebration, grant for the activity held by youth and society group are the form of the Company's commitment to be "at hand and share" in every circumstance.

Health. Aid for the improvement of society health, equipments for village polyclinic and free medication for the poor is the Company's effort in implementing "health for all" commitment. Health is an important social investment in increasing social capital. A healthy society will give birth to a strong and dignified nation.

Public Facility. The activity of the improvement of public facility includes road building, street illumination, sanitation, and other public facilities. The aim of the aforementioned activities is to increase the accessibility and livability of the society. Semen Gresik realize that the availability of the public facility is the "bridge" for empowering the society.

- B. CSR of PT Unilever Indonesia.** In this paper, the extensive CSR program of PT Unilever Indonesia was used as the standard to represent the mainstream CSR of global companies; Unilever being an established MNC, with strong presence in the global marketplace.

Profile of PT. Unilever Indonesia

Established on 5th December 1933, Unilever Indonesia has grown to be a leading company of Home and Personal Care as well as Foods and Ice Cream products in Indonesia.

Unilever Indonesia's portfolio includes many of the world's best known and well loved brands, such as Pepsodent, Pond's, Lux, Lifebuoy, Dove, Sunsilk, Clear, Rexona, Vaseline, Rinso, Molto, Sunlight, Wall's, Blue Band, Royco, Bango and many more. Throughout this time, our company purpose has remained the same as we work to create a better future every day; help people feel good, look good and get more out of life with brands and services that are good for them and good for others; inspire people to take small everyday actions that can add up to make a big difference for the world; and develop new ways of doing business that will allow us to grow while reducing our environmental impact.

The Company offered its shares to the public in 1981 and has been listed on the Indonesia Stock Exchange since 11th January 1982. As at the end of 2009, the Company ranked seventh on the Indonesia Stock Exchange in terms of market capitalization. The Company has two subsidiaries: PT Anugrah Lever (in liquidation), a 100% owned subsidiary (previously a joint venture marketing company for soy sauce) that has been consolidated and PT Technopia Lever, a 51% owned subsidiary that engages in distribution, export, and import of goods under the Domestos Nomos trademark. In Unilever, our people are at the heart of everything we do. Priority is given to their professional development, their life balance, and their ability to contribute equally as part of a diverse workforce. There are more than 3,900 employees throughout the archipelago. The Company seeks to manage and grow the business in a responsible and sustainable manner. Our values and standards are set out in our Code of Business Principles (CoBP) which we fully embrace. We share these values and standards with our business partners including our suppliers and distributors. The Company owns six factories in Jababeka Industrial Estate, Cikarang, Bekasi and two factories in Rungkut Industrial Estate, Surabaya, East Java, with its head office in Jakarta. Its products consist of about 32 key brands and 700 SKUs which are sold through a network of about 370 independent distributors covering hundreds of thousands of outlets throughout Indonesia. Products are distributed through its own central distribution centre, satellite warehouses, depots and other facilities.

As a socially responsible company, Unilever Indonesia has an extensive corporate social Responsibility (CSR) programmed. The four pillars of its programmers are Environment, Nutrition, Hygiene and Sustainable Agriculture. Examples of its CSR programmes include Hand Washing Campaign with Soap (Lifebuoy), Dental and Oral Health Education Programme (Pepsodent), Traditional Food Conservation Programme (Bango), and the Campaign to Fight Hunger and Malnutrition to help malnourished Indonesian children (Blue Band).

C. CSR Alignment with Mainstream CSR and Millennium Development Goals (MDG)

Table 2. CSR Alignment

Indigenous Companies	CSR Area	PT Unilever Indonesia	MDG
PT Djarum	Environmental Stewardship; Education (Scholarship Grants)	Environment, Sustainable agriculture, Nutrition, Hygiene	Environment/Sustainable Development, Education(Literacy Improvement), Health improvement
Kaltim Prima Coal	Poverty alleviation thru agribusiness, development of small and medium enterprises; empowerment of people thru education	Environment, Sustainable Agriculture, education, campaign to fight hunger and malnutrition	Poverty Alleviation, Environment, Sustainable Development, Health improvement
PT Semen Gresik	Infrastrure development to help the economy, education, culture revitalization, social welfare, health improvement	Sustainable development, nutrition, hygiene, empowerment thru education	Poverty Alleviation, sustainable development, education, health improvement

Table 2 shows strong alignment of CSR programs between the three indigenous Indonesian companies and the mainstream CSR typified by Unilever and the United Nation’s Millennium Development Goals.

IV. Analysis/Conclusion

The CSR programs of the three indigenous Indonesian companies examined in this study are closely aligned with the Millennium Development Goals of the United Nations, specifically on poverty alleviation, education, and sustainable development, and comparable with the mainstream global CSR represented in this study by PT Unilever Indonesia.

All three companies are more than half-a-century old in their respective markets, have gained market leadership, have extensive CSR programs, and have earned the respect and high esteem of the larger society they serve. It is up for future researchers to check and validate, but this paper has shown that there is a reasonable basis in the observation that the biggest factor influencing public perception of corporation is social responsibility. It is a strong criterion in evaluating organizations today.(Stoner et al., 1999). Indeed, it is not enough to claim corporate leadership in terms of sales, market share and profit. Good companies are also good citizens and proactively assist communities where they do business, as shown by these three Indonesian companies, which are leaders in their own respective turfs.

Profile of these indigenous companies, age in the market (all three are over half a century-old), market leadership (all three are leaders in their respective markets) product/service diversification, CSR involvements, regional/international penetration, could perhaps serve as constructs for hypothesis testing by future investigators, for examining ‘implicit assumptions’ or ‘new relationships’.

The three indigenous Indonesian companies described in this paper, play crucial role in social development through their corporate social responsibility programs; and by their market leadership, which could translate into significant contributions to the country’s economy, we cannot ignore the impact of their contributions to the country’s social and economic development. Their CSR programs are along the mainstream CSR practices of global companies. However, the social service they extend must not end in doling out material aids. In fact, it must be based on a deeper commitment that goes beyond charity, and must embrace capability-building, people empowerment that builds economic and political freedom. Progressive thoughts on business management prescribe a holistic operational efficiency and effectiveness in every aspect, including the ethical, social, and environmental sustainability.

While different sectors and pressure groups across the globe have framed different definitions of CSR, there is considerable common denominator among them, i.e., *CSR is about how companies*

manage the business processes to produce an overall positive impact on society
(<http://www.mallenbaker.net/csr/>, retrieved 29 September 2005).

Globally, most companies today have separate department that focuses on CSR. This approach enables companies to strategically plan for programs and projects that would best respond to the needs of their market. And most of them have veered away from doing mere charity works. The greatest challenge they have imposed upon themselves is on capability-building programs to the world's poor at the bottom of the economic pyramid, who constitute the majority of the market that they serve. They are now into empowering the poor, to enable them to alleviate their sufferings and ultimately, to make a difference in their lives. Indeed, companies must take pride not on the CSR programs they are doing, but rather on the empowerment of people that their programs have produced and developed. Dole out is out. Capability-building and people-empowerment are in.

It is hoped that future researchers may use this paper for deeper and extensive study on the subject.

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