

Creating Shared Value (CSV)
in East Java, Indonesia:
A critical analysis of CSV impacts
on dairy farming communities

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Declaration

I declare that this thesis is my own account of my research and contains as its main content work which has not previously been submitted for a degree at any tertiary education institution.

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Abstract

Porter and Kramer introduced the concept of Creating Shared Value (CSV) in 2006, as a win-win solution in the relationship between business and society. They argued that CSV addresses social needs and provides opportunities for companies to create economic value. According to Porter and Kramer CSV transforms business thinking, reshapes capitalism and its relationship with society. They also argued that CSV advances previous Corporate Social Responsibility (CSR) approaches, which they criticised as trapping business in a vicious circle and having little positive impact on society.

This thesis analyses CSV based on a case study of Nestlé Indonesia's CSV initiatives in dairy farming communities in East Java, Indonesia. Nestlé is a transnational company known for being a pioneer of CSV theory and for adopting CSV as part of the company's business strategy. Nestlé established CSV initiatives, including financial and technical support, to help farmers increase milk quality. Nestlé argued that the increase in milk quality would automatically increase farmers' income because Nestlé offered a higher price for better quality milk, which in turn improves the quality of life in the communities.

This thesis found that CSV initiatives created economic value for the company. The thesis also found that these CSV initiatives do not automatically improve social conditions in dairy farming communities in East Java, Indonesia. The case study demonstrated that the micro-economic lens of CS in addressing social issues limited the effectiveness of CSV as the win-win solution. Social value will only be created through CSV initiatives, if it creates economic value for business. This thesis provides empirical evidence that CSV is consistent with the neoclassical economic understanding of business-society relationships. Therefore, this thesis argue that CSV does not advance CSR theory. Rather, it repackages neoliberal logic as a new rational discourse of CSR.

Keywords: Creating Shared Value (CSV), Nestlé, Dairy farming, Indonesia

Table of content

Student Declaration	ii
Abstract	iii
Table of Contents	iv
List of Figures	vi
List of Tables	vi
List of Pictures	vii
List of Charts	vii
Acknowledgment	viii
Chapter 1. Introduction	1
1.1. Background of the study	1
1.2. Aim of the study	7
1.3. Research questions	8
1.4. Structure of the thesis	8
Chapter 2. Theory development from CSR to CSV	10
2.1. Introduction	10
2.2. CSR history and theory development	10
2.2.1. CSR 1.0	11
2.2.2. CSR 2.0	19
2.2.3. CSR 3.0	23
2.3. CSR critiques	24
2.4. Creating Shared Value (CSV)	27
2.5. CSV measurement	32
2.6. Summary	35
Chapter 3. A study of Nestlé Indonesia's CSV initiatives	37
3.1 Introduction	37
3.2 Corporate Responsibility initiatives in Indonesia	37
3.3 CSV initiatives of Nestlé Indonesia	46
3.4 Summary	63
Chapter 4. Research methodology	65
4.1. Introduction	65
4.2. Philosophical approach	65
4.3. Case study method	66
4.4. Data collection	68
4.5. Data analysis	72
4.6. Trustworthiness of the study	72
4.7. Ethics and the rights of human participation	75
4.8. Summary	77

Chapter 5. Findings	79
5.1. Introduction	79
5.2. Shared value measurement framework	80
5.2.1. Identify the social issues to target	80
5.2.2. The business case	82
5.2.2.1. Nutrition	82
5.2.2.2. Environmental problems	88
5.2.2.3. Rural development	97
5.2.3. Track progress	102
5.2.4. Measuring result to unlock new values	106
5.3. Corporate responsibility measurement framework	107
5.3.1. The big picture	108
5.3.2. Instrumental benefits	112
5.3.3. Business attitudes, awareness and practice	112
5.3.4. Non business stakeholders	115
5.3.4.1. Dairy cooperatives	115
5.3.4.2. Government	118
5.4. Summary	121
Chapter 6. Analysis of case study data	124
6.1. Introduction	124
6.2. Nutrition	125
6.3. Environmental problems	131
6.3.1. Water sustainability	131
6.3.2. Biogas program	134
6.4. Rural development	138
6.5. Effectiveness of CSV practice in creating economic value and addressing social problems	145
6.6. Summary	149
Chapter 7. Implication of theory and practice	150
7.1. Introduction	150
7.2. Addressing economic and social value	152
7.3. CSV relates social issues and competitive advantage	155
7.4. Nothing is new about capitalism and its relationship with society	161
7.5. CSV - a disguised neoliberal form of CSR	165
7.6. Summary	169
Chapter 8. Conclusion	170
References	175

List of Figures

Figure 2.1. Integrating shared value strategy and measurement	33
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List of Tables

Table 2.1. Measuring shared value approaches	33
Table 2.2. Framework for understanding the impact of corporate responsibility	35
Table 3.1. Average ownership of dairy farming in two big dairy cooperatives in East Java, Indonesia	48
Table 5.1. Price comparison of Nestlé’s products in Indonesia	87
Table 6.1. Economic and social value created through Nestlé Indonesia’s CSV initiatives	146
Table 7.1. Stage of Corporate responsibility development	151

List of Pictures

Picture 3.1. Permanent shed	51
Picture 3.2. Semi-permanent shed	51
Picture 3.3. Impermanent shed	51
Picture 3.4. A farmer collecting grass	52
Picture 3.5. Farmers rent a small truck to buy grass from other regencies	52
Picture 3.6. A Farmer delivers milk to the post	55
Picture 3.7. Milk deliverers sterilise their feet by walking through the tub	55
Picture 3.8. Milk collecting process	56
Picture 3.9. In the past farmers used plastic buckets	56
Picture 5.1. Biogas program billboard in the communities	93
Picture 5.2. Farmers are still using firewood for big cooking	95
Picture 5.3. Biogas stove for daily cooking	95

List of Charts

Chart 3.1. National dairy cow population	49
Chart 5.1. Cost comparison per fortnight	94
Chart 5.2. Imported milk to Indonesia	120

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Chapter 1

Introduction

1.1. Background of the study

Whilst the concept of Corporate Social Responsibility (CSR) – aspects of the interrelationship between business and society – has gained in popularity in the past five decades, its importance has been recognised since the origins of Western civilisation (Eberstadt, 1973, p. 77). During the mercantile period (1500 – 1800), business's social obligations were enshrined in Law, the State rewarded good company conduct and punished non-compliance. The emergence of large companies during the Industrial Revolution changed power dynamics in Europe and across the Atlantic, giving rise to exploitative business practices (poor working conditions) and the unethical pursuit of profit maximisation (Eberstadt, 1973, p. 80). This period of laissez-faire capitalism ended with the Great Depression (1929-1939), which resulted in massive unemployment and business failures. The post-Depression period was marked by growing concerns about business's role in ensuring the economic and social welfare of society (Carroll, 2008, p. 5).

Post World War II, heralded the modern era of social responsibility in which business reassessed its social roles (Heald, 1970, p. 174). In 1953, Bowen introduced the terminology of social responsibility in his book *Social Responsibility of the Businessmen* (Carroll, 1999, p. 269). Bowen declared that businessmen had a social responsibility to the general welfare of society (Bowen, 1953, p. 107). Several decades later, this terminology and the concept of CSR have become important issue for business and society (Moura-Leite & Padgett, 2011, p. 1). Business executives learnt that relationships between business and communities particularly where they operated could not be ignored. Many businesses thus now have Corporate Social Responsibility (CSR) policies to guide their behaviour in relation to standards of living, environmental policies and sustainable business in the places they obtain resources, including their workforce, produce goods, and rely on for markets (Crane, Matten, & Spence, 2008, p. 4).

Archie Carroll, a key theorist of corporate social responsibility, created a pyramid of business responsibility to foreground the ethical obligations of business. He argued that 'the social responsibility of business should encompass the economic, legal, ethical and discretionary expectations the society has of organisations' (1979, p. 500). By the 1990s CSR had expanded into forms such as Corporate Social Performance (Wood, 1991), Corporate Citizenship (Carroll, 1991), Corporate Social Responsiveness (Frederick, 1994) and Company Stakeholder Responsibility (Freeman & Velamuri, 2004). Importantly, scholars and practitioners have been critical of CSR throughout its development. For example, Logsdon and Wood (2002, p. 157) criticised CSR as too 'wishy washy', too broad and too ambiguous a concept. According to Blowfield and Murray (2014, p. 312) CSR is criticised for being either anti-business, pro-business, too narrow or for failing to achieve its goals. Economists such as free market advocate Milton Friedman also challenged the CSR concept, arguing that social responsibility reduces returns for shareholders, increases the price for customers and lowers employees' wages which are all contrary to good business practice (Friedman, 1970, p. 2).

Michael Porter and Mark Kramer, leading economic theorists and co-founders of FSG, a not for profit consulting organisation, focused on strategic relationships between business and society that benefit both. According to Porter and Kramer, proponents of CSR have used moral obligations, sustainability, licence to operate and reputation to make business cases for its implementation, which has trapped business in a vicious cycle. Moreover, they added that the 'CSR approach devolves into a short term defensive reaction and never ending public relations palliative care with minimal value to society and no strategic benefit for business' (2006, p. 81). In response to what they consider the harmful effects of CSR, Porter and Kramer introduced the concept of creating shared value (CSV) in 2006. They described CSV as a win-win solution for business and society because it addresses social and economic progress using value principles, in which value is defined as benefit relative to costs (2011, p. 6); thereby without raising the cost for business (Porter & Kramer, 2011, p. 5). Porter and Kramer argued that connecting CSV initiatives with company agendas enables competitive advantage (Porter & Kramer, 2011, p. 16), and are therefore neither cosmetic nor for public relations or reputation management. Porter and Kramer (2011, p. 4) further claim that

redefining business through the concept of CSV reshapes capitalism and its relationship with society.

For Porter and Kramer CSV differs from CSR because it is embedded in the company's core business and thereby transforms business thinking (Porter & Kramer, 2011, p. 4). Improving techniques – operating, resources management, employment, marketing – and using local suppliers will increase efficiency, product quality and sustainability, which produces a win-win solution for business and society (Porter & Kramer, 2011). Crane, Palazzo, Spence and Matten (2014, p. 132) have critiqued Porter and Kramer's CSV as unoriginal, uses managerial language to reframe CSR initiatives as CSV and it assumes business will behave ethically and actually address their relationship to society. Multinational companies including Nestlé, Novo Nordisk and Unilever have since adopted CSV as part of their strategy to address development challenges in the communities where they operate while at the same time creating economic value for the company (Intel, 2015; Nestlé Global, 2015; Novo Nordisk, 2011; Stockhammer, 2005; Tripodi, 2012; Unilever Indonesia, 2014). The measuring and reporting by companies whether they deliver on their aims is fundamental to CSV.

In Indonesia, the term CSR became popular in the mid 2000s (Rosser & Edwin, 2010, p. 4), when companies such as PT. Unilever, Astra International, and PT Krakatau Steel (Astra International, 2014b; Krakatau Steel, 2012; Unilever Indonesia, 2013) initiated CSR strategies directed at achieving the Millennium Development Goals¹ including poverty alleviation, increasing the quality of life especially in poor and rural communities, achieving universal primary education and environmental sustainability. Most CSR initiatives in Indonesia are philanthropic, or in Carroll's terms discretionary responsibility. Supporting this, Visser (2008, p. 20) argues, CSR in developing countries including Indonesia is commonly associated with philanthropic initiatives.

Moreover, Visser (2008, p. 20) added that CSR in developing countries is strongly influenced by traditional values and the religious background of the country. This is clearly seen in

¹ There are eight United Nations Millennium Development Goals (MDGs) that all 191 UN member states aimed to achieve by 2015. The United Nations Millennium Declaration, signed in September 2000 committed world leaders to combat poverty, hunger, disease, illiteracy, environmental degradation, and discrimination against women. The MDGs are derived from this Declaration, and all have specific targets and indicators (See WHO, 2017a).

several CSR initiatives in Indonesia; for example, building and renovating mosques were part of PT Krakatau Steel's CSR initiatives (Krakatau Steel, 2012, p. 30). It is important to acknowledge, in relation to this, that the majority of Indonesians are Muslim and social and environmental benefits are central to Islamic principles of Syari'ah (Dusuki, 2008, p. 22). This strong religious value to be socially responsible influences companies' CSR initiatives in the country.

The example of PT Krakatau Steel's CSR initiatives showed that CSR implementation in developing countries such as Indonesia has different challenges and conditions than in countries where CSR theory developed. While in developed countries, government regulations and policies have strong roles in addressing social issues, provision of human rights and environment protection, this is not the case in many developing countries including Indonesia. As one of most populated countries in Asia after China and India (World Population Review, 2017), Indonesia is home to more than 250 million people (BPS-Statistics Indonesia, 2017). The large population in Indonesia has resulted in economic and social problems. In 2016, more than 27 million people in Indonesia lived in poverty, with the highest rate of poverty in East Java. According to the Indonesian Central Bureau of Statistics, poverty is the economic inability to fulfil the need for food and non-food basic requirements which are measured by consumption/expenditure. Moreover, in 2016 the rate of unemployment was 6% of the country's labour force (BPS-Statistics Indonesia, 2017, p. 75). Economic and social conditions in the country pressure the government to increase jobs, which it does by inviting foreign investors to run their businesses in Indonesia. For this reason, the government established the Indonesia Investment Coordinating Board (BKPM) in 2009, to reduce the bureaucratic procedures for investors, especially foreign investors, to establish business in Indonesia.

The pressure to create employment increases the risk of the government compromising ethical, social or environmental standards. A clear example can be seen from the case of PT. Freeport Indonesia, a well-known mining company in Papua. Rifai-Hasan stated that although Freeport Indonesia brings economic benefits to Indonesia and Papua, the environmental degradation caused by the company's mining activity cannot be ignored. Moreover, the economic benefit was mostly created for the government, local elites, and the US and Indonesian brokers. It failed to promote local economic growth and was

disconnected from indigenous communities (Rifai-Hasan, 2009, p. 134). The case of Freeport Indonesia in Papua not only demonstrated government failure to protect local communities and the environment, it also highlighted that corruption is one of important challenges for CSR implementation in developing countries.

KKN (Korupsi, Kolusi dan Nepotisme) is a well-known acronym in Indonesia for corruption, collusion and nepotism associated with Soeharto's families and regime (Robertson-Snape, 1999). Robertson-Snape explained that these three problems were influenced by politics, economic and cultural factors. Under the Soeharto regime there was no political accountability, transparency, democratic institutions or freedom of press. Corruption thrived in the Soeharto era and was used to secure Soeharto's political position as head of the dominant party for more than 30 years. When Soeharto came to power, the country's economy had collapsed; it had a negative growth rate, a huge foreign debt and almost fully depleted foreign reserves. As a response to the economic conditions, Soeharto opened up the Indonesian economy by attracting foreign investors and aid. This led to a period of economic liberalisation in Indonesia. However, the country's economy was controlled by donor countries and international organisations which required the government to reduce the size of the government, the level of government subsidies, and the Indonesian banking system. Collusion and nepotism thrived. All foreign investors had links to the Soeharto families or their cronies for trade protection. Corruption, collusion and nepotism in Indonesia increased the economic and social gap between the rich and the poor in the country because economic benefits were only created for local elites and Soeharto cronies.

High corruption, poor working conditions, little regard for human rights, low levels of income per capita, and low provision of environmental protection are some challenges of CSR implementation and development in developing countries. These conditions and challenges are typical internal drivers for CSR in developing countries and are different from those in developed countries (Visser, 2008, p. 481). Visser also identified external drivers of CSR in developing countries including international standards, investment incentives, stakeholders and supply chain activities. CSR is expected to contribute to filling the governance gaps in developing countries. These gaps are discussed throughout the thesis using the case study of Nestlé Indonesia.

Porter and Kramer's (2006, p. 80) critique of traditional CSR includes that it is charitable, costly and disconnected from competitive advantage. They argued that philanthropy is used largely as a form of public relations or to promote corporate image (Porter & Kramer, 2002, p. 5). They promote the interrelationship between business and society to advance CSR. As an example of how CSV initiatives integrate social issues with the company's business, they cite Nestlé's approach to working with small farmers in India, (Porter & Kramer, 2006, p. 90). The relationship between Nestlé and small farmers in India started when the company wanted to enter the Indian market in 1962 and received government permission to build a dairy in the Northern district of Moga. Porter and Kramer claim that Nestlé's commitment to working with small farmers in Moga increased the living standards of the local community whilst delivering economic success to the company.

Nestlé was founded by Henri Nestlé in Switzerland in 1866 as a food and drinks company, with an early and enduring focus on baby food. Today, it is a transnational company and pioneer for adopting CSV as part of its business strategy (Porter & Kramer, 2015; Voûte, 2012). This dissertation critically examines the concept of CSV through a case study of Nestlé Indonesia's CSV initiatives in dairy farming communities in East Java, Indonesia. In designing CSV initiatives, Nestlé firstly identified social issues that could provide opportunities for the company to increase revenue and/or reduce costs, because the more closely tied a social issue is to the company's business, the greater the opportunity to create value for business and benefit the society (Porter & Kramer, 2006, p. 88). The social issues identified by the company include nutrition, water and rural development; since a business case has been made for addressing them (Nestlé Indonesia, 2013, pp. 4-5).

Nestlé Indonesia's business case for CSV programs in farming communities focused on farmers who supply raw materials including dairy, coffee and cocoa to the company (Nestlé Indonesia, 2013, p. 38). This thesis analyses the impacts of Nestlé Indonesia's CSV initiatives on dairy farming communities in East Java, Indonesia which have been supplying milk to the company since 1975 (Nestlé Indonesia, 2013, p. 38). Nestlé is the main buyer of milk in East Java. In 1975, Nestlé identified weaknesses in dairy farming practices including, poor milk quality, inadequate feeding management, lack of sterile containers for collecting and transporting milk, and other procedures that affect the quality of milk. The following year, Nestlé Indonesia provided technical assistance and loans for dairy farmers to address these

problems. Decades later, the company reported that the training programs for dairy farmers increased milk production, milk quality, cleanliness and the welfare of farmers (Nestlé Indonesia, 2013, p. 38). Nestlé Indonesia (2013, p. 38) claimed that the company had made a significant contribution to local dairy farming communities and their economic development especially in rural areas by creating jobs and strengthening the economic sector and infrastructure for local communities. Moreover, these programs ensured milk availability for the company (Nestlé Indonesia, 2013, p. 39). However, regardless of Nestlé's claims, socio-economic conditions in dairy farming communities have remained the same despite the company's 30 years of community engagement. Most dairy farming in Indonesia is smallholder dairy farming as part of mixed farming. Smallholder farmers grow fruit or vegetables and have one or two cows for ploughing the land, fertilising the fields and producing milk. The average number of milking cows owned by farmers (1 – 2) in East Java, has remained the same since dairy farmers started supplying milk to Nestlé Indonesia (SAE Cooperative, 2012, 2013, 2014)

Against this background, this thesis critically analyses, by way of a case study approach, Nestlé Indonesia's CSV initiatives and their effectiveness in creating economic and social value for the company and society respectively. In doing so, the thesis also gauges the extent to which the concept of CSV is a departure from traditional CSR and reshapes capitalism and business-society relations as Porter and Kramer claim.

1.2. Aim of the study

The purpose of this study is to critically analyse the concept of CSV using Nestlé Indonesia's CSV initiatives in local dairy farming communities in Indonesia as a case study. This thesis treats Nestlé as an exemplar of a transnational company operating in Indonesia with an enormous societal reach across local, regional and national levels. Nestlé Indonesia presents itself as the pioneer of CSV, doing business in ways that deliver economic and social value creation. It is in light of these claims that an assessment of Nestlé's impacts on, and outcomes for, dairy farmers and local communities in Indonesia is warranted.

1.3. Research questions

The analysis of Nestlé Indonesia's CSV initiatives and their outcomes for the local dairy farming communities in Indonesia is guided by the following research questions:

1. How does Nestlé Indonesia implement its CSV initiatives in dairy farming communities in East Java, Indonesia?
2. How do Nestlé Indonesia's CSV initiatives create economic value for the company and social value to address problems in the society?
3. How do dairy farming communities perceive Nestlé Indonesia's CSV initiatives in addressing problems in their communities?
4. At the level of theory, are there discernible differences between CSV and traditional CSR?

This research was undertaken to offer insights into the implementation of Nestlé Indonesia's CSV initiatives in East Java and to gauge their effectiveness. Nestlé claims that through its CSV initiatives the company strengthens the local economy and infrastructure of its host communities while creating economic value (Nestlé Indonesia, 2013, p. 38). However, even though the economic value created for the company is readily apparent, the social value created for society is less visible and sometimes not evident, which is why this study includes community perspectives on CSV as practiced by Nestlé Indonesia. In exploring Nestlé Indonesia's CSV initiatives, the study offers critical insights into the effectiveness of CSV in a developing country context, helps discern differences between CSV and traditional CSR and assists with needed theory building in the field.

1.4. Structure of the thesis

The thesis is organised into seven chapters, including this introductory chapter.

Chapter 1 presents the background to the study, outlining its aims and research questions, its contribution to knowledge and the thesis structure. Chapter 2 provides a review of both CSR and CSV literature. The chapter begins with a review of CSR theory from generation 1 to generation 3. Following thus, Porter and Kramer's CSV concept is introduced and compared to traditional CSR approaches. The chapter also introduces the frameworks utilised for the analysis of this study's findings.

Chapter 3 contextualises the case study, providing a general understanding of the social characteristics and social conditions in Indonesia. The chapter also provides a profile of dairy farming communities in East Java, describes their relationship with Nestlé Indonesia and introduces the company's key CSV initiatives. Chapter 4 explains the study's research methods; it describes the case study approach adopted and the data collection process as well as the method of data analysis and the ethical considerations.

In Chapter 5, the research findings are presented, providing the primary data gathered from interviews, focus group discussions and field observations as well as secondary data from a variety of resources including, statistics derived from the company's website and reports. Data are assessed using two different frameworks for measuring impact. First, data are analysed using Porter et al.'s shared value measurement framework (Porter, Hills, Pfitzer, Patscheke, & Hawkins, 2012). Data are analysed subsequently using Blowfield and Murray's (Blowfield & Murray, 2014) framework for measuring impacts of corporate responsibility. These frameworks are utilised to allow the researcher to critically evaluate the outcomes, both positive and negative, of Nestlé's CSV initiatives on dairy farming communities in East Java.

Chapter 6 offers an analysis of the research findings on how Nestlé Indonesia's CSV initiatives address questions of nutrition, environmental protection and rural development and discusses the economic and social value created for the company and dairy farming communities in East Java, Indonesia. Chapter 7 discusses the findings and the implications for CSR theory and practice. This chapter, based on the case study data, offers a critique of CSV theory, comparing CSV and traditional CSR approaches in Nestlé Indonesia's CSV initiatives in dairy farming communities in East Java, Indonesia.

Chapter 8 presents a summary of the study's findings with comments on its implications. This thesis provides an empirical study of CSV initiatives as a way to understand business-society relationships in the field of CSV and CSR theory.

Chapter 2

Theory development from CSR to CSV

2.1. Introduction

Chapter one explained the background to this study, including the purpose, research questions, contribution and the thesis structure. This chapter reviews the CSR and CSV literature, beginning with a review of CSR history and development, followed by critiques of CSR that influence the development of CSV. Porter and Kramer's model of CSV as an alternative to CSR follows. The final section describes measurement frameworks utilised in this study to analyse the effectiveness of CSV initiatives in addressing social issues.

2.2. CSR history and theory development

Business has traditionally been regulated in Western society (Eberstadt, 1973, p. 77). Nicholas Eberstadt identified three eras of business responsibility prior to the industrial revolution. First, is the Classical Greek era (the 5th to 4th centuries BC) when business was expected to be of social service to the community. Second, in the medieval era (1000-1500), under the influence of the Catholic Church, business was expected to be honest and adhere to moral and legal obligations. During the third era or mercantile period (1500-1800), and Industrial revolution² in Europe, business's social obligation – providing public service – increased and businessmen gained respectability, dignity and privileges including influence in national affairs (Eberstadt, 1973, p. 79). Business was also punished if it failed to provide social benefits to society (Eberstadt, 1973, p. 79). Although social responsibility was occurring during this era, so too was exploitation of foreigners and unethical profit maximisation (Eberstadt, 1973).

Ethical business practices including how business could make a positive contribution to society was the main purposes of the CSR concept when it was popularised by Bowen in the

² Industrial revolution was the transition to the new manufacturing process in the mid 1700s. It brought massive improvements of living standards, the workmen earning almost double of their wages, new houses, lands, roads and other circumstances in the standard of living. On the other hand, food price mounted, poor working condition, child labour and other social impact appeared during this period of time. (Porter & Kramer, 2011, p. 17)

1950s. Philanthropy was typically a part of the early generation of CSR or CSR 1.0. Based on critiques and experiences of CSR, scholars and practitioners developed CSR practices and theories into CSR 2.0 and CSR 3.0. The following section explains the development of CSR from CSR 1.0 to 3.0 and discusses how CSR. It explains how good business practice can, at least theoretically, provide positive contributions in business-society relationship.

2.2.1. CSR 1.0

In this thesis CSR 1.0 refers to the classic notion of Corporate Social Responsibility or what Visser called old CSR (2011, p. 145). After Bowen popularised the term 'social responsibility', other scholars and practitioners expanded CSR theory to include explanations of corporate citizenship, corporate social performance and stakeholder theory.

Social responsibility of the businessman

Bowen (1953) first introduced the idea of social responsibility, primarily concerned with large companies in the United States at the time, in his book *Social Responsibility of the Businessman*. Industrialisation spread rapidly in the United States of America during the nineteenth century, which was marked by a shift to manufacturing, increased transportation, urban living, and mass workforces (Dietz, 1973, p. 35). This changed economic logic and societal goals and values (Hay & Gray, 1974, p. 136). Economic growth was the State's primary goal. While manufacturing increased so did poor working conditions, child labour, and starvation wages; tolerated for the purpose of profit maximisation. During this time laissez-faire capitalism increased in the USA and across Europe (Berend, 2006). Together with Social Darwinists, laissez-faire economists rejected the idea that business had responsibility for social welfare. These economists argued that the government should encourage unregulated business (Eberstadt, 1973, p. 80). The lack of business regulation, along with factors including personal ambitions, beliefs, resulted in economic control being concentrated in the hands of a few, so that giant corporations dominated the economy, and link between power and corruption in America grew. This situation contributed to the Great Depression, and resultant massive unemployment, business failure and social harm (Carroll, 2008, p. 5).

Based on the economic conditions in the United States in the 1950s, Bowen (1953, p. 3) asserted that hundreds of giant companies in the country at that time were vital centres of power and actions that had direct relationships with society. Therefore, he argued business could play an important role to the broader social aspects. For Bowen:

The term social responsibility ... refers to the obligation 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 societies (Bowen, 1953, p. 6).

He also regarded social responsibility as a means of achieving high productivity, economic progress, economic stability, personal security, political order, justice and freedom, development of the individual person, community improvement, national security and personal integrity (Bowen, 1953, pp. 8-12) and was therefore important to society's general welfare.

Bowen's concept of social responsibility as influencing business's relationship to society remains central to CSR (Logsdon & Wood, 2002) and has become a part of business consciousness (Aguinis & Glavas, 2012; Carroll, 1999, p. 270; Freeman, Harrison, Wicks, Parmar, & De Colle, 2010; Garriga & Melé, 2013; Lockett, Moon, & Visser, 2006; Wood, 1991).

As an early concept, the idea of social responsibility was brilliant, but did not always mean the same thing for everyone (Votaw, 1972, p. 25). Votaw explained that for some people social responsibility refers to the idea of legal responsibility or liability; to others it means ethical responsibility of business; however, for some people social responsibility simply relates to charity or philanthropic initiatives of business to the society.

Philanthropic or charity initiatives were not new in the relationship between business and society. The age of philanthropy – beginning in the 1800s and peaking in 2006 – is based on the idea that business should give back to society (Visser, 2011, p. 68), prompting business people to think about social issues within their business context (Heald, 1970, p. 7). Some examples showed that individual and business philanthropy grew from the early 1800s (Heald, 1970). According to Carroll, in 1844 individual or business philanthropy to support

social causes, which might be categorised as social responsibility (Carroll, 2008, p. 4). YMCA (Young Men's Christian Association) was established in London and spread to the United States providing social and welfare benefits. Another example can be seen in 1893, when George M Pullman of the Pullman Palace Car Company created a town with public facilities including parks, church, arcade, theatre and hotel for his employees. In the late 1800s, John D. Rockefeller created the Rockefeller Foundation, to improve the well-being of humanity, and built universities, churches, and other public amenities.

However, it was not clear whether these philanthropic initiatives were individual or business philanthropy (Carroll, 2008, p. 3). Murphy (1978, p. 25) whose work focuses on ethical and responsible marketing, called this period of concern for society – established prior to the 1950s – the philanthropic era. Lack of reporting meant that it was difficult to determine whether it was individual or business philanthropy (Carroll, 2008, p. 3). During this phase, companies donated to society rather than performing other initiatives such as providing technical support or offering education to workers.

Theorists, including Carroll (2008, p. 2) questioned whether philanthropic initiatives benefited business or society. A significant change occurred during this phase, as managers began to recognise the interests of a broader range of people who contributed to the organisation (Hay & Gray, 1974, p. 139) and so they became agents for owners and trustees for various groups of people affected by the company's activities including customers, employees, suppliers and the community. Carroll questioned if these initiatives were part of a strategy to cover unscrupulous business practices. Philanthropic initiatives might spread the wealth a little; however, there was little focus on the broader impacts of the business-society relationship. Moreover, how companies make profit is more important than how they share their profit (Beschoner, 2014, p. 109).

Corporate citizenship

Gosset (1957, p. 157), the Vice-president and General Counsel of the Ford Motor Company first mentioned the term Corporate Citizenship in a lecture at Lee University, Washington in 1957. Corporate Citizenship theory refers to the 'philanthropic role and responsibility of business in the local community' (Matten, Crane, & Chapple, 2003, p. 112). The use of the term 'citizenship' places business together with other citizens in the society, which is

important because this is different to 'ethics' or 'responsibility' that should be done by business as if it is not part of the society (Matten et al., 2003, p. 111). For globalised companies, being regarded as part of the citizenship strengthens their relationships with local communities including employees, customers and the government (Mele, 2008, p. 74).

As private citizens, companies are expected to be profitable, obey the law, engage in ethical behaviour and give back through philanthropic activities (Carroll, 1998, pp. 1-2). Supporting Carroll's idea, Sethi (2008, p. 75) argued that similar to CSR, Corporate Citizenship focuses on the company's action to meet legal mandatory requirements and satisfy stakeholders and communities' needs. Ludescher et al (2008, p. 315) argued that the term 'citizenship' presents an ethical justification for business as a member of society who has rights, benefits and responsibilities.

In practice, the term 'Corporate Citizenship' is used by multinational companies as a frame for promoting their CSR as good practice. For example, Bill Clinton (1998), former President of the United States, established the 'Ron Brown Corporate Citizenship Award' for companies that demonstrate responsibility and support for their employees and broader communities. The winners in 1997 were IBM Corporation and Levi Strauss & Co. Another example is the 'Global Corporate Citizenship: The leadership challenge for CEOs and Boards', a framework to guide executives in their management of the company's impact on society and its relationship with stakeholders. CEOs from large multinational companies³ including the Coca Cola Company, Mc Donald Corporations, Rio Tinto Plc, DHL Worldwide Express, and another thirty CEOs signed the joint statement during the World Economic Forum in New York, on January 2002, to create a framework and develop strategies for executives to manage corporate responsibility in society (World Economic Forum, 2002, p. 1).

Awards and CSR standards prompted companies to publicise their responsibility initiatives and build the company image. Visser (Visser, 2011) named this era the age of marketing (1965-2007) when CSR initiatives were largely about whitewashing, public relations, lobbying, and reputation management. Whitewashing literally refers to 'deliberate attempts to conceal unpleasant or incriminating facts about a person or organization' (Stevenson,

³ These companies, Coca Cola Company (Data processed from Dinas Peternakan Jawa Timur, 2015; Nestlé Indonesia, 2013), Levi-Strauss (Crane et al., 2014, p. 140) and Rio Tinto (2011, p. 17), have been criticised for unethical business behaviours.

2010). In this period, many businesses claimed that they and their products were 'green' and 'eco-friendly'. Companies began to report on environmental management in sustainability reports and supply chain audits. The term 'bluewash' also emerged during this time, referring to companies use of the blue UN logo to represent themselves as 'responsible'. Companies greenwashed and bluewashed activities to conceal damaging and irresponsible activities such illegal land clearing or pollution. The terms greenwashing and bluewashing emerged in relation to business activities aimed at managing reputation in communities, and to obscure financial and other problems related to their economic activities from the regulators and public (Laufer, 2003, p. 255).

The concept of Corporate Citizenship became criticised as narrow, a voluntary act with minimum legal requirements, and self-interested for business's benefit (Logsdon & Wood, 2002, p. 160). Further, it contains no clear mechanism for governing a variety of local, national, supranational and global relationships. For these reasons, Logsdon and Wood argued that Corporate Citizenship does not advance CSR. Following their critique of Corporate Citizenship, Logsdon and Wood developed the concept of Business Global Citizenship, arguing that it reduces the importance of national boundaries and requires business to implement a universal code of conduct by adapting its hypernorms – norms for developing a business code of ethics – to local culture (Logsdon & Wood, 2002, p. 177). This should mean corporations do not adapt their business practices to reflect standards in countries they operated if those standards are lower that of their home country. However, it is not clear to what extent companies must be ethical and implement this universal code of conduct in ways that do not disadvantage local cultures (Banerjee, 2007, p. 45).

The differences in, and complexity of, legal systems enable multinational companies to be locally legal, but produce questionable social outcomes by not keeping the company accountable to the highest standards. The condition is more challenging in the case of developing countries such as Indonesia. The example of Freeport Indonesia in Papua as explained in Chapter 1 showed that companies could simply comply with local regulations when operating in countries with less stringent regulations than the company's home country. Moreover, the economic condition of the country forced the government to rely on foreign investors and aid. Under these conditions, companies could easily take advantage of the government weakness to protect local communities and the environment.

Corporate social performance

In the 1970s, Carroll (1979, p. 499) introduced the concept of Corporate Social Performance (CSP) as a conceptual model to describe the three essential aspects of social responsibility: its basic definition, issues for which a social responsibility exists and the philosophy of response (Carroll, 1979, p. 499). First, business has to take account of four categories, known as Carroll's pyramid of CSR, economic, legal, ethical and philanthropic to enact social responsibility (Carroll, 1979, p. 499). A firm's economic obligation is the main purpose of business (in the neoclassical sense), which is to be profitable. Legal obligations are business's requirement to obey government regulations. Ethical obligations require firms to do the right thing, be fair and avoid harm in the conduct of their business activities; and, philanthropic obligations refer to the contribution of business to improve life in the community.

The second essential aspect of corporate responsibility is for firms to identify the social issues or areas to which responsibilities are tied (Carroll, 1979, p. 501); this will be different for every business. Carroll explained that the social issues addressed by a finance company will be different for those of a manufacturing or insurance company. Many factors therefore influence a manager in identifying important aspects of corporate social performance.

The third aspect of CSP is the philosophy of responsiveness that addresses the managerial obligations to respond to social issues (Carroll, 1979, p. 501). Carroll connected this aspect of CSP to Frederick's concept of corporate responsiveness, because it facilitates companies to be socially responsible. Thus, requiring business to carefully assess which social issues it will address through its corporate social performance (Carroll, 1979).

Carroll's (1979, p. 499) CSR pyramid became a popular model for how businesses embody economic, legal, ethical and discretionary practices in conducting their activities. It articulates that business is responsible for being profitable, obeying the laws and codes of conduct, while being involved in the well-being of the community where it operates. However, while Carroll's CSR pyramid is relative to business operating in Europe it is not suitable in developing countries which have different economic, cultural, and political conditions (Visser, 2011, p. 244).

In developing countries, as is the case in Indonesia, it is necessary to reorder CSR priorities if with they are to meet the socio-economic needs of the country; this may conflict with Carroll's assertion that economic responsibilities are the most important focus of CSR. As explained in Chapter 1, the Indonesian government relies on foreign investments to address economic and social problems in the country. Therefore, the economic contributions from companies play an important role for the company, the government and society.

Given the economic responsibilities of business, this thesis argues that ethical responsibilities should be the second focus of CSR in Indonesia. There are several reasons supporting the argument. First, government protection for society and environment in Indonesia is limited or weak which some companies take advantage of to operate in ways that are unacceptable in developed countries and therefore unethical. This may include unethical promotion of its products or exploitation of natural resources in a developing country. Therefore, what company management identifies to be the ethical responsibilities of companies and how these are carried out play important roles in developing countries. Second, as discussed in Chapter 1, corruption, collusion and nepotism are huge problems in the country. These are historical problems for Indonesia and combating these problems is central to the Indonesian government's reformation agenda for the country. For Indonesia, combating corruption will facilitate economic equity and social justice in the country. In Indonesia companies' commitment and contribution to combat corruption, collusion and nepotism through CSR initiatives is urgently needed.

Legal responsibilities should be the third focus of CSR in Indonesia. Legal responsibility and legislation in Indonesia, similar to conditions in other developing countries is often poorly developed and consequently the government and other organisations lack the power to protect the people and environment. As in the case of economic and ethical responsibilities, CSR initiatives of a company operating in a developing country should prevent social and environmental harm, not simply meet the minimum legal requirement legislated by the country.

Philanthropy could be positioned at the top of the CSR pyramid in Indonesia. This does not mean that philanthropic responsibilities are not important in Indonesia. Philanthropy cannot be separated from CSR in Indonesia, because it is consistent with local culture and beliefs.

However, philanthropy or charity are easily translated as companies' measure of behaviour. This shallow understanding of CSR needs to be clarified to make it clear that CSR is not only about charity or philanthropy.

Stakeholder theory

Freeman (1984, p. 40) introduced the 'stakeholder concept' to the CSR debate. He argued that stakeholder management is an important aspect of strategic management, helping firms to be more responsive to their environment and to address triple bottom line⁴ issues more effectively (Freeman, 1984, p. 83). The term 'stakeholder' first appeared in an international memorandum at the Stanford Research Institute in 1963 (Freeman, 1984, p. 31), when Freeman defined stakeholders as 'groups and individuals who can affect, or are affected by, the achievement of an organisation's mission' (Freeman, 1984, p. 52). Understanding the attitudes and behaviours of stakeholders will help managers work towards win-win solutions for their companies and their stakeholders (Sturdivant, 1979, p. 58).

Stakeholder management theory suggests that managers have to recognise two types of stakeholders, primary and secondary stakeholders (Clarkson, 1995, p. 106). Primary stakeholders are those who have high levels of interdependency with the company, and secondary stakeholders are groups of people who have no active engagement with the company (Clarkson, 1995, p. 107). As well as recognising stakeholders, stakeholder theory requires managers to take account of stakeholder power, urgency and legitimacy, which according to Mitchell et al. (1997, p. 882) differentiates stakeholder theory from corporate social responsibility.

The development of CSR theories and practices were not without countering arguments from scholars and practitioners. For instance, Friedman (1970, p. 6) argued that 'the only responsibility of business was using its resources and designing activities to increase profit as long as it stays within the government rules'. Accordingly, a business would only need to

⁴ Triple bottom line refers to a framework with three parts; social, environmental and financial. Social equity takes account of fair and beneficial business practice towards labour and the community. Environmental is related to sustainable environmental practice. Profit refers to the economic value created by the business. The framework was popularised by John Elkington (See Elkington, 1999).

reduce pollution caused by its activities, if it is profitable to do so or required to by law. All other aspects of CSR, in line with Friedman's logic, should be left to government or individual's decisions about philanthropic giving (Schwartz & Saiia, 2012, p. 9). While this could be seen as a call for government to regulate CSR to prevent societal harm caused by business, the neoclassical school underpinning Friedman's position is largely opposed to government intervention (Arnsperger & Varoufakis, 2006). In many countries, however, especially developing countries, the rules governing business activities are weak and ineffective in limiting harmful business conduct and corporations take advantage of this (Mele, 2008, p. 61), and this is also the case in Indonesia.

According to the neoclassical notion of value creation, CSR distracts company management from its main purpose, which is serving the interests of shareholders. Managers, as agents of shareholders, have to minimise costs, maximise efficiency and maximise shareholder value (Jensen, 1986, p. 323). As a person, managers may have a personal responsibility to society and give to charity or other social activities, but not on behalf of the company (Friedman, 1970). While no longer deemed politically correct today, the Friedmanite logic of maximum shareholder value arguably still dominates corporate thinking and actions.

Although awareness of business's role in society has developed since Bowen introduced his concept of CSR, its effectiveness in addressing its goals remains questionable. Visser (Visser, 2011, pp. 123-124) argued that 'CSR 1.0 has failed to bring positive changes, and has been a distraction to address the harmful effects of its process, products and services'. Visser criticised CSR 1 as a 'one size fits all' tool for companies to build its relationship with society and manage the company's image, which he argued cannot be effective (Visser, 2011, p. 145). Based on his criticism of CSR 1, in 2008 Visser (Visser, 2011, p. 145) introduced CSR 2.0, as a further another step in the CSR journey.

2.2.2. CSR 2.0

CSR 2.0 was based on a new set of principles: Creativity (C), Scalability (S), Responsiveness (R), Glocality (2), and Circularity (0). Creativity refers to the ability of companies to provide creative solutions to complex problems through innovation, which should result in positive change for society. In this it differs from CSR 1.0 in which managers aimed to tick the box to indicate they had adhered to CSR codes and standards. Innovation is closely related to the

theory of creative destruction popularised by Joseph Schumpeter; who argued that ‘the process of industrial mutation that incessantly revolutionises the economic structure from within, incessantly destroying the old one and incessantly creates a new one’ (Schumpeter in Visser, 2011, p. 167). In business, creative destruction can be seen when new ideas, products or growing concern could be excited. For instance, the growing concern with energy security and climate change have challenged the political and economic agendas of business and challenged companies to develop new energy as sources through creativity and innovation.

The second principle of CSR 2.0 is Scalability, the possibility of reproducing a small initiative, such as improving work conditions for a few workers in a factory to a large group of workers, or repackaging products to reduce waste. Visser argued that few cases of responsible and sustainable CSR 1 projects are reported to have measured project effectiveness. Therefore, Visser added scalability as a requirement in CSR 2.0. which, he argued, should result in business using an initiative and growing it.

How business interact with their environment is called Responsiveness in CSR 2.0. It is a proactive response to problems in society; this differs from CSR 1.0 in which business is concerned with its moral obligations. Responsiveness is not new in CSR discourse. Ackerman (1975, p. 1) introduced the term four decades before CSR 2.0 when he argued that being responsive to social problems at the managerial level is useful for the company because it demonstrates their ability to manage relationships with various social groups (Frederick, 1994). Also in the mid 1970s, Sethi (1975, pp. 62-63), used the term Corporate Responsiveness in his framework of corporate behaviour for responding to social needs.

Glocality and Circularity are also principles of CSR 2.0. Glocality requires companies to think global and act local. Circularity represents the loop or CSR 2.0 process of good practice. Value creation, good governance, social contribution and environmental integrity are the basis of CSR 2.0 (Visser, 2011, p. 150). Value creation refers to economic development that contributes to profit for shareholders and executives and improves the economic context where the company operates. Good governance is concerned with transparency in reporting, and embedding ethical conduct in the culture of the company. The strategic goals and success indicators of societal contribution are stakeholder orientation with

philanthropy, fair labour practice, and supply chain integrity. Environmental integrity raises the bar higher than minimising damage to sustainable ecosystems, as in CSR 1.0 (Visser, 2011, p. 150). Visser cited the Grameen Bank's microfinance, Body Shop initiatives, and Walmart as examples of CSR 2.0 implementation.

Visser highlighted the microfinance programs of the Grameen group for Vodafone initiatives aimed at serving those at the so-called *Bottom of the Pyramid* (Prahalad & Hart, 2002) as an innovative action to help the poor create sustainable business by creatively addressing social and environmental problems. Muhammad Yunus, a professor from Chittagong University, Bangladesh popularised the microfinance movement in his country in 1976 and established the Grameen Bank in 1983 (Yunus, 1999, p. 116). While microfinance, has since become a popular approach for alleviating poverty through providing financial access to the poor, studies demonstrate that microfinance creates other problems, including people being caught in credit cycles (Banerjee & Jackson, 2017; Bateman & Chang, 2012; Karnani, 2009). In this way microfinance becomes neoliberal rural development 'best practice' (Bateman, 2012).

Visser cites Walmart as a company that achieves scalability through CSR 2.0. because the company sets goals and measures the total impact and sustainability of its CSR initiatives. Walmart is well known as the largest retailer from the United States that offers low prices to save consumers up to a billion dollars per year. However, the company is also on record and criticised for abusive labour practice and sourcing from sweatshops in developing countries including Indonesia (Smith & Crawford, 2006, p. 144). The chairman of Walmart⁵, a company criticised for its poor working conditions, unethical supply chains, packaging waste and other issues, claimed that the company changed the way it operated to solve legal, public relations and environmental problems. In doing so, the company rebuilt its relationship to society and saved millions of dollars in shipping and packaging, which are measurable outcomes.

Visser also identified The Body Shop, the producer of body care products as an example of responsiveness – identify an issue and actively take initiatives to respond to it – in line with CSR 2.0. Anita Roddick, the Body Shop founder, promoted its products as free from animal

⁵ Walmart's CSR remains in the crossfire of public opinion.

testing, supporting community trade, activating self-esteem, defending human rights, and protecting the planet (Purkayastha & Fernando, 2007, p. 19). However, in 1992, the media began to criticise the company's social responsibility initiatives. The Body Shop and its founders were targeted as hypocrites for offering its customers idealism, while being no different to other cosmetic companies (Entine, 1995). Almost all ingredients used in cosmetic products including the Body Shop's were certified as safe, which means almost certainly tested on animals. The Body Shop's products were actually synthesised and thus not the natural products promoted by the company (Entine, 1995, pp. 2-3). The company suffered from critiques related to low pay, being anti unions, and exploiting indigenous people (Purkayastha & Fernando, 2007, p. 22). Moreover, in 2007 the company was acquired by L'Oréal, a world's leading cosmetic and beauty company that is criticised for testing its products on animals, exploiting women's sexuality and selling their product by making women feel insecure (Purkayastha & Fernando, 2007, p. 2). Related to this issue, Roddick argued that the acquisition by L'Oréal will not dilute the ethical principles of the company, instead she believed that L'Oréal will learn from the company's commitment to the environment and human rights in business (Purkayastha & Fernando, 2007, p. 15).

Examples cited by Visser showed that these companies were facing ethical issues related to how they make profit. CSR 2.0 initiatives by these companies can easily be seen as tools to rebuild the company image, while, it has contributed little to solve problems in society (Bateman, 2012; Karnani, 2009). For example, in the case of the Body Shop, the company has exploited ethical consumerism, but at the same time it continued its unethical practices (Purkayastha & Fernando, 2007, p. 17).

While CSR 2.0 arguably addresses some of the shortcomings of CSR 1.0, CSR 2.0 also fails to deliver on its key objectives. With the strategy of glocality and being responsiveness, the concept of CSR 2.0. might provide alternatives to CSR 1.0 which Visser criticised as a one size fits all concept. Visser believed that with CSR 2.0. companies could provide innovative and sustainable initiatives that address local problems. However, theorists are left questioning whether CSR 2.0. provides strategies for overcoming CSR 1.0's inability to make companies do good and be ethical while creating economic value for the company.

CSR 2.0. may make economic sense for companies, but it fails to address the social, ethical and environmental issues caused by the company, especially in developing countries such as Indonesia. The next generation of CSR, which is called as CSR 3.0, with its focus on innovation processes and core business operation, is said to assist in making CSR a more manageable concept for business by addressing social problems.

2.2.3. CSR 3.0

In 1999, Kanter criticised traditional charity and other voluntary CSR initiatives for being disparate from the interests of business. He introduced 'corporate social innovation' as a way of moving beyond CSR and seeing community needs as opportunities to develop ideas, serve new markets, and solve long standing business issues (Kanter, 1999, p. 124). James et al. (2008) redefined the concept of social innovation as an efficient, effective, and sustainable solution to social problems by creating value for society.

Social Innovations or CSR 3.0 (Osburg, 2013, p. 13) are 'New ideas, (models, products and services) which resolve existing sustainability challenges and create new social collaborations between business sectors and stakeholders' (The CSR Europe as cited in Crets & Celer, 2013, p. 77). Social Innovation is rooted in innovation processes and core business operations (Osburg & Schmidpeter, 2013, p. 18).

Social innovation thus goes beyond new products, technologies, or modes of production; it can be a form of idealism, legislation, social movements, or a combination of them (James et al., 2008). For Osburg (2013, p. 17), social innovation needs to be a process driven by innovations and to involve goals and value systems to create sustainability. It includes the process of transforming ideas or inventions into solutions that create value for stakeholders and shareholders (Osburg, 2013, p. 14). Social innovation in this sense is about seeing opportunities for tackling social issues as a way of creating value for business and society (Crets & Celer, 2013, p. 86).

The term social innovation is also used in the concept of Bottom of Pyramid, which Prahalad, a management theorist made popular (Prahalad, 2013, p. 131). Prahalad argued that Bottom of the Pyramid markets – the poorest and largest group of people in the world – can be new sources of radical innovation for managers by focusing awareness, access,

affordability, and availability to meet the growing needs of this group (Prahalad, 2012, p. 6). Social innovation scholars predict that leading companies in the next decades will be those that embrace corporate sustainability, which requires expanding markets through driving social innovation (Crets & Celer, 2013, p. 86; Osburg & Schmidpeter, 2013, p. 21).

Crets and Celer argue that CSR is an important driver for strategic innovation and long-term value creation (2013, p. 86). Fair trade serves as an example of social innovation, a novel idea at the time, that created tremendous social and environmental value (2008) and involved a variety of actors including companies, distributors and customers, which helped make this social innovation successful (Fifka & Idowu, 2013, p. 314). Crets and Celer (2013, p. 81) identified links between CSR and the concept of CSV introduced by Porter and Kramer. According to them, the concepts of shared value and social innovation will naturally develop in companies to deliver sustainable solutions (Crets & Celer, 2013, p. 82).

Similar to the weakness identified in CSR 2.0., while CSR 3.0. helps companies generate value by addressing social problems, how the latest generation of CSR provides alternatives for companies to be ethical, good and avoid harm for society and environment is still debatable. The long history of business relationships with the broader society and the development of CSR theories, as explained in this section, reveal a positive shift in the roles business plays in society. The discussion about the role of business, through CSR, for the general welfare of society remains open. The next section provides an overview of key critiques of CSR.

2.3. CSR critiques

Blowfield and Murray (Blowfield & Murray, 2014) identified four main critiques of corporate responsibility: CSR is anti-business, pro-business, the scope is too narrow, and it fails to achieve its goals. Those who critique CSR as anti-business – related to shareholder theory and Friedman's logic – are rooted in liberal economics (Blowfield & Murray, 2014, p. 314). Friedman argued that CSR harms the foundation of free society (Friedman, 1970, p. 5). Henderson (2001, p. 30) asserts that it limits economic freedom, weakens enterprise and lessens business competitive advantage, and thereby reduces social welfare. Proponents of

liberal economics argue that the most effective way to improve business contributions to society is by improving market function.

Others liken CSR to a 'fig leaf'. Business, such as tobacco and gambling industries (Votaw, 1973, p. 6), provide socially responsible initiatives to bolster their reputations and thus counter problems or social harm (Blowfield & Murray, 2014, p. 320). Seven million people per year die from smoking and more than one billion smokers live in low and middle income countries (WHO, 2017b). Tobacco companies spent billions of dollars for advertising, promotion and sponsorship (WHO, 2013) to improve public image and their political position especially in relation to tobacco policies (McDaniel, Cadman, & Malone, 2016). These companies use CSR and reporting as a tactic to promote their reputation and divert attention from the harm they do to society.

CSR fails in achieving its goals because companies focus on CSR success rather than the actual impact on society (Blowfield & Murray, 2014, p. 325). For instance, in 2017, 9,000 companies and 4,000 non-business organisations had signed the UN Global Compact to support business practice to accelerate business as a means to achieving the Sustainable Development Goals (SGDs) and the Paris Climate Agreement (The UN Global Compact, 2017). Signing the UN Global Compact and using the UN blue logo are part of a company's strategy for being 'ethical'. However, it has little impact on corporate behaviour (Blowfield & Murray, 2014).

Doane and Abasta-Vilaplana (2005), in their work on business management, identified four myths about CSR initiatives. First, the market can deliver short term financial return and long term social benefits; which is not supported by evidence and when it comes to shareholders' interest, outcomes will become more or less aligned to public good. Second, the myth that ethical consumer will drive change. However, in practice, consumer ethics are relative things and consumers are more concerned about price or taste than company ethics (Doane & Abasta-Vilaplana, 2005, p. 26). Third, CSR puts competitive pressure on companies to be ethical, but the reality is that while companies present themselves as socially responsible many were being irresponsible in several areas (Doane & Abasta-Vilaplana, 2005, pp. 26-27). The fourth myth is that countries will compete to have the best ethical practice in the global economy. However, in reality competition for foreign investment has

led countries to weaken their insistence on social standards (Doane & Abasta-Vilaplana, 2005, p. 28). According to Doane and Abasta-Vilaplana, overall business is not delivering on people's expectation of CSR initiatives (Blowfield & Murray, 2014, p. 325).

The overview of CSR theories provided in the previous section revealed that CSR, as developed by scholars and practitioners, has not radically shifted business thinking or practices away from the dominant Friedmanite logic (Brueckner & Mamun, 2010, p. 328), still firmly rooted in notions of self-interest and the microeconomic conception of profit maximisation. For instance, stakeholder theory, provides strategies for conducting relationships between business and society (Mele, 2008, p. 68), but implementation is lacking. Further, much research focuses on the financial consequences of CSR, however, little is known of its social impacts (Banerjee, 2014, p. 92). Critics of stakeholder theory argue that it is problematic because companies are left to decide which stakeholders are the most and least important to them, in fact, it is unclear who and what counts as stakeholders (Mitchell, Agle, & Wood, 1997, p. 853). Banerjee (2007, p. 32), drawing on examples of marginalised communities fighting for their survival in conflicts with transnational companies and national governments, suggests that stakeholder management theory is based on neoclassical economic theory and thus solely focused on the company's self-interest, a bias stakeholder theory fails to overcome.

Critics argue that use of the word 'citizenship' in Corporate Citizenship is a mechanism for companies' to conceal their self-interest (Matten et al., 2003). However, business as 'citizenship' has a strong political advantage for corporate economic purposes; it suggests a relationship or belonging in society, as seen with Nestlé Indonesia that obscure its status as a transnational company that's home is elsewhere, and does not offer a solution for improving the relationship between business and society. Critics questioned the fundamental assumption of business's position as citizen, with Matten and Crane arguing that with the rights accorded to citizens, companies have become major actors in society. This is dangerous because it leads to companies having greater political power than governments as regulators in society, especially when the government fails to provide basic public services for its citizens (Matten & Crane, 2005, p. 175). Most importantly, governments are accountable to their citizens, companies do not have this responsibility.

Social innovation or CSR 3.0, the latest version of CSR, has not escaped the charge of self-interest. The idea of social innovation focuses on finding new solutions or innovations to address social challenges that link to companies' investments (Osburg & Schmidpeter, 2013). In this way, social innovations should provide a win-win solution to business-society relationships; as yet without evidence to current CSR logic. The effectiveness of social innovation to address social problems remains questionable, though companies use the rhetoric.

For instance, the fair trade label has been used as a customer guarantee that the higher price they pay for a product increases poor farmers' income. Henderson argued however, that fair trade is unfair and counterproductive, because the increased price paid by buyers goes to bureaucracy and certification fees not directly to farmers (Henderson, 2008). 'Fair trade' is far from being fair for poor farmers; rather it takes advantage of poverty by capitalising on the poor (Sylla & Leye, 2014).

The win-win solution is not a new idea in CSR discourse, with scholars and practitioners having tried to develop a win-win solution to business-society relationships for many years. The review of CSR approaches here demonstrates CSR theory and practice is unlikely to address social problems, because the current structure of CSR is designed to create value for shareholders and in doing so limits the ability of companies to create social value for society (Banerjee, 2014).

Porter and Kramer (2006) argued that CSR approaches failed because they focused on the company's moral appeal and reputation and the initiatives were disconnected from core business; hence, they introduced CSV theory as a win-win solution. Porter and Kramer argued that CSR must be rooted in a broad understanding of the relationship between business and society and initiatives must relate to the company's core business. The next section introduces CSV theory and discusses how the concept is intended to overcome problems in traditional CSR.

2.4. Creating Shared Value (CSV)

Porter and Kramer began their 2011 article on CSV with: 'Capitalism is under siege. Diminished trust in business is causing political leaders to set policies that sap economic

growth' (Porter & Kramer, 2011, pp. 2-3). In their previous work (2006), they criticised CSR as constraining and costly for business and asserted that its effectiveness was thus questionable (Porter & Kramer, 2006, p. 78). They acknowledged that in some cases CSR initiatives achieved their social goals, but claimed the benefit to the business was minimal (2006, p. 83). Further, they argued that companies were often trapped in the 'social responsibility' mind-set that caught business in a vicious circle (Porter & Kramer, 2011, p. 4).

Porter and Kramer argued that proponents of CSR have used moral obligation, sustainability, licence to operate and reputation to make the case for CSR. However, none of these justifications offer sufficient guidance for corporate leaders (Porter & Kramer, 2006, p. 84). They argued that even though measuring and publicising social performance potentially influences the way companies conduct their business, there were no tools developed to measure businesses' moral obligation against social benefits or financial costs (2006, p. 82). Moreover, even though sustainability is core to many social responsibility theories, the notion of sustainability can be vague and meaningless (Porter & Kramer, 2006, p. 82). License to operate offers a concrete way for businesses to identify social issues that matter to its stakeholders. However, this means that companies rely on outsiders to take control of their CSR agenda (Porter & Kramer, 2006, p. 82).

For Porter and Kramer, CSR approaches focus on the tension between business and society, and gave no meaningful input to society and do not improve business competitiveness (Porter & Kramer, 2006, p. 83). They (2006, p. 80) argued that CSR approaches are disconnected from business and hindered the opportunities for business to create value for society. As a result, most CSR initiatives have been cosmetic for public relation purposes or as media campaigns for the company (Porter & Kramer, 2006, p. 81). According to Porter and Kramer CSR could be advanced by interrelating business and society (Porter & Kramer, 2006, p. 83). They introduced the term Creating Shared Value (CSV) to explain the strategy of having business create economic value by addressing needs and challenges in society, and predicted that CSV was the next major transformation in business thinking; that would reshape capitalism and its relationship with society (Porter & Kramer, 2011, p. 4).

According to Porter and Kramer (2011, p. 4) a major transformation in business thinking was urgently required because business has been increasingly blamed for problems in society.

CSV which differs from CSR can facilitate business to focus on the connection between societal and economic progress (Porter & Kramer, 2011, p. 4) thereby having the power to reinvent capitalism and unleash innovation and global growth (Porter & Kramer, 2011, p. 5). CSV can be summarised as having three propositions:

1. The concept rests on the premise that both economic and social progress must be addressed using value principles.
2. CSV differs from CSR because the purpose of CSV initiatives is not cosmetic, public relations or a media campaign for the company.
3. The concept of shared value reshapes capitalism and its relationship to society.

CSV is seen by several theorists, to have brought a new energy into the CSR movement by refining the definition, using understandable language and clarifying how CSR fits with business (Lapina, Borkus, & Starineca, 2012, p. 2232; Visser, 2013, p. 1). CSV is also popular among academics and practitioners because it connects company strategies and social goals (Crane et al., 2014, p. 132). It is attractive to multinational companies as CSV offers opportunities for addressing social problems while creating profit (Panchenko & Kiriakova, 2015, p. 54).

According to Nestlé, it is one multinational company operating in Indonesia which has adopted CSV to create value for its shareholders and society (Nestlé Global, 2015). The company has not limited its use of this policy to Indonesia, Nestlé global has adopted the strategy in other countries. For example, Porter and Kramer (2006, p. 90) cited Nestlé's CSV initiatives in Moga, India as an example of successfully connecting business advantages with social progress, demonstrating the company's positive role in society. This is despite the company's reputation being marred by controversy surrounding infant formula promotion in developing countries (Porter & Kramer, 2006, p. 90). Nestlé's adoption of CSV has raised questions about how the company addresses economic and social progress through CSV initiatives. This thesis discusses whether CSV reshapes capitalism and develops the moral capabilities of the company; the research is based on the case study of Nestlé Indonesia.

Although CSV successfully appeals to management scholars and practitioners, there are critiques of the CSV concept. The three main critiques of CSV are its: originality, departure

from standard management thinking; and, narrow understanding of CSR (Beschorner, 2014; Crane et al., 2014; Hartman & Werhane, 2013).

First, the idea of interrelating business and society is not new. This is supported by Crane et al. (2014, p. 135) who pointed out that Kanter raised the possibility of social problems being opportunities for creating economic value in the concept of Social Innovation (Osburg, 2013, p. 18). Kanter (1999, p. 132) argued that business could contribute to the social sector by providing solutions to problems while creating new market opportunities for the company. Crets and Celer (2013, p. 86) added that innovation would be successfully implemented when it was part of company strategies. This idea is in line with Porter and Kramer's concept of Creating Shared Value, which they claimed could provide opportunities, innovation and competitive advantage for the company, and not be costly or charitable (Porter & Kramer, 2006, p. 80).

The idea of linking corporate gain with social economic improvement as offered by CSV theory is similar to the Bottom of Pyramid (BoP) model. Prahalad and Hart (2002, p. 3) argued that 'selling to the poor and helping them improve their lives by producing and distributing products and services in culturally sensitive, environmentally sustainable and economically profitable ways provides huge opportunities for wealthy companies'. According to Prahalad and Hart the concept of BoP takes account of the poor as a potential market; understands the local culture; products and services address environmental problems in low income communities; and create profit from selling to the poor. The relationship between the BoP and CSV initiatives is discussed in Chapter 6. Further discussion of interrelating business and society is part of the analysis of theory and practice in Chapter 7.

Second, the CSV concept departs from basic management strategy (Beschorner, 2014). Porter and Kramer criticised the concept of fair trade as explained in CSR 3 as redistribution, which increases the proportion of revenue that goes to farmers while customers have to pay more for the same quality agriculture products. They argued that helping poor farmers through the concept of CSV differs from fair trade. Moreover, they argued that fair trade increases the price for the same quality product and does not facilitate business addressing problems in society, whereas CSV creates a larger revenue pie for both farmers and

companies to share (Porter & Kramer, 2011, p. 5). Porter and Kramer assumed that the increase of economic value created for the company will automatically create value for society. The economic and social value created through Nestlé's Indonesia CSV initiatives for the company and dairy farming communities is discussed in Chapter 6.

The example stated by Porter and Kramer showing how a company's CSV initiatives could help poor farmers is naïve about the challenges of business compliance (Crane et al., 2014). Crane et al added that CSV is based on a shallow understanding of businesses' role in society. Supporting Crane et al's argument, Beschorner (2014) doubted that CSV could reconnect business and society. Even worse, profit maximisation without any ethical basis will lead to more serious problems.

Third, Porter and Kramer's critiques of CSR focus on the early stage of CSR practices, including philanthropic initiatives, moral obligation and licence to operate. Thus their critiques of CSR were based on a limited understanding of CSR (Beschorner, 2014, p. 109). Porter and Kramer's claim that CSR is only limited to philanthropy was a narrow understanding of CSR (Crane et al., 2014, pp. 134-135), which Crane et al argued ignores the broad literature and academic debates of CSR. Further discussion on how CSV differs from CSR is presented in Chapter 7.

Responding to scholars' critiques of CSV, Porter and Kramer argued that CSV offers an innovative idea in CSR discourses (Porter & Kramer, 2014). Porter and Kramer believed that the profit motive and the company's strategy to address social problems would contribute to the redemption of business in the eyes of the public and to a better world. Porter et al. established a framework for measuring shared value in the interaction between business and society so that businesses do not miss important opportunities for future innovation, which they will do if they do not track the inter dependency between business and society. Porter et al. argue that 'the framework of shared value measurement differs from other measurement approaches because it is practical, achievable and powerfully informs improvements and innovation in shared value strategies' (Porter et al., 2012, p. 4). It 'builds upon the existing measurement system but focuses on the intersection of business and social value creation' (Porter et al., 2012, p. 10).

The following section provides an overview of CSV measurement by Porter et al. (2012). It also explains the corporate responsibility measurement framework introduced by Blowfield and Murray (2014) used here to assess both firms' CSV efficacy and the utility of Porter et al.'s CSV concept.

2.5. CSV measurement

This thesis utilises the shared value measurement and the corporate responsibility measurement, adapted from Blowfield and Murray's framework for measuring the effectiveness of corporate responsibility, to evaluate the contribution of Nestlé's CSV initiatives to social and economic development in the community. The researcher used these frameworks to analyse Nestlé Indonesia's CSV initiatives in dairy farming communities in East Java, Indonesia and to discuss how CSV differs from previous CSR concepts and whether it offers the win-win solution to business and society as promised by Porter and Kramer.

[Shared value measurement framework](#)

Porter et al. (2012, p. 4) argued that the process of measuring shared value initiatives should be integrated into business strategies. There are four steps for doing this, as seen in Figure 2.1. The first step is identifying the social issues to target. During this step, the company must identify unmet social needs and analyse the possibility of relating these to business. The second step is making a business case. In this step, the company is required to identify targets and specify the potential activities and related costs. Third is tracking the progress of inputs, outputs, and financial performance. The final step is measuring the result and using insights to unlock new value. The process is used to determine whether the initiatives produced a good joint return. According to Porter et al. these steps create 'ongoing loops of shared value measurements and provide roadmaps to understand and unlock further shared value creation' (Porter et al., 2012, p. 4).

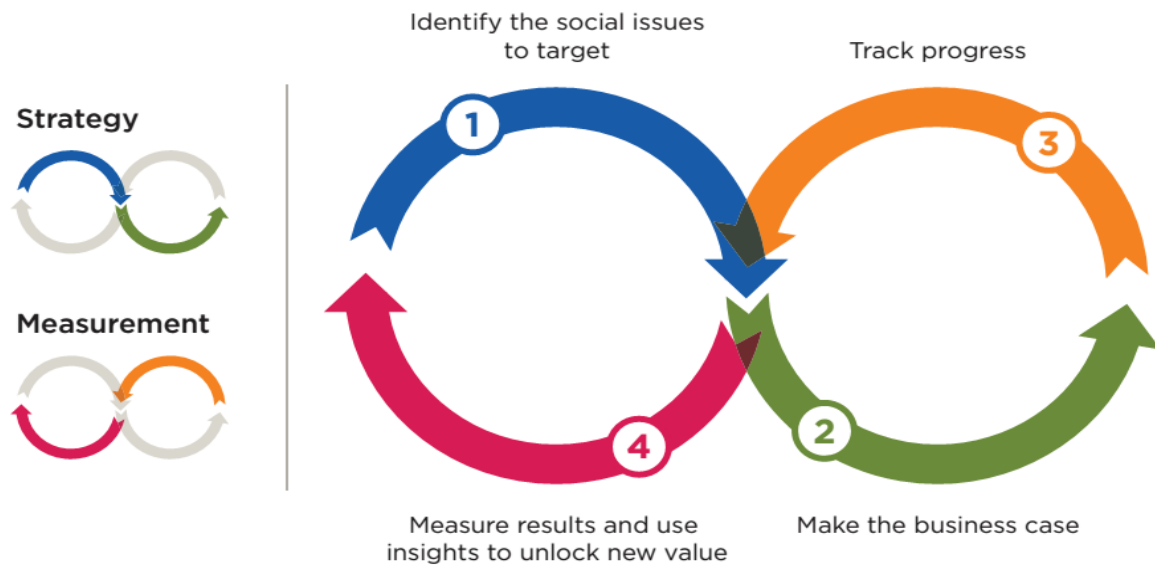


Figure 2.1. Integrating shared value strategy and measurement (Porter et al., 2012, p. 4)

Porter et al. (2012, p. 18) explained that there are five approaches to measuring shared value initiatives, as seen in Table 2.1. First, 'anchoring shared value measurement with shared value strategy'. Second, 'establishing a direct link between business and social needs'. Third, 'assessing the extent of value creation by tracking social and business results about the cost'. Fourth, 'distinguishing shared value measurement from other important forms of measurement such as compliance, sustainability, and impact assessment'. Fifth, 'adopting pragmatic approaches to navigating shared value measurement challenge'.

Table 2.1. Measuring shared value approaches (Porter et al., 2012, p. 18)

No	Approach of measuring shared value	Result of measuring shared value
1	Integrating shared value measurement in shared value strategy	Provide concrete result to unlock new value for managers
2	Establishing direct link between business and social needs	Provide information for targeted communication for external stakeholders and shareholders
3	Assessing the extent of value creation by tracking social and business results relative to costs	Provide tangible results for investors
4	Excluding other forms of measurement such as compliance, sustainability, and impact assessments form shared value measurement	Provide specific information about the shared value results
5	Adopting pragmatic approaches to navigate shared value measurement challenges	Limiting the target group for measuring shared value

An evaluation of the measurement process as represented in Table 2.1. reveals that the framework is a self-referential tool for the company to provide information and an account of results for investors and managers. The framework does not provide space for measuring tangible impacts on other stakeholders, which is important for understanding positive and negative impacts of CSV on the society. Therefore, in addition to the shared value measurement framework, this study adopts a framework for understanding the impacts of corporate responsibility according to Blowfield and Murray.

Corporate responsibility measurement framework

Blowfield and Murray (2011, p. 296) identify five dimensions for measuring the impact of corporate responsibility, as seen in Table 2.2. First, the impact on the 'big picture'; challenges such as climate change, the consequences of globalisation, and human rights. They (2014, p. 288) offer a dimension for evaluating the impact of corporate responsibility initiatives on these big picture issues – environmental, economic and social – using the Global Reporting Initiative (GRI) sustainability reporting guidelines and various international standards. Their second dimension, the impact on instrumental benefits, (2014, p. 287) focuses on the connection between financial performance and Economic, Social and Governance (ESG) performance, including the outcome of making a business case for corporate responsibility. Third, the impact on business attitudes, awareness and practice. Blowfield and Murray (2014, pp. 295-296) argue that corporate responsibility has changed companies' awareness and behaviour as seen from the growing number of corporate responsibility initiatives. This dimension provides insights into which issues can or should be considered. The fourth dimension of Blowfield and Murray's framework refers to the impact on other stakeholders (Blowfield & Murray, 2014, p. 300), including the critics who advocate for greater economic, social and governance responsibility through CSR initiatives. The fifth dimension is the impact of corporate responsibility itself, including the evolution of corporate responsibility theory and practice.

As explained in the previous section, the CSV measurement framework is a self-referential tool. Therefore, the responsibility framework is important in this thesis to highlight possible deficiencies in the CSV measurement framework.

Table 2.2. Framework for understanding the impact of corporate responsibility (Blowfield & Murray, 2014, p. 287)

No	Dimension	Focus area
1	'The big picture'	Refers to large social and environmental issues, including global warning, human rights, economic growth and poverty reduction
2	Instrumental benefits	The connection between financial performance and ESG performance
3	Business attitudes, awareness and practices	Refers to the impact that corporate responsibility is having on the way companies think about the non-financial aspects of business operations and the way they operate
4	Non-business stakeholders	Refers to the impact of corporate responsibility on other stakeholders
5	The impact of corporate responsibility itself	Covers the way in which corporate responsibility's evolution and growth has affected how we think about and practice of corporate responsibility today

These two frameworks are utilised in this thesis for measuring the impact of CSV and CSR to examine the impact of Nestlé Indonesia's CSV initiatives in dairy farming communities in East Java, Indonesia. The first framework provides a tool for the researcher to critically analyse Nestlé's CSV initiatives in dairy farming communities and the interrelationship between business and society. The second framework enables the researcher to explore broader impacts of Nestlé Indonesia's CSV in Indonesia and to analyse the concept of CSV as an alternative to traditional CSR theory.

2.6. Summary

The review of CSR history and theory development reveals that CSR is an umbrella term within a larger debate on business-society relations. The development of CSR theory from CSR 1.0 – CSR 3.0 shows an increase in awareness of the importance of CSR in business-society relationships. CSR has been implemented as part of corporate strategies and is changing the way business is done (Idowu, Kasum, & Mermod, 2014, p. 159). The latest version of CSR offers a win-win solution to business-society relationships with proponents of CSR arguing that social issues could provide opportunities to create value for business and society. However, the win-win situations in CSR might not serve social interests (Banerjee,

2014, p. 84). The development of CSR theory from CSR 1.0 to CSR 3.0 demonstrates awareness of business's role in society; however, discussion in this chapter reveals that the notion of profit maximisation is an obstacle to changing business behaviour and creating win-win outcomes in business-society relationships.

Apart from the idea of creating a win-win solution to business-society relationships, Porter and Kramer introduced the idea of Creating Shared Value (CSV) to integrate business and society. They claim that CSV is different from CSR in this aspect, because it connects social issues to the company's agenda and profit maximisation and is not merely cosmetic. They argued that the concept of CSV reshapes capitalism and its relationship with society (Porter & Kramer, 2011). Moreover, the CSV framework shows that core business is the starting point of CSV implementation. Critical analysis is needed to measure the effectiveness of CSV as a win-win solution to business-social relationships capable of integrating business and society and as an alternative to CSR theory.

This thesis critically analyses the effectiveness of CSV as an alternative to CSR theory based on the case study of Nestlé Indonesia's CSV initiatives for dairy farming. Two frameworks are utilised to achieve this. The first framework is Porter et al.'s CSV measurement which provides tools to identify the intersection between business and social problems as a focus for CSV initiatives. The second is Blowfield and Murray's framework to measure corporate responsibility and give a broader view, that takes account of positive and negative effectiveness of CSV over a longer time than the company's reporting period. The second framework is also utilised to critically analyse whether CSV differs from CSR in creating win-win outcomes for business and society or whether it echoes the weakness of most CSR theory which has not changed from the neoclassical logic of business behaviour.

This review of CSR concept development highlights that there is no easy way to understand the concept or to gauge the quality of companies' CSR practices. CSR is context dependent and for example affected by company-specific and cultural factors (Mele, 2008, p. 76). For the purpose of contextualisation, therefore, the next chapter provides an overview of Indonesia's regulatory CSR environment, the CSR approaches of companies operating in Indonesia, including the CSV initiatives of Nestlé Indonesia for dairy farming communities in East Java, Indonesia.

Chapter 3

A case study of Nestlé Indonesia's CSV initiatives

3.1 Introduction

In Chapter Two I traced the development of CSR theory from CSR 1.0 to CSR 3.0, reviewing key CSR concepts and tracing the changes in the conceptualisation of business-society relationships. Despite various promising theory developments, CSR operationalisation still proves problematic and is often found to be falling short of aspired ideals. The previous chapter also provided an overview of CSV, introduced by Porter and Kramer, as an alternative to CSR. This chapter provides an overview of CSR in Indonesia. Following the introduction is a review of CSR implementation and ongoing practice in Indonesia. Finally, a review of Nestlé Indonesia's CSV initiatives focusing on dairy farming communities, including a general overview of dairy farming in East Java, Indonesia.

3.2 Corporate responsibility initiatives in Indonesia

This section provides a brief overview of CSR in Indonesia prior to 2007. Although in general the term CSR was popularised in the 1950s, it was not the case in Indonesia until the late 1990s (Rosser & Edwin, 2010, p. 4). Before the 1990s and the emergence of CSR discourse and increased western media access in Indonesia, negative social and environment issues related to business operations in the country were rarely exposed. The fall of the Soeharto regime and an opening up of information in 1998 allowed for increased awareness of negative impact of business behaviours in the country and, the importance of CSR initiatives in business-society relationships in Indonesia.

Geographically, Indonesia consists of more than 19.000 islands spread across the equator. It is very rich in natural resources including oil, tin, rubber, rice and people. However, Indonesia did not exist as a country until the mid 1900s. The physical boundary of Indonesia was established by the Netherlands when they called it 'the Netherlands East Indies'. The Dutch ruled it for more than 300 years in some parts and others for less than 30 years (Vickers, 2013, p. 2). Under colonial rule, the Dutch introduced cultivation systems and

forced farmers to grow crops for export (Taylor, 2003, p. 240). The main goals of the Dutch were cheap crops, profit for European sales and prosperous peasants. The Dutch believed that the expanded economy would improve the local opportunities to increase prosperity. In fact, the outcome was far from the promise; a few Dutch and indigenous royal families profited while thousands of peasants starved. The cultivation system forced peasants to do farming for exportation. More and more peasants became share croppers and worked for others for a percentage of the harvest. The poorest were forced to work in coal or tin mines in appalling working conditions; for instance, they were beaten if they were too slow or stood up to the foreman (Vickers, 2013, p. 51). Farmers and workers were also taxed heavily.

Colonialism in Indonesia brought with it technical training (Taylor, 2003, p. 292). The Dutch opened a school in Batavia in 1900 to train machinists, engineers and miners. Although only a small percentage of Indonesians were able to attend the school, it raised awareness among the local aristocracies that the Dutch had taken over Indonesia while they lost the power to rule. Soon, these aristocracies together with urban technicians, local prophets, and peasants initiated organisations, parties and political groups and began to demand Indonesian independence. The movement for independence was hampered when the Japanese troops took over the colony in 1942. On August 1945, the United States dropped the first atomic bomb on Hiroshima, Japan. Indonesian youth together with politicians and religious leaders in Indonesia utilised the chaos in Japan to take over the country. On the 17th August 1945, Sukarno and Hatta declared the independence of Indonesia and were affirmed as the first president and vice president of the country.

Indonesia under Sukarno was known as the old order. In this era, active labour movements emerged alongside the anti-colonial struggle (1945 – 1949) (Hadiz, 1997, p. 26). These movements increased awareness of ethical issues around working conditions in Indonesia. Workers' organisations, such as GASBIINDO (*Gabungan Serikat Buruh Islam Indonesia*/Association of Indonesian Islamic Workers Union), KBSI (*Kongres Buruh Seluruh Indonesia*/Indonesian Workers Congress), SOB Pancasila (*Sentral Organisasi Buruh Republik Indonesia*/Central organisation of Workers of Republic of Indonesia) were established by working class employees during this time. However with the political change to the New

Order, workers' unions in Indonesia played an increasingly dominant role as State officials rather than as representatives of workers (Hadiz, 1997).

The period 1966 to 1998, the Soeharto regime⁶, is referred to as the New Order in Indonesia (Lambert, 1997). During this time, there was a significant increase in Transnational corporations (TNCs) operating in Indonesia, where they had access to large poorly educated workforces. The low level of education, the authoritarian regime and Javanese culture, contributed to the development of a 'passivity' culture among the Indonesian working class and an acceptance of unethical working conditions (Cahyono, 1997, p. 106) – long hours, low wages, poor conditions – and prevented them from talking publicly about their conditions (Lambert, 1997, p. 98). Although labour organisations existed, they did little to address these issues.

The international fall in oil revenue in the mid 1980s boosted the development of manufacturing sectors known as 'non-oil and gas exports' (Setiadi, 1997, p. 124). The Indonesian government used this economic change to attract international investors (Lambert, 1997, pp. 17-18), create new jobs and increase the average economic growth of the country (World Bank, 1995, pp. 13,41). However, a high concentration of new industries in some areas of Indonesia caused social problems. Slum areas with poor living conditions mushroomed around factories (Setiadi, 1997, pp. 124-125). According to Setiadi, workers were required to work long hours in a three-shift system, as many factories operated 24 hours a day. Many workers also worked under strict supervision to achieve high production targets.

In the 1990s, after more than two decades of the Soeharto regime, independent workers' unions started to emerge. These new unions played an important role in increasing workers' awareness of unethical business practices; pressured the government to change the minimum wage regulation, working hours and other basic workers' rights (Cahyono, 1997, p. 108). Industrial strike action increased in the early 1990s (Lambert, 1997, p. 93) and the media began to expose unethical business practices in Indonesia.

In 1992, the world was shocked by Jeffrey Ballinger's article about the working conditions in Indonesian firms subcontracted to American sporting company, Nike (Ballinger, 1992).

⁶ For more information on the New Order Era see (Brown & Forster, 2013, p. 301).

Ballinger, the founder and director of Press for Change a consumer information organisation, who lived in Indonesia from 1988 to 1992, revealed that workers in these factories worked six days a week, ten and a half hours per day for approximately US\$ 37.46. Workers were also compelled to work extra hours and received 2 cents extra payment per hour (Wokutch, 2001). Ballinger's article focused world attention on TNCs sweatshop practices in developing countries.

Even with increased media attention, only a surface view of poor working conditions and other issues related to unethical business behaviours were exposed in public discussion and on commercial media such as newspapers and television. During this period, the government controlled information about working conditions, unethical business behaviour, and workers' strikes to ensure the economic stability in the country. Commercial media was tightly monitored and forbidden to report on strikes apparently for reasons of national security (Setiadi, 1997) with some newspapers reporting that the workers were the cause of riots during strikes. Workers' publications including leaflets and fliers contributed to the emerging consciousness of labour activism in Indonesia under the New Order (Setiadi, 1997, pp. 136-138).

An increase in political action by NGOs in Indonesia after the Soeharto regime ended in 1998, facilitated awareness of social and environmental issues such as deforestation, pollution, and child labour caused by the business activities of local and foreign companies. Indonesia Business Link (IBL) foundation was established in 2001 by organisations, including The Prince of Wales International Business Leaders Forum, forty-six multinational companies, multilateral agencies, and local non-government agencies to promote awareness of fair business and advocate for good Corporate Citizenship in Indonesia. It also encourages and assists corporations in Indonesia to implement CSR strategies and programs (Indonesia Business Links, 2014).

The concept of CSR is relatively new in Indonesia. However, the history of Indonesia shows that corporate responsibility could play an important role in the country, especially with globalisation and companies from all over the world wanting to run their business in the country. In some ways, this provided economic opportunities for the country. However, it

also had negative impacts, especially when the government suffer from the economic challenges and the need to attract foreign investors.

CSR under Indonesian law 2007 No 40

Although CSR is relatively new in the public discourse in Indonesia it is mandatory. In 2007 the Indonesian government passed Law 40/2007 to regulate Limited Liability Companies (LLCs), or *Perusahaan Terbatas* (PT), and their CSR requirements while operating in Indonesia. Article 74 clauses 1 to 4 focus on the regulation of CSR:

Clause 1: 'Companies doing business in the field of and/or in relation to natural resources must put into practice Environmental and Social Responsibility' (Republic of Indonesia Law, 2007, p. 37).

Clause 2: 'The Environmental and Social Responsibility contemplated in paragraph (1) constitutes an obligation of the Company which shall be budgeted for and calculated as a cost of the Company performance of which shall be with due attention to decency and fairness' (Republic of Indonesia Law, 2007, p. 37).

Clause 3: 'Companies who do not put their obligation into practice as contemplated in paragraph (1) shall be liable to sanctions in accordance with the provisions of legislative regulations' (Republic of Indonesia Law, 2007, p. 37).

Clause 4: 'Further provisions regarding social responsibility and environmental regulations set by the government regulation' (Republic of Indonesia Law, 2007, p. 37).

The passage of law No 40/2007 made Indonesia the first country to introduce mandatory legal requirements for CSR (Rosser & Edwin, 2010, p. 2). However, the regulation while requiring companies to create harmonious relationships between themselves and the environment, local communities' values, and cultures (Rosser & Edwin, 2010, p. 7) does not stipulate how CSR is to be implemented to meet these requirements.

Waagstein identified two major issues for CSR development in Indonesia (2011, pp. 458-459). The first is the lack of knowledge about CSR by government, businesses, workers, and agencies including NGOs. CSR is generally understood as philanthropy directed to society. The second issue arises from a lack of enforcement of laws and corruption. This is complicated by overlap between legislation.

For example, as well as law no 40/2007 that mandates compulsory CSR, the 2007 Indonesian Investment Law No 25 Article 15 states:

Responsibility is to be mounted in every investment company to keep creating relationship which is in harmony, in balance and suitable to the local community's neighbourhood, values, norms and culture (Indonesia, 2007).

Businesses must also comply with the government regulation PP 47/2012 on LLCs Social and Environmental Responsibility (Republic of Indonesia Law, 2012). This regulation contains 8 articles on LLCs' social and environmental responsibility to support and clarify Law 40/2007 that governs LLCs' CSR practice. The regulation requires LLCs which conduct business activities in the field and/or related to natural resources to report their CSR initiatives annually.

CSR regulation by the Indonesian government could ensure companies behave ethically while conducting business in the country; however, Waagstein argued that implementation of the regulations is far from successful in improving corporate practice for several reasons (Waagstein, 2011). First, the regulation is general, insubstantial and ambiguous. Second, it lacks clarity in terms of implementation and monitoring. Third, it lacks research on potential negative impacts of the regulation. Finally, there is no clear direction about how businesses will attain CSR goals. In other words, although CSR is mandatory and regulated it lacks clarity about the concept of CSR and its implementation. Except that it is compulsory in law, it was not clear how and why business should conduct CSR in Indonesia.

The Indonesian government's regulation of CSR is in its early stage and is underdeveloped. The regulation is unclear, overlapping and ambiguous, and it implicitly associates CSR with philanthropy and charity initiatives of the company. For instance, through Article 74, Clause

2, 'the government obligate companies to calculate budget as a cost of the company performance due attention to decency and fairness'. This regulation might lead to the perception and practice of companies using CSR to buy the social licence to operate. This could be dangerous in the case of companies for which their business is naturally hard to conduct responsibly such as mining industries or tobacco companies. Beschorner argues that the company's responsibility to make profit is more important than how much money they spend for the society (Beschorner, 2014, p. 109).

The next section provides examples of CSR implementation by national and multinational companies in Indonesia. These issues are discussed further in Chapters 6 and 7 based on the case study of Nestlé Indonesia's CSV initiatives.

CSR implementation in Indonesia

During the Soeharto regime national and transnational companies provided philanthropy to communities through charitable foundations called *yayasan* (Rosser & Edwin, 2010, p. 4). *Yayasans* are primarily concerned with charitable social activity, such as religious and humanitarian initiatives called *bantuan* or aid. There is no official statement declaring if philanthropy initiatives aimed to improve social conditions in society or build company reputation.

When CSR became compulsory for companies operating in Indonesia, it was incorporated into their companies' business strategies. Foreign and domestic companies including PT. Unilever, Astra International, and PT Krakatau Steel promote their CSR initiatives. Established in 1933, PT. Unilever Tbk is one of the oldest multinational companies in Indonesia. In 2012, PT. Unilever Tbk had 8 factories in Indonesia, produced 43 products and brands, and had more than 6.000 employees. In its 2012 annual report (PT Unilever Indonesia Tbk, 2012) PT. Unilever Tbk suggested that the company demonstrated its responsibility to society through CSR initiatives that will achieve three goals by 2020. First, it will improve health and wellbeing for more than 1 billion people. Second, it will halve the company's environmental footprint. Finally, it will use 100% sustainable agricultural resources as raw materials.

Astra International was established in 1957 and expanded into six business segments: automotive, financial service, heavy equipment and mining, agribusiness, infrastructure and logistics, and information technology. It is the largest corporation in Indonesia, with 178 companies and approximately 190.000 employees. According to the company one of their missions is 'to be a socially responsible and environmentally conscious corporation' (Astra International, 2013). Company CSR initiatives, largely education and charity activities, are distributed through 8 Astra group foundations (Astra International, 2014a).

PT. Krakatau Steel Tbk. is the biggest steel company in Indonesia. As a Government owned company, it has responsibility to foster small and medium enterprises, cooperatives and local communities, which it does through CSR. There are four pillars to the company's social responsibility program namely, 'pro-growth, pro poor, pro job and pro-environment'. PT. Krakatau Steel's CSR initiatives focus on education and supporting local SMEs. Its education support includes building schools for local communities and providing scholarships for students from poor families. The company provides mentoring, soft loans and revolving funds to support local SMEs. The company's CSR initiatives focus on enhancing economic wealth especially for the local community in Cilegon (Krakatau Steel, 2011).

The examples of CSR initiatives above share similarities. The aim of all companies' CSR initiatives was to increase the quality of life for local communities and be environmentally responsible. Each company published CSR reports on its purpose, activities and CSR budget. The review of CSR in Indonesia carried out for this research revealed that most CSR activities in Indonesia were charitable or philanthropic initiatives. Charity or philanthropy in Indonesia corresponds with the role religion plays in Indonesian society and is evident in CSR initiatives. For instance, PT. Krakatau Steel Tbk stated in its CSR report that the company built a large mosque in Cilegon and supported other religious activities in the community as part of its CSR initiatives (Krakatau Steel, 2011, p. 28).

Charity is an important element of religions including Hindu, Confucianism, Christianity and Islam (Visser, 2011, p. 72), and empirical research has shown the importance of religion in the CSR context (Calkins, 2000; Epstein, 2002). Williams and Zinkin (2010) argue, for example, that the teachings of Islam relate to business responsibility which includes transparency, clear distinctions between what is permissible and forbidden, community

enforcement and sanction for unethical behaviour. In this way, Islam is consistent with the Ten Principles of the UN Global Compact. Chapter 2, and the history of CSR, provided the example of the YMCA (Young Men's Christian Associations) in the 1840s which showed evidence of CSR. Connecting CSR initiatives with religious activities in Indonesia is not surprising because religion is part of society and belief in god is inscribed in the first clause of Pancasila⁷, the Indonesian State philosophy.

Porter and Kramer's (2006, p. 80) critique of traditional CSR as charitable, costly and obscuring the ways companies can benefit from society and vice versa. Porter and Kramer argued that philanthropy is used to promote the company's image or to advertise it (Porter & Kramer, 2002, p. 5). As explained in Chapter Two, Porter and Kramer (2006, p. 90) cited Nestlé's CSV initiatives in Moga, India as an example of successfully connecting business advantages with social progress.

Nestlé Indonesia implemented CSV initiatives in dairy farming communities in East Java, Indonesia similar to those it implemented in Moga, India; arguably based on similarities such as most dairy farmers being small holder farmers with dairy as part of other agricultural businesses, in both countries. Although when Nestlé established its relationships in the communities both countries had similar conditions and challenges for dairy farming, they had unique conditions related to culture, religion and other social circumstances. For instance as Biswas et al. (2014, p. 16) explained milk is a cultural, religious and socially important food in India and has an important place in the Indian diet. In contrast, milk was not historically part of Indonesian culture or diet. Moreover, the Indian government supported the development of dairy farming. This is different to conditions in Indonesia. Even though there was some government support for dairy farming communities in Indonesia, the government stated that dairy farming was not a priority for the country's agricultural sector.

⁷ Pancasila is the official foundation philosophical theory of the Republic of Indonesia. It contains five interrelated principles. First, belief in One and Only God. Second, a just and civilised humanity. Third, a unified Indonesia. Fourth, democracy led by the wisdom of the representatives of the people. Five, social justice for all Indonesians.

The next section discusses CSV initiatives of Nestlé Indonesia for dairy farming communities in East Java, Indonesia. This section also provides an overview of dairy farming conditions in Indonesia.

3.3 CSV initiatives of Nestlé Indonesia

Different to other companies in Indonesia, Nestlé Indonesia adopted CSV instead of CSR to fulfil its legal requirements. Nestlé Indonesia argued that CSV initiatives in dairy farming communities addressed challenges faced by farmers including productivity, milk quantity and dairy cow population (Nestlé Indonesia, 2013, p. 43). To appreciate Nestlé Indonesia's CSV initiatives in dairy farming communities in East Java, Indonesia, it is important to understand the history, conditions and challenges of dairy farming in the country.

Dairy farming in Indonesia started in the 17th century when the Dutch arrived and brought dairy cows to fulfil their own need for milk (Kanisius, 1991, p. 9). In East Java, the Dutch started dairy farming in 1911 (KPSP Setia Kawan, 2011) by having Indonesian peasants in Nongkojajar rear cows to produce milk for Dutch families. At that time, milk was not part of Indonesian peoples' daily diet so was only consumed by Dutch people. After Indonesian independence, farmers continued dairy farming as part of their agriculture business, with 1-2 cows as draught animals and to fertilise the fields for growing fruit or vegetables. For most farmers, having cows was an investment for the family because they could sell a cow when they needed money for education, marriage, cultural celebrations and other family needs (KPSP Setia Kawan, 2011).

In East Java, dairy farming was started in Nongkojajar, Pasuruan and Pujon Malang. In 1959, dairy farming communities in Nongkojajar started to market the product to surrounding cities including Malang and Lawang. They found it difficult to market the product to cities further away such as Surabaya because milk is perishable and cannot remain long at room temperature (KPSP Setia Kawan, 2011). To help dairy farmers market the product, dairy-farming communities in Nongkojajar came together and established a dairy cooperative in 1960. Since then more dairy cooperatives were established in East Java, including SAE cooperative in Malang, Karya cooperative and Berdikari cooperative in Nongkojajar (KPSP Setia Kawan, 2011; SAE Cooperative, 2002).

Nestlé officially started doing business in Indonesia in 1971 on behalf of PT. Food specialities Indonesia. It is important to note that Nestlé established its business when Indonesia was under the Soeharto regime. Under the Soeharto regime, multinational companies that wished to operate in Indonesia should have a relationship with the Soeharto family members or cronies (Backman, 1999, p. 289; Ning, 1997, p. 219). In the case of Nestlé, the company built a relationship with Bambang Trihatmojo, the middle son of Soeharto (Backman, 1999, p. 289). This relationship influenced government policy on dairy farming development in Indonesia. Moreover, understanding the relationship between Nestlé and the Soeharto regime is important to make sense of the challenges and opportunities from CSV implementation in Indonesia.

Nestlé established its milk processing plant in East Java in 1972. The company required fresh milk, as the raw material, for its products. In 1979, Nestlé started a relationship with dairy farming communities in East Java to supply milk to the company (Nestlé, 2015b; Nestlé Indonesia, 2013, p. 38). However, the milk quantity and quality produced by local farmers at that time did not meet the company's requirements. In response, the government, through Presidential aid, established several development programs for dairy farmers and distributed dairy cows in some areas of Java Island. Between 1979 – 1983, the government imported and distributed 62,126 dairy cows to dairy cooperatives in nine provinces. The Indonesian Dairy Cooperatives Union (Gabungan Koperasi Susu Indonesia/GKSI) in East Java received 26,357 dairy cows (GKSI Jawa Timur, 2015). The government also provided soft loans to the East Java GKSI, worth approximately 7,4 billion rupiah for tools and equipment, 4 milk treatment factories and 2 feed factories in 1981 (GKSI Jawa Timur, 2015).

The aim of government support for dairy farming communities under the Soeharto regime was to fulfil the needs of processing companies including Nestlé Indonesia. In return the government required these milk processing companies to procure local milk, before importing milk. The government regulated to support the dairy farming development programs. The most significant regulation was that in July 1982 'governing domestic milk procurement' for milk processing industries, which stipulated that milk-processing companies could only import milk after proof of local milk procurement (Ministerial Regulation, 1982).

Even though Porter and Kramer introduced the concept of CSV in 2006, they stated that the concept was inspired by Nestlé’s initiatives in developing countries (Porter & Kramer, 2006, p. 90) including in Indonesia. In the case of Nestlé Indonesia, these initiatives were established when the company started its relationship with dairy farming communities in the country to address the combined problems of government pressure to procure local milk and the challenge of poor quality local milk: technical assistance to increase milk production, financial support, and supplementing HIVOS’s biogas program.

Technical assistance

In its 2013 CSV report, Nestlé Indonesia stated that approximately 35.000 dairy farmers supplied milk to the company providing more than 600 tonnes of milk per day in 2012. To increase local farmers’ milk production, Nestlé Indonesia provided technical assistance to more than 9.000 famers in 2012, treble the 2011 figures. The company claimed that this program benefitted Nestlé Indonesia and dairy farming communities because it increased the productivity and quality of milk produced, enhanced farmers’ income and reduced poverty in the community. At the same time, the company ensured the availability of milk at the required standard (Nestle Indonesia, 2013, p. 39).

In contrast, while the number of farmers receiving technical assistance increased dramatically, the company reported that milk production and the number of dairy farmers supplying milk to Nestlé Indonesia decreased in 2010 – 2012 (Nestlé Indonesia, 2013, p. 39). This is supported by dairy cooperatives’ data that show the total dairy population in East Java decreased in 2011-2014. Moreover, as seen in Table 3.1, the average ownership of dairy cows in East Java is 2-4 cows per farmer; few farmers had more than 10 cows.

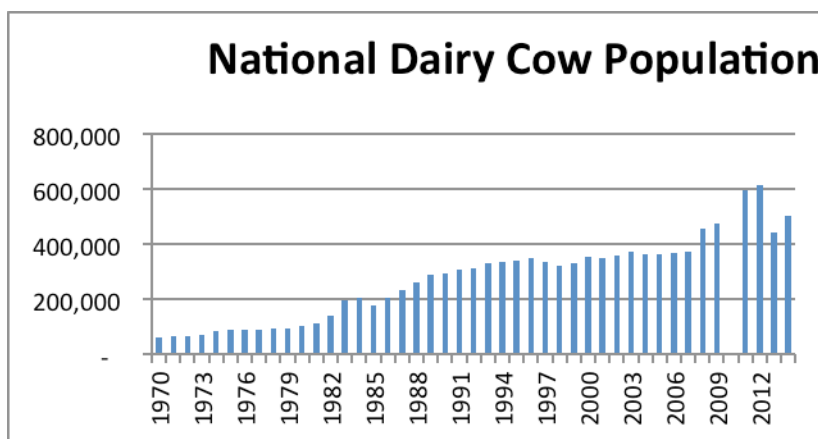
Table 3.1. Average ownership of dairy farming in two big dairy cooperatives in East Java, Indonesia

Cooperative	Year	Total dairy population (Heads)	Active members (Person)	Average ownership of dairy cow (Heads)
A	2013	18,038	8,807	2
	2012	18,057	8,820	2
	2011	25,189	8,674	3
B	2014	17,461	4,377	4

(Data processed from SAE Cooperative, 2012, 2013, 2014)

In 2009, the Indonesian government established a road map for the milk industry to increase the country's population of dairy cows. The road map provided plans, targets, strategies and policies to develop the Indonesian dairy processing industry. The government aimed to increase: the dairy processing industry by 10%; increasing cow ownership from 2 to 5-10 cows per farmer; and productivity per cow to 15 litres by 2014. The government provided soft loans and access to credit to assist dairy farmers meet these targets. Figure 3.1. shows the impact of this regulation. While the Indonesian dairy cow population increased slightly from 1982 to 2009, it increased significantly after 2009 when the government boosted the cow population.

Chart 3.1. National dairy cow population



(Data processed from Indonesia Ministry of Agriculture, 2015)

However, the roadmap for the milk industry in Indonesia did not remain successful. The cow population dramatically dropped in 2012-2013 as a consequence of a government policy that stopped importing of beef cattle. In 2010, the government announced that the country would reach beef self-sufficiency in 2014 and so reduced the beef cattle imports (Ministry of Agriculture Regulation, 2010). However, the regulation caused inflation of beef cattle prices in the country. The price of beef cattle in Indonesia rocketed and triggered dairy farmers to slaughter their dairy cows for profit. In 2013, the government recommenced importing beef cattle to stabilise the price (Ministry of Trade Regulation, 2013).

The Indonesian government also actively imported dairy heifers from countries including Australia to increase domestic population and production (The East Java Livestock Service, 2014, p. 25); without significant impact on the dairy cow population. Many imported dairy

cows suffered through poor animal welfare conditions (Moran, 2015, p. 57). Good animal welfare conditions include animals being healthy, comfortable, well nourished, safe and not suffering pain, fear and distress (Moran, 2015, p. 57). These conditions are not met in Indonesia for imported or Indonesian animals. Poor animal welfare occurs because it is not regulated and most farmers live in subsistence conditions making it unlikely they would pay much attention to improving animal welfare (Moran, 2015, p. 57).

Moran (2009, p. 27) divided dairy farming into three categories: smallholders, semi-commercial, and commercial based on the number of cows farmers owned. A smallholder is a farmer with less than 20 head of milking cows and replacement heifers. A semi-commercial dairy farm has 20-50 milking cows and replacement heifers. A commercial dairy farm has more than 50 milking cows and replacement heifers. In Indonesia, the average dairy cow ownership is 2-4 head with some farmers having replacement heifers but most not. Most smallholder dairy farmers in Indonesia rarely have replacement heifers or rear calves to be replacement heifers because rearing calves is costly, and the income from selling milk to the cooperative cannot overcome the cost. Farmers prefer to sell the calves especially during the dry seasons for cash to feed the other cows. Also, rearing calves requires extra land and sheds for the calves, which is too expensive for smallholder farmers. This means most dairy farmers in Indonesia do not pay attention to calves' welfare during the pregnancy, so that the quality of dairy cows in Indonesia has decreased over time.

Due to limited land availability, most dairy cows in Indonesia live tied in a stall in a shed. The cows are tied for their lifetime, often by a short rope, with limited space to move, lie down and stretch themselves. There are permanent, semi-permanent and impermanent cowsheds in smallholder and semi-commercial dairy farms. Permanent sheds are made with cement floors, concrete walls and asbestos rooves. Semi-permanent sheds have cement or wood floors, bricks and bamboo walls with asbestos or coco fibre roof. Impermanent sheds are made with wood or bamboo floors, bamboo and coco fibre rooves. The sheds usually do not have ideal ventilation to prevent heat and evaporation in humid temperatures, which is usual in Indonesia. The condition of the sheds is also related to other welfare issues such as, tethering, lameness, comfort, morbidity and mortality.



Picture 3.1. Permanent Shed
(Sources: Research documentation)



Picture 3.2. Semi-permanent shed
(picture from Google)



Picture 3.3. Impermanent shed (Sources: Research documentation)

Most cows do not have a comfortable place to lie down because there is not enough space, the floors are made from cement, wood or bamboo, which are not comfortable. In some cases, hard or cracked floor surfaces cause injury to the cows. Dairy cooperatives in East Java recently introduced rubber mats for bedding to provide a more comfortable surface and prevent injury to cows from broken cement floors.

Tethering is also an animal welfare issue, and leads to health problems such as dirty cows, increased risk of mastitis, lameness, passing disease to calves and zoonotic disease to humans and causing welfare issues such as comfort cows and abnormal behaviour (Moran, 2015, p. 20). As Moran writes maintaining a clean environment for the cows can improve their welfare while tethered. The condition of the housing, limited space to move and a lifetime tied means dairy cows are almost never able to have a natural life and perform normal behaviours. In some cases, cows suffer from unclean shed conditions especially

during dry seasons, leading to unclean animals, unclean udders and increased morbidity and mortality.

Feeding management is an important part of dairy farming and is a major cost. It includes knowing how to balance the composition of nutrients for the cow including water, energy, protein, fibre, vitamins and minerals (Moran, 2005, p. 7). Energy intakes are important for dairy cows' metabolism, maintaining pregnancy, producing milk, and gaining body condition (Moran, 2005, p. 52). Protein is an important component in dairy feed. The amount of protein required depends on the size, growth, and stage of pregnancy or lactation (Moran, 2005, pp. 56-57).

Two types of feed – fresh forage and concentrate feed – are usually used in dairy farming in Indonesia. Dairy farmers usually use several fresh forages to feed their cows; the most common is Napier grass (*rumpit gajah*). Some dairy farmers have their own field to grow just enough Napier grass to feed their cows. However, most smallholder farmers do not have their own field and must buy grass. Even those who have their own field, sometimes have to buy grass during the dry seasons. Farmers sometimes have to buy grass from other regions in East Java. They rent utes or trucks to do this. Purchasing the grass is very costly especially for smallholder farmers, who in some cases feed their cow with fresh forage available around their place without knowing the nutrient composition.



Picture 3.4. Farmers traditionally collect grass from the field
(Sources: Research documentation)



Picture 3.5. Farmers rent a small truck to buy grass from other regencies
(Sources: Research documentation)

Concentrate feed is also used. This feed is processed and contains essential nutrients required for dairy cows. Concentrate feed is needed because in tropical areas, the nutrition level of fresh forage is lower compared to forage in temperate areas (Rahardjo, Subagiyo, Chizaemi, & Nugroho, 2011, p. 718). The ideal composition of fresh forage and concentrate feed is 60:40. However, in some cases farmers ignore the composition, because some farmers think that the use of concentrated feed can overcome the cow's need for fresh forage (Rahardjo et al., 2011, p. 722).

In Indonesia farmers can purchase concentrate feed from local dairy cooperatives. Cooperative members can purchase limited amounts of concentrate at a cheaper price than non-members. For example, in a cooperative in East Java, cooperative members can buy 1kg of concentrate feed at the discounted price by providing 2 litres of milk to the cooperative. If the farmers need more concentrate, they must buy it at an undiscounted price.

Water availability is another issue related to feeding management. Drinking water is the most important part of feeding management because the body of a dairy cow is composed of 70-75% water (Moran, 2005, p. 8). In most cases farmers in Indonesia only provide water twice a day and leave the drinking pot dry for the rest of the day. Moreover, the quality of drinking water is diverse with farmers often providing unclean drinking water or slurry water mixed with concentrate feed.

Dairy farming activities are performed by family members usually as unpaid work. Farmers do not count the labour cost of doing the job, including cleaning the shed, milking, harvesting Napier grass or other fresh forages, feeding, and delivering the milk to the cooperative or milk collection post. They had learnt about dairy farming from their parents and through experience. Nestlé through its agronomist team argued that the low level of knowledge about hygiene standards, healthy livestock and feeding management were causing the production of low quality milk (Nestlé Indonesia, 2011, p. 61).

Therefore, Nestlé provided technical assistance for dairy farmers in East Java, Indonesia including feeding management, cleanliness, and animal health. Nestlé Indonesia claimed that the company had made a big contribution to the local community and its economic development especially in rural areas. Moreover, Nestlé stated that most of its factories are established in rural areas where they create jobs and strengthen the economic sector and

infrastructure of the local community. Nestlé Indonesia also claimed that training for dairy farmers increases milk production and the welfare of dairy farmers (Nestlé Indonesia, 2013, p. 38). However, the conditions of dairy farms in Indonesia raises questions about how Nestlé Indonesia's CSV initiatives address these problems as stated by the company. In fact, the quality of life of dairy farmers and animals in the communities remain the same as when Nestlé started the relationship with them 30 years ago.

Financial support

As part of its CSV initiatives Nestlé Indonesia provides financial support to dairy farmers in East Java, Indonesia in the form of loans for dairy cooperatives and its members. The company's reason for doing this comes from its concern about the poor quality and quantity of milk produced.

Dairy farmers milk the cows twice a day; usually at 4 o'clock in the morning and 3 o'clock in the afternoon. A small percentage of dairy farmers in East Java – those with more than 20 cows or who are semi commercial dairy farmers – use a portable milking machine, however most milk their cows manually. The milk is manually collected and delivered to the milk collection post or the cooperative. Hygiene is the most important issue in this process because milk is perishable, very sensitive to temperature, strong smells and cleanliness.

There are hygiene procedures that farmers must follow before, during and after the milking process. Before milking, farmers need to clean the milking utensils, wash the sheds, clean the cows' udders, and wash their hands. Clean water is therefore very important. However, due to lack of water farmers sometimes ignore the cleaning procedures, especially during dry seasons. After the cleaning process, farmers milk the cows. At this time, it is important to reduce sudden noise in the shed area that might cause shock and discomfort to the cows and decrease the quantity of milk produced. Some farmers turn music on during the cleaning process to relax the cows, signal to the cow to get ready for milking and prevent sudden noise in the shed area. Some farmers provide a small amount of concentrate feed during milking. Farmers must ensure that the cows' udders are emptied as milk residue causes mastitis disease. These procedures are in line with Moran's suggestions for managing dairy cows (2009, p. 239).

Stainless steel milk cans are best for collecting milk; however, they are too expensive especially for smallholder farmers. In some cases, farmers in Indonesia still use plastic or aluminium buckets to collect milk before transferring it to a stainless steel milk can for transporting. This practice increases the bacteria level in the milk. After milking, farmers must reduce the milk temperature as soon as possible and avoid exposure to sunlight to prevent milk spoiling. The tropical environment is also a major cause of bacterial contamination and decreases the quality of the milk (2009, p. 74).

Farmers deliver the milk to the nearest milk collection post or dairy cooperative. The milk collection posts operate twice a day between 5-7 o'clock in the morning and 3-5 o'clock in the afternoon. In East Java, milk-collection posts are spread throughout dairy farming communities to shorten the delivery distance, an important factor in milk quality. The shorter the distance, the quicker farmers can chill the milk and the better quality the milk will be. In East Java, most farmers can deliver their milk to a collection post within a two-kilometre radius.

The milk deliverer walks through a sterilisation tub, filled with water and sterilisation liquid to enter the milk collection post. Inside the post, deliverers line up to deposit the milk. The post operator checks the milk quality by measuring the level of contaminants including bacterial, chemical, or any other adulteration in the milk (Moran, 2009, p. 76).



Picture 3.6. A farmer delivers milk to the post
(Sources: Research documentation)



Picture 3.7. Milk deliverers sterilise their feet by walking through the tub
(Sources: Research documentation)



Picture 3.8. Milk collecting process
(Sources: Research documentation)



Picture 3.9. In the past farmers used plastic buckets (Jöhr, 2008)

The post operator begins by taking a sample of the milk to test the milk alcohol level. Alcohol occurs in the milk when farmers do not follow recommended drug procedures, such as discarding milk if a cow has recently been given antibiotics because the residue of the antibiotics will spoil the milk and make it dangerous for consumers. To avoid this risk, cooperatives usually apply a penalty to farmers who deliver milk that tests positive to antibiotics.

Second, the milk is tested with *Lactodencimeter* to detect compounds such as water, margarine or skim milk added in the raw milk. Some farmers add water or other materials to elevate the volume or the fat level of the milk to increase their payment. If the result of the alcohol test is negative and the Total Solid (TS) is measured, the operator will measure the volume of milk. The operator then records the TS, Milk Fat and Total milk delivered in a recording card. Farmers then go through the collecting post exit door to clean the milk can with hot water provided at the front of the post. The milk is then transferred into a large stainless steel tank where it is chilled as soon as possible.

The use of cooling machines and stainless steel milk cans, required to produce high quality milk are problematic for small scale dairy farmers. No access to cooling machines and using plastic buckets will increase the bacteria level in the milk and lower milk quality. Nestlé therefore offered loans to dairy cooperatives and its members to buy equipment such as chillers, milk cans, and for shed improvements or extensions. Farmers repay the loan from the milk payment, every 10 or 15 days depending on the agreement between the cooperative and its members.

Nestlé Indonesia claimed that its CSV initiatives support the cooperatives and the community to increase productivity and the quality of dairy production (Nestle Indonesia, 2013, p. 39). The milk price is decided based on the TS, milk fat, total milk and the Total Plate Count (TPC) of the milk. TPC is a test to measure contamination in milk by measuring in 'million bacteria colony units per ml milk' (Moran, 2009, p. 77). The better milk quality produced, the higher price received by farmers increasing farmers' income and community wealth. However, while farmers can earn more money with better quality milk, the payment received is reduced to repay the loan. This raises questions about the effectiveness of loans provided by Nestlé Indonesia to increase farmers' income.

Biogas program

Biogas has become a common energy source especially in developing countries such as Nepal, Bangladesh, Laos, Cambodia, Vietnam and Indonesia. Biogas is 'combustible methane gas' energy produced from converted animal dung and various organic materials by using a biogas digester. The biogas can be used for household needs such as simple gas stoves for cooking and lamps for lighting, and the slurry left over from this process can be used as organic fertiliser to improve crop yields (Hivos, 2013b). Biogas can reduce dependence on firewood and fossil fuels (Hivos, 2013a). A household with two cows can produce enough biogas to meet daily energy needs for cooking and lighting (Hivos, 2013b).

Several international development organisations play roles in the development of biogas in Indonesia. SNV from the Netherlands is one organisation providing Biogas programs to improve people's livelihoods (SNV, 2012) in developing countries including Indonesia. In Indonesia, the domestic biogas program is called 'BIRU' (blue). BIRU is an acronym of 'Biogas Rumah' (biogas for home) (Hivos, 2013a). The BIRU program was initiated by SNV and HIVOS (BIRU, 2015b). Hivos is a Dutch Non-Governmental Organisation that seeks new solutions to persisting global issues (BIRU, 2015a; Hivos, 2015). SNV and Hivos worked closely with the Indonesian Ministry of Energy and Mineral Resources to develop the BIRU program in Indonesia. The programme was implemented by Yayasan Rumah Energy (YRE) with funds made available by EnDev (Energising Development) (BIRU, 2015b).

In East Java, Hivos collaborated with Nestlé Indonesia to support dairy farmers invest in biogas digesters to provide affordable and sustainable energy for cooking (BIRU, 2013).

Through this program, Nestlé provides interest free loans to farmers to install biogas digesters. The loan covers 75% of the total cost of installation and is distributed through local cooperatives. The remaining 25% is provided by HIVOS and the Indonesian government through grants (Nestle Indonesia, 2013). The local community must repay the loan to Nestlé from selling milk to the company. Through this program, 5.000 biogas digesters were installed in East Java in 2012; approximately 1.200 more biogas units than 2010 (Nestle Indonesia, 2013).

Nestlé Indonesia provided up to 75% of the biogas digester price through loans, which farmers repay through deductions from their milk sales. Loans provided by Nestlé Indonesia, including for the biogas program, tie them to selling milk to the company. Nestlé Indonesia's CSV reports did not explain whether loans provided by the company were effective in increasing the quality of life in dairy farming communities.

Nutrition, water and rural development

Nestlé argued that the company has made important contributions to society in East Java, Indonesia through CSV initiatives focused on nutrition, water and rural development (Nestlé Indonesia, 2013, p. 11). Technical assistance, financial support and the biogas program, for dairy farming communities were part of the company's rural development CSV initiatives. According to Nestlé its CSV initiatives benefit its shareholders, the environment and society.

Nestlé claimed that the company has directed CSV initiatives to ensure water and environmental sustainability through water reduction in all facilities, significantly decreasing water waste and re-utilising waste water to irrigate rice fields around its factory (Nestlé Indonesia, 2013, pp. 19-21). However, the contribution of Nestlé's CSV initiatives for addressing environmental problems in Indonesia is questionable. This thesis examines the impact of Nestlé Indonesia's CSV initiatives in water and environmental sustainability in dairy farming communities. As explained earlier, water is an important factor affecting milk quality, yet remains a problem for dairy farming in East Java, Indonesia.

Nestlé Indonesia is also a founding member of PISAgro, an agriculture organisation in Indonesia established in April 2012 by national and foreign companies including Nestlé,

Unilever, Bayer, and Indofood (PISAgro, 2014a). The organisation is supported by partner members including Bank Mandiri, Cargill, International Financial Corporation (IFC), and general members such as the Australian Government's Department of Foreign Affairs and Trade (DFAT), Dupont, and East-West Seed (PISAgro, 2014b, 2014d). The organisation aims to facilitate dialogue and partnerships to strengthen relationships between stakeholders in the agriculture sector. The organisation's target is to increase agriculture productivity and farmers' income by 20% and decrease greenhouse emissions by 20% each decade (PISAgro, 2014c). Even though the target was clearly stated on the organisation's web site, the result and the contribution to address the environmental problems in Indonesia remains questionable.

As a well-known multinational company for food and beverage, Nestlé Indonesia argued that the company plays an important role in the society by offering healthy and tasty food for customers (Nestlé Indonesia, 2013, p. 46). In Indonesia, in 2010 and 2011 Nestlé promoted healthy diet and active lifestyles through health awareness programs, including Nestlé's Healthy Kids program, the Dencow nutrition caravan and Dencow batita posyandu program (Nestlé Indonesia, 2011, pp. 37-40). Dairy is not traditionally part of Indonesian peoples' diet and many do not like the taste of it. To encourage people to consume their products Nestlé Indonesia produces a variety of flavours – chocolate, strawberry – to entice customers (Nestlé Indonesia, 2013, p. 46).

In 1952, the government also encouraged milk consumption as part of peoples' daily diet through a milk campaign '*4 sehat, 5 sempurna*' (literally translated: 4 healthy, 5 perfect diet) (Kementerian Kesehatan RI, 2014, p. 2). The four healthy foods include carbohydrates, vegetables, proteins and fruit and to complete their healthy diet, the government encouraged Indonesians to drink a glass of milk every day. This campaign included guidelines shaped as a pyramid of food and lifestyles for a healthy and balanced diet (Kementerian Kesehatan RI, 2014, p. 5). In the guidelines, milk is a component of the protein category meaning that milk can be substituted with other protein products. The government also encourages people to drink at least 8 glasses of water per day and do physical activities as part of healthy lifestyles (Kementerian Kesehatan RI, 2014, p. 5).

The traditional Indonesian diet was predominantly vegetables, fruit and fish (Kennedy, 1942). The three main crops were rice, maize and sago, together with crops such as coconuts, taro, yams and several varieties of vegetables (Kennedy, 1942, p. 4). Yams, taro and millet were ancient crops used in Indonesia for two thousand years; before rice and maize (Kennedy, 1942, p. 4). Except for pigs and chickens, animal husbandry was unimportant to Indonesians (Kennedy, 1942, p. 4). This changed during the Soeharto presidency when the government encouraged farmers to do animal husbandry to increase protein consumption and nutrition levels. The government supported farmers through the 'Banpres' program – an acronym of 'Bantuan Presiden' (Presidential aid) – in the 1980s. Through the program, Soeharto gave 12,000 cows to Indonesian farmers (Dwipayana, Syamsuddin, & Team Dokumentasi Presiden, 1991, p. 424). Soeharto also encouraged farmers to breed rabbits for protein. The government imported and distributed 18 rabbits from the Netherlands for local farmers in West Java (Dwipayana et al., 1991, p. 396).

The Soeharto regime implemented the green revolution (revolusi hijau) in the 1970s and changed the traditional Indonesian diet (Hansen, 1972, p. 932). This was part of the Asian green revolution in countries including India, the Philippines, Malaysia and Thailand (Pilipinas et al., 2007, p. 3). The aim of the green revolution in Asia was to address the Asian food crisis of the 1960s that was causing widespread hunger and malnutrition (Hazell, 2009, p. 1). Through the green revolution, the government prompted peasant farmers to grow rice to sustain the minimal food needs of the population by 1973 (Hansen, 1972, p. 932). The move to rice production transferred the decision making about agriculture from the peasant farmers to the public bureaucracy leaving farmers with no choice about what they grew (Hansen, 1972, p. 940). As part of the green revolution program, the government signed a contract with Chiba, a Swiss pharmaceutical and chemical firm, to saturate 300,000 hectares of rice lands on Java with high yield seeds, fertiliser and pesticides (Hansen, 1972, p. 937). The government also imported rice seeds developed in the Philippines, namely IR 5 and IR8, promoted as miracle seeds capable of producing high quality rice to solve Indonesia's rice problems. International Rice (IR) also introduced High Yielding Varieties (HYV), rice produced by the International Rice Research Institute (IRRI) funded by the United States' Ford and Rockefeller foundations (Pilipinas et al., 2007, p. 2). IRRI claimed that the plant

would produce higher quality yields and was efficient in using fertiliser (Pilipinas et al., 2007, p. 3)

However, HYV was environmentally unsustainable, because it poisoned the ground and water, causing loss of biodiversity (Pilipinas et al., 2007, pp. 8-9). The HYV seeds were also vulnerable to certain Indonesian pests (Hansen, 1972, p. 941). In 1969, when fish in inland ponds were dying the use of chemicals, including aerial pesticides, was investigated. The investigation found that the chemicals were ecologically dangerous and the fish were being poisoned (Hansen, 1972, p. 941). Similar environmental problems also appeared in India, the Philippines, and other countries (Pilipinas et al., 2007).

The green revolution and government focus on rice production has changed the variety of foods in Indonesian peoples' diet. These changes show the strong influence of the government's role in the agriculture sector. The Soeharto regime imported and provided agricultural aid for farmers including seeds, fertiliser, and animal livestock. Soeharto managed this aid as government propaganda. According to the government the aim of these programs was to improve the country's food security (Revisond, Hudiyanto, Andriono, Aditya, & Sambodo, 1999, pp. 62-63). It was however part of a bigger scenario in which Soeharto cronies built international relationships with multinational companies. All foreign investment had to be approved by Soeharto himself (Backman, 1999, p. 290). Moreover, under the Soeharto regime, criticising Soeharto's policies or programs was prohibited and categorised as rebellion against the government (Wardaya, 2007, p. 81).

This history of dairy farming and traditional diet in Indonesia provides background information for considering Nestlé Indonesia's CSV initiatives in Indonesia especially in dairy farming communities in East Java. The low quality of milk and the government's requirement to buy local milk before importing from other countries were the reason behind Nestlé Indonesia initiatives in dairy farming communities. Further, the Indonesian diet which did not traditionally include milk as an important component was a challenge to the company in promoting its product to consumers in Indonesia. CSV initiatives were part of the company's strategy to convince consumers that milk is an important component of a healthy diet especially for children.

Nestlé Indonesia detailed its CSV initiatives in its CSV reports. There are three CSV reports containing information about the company's CSV initiatives in Indonesia. Nestlé's first CSV report was issued in 2009 as part of Nestlé Global's CSV report (Nestlé Indonesia, 2011, p. 8). This report contains information about Nestlé's CSV initiatives in all countries, including Indonesia. Nestlé Indonesia has issued two CSV reports: 2011, *Nurturing a healthier life for Indonesians* and 2013, *Ensuring water sustainability*. Since 2013 Nestlé Indonesia's CSV reports were again part of Nestlé Global's CSV report. The company provided CSV reports in 2014, 2015, and 2016 (Nestlé, 2015a, 2016, 2017). These reports have a short summary on Nestlé Indonesia's CSV initiatives, along with similar initiatives established in other countries.

Nestlé Indonesia's 2013 CSV report provided information for targeted stakeholders. The report states that the company follows the shared value measurement as introduced by Porter et al. It summarised Nestlé Indonesia's achievements in addressing social problems through CSV initiatives, while creating economic value (Nestlé Indonesia, 2013, pp. 1-2). In its Profile and Corporate Governance section, Nestlé provided information on the company's legal compliance and certifications including Halal assurance and green rating as awarded by the Indonesian Ministry of Environment. Nestlé also provided ISO certifications; ISO 9001 (Quality Management System), ISO 14001 (Environment Management System), OHSAS 18001 (Health, Safety and Environment Management System), ISO 22000 (Food Safety System Certification) and PAS 220 (Food Security Management System) (Nestlé Indonesia, 2013, p. 64). This information is important for stakeholders including the government and NGOs.

According to Nestlé Indonesia management, before 2011 Nestlé did not publish a specific report related to its CSV initiatives; rather it summarised its CSV initiatives in the annual report (Nestlé_2). This is in line with Blowfield and Murray's observation that in the early days, corporate responsibility reports were included in the company's annual report (Blowfield & Murray, 2014, p. 186). It is not surprising that reporting on corporate responsibility is challenging for companies, because most companies' reports are derived from financial accounting language which is not always appropriate for reporting corporate responsibility initiatives (Blowfield & Murray, 2014, p. 181). Nestlé Indonesia established its CSV initiatives – especially for dairy farming communities in East Java, Indonesia – in 1975

and the company has only issued two CSV reports, raising questions about the importance and effectiveness of CSV initiatives and reports for the company.

3.4 Summary

In Indonesia, CSR discourse became popular after the fall of the New Order in the late 1990s. Since 2007, CSR is mandatory for companies operating in Indonesia. The Indonesian government established regulations for governing social responsibility. However, the regulation is too vague and unclear in terms of how CSR is to be implemented. It was not clear how and to what extent business could be in harmony with society through CSR initiatives. An overview of CSR initiatives in Indonesia shows that most CSR initiatives are charity or philanthropy from the company.

Nestlé Indonesia introduced its CSV initiatives as a contribution by the company to address social problems it identified in Indonesia. Nestlé argued that the company's CSV strategy is beyond traditional CSR because it is part of the company's agenda while providing opportunities for the company to address problems in society. In dairy farming communities, Nestlé established CSV programs to support farmers to fulfil the company's requirement and to benefit the communities. Dairy farming practice in Indonesia is far from ideal for producing high quality milk and providing animal welfare. Problematic issues include lack of hygiene, feed management and animal health. These issues cause low quality milk which affects dairy farmers' income. Nestlé argued that the company has established supports for the community to help them fulfil the requirement to produce high quality milk. According to Nestlé these programs increased the milk quality and quantity and benefitted the broader community. However, the effectiveness of Nestlé's CSV initiatives in addressing social problems in dairy farming communities is questionable.

This research addresses questions about the impact of Nestlé's CSV initiatives for dairy farming communities in East Java, Indonesia. It also critically analyses CSV to provide solutions for weaknesses in CSR. Therefore, this thesis employs the CSR measurement framework and the CSV measurement framework for analysis of case study data.

The following chapter explains the methodological approach to the study including an overview of how the researcher has shaped the project. This is followed by details of the

study's research frameworks, methods, data analysis, trustworthiness and ethical considerations.

Chapter 4

Research Methodology

4.1 Introduction

The previous chapter discussed the background to this study including the development of CSR and CSV theory and its implementations in Indonesia. It provided a rich description of dairy farming in East Java, including the dairy farmers' relationship to Nestlé Indonesia. The chapter also provided an overview of how CSV initiatives are measured.

This chapter outlines the research methodology employed in this research, providing an account of how the researcher shaped the project, the stand point of the researcher, the theoretical foundation and the method used to conduct the study (Natalier, 2013, p. 45; Walter, 2013, p. 10). This chapter begins by explaining the researcher's philosophical approach to the study, followed by the strategy, approaches and methods utilised in this study. Following this, the chapter introduces the theoretical frameworks. The final section explains the method of data analysis and addresses questions of trustworthiness and ethical considerations.

4.2 Philosophical approach

It is almost impossible for social research to be value free because it occurs in the real world and integrates moral, political and cultural values, which the researcher cannot ignore (Walter, 2013, p. 13). Therefore, theoretical conceptual frameworks or paradigms are important in social research to explain the researcher's way of identifying the problem, conceptualising, analysing and interpreting data to answer the research questions (Babbie, 2011, p. 32; Walter, 2013, p. 16). This section explains how this study is situated within a deeper, general theoretical purpose.

This study analyses the impact of Nestlé Indonesia's CSV initiatives in dairy farming communities in East Java from the angle of critical theory. Critical theory informed CSR scholars' examination of corporate responsibility and its implications for globalised capitalism (e.g. Banerjee, 2014; Deetz & Kuhn, 2008, p. 1; Matten et al., 2003). As explained

in the overview of the development of CSR theory in Chapter 2, the industrial revolution was the historical momentum for understanding the impetus for CSR. The rise of CSR can be understood as a contemporary double-movement against neoliberalism (Levy & Kaplan, 2008, p. 443). The term 'double-movement', rooted in Polanyi's terminology, refers to the action of two organising principles in society. The first is economic liberalism, and the second is the principle of social protection (Polanyi, 1945, p. 135). Since the concept was popularised by Bowen (Bowen, 1953), scholars and practitioners developed CSR into a range of concepts for developing relationships between business and society. However, whether business can play an important role in addressing social problems remains debatable.

Porter and Kramer introduced CSV as an alternative to traditional CSR (2011, p. 4). However, some scholars questioned Porter and Kramer's concept of CSV and their portrayal of the concept as the win-win solution in the relationship between business and society (Beschorner, 2014; Crane et al., 2014; Hartman & Werhane, 2013). Porter and Kramer's claim that business can be effective in this relationship is central to this research. Therefore, critical theory has been useful here to appreciate the difference between Nestlé and the dairy farming communities desired outcomes.

4.3 Case study method

This study employs a qualitative research strategy to critically analyse and interpret data related to the impact of Nestlé Indonesia's CSV initiatives on dairy farming communities in East Java, Indonesia. Qualitative research focuses on the importance of words rather than quantification in the process of collecting and analysing data (Bryman, 2012, p. 380). In-depth interviews with participants provide rich and insightful data about particular social phenomenon (Travers, 2013, p. 227).

Research using case studies involves analysis of a contemporary phenomenon through an in-depth investigation in its real world context (Yin, 2014, p. 16). For this research, a case study was useful for analysing the impact of Nestlé Indonesia's CSV initiatives on the dairy farming community in East Java Indonesia. CSV is utilised by Nestlé Indonesia to conduct the company's corporate responsibility to dairy farming communities in Indonesia. Other CSR

perspectives are drawn on for comparison to provide a tool for the researcher to critically analyse the impact of Nestlé Indonesia's CSV initiatives.

In case study research, the example or case is not a random sample; rather it is selected to provide information for the researcher to understand the case as fully as possible (Kumar, 2014, p. 155). Nestlé Indonesia's CSV initiatives in the dairy farming community in East Java was chosen as the case study for several reasons. Firstly, Nestlé Indonesia is a transnational company that operates in Indonesia and argues that the company demonstrates strong social responsibility to its stakeholders including the dairy farming community in East Java. Secondly, Nestlé Indonesia argues that the company supports the dairy farming community through its CSV initiatives. In its 2011 CSV report Nestlé (2011, p. 7) stated that the CSV programs aim to significantly improve the people's welfare in rural areas. However, there is little information available on how Nestlé's CSR initiatives actually impact on dairy farming communities. Therefore, this study employed a multi-case design focused on two dairy farming communities in East Java. These two case studies were chosen because dairy farming communities in these two regencies were the major milk suppliers of Nestlé Indonesia for its Pasuruan factory. Moreover, both communities were affected by the company's CSV initiatives.

Sampling procedures

Qualitative research is less strict about sampling procedures and the number of respondents than is the case in quantitative research; focusing instead on respondents' characteristics and suitability (Sarantakos, 2005, pp. 168-169). Informants for this study were selected through two sampling strategies; purposive and snowball sampling. Purposive sampling was used to choose targeted respondents based on their knowledge, expertise and suitability for the study (Sarantakos, 2005, p. 164). This strategy was employed to gather informants from Nestlé Indonesia and the government. Snowball sampling was used to identify informants – based on prospective informants' information and suggestions – from dairy farming communities and dairy cooperative management (Walter, 2013, p. 111).

The purposive and snowball sampling involved two approaches to gather informants at the local community level. The researcher first identified key informants from the dairy cooperative management. The key informants then suggested other informants including

cooperative leaders and staff who had responsibility for the implementation of CSV initiatives at the level of farmers, farmers' group leaders and members of the cooperative. Information from dairy cooperative management and the local community, enabled the researcher to include informants who have knowledge of local communities, for example, village leaders and local public figures.

Secondly, the researcher approached local community leaders, who provided information about group leaders and dairy farmers in the community. The researcher used the second approach for gathering informants because the dairy cooperative management did not provide information about its members.

Observation was also employed in this study to gather information about the social impact of CSV initiatives at the local community level.

4.4 Data Collection

Interviews, focus group discussions, observation, and document review were utilised to gather data for this research.

Interview

Primary data were collected through in-depth interviews with dairy farmers, cooperative staff and Nestlé Indonesia executives. There are three types of interview: structured, semi-structured and unstructured (Scott & Garner, 2013, pp. 282-283). This study utilised semi structured interviews to allow interviewees to provide answers and arguments based on their experience in their own language. In semi structured interviews, the researcher used an interview guide with topics and themes and expects respondents to explain the answer in their own words (Scott & Garner, 2013, pp. 282-283). For this study, semi-structured interviews were conducted with key informants from several groups as follows:

1. Nestlé Indonesia. There were three informants from the executive level of Nestlé Indonesia. All three informants from Nestlé Indonesia were interviewed on the same day. The interview was for approximately two and a half hours and held in the company's central office in Jakarta, Indonesia.

2. Local communities. There were 20 informants as the representatives of local communities including six farmers, six village board members, and eight informants who have knowledge of local communities including local public figures. Interviews with local communities were held in several different places. Most interviews were conducted at the interviewees' place, but some were done in the cooperative. Each interview took approximately one to one and a half hours.
3. Dairy cooperative management. There were eight informants from the management of two dairy cooperatives, including leaders, managers, public relations and other staffs. Interviews with dairy cooperative managements were held in the cooperative. Interviews for all informants were not conducted on one day. The schedule for interviews was adjusted according to the cooperative management's schedule. Interviews with the cooperative staff were approximately one and a half hours, while interviews with the cooperative's leaders took longer. An interview with a dairy cooperative leader took up to two hours.
4. Government. There were four informants from executive and officer level of the East Java Livestock Service including the Head of East Java Livestock Service. Interviews with the government representatives were held in the East Java Livestock Service office in Surabaya, East Java. Each Interview took approximately one to one and a half hours and was held in separated times and rooms.

Focus group discussion (FGD)

Focus group discussion is a method of organising discussion among a selected group of individuals to generate interaction and discussion within the group (Gray, 2014, p. 468). Two approaches were utilised to arrange focus group discussions in dairy farming communities. This form of discussion allows the researcher 'to explore the feeling, attitudes, beliefs, prejudices, reactions and experiences of a subject that often emerge from social interactions with other individuals and groups' (Gray, 2014, p. 470).

In the first community, the researcher arranged the focus group discussion without involvement from dairy cooperative management. The cooperative management in the community did not provide data or information related to their members and their

relationship with Nestlé Indonesia. The focus group discussion was conducted with dairy farming group leaders and the village leader.

The focus group discussion in the second dairy farming community was arranged by the cooperative management and was held at the conclusion of a regular meeting of dairy farming group representatives in the cooperative. After the regular meeting, the cooperative leader introduced the researcher and briefly explained the study. The cooperative leader stated that the study was independent and not conducted on behalf of Nestlé Indonesia. Therefore, he encouraged the participants to give information freely based on their experience with Nestlé Indonesia. There were limitations to the focus group discussion arranged by the cooperative management, particularly unequal conversation between the focus group participants. Some members especially cooperative management dominated the discussions, whilst others said little or nothing. Unequal participation was a concern identified by Gray (2014, p. 471) in his discussion of focus groups. Therefore, several personal interviews were conducted with respondents sometime after the focus group to overcome focus group limitations. The researcher made personal appointments with the participants to interview them separately. Personal interviews with FGD participants were done at the participants' home.

Observation

Observation was utilised to capture significant information including on the social, cultural and economic impact of CSV initiatives in the community. Observation was important for this research to capture respondents' action, feeling, and expression, which at times explained more than their verbal statement. The researcher utilised participant-as-observer observation classification in this study. This type of observation is the most frequent type of observation done for community studies (Gold, 1958, p. 220). Gold explained that in this type of observation, observation is done informally outside the scheduled interview with informants. Gold suggested observer to develop relationship and spends more time with informants through time. In doing this, the researcher visited the community a few months before the data collection to introduce herself and have informal conversations with local people, cooperative management and local leaders. This informal conversation with the local community helped the researcher to collect information for the study, as

recommended by Yin (2014, p. 114). It was also useful for the researcher to understand the layers of power and social position of each informant.

During the data collection, the researcher visited the communities daily and had conversations outside the formal appointment made for interviews. This approach was helpful to add information that was not captured during the interview, to clarify understanding between the interviewer and interviewees and to enrich the experiential context to make sense of what was said in the interview (Scott & Garner, 2013, p. 296). The results of participant observation were written as field notes to be analysed together with other evidence.

Review documents

Documents used as sources in this study include Nestlé Indonesia reports, online resources, statistics and other reports related to the company's CSV initiatives. Corporate responsibility reports were utilised as one source because they comprehensively identify social, environmental and economic impacts of the company initiatives (Blowfield & Murray, 2011, p. 294). Blowfield and Murray added that corporate responsibility reports explain the process behind decisions, identify key stakeholders and assess impacts. Nestlé Indonesia established two CSV reports in 2011 and 2013 (Nestlé Indonesia, 2011, 2013). Before and after these years, Nestlé Indonesia's CSV reports were merged with Nestlé's Global CSV reports (Nestlé, 2008, 2009, 2015a, 2016, 2017). Data in Nestlé's reports and other online company resources were utilised for the analysis of Nestlé Indonesia's CSV initiatives and their impact on dairy farming communities. As Yin (2014, p. 107) explains, documents are important resources for the research: to verify correct spelling in relation to interviews; as a source of information and evidence to support other resources; and to make interferences from other resources or investigations.

However, there are weaknesses in using documents as a source of evidence because they can be difficult to find, there may be limited access to the sources, and they may contain author bias (Yin, 2014, p. 106). This is in line with Blowfield and Murray's findings (2011, p. 294) that corporate responsibility reports have weaknesses such as little coherent and collective evidence of strategies to address issues. Therefore, in this study the researcher

cross checked data in the company documents with data from the communities and other respondents gathered from interviews, FGDs and observations.

4.5 Data Analysis

Qualitative data analysis is used to organise data and make meaning from it. It involves combining art and science to examine social research with its own logic and techniques (Babbie, 2011, p. 419). Data gathered in this study from interviews with respondents, memos and field notes were analysed using a thematic approach. Thematic analysis was chosen to analyse the data because it is the most useful approach for capturing the meaning and complexity of data in a qualitative study according to Guest (2012, p. 9). Thematic analysis makes sense of data through participants' stories and their relationship to a broader social context and through narrative analysis of participants' stories as a source of data (Willis, 2013, pp. 324-328).

Data gathered from field works were categorised in themes. Guest defines theme as 'a unit of meaning that is observed in the data' (2012, p. 3). Themes can be developed and identified in several ways. In this study, themes were determined based on Porter, Hills, Pfitzer, Patscheke and Hawkins' (2012) theoretical frameworks for measuring shared value and Blowfield and Murray's (2014) framework for measuring CSR initiatives. The use of themes provides a clear pathway of connection between theory, data collection, evidence and what it all signifies (Guest, 2012, p. 30).

The researcher used NVivo.10 to organise the data and to attach audio files of interviews together with transcripts. This research could not use all program features as, for example, most data in this study were in Bahasa Indonesia, and NVivo unfortunately does not recognise this language⁸.

4.6 Trustworthiness of the study

Measuring the reliability, validity and trustworthiness of research is important for evaluating its quality. Rigorous attention to detail, theoretical understanding, methods, theoretical frameworks, ethical dimensions enhance the trustworthiness of the research (Walter, 2013,

⁸ Bahasa transcript were translated by the researcher

p. 225). Qualitative research uses the term 'rigour' instead of 'reliability' and 'validity' as used in quantitative research (Liamputtong, 2013, p. 24). In qualitative research, explicit documentation provides information to others to assess the credibility of the research findings and interpretations of them (Guest, 2012, p. 8). Bryman identified four criteria for measuring trustworthiness of qualitative research namely: credibility, transferability, dependability and confirmability (2012, p. 390). This study applies these four criteria to ensure the trustworthiness of the qualitative data and the analysis as described below.

Credibility

Credibility or validity in qualitative research can be enhanced throughout all stages of the research process including designing, choosing methods and data sources and analysing data (Guest, 2012, p. 11). Researchers can enhance the validity of research by taking account of relevant issues that emerge before doing the actual data collection (Guest, 2012, p. 12). In line with this, the researcher brainstormed ideas with diverse groups of people in the community during the research design process. This process was the foundation for participant selection and structuring the instrument for data collection.

Credibility is achieved when study participants represent as accurately and adequately as possible the multiple realities of the study (Liamputtong, 2013, p. 25). Following Liamputtong, the researcher paid attention to the variety of informants who represent the local community members, dairy cooperative management, Nestlé management and the government to give as complete a coverage as possible of people's perspectives. At the level of local communities and dairy cooperatives, the researcher selected informants based on their knowledge, involvement and role in the community. A range of participants, including managers from the highest level of Nestlé management in Jakarta, Indonesia were interviewed to provide information about Nestlé's CSV initiatives from the company's perspective.

One technique often used to establish the credibility of research findings is triangulation; the use of more than one method or source of data (Bryman, 2012, p. 392). A range of methods including interview, focus group discussion, observation and document review were utilised in this research to enhance the credibility of the research. Information from a variety of sources and methods was obtained to generate patterns of data that support

each other, so that as Guest (2012, p. 11) explained trends emerge from different groups of participants and increase the validity of the study.

Transferability

The term 'transferability' in qualitative research equates to 'external validity' in quantitative research (Bryman, 2012, p. 390). Transferability emphasises the theoretical or analytical generalisability of the research finding (Liamputtong, 2013, p. 26). The challenge of determining the degree to which findings can be generalised across social setting is the uniqueness and significance of a qualitative study (Bryman, 2012, p. 392), as well as the study setting. An example of this is seen from a similar study conducted in Moga, India. The uniqueness of the social conditions, research structure and time frame mean the study is not generalisable across social setting, including Indonesia, although it is informative. Therefore, this Indonesian study provides a rich description of the social conditions of the community to enhance validity and help readers make sense of the study results. The rich description technique can be used to provide the reader with the detail of a culture and a database for the researcher in making judgments about the findings (Bryman, 2012, p. 392).

Dependability

Dependability refers to reliability or the degree to which the study can be replicated (Bryman, 2012, p. 390). Reliability is less important in qualitative research because most qualitative research is not designed to be replicated (Guest, 2012, p. 7). Moreover, it is impossible to freeze a social setting and its circumstances for replication purpose (Bryman, 2012, p. 390). There are two types of reliability in qualitative research, external and internal reliability. The former refers to the degree to which a study can be replicated, while the latter refers to whether members of the research team agree with the judgment (Bryman, 2012, p. 390). Bryman (2012, p. 392) added that auditing is a technique that can be used to measure dependability of qualitative research.

External reliability involves peers who are not involved with the research examining the internal consistency of the analytic process and potential biases (Guest, 2012, p. 18). This process includes the choice of methodology, data collection methods, reporting of findings and how these processes make sense to others (Liamputtong, 2013, p. 26). As part of

enhancing external reliability, a section of the research has been presented at two international conferences on CSR, Sustainability, Ethics and Governance. The first paper 'Creating shared value theory: A critical perspective' was presented in Cologne, Germany, (Prafitri, 2016) while the second paper 'Creating Shared Value (CSV): How it differs from CSR?' was presented at Murdoch University, Australia (Prafitri, 2017). A section of the thesis has also been presented at a postgraduate university seminar at Murdoch university. This process allowed the researcher to obtain critical feedback, suggestions, and questions from others about the study including the data analysis process; how the researcher interprets the data; and, the results of the study.

Internal reliability requires peers to ensure that the researcher has completed all phases in an accessible manner (Bryman, 2012, p. 392). The researcher thus shared and discussed the data and ideas during the research process. Furthermore, the principal supervisor of this research visited the research sites in Indonesia to see first-hand the social conditions within the communities. It was very useful for the researcher to have a peer who knows and understands local conditions to help make sense of the research findings.

Confirmability

Confirmability parallels objectivity in quantitative research (Bryman, 2012, p. 390). Bryman (2012, pp. 392-393) explained that although it is impossible for social researchers to be completely objective, it is important that the researcher does not overtly place personal value to sway the research and findings. To enhance the confirmability of the research, this study includes participants' quotes to provide a base for qualitative data analysis. Verbatim quotes are a pivotal part of the narrative in a thematic analysis so others will have enough information to judge the research findings (Guest, 2012, p. 21).

4.7 Ethics and the rights of human participation

Prior to the field work the researcher obtained human ethics approval from the Murdoch University Human Research Ethics Committee, Project no 2014/223 on 11 December 2014. The researcher also obtained Risk Assessment for Murdoch Processes (RAMP) approval from Murdoch University, RAMP reference: RAMP 0156-December 2014t. The researcher had to fulfil the standards of the National Statement on Ethical Conduct in Human Research (2007),

the Australian Code for the Responsible Conduct of Research (2007) and Murdoch University policies to minimise risks of harm which are discussed below.

Databases

Information gathered during data collection, including recorded data and transcripts from interviews, were stored in digital format on the researcher's computer and uploaded into the researcher's 'dropbox service' and an external hard drive. All digital devices were secured with a password which is accessible only by the researcher. Paper documents were documented and stored in a locked cabinet. Data will be stored for five years from the date of publication based on this research and destroyed thereafter.

Anonymity and Confidentiality

The researcher acknowledged that the information from informants might have a risk on the relationship between the community and the company, therefore name and identity of respondents was not revealed in the final research report or in any publication emanating from this research. In this study, the participant identity information is protected by using code. Only the researcher knows which code is matched with each participant. Identifying data including respondents' names, address, telephone numbers and any other personal details were stored in separate folders. These data did not appear on the interview or focus group discussion transcripts. This data was stored in the researcher's computer and 'Dropbox Service' and both are password secured.

Prior to the interview and focus group discussion, the researcher informed and explained to the respondents the anonymity and confidentiality of the research. The researcher also explained the purpose of the study and how the data would be used. It was important for the researcher to explain to the informants that the study was independent of Nestlé, it was not conducted on behalf of Nestlé, and the result of the study would not be reported to the company. The researcher stated to the respondents that information gathered from this study would be treated confidentially and not shared with a third party except if required to by law.

Before the interview and focus group discussion, the researcher also informed and explained to the respondents that the interview and FGD would be recorded. Focus groups

and interviews in this study were recorded to help the researcher gain information easily and have discussion flow without interruptions for note taking. The researcher also informed the respondents that they had the right to refuse the recording of interviews and/or FGDs, in which case the researcher would take notes of the discussion with the participants' consent. The researcher offered respondents an opportunity to check recordings and gave them the opportunity to contact the researcher if they have any concerns related to recorded discussions. Respondents were informed that they were free to contact the researcher and her supervisors if they wish to give any further information or feedback after the interview or FGD.

Respondents were asked to sign an oral consent form stating that the respondent understood what it is about and their rights. Information and oral consent forms for interview and FGD are included in the Appendix.

4.8 Summary

This chapter detailed the methodology and research design employed in this study. A conflict paradigm was chosen for this study as a way of analysing the impact of Nestlé Indonesia's CSV initiatives on dairy farming communities in East Java, Indonesia. This study utilised two frameworks to analyse Nestlé's CSV initiatives in dairy farming communities in East Java. The first framework was based on Porter et al.'s shared value measurement. The framework provides tools to identify the intersection between business and social problems as a focus for CSV initiatives. However, it is not clear how the framework measures the impacts of the initiatives on stakeholders such as dairy farming communities. Therefore, this study also adopted Blowfield and Murray's framework to measure corporate responsibility to give a broader view of the impact of CSV on dairy farming communities in East Java, Indonesia outside the CSV framework.

The case study approach was chosen for this study to obtain in-depth descriptions through multiple sources of information. Data were gathered through interviews, focus group discussions, observation and documentary evidence as the main data sources. The primary source of information to gather empirical data was a series of semi-structured interviews with informants including Nestlé Indonesia management, local communities, dairy

cooperative management, and government representatives. The data from these interviews were analysed using thematic analysis based on Porter et al. (2012) and Blowfield and Murray's (2014) theoretical frameworks. The analysis included organising, categorising, and classifying data to build the inference of the study.

Themes were determined based on the theoretical frameworks of the study, and codes emerged from data during the analysis process. Trustworthiness was built through all phases of the research including participant selections, data gathering, analysing and interpreting data. This process enhanced the validity and reliability of the study and helps readers to make sense of the judgments made about the research findings. The following chapter presents the study findings.

Chapter 5

Findings

5.1. Introduction

The previous chapter explained the methodology and research frameworks used in this study. It discussed two research frameworks – Porter et al.'s, (2012) framework for measuring CSV and Blowfield and Murray's (2014) framework for measuring CSR – adopted in this study to examine the impact of Nestlé Indonesia's CSV initiatives in dairy farming communities in East Java, Indonesia. Based on these frameworks, this chapter organises primary data gathered from interviews, observations and secondary data from a variety of sources including, statistics, the company's website and reports.

First, data are organised based on the two parts – strategy and measurement – of the shared value measurement framework. A company initiating CSV strategies begins by identifying social issues and making the business case for addressing them through CSV initiatives in ways that directly improve business performance. CSV measurement includes tracking the progress and measuring the result of identifying and unlocking opportunities for creating new values. Tracking the progress takes account of business activities, outputs and financial performance relative to projects, while measuring the results focuses on the link between social benefit and business results. It excludes many social and environmental impacts and other stakeholders affected by CSV initiatives.

Second, because the shared value measurement only measures outcomes of company initiatives focused on the intersection between business and social value creation, data were also categorised using Blowfield and Murray's framework for measuring the impact of corporate responsibility. Blowfield and Murray's framework identifies five dimensions of corporate responsibility initiatives: the environmental, economic and social impact; the connection between financial performance and corporate responsibility; the way business operates; the impact of corporate responsibility on stakeholders; and, the evolution and growth of corporate responsibility itself. The final dimension includes the way Nestlé

Indonesia's CSV practice relates to the broader theory and evolution of CSR. This final dimension is discussed in Chapter 7 by connecting findings with theory and practice.

5.2. Shared value measurement framework

Porter et al. (2012, p. 4) identified four steps for measuring shared value initiatives: determine the social issues to target; make the business case by identifying activities to address the issues; track the progress, including inputs, outputs, and financial performance; and, measure the result and use insights to unlock new value. The first two steps are categorised as strategy and the remainder as measurement. This section provides data on how Nestlé Indonesia applied CSV initiatives in dairy farming communities in East Java, Indonesia based on the CSV framework.

5.2.1. Identify the social issues to target

The first step in implementing CSV using the shared value measurement framework is identifying and prioritising social issues. Social issues can be identified by observing the unmet social needs in the society (Porter et al., 2012, p. 4). This section provides data on how Nestlé Indonesia claims to have identified social issues that could provide opportunities for the company to increase revenue and/or reduce costs. The company (2013, pp. 4-5) identified at least 3 issues to address through CSV initiatives: nutrition, environmental issues and rural development.

Nutrition

Nestlé Indonesia (2013, p. 46) claimed that the growth of population, urbanisation and increased income in Indonesian communities had affected peoples' health and nutritional habits. According to the company these conditions increased the number of people consuming unbalanced diets and living less active lifestyles, leading to under nutrition, over nutrition and associated disorders, affecting the future leaders of the nation (Nestlé Indonesia, 2013, p. 46). As a leading multinational food and beverage company, Nestlé identifies itself as having a unique opportunity to address these social problems. Nestlé Indonesia argued that the company provides awareness of good nutrition and contributes to children's health. It further argued that its CSV initiatives provided knowledge about the

importance of a healthy life and a balanced diet while creating economic value for the company (Nestlé Indonesia, 2013, pp. 5; 46-49).

Environmental issues

Nestlé Indonesia (2013, p. 15) acknowledged that population growth combined with climate change lead to serious water problems worldwide including in Indonesia. In its 2013 CSV report, the company identified several water problems in Indonesia. While Indonesia has 6% of the world's water supply or around 21% of total water availability in the Asia Pacific, the country experiences a water crisis. This is confirmed by the Water Environment Partnership in Asia (WEPA), which considers 80% of Indonesians to be without access to piped water (WEPA, 2017), 100% of all drinking water in Indonesia to be contaminated with E. coli bacteria and only 52% of Indonesian households to have access to clean water and healthy sanitation. Further, based on a rating issued by the Ministry of Environment, the Environmental Quality Index in Indonesia is far below the average World Index of Environment and according to the report on MDGs 2011, only 47% of Indonesian households have access to clean water and sanitation. Moreover, the country experiences flooding events, which are a challenge for the government (Nestlé Indonesia, 2013, p. 15). Nestlé Indonesia (2013, p. 14) claimed that the company could participate in preserving clean water supplies through CSV initiatives.

Rural development

Sustainability of Nestlé Indonesia's (2013, p. 38) business has depended on the raw agricultural products produced by local farmers in rural areas since the company started in Indonesia in 1975. After a long history between Nestlé Indonesia and dairy farming in East Java, the company identified challenges for dairy farming practice including the quantity of milk produced, feeding management, and dairy farming procedures that affect the quality of milk. These issues together with low productivity were trapping most Indonesian farmers in poverty as stated by Nestlé management in an interview for this research:

'Productivity from almost all commodities in Indonesia is very low. For example, dairy cows in local communities, average production is only 8-10 litres per day, which potentially could be up to 30 litres per day. So, I

would say farmers' income is low because the productivity is low. Therefore, I could say 80 percent of farmers in Indonesia are trapped in poverty' (Nestlé 1).

The company strongly asserted that collaboration between the company and farmers through CSV initiatives would improve the productivity and quality of produce and thereby farmers' quality of life (Nestlé Indonesia, 2013, p. 38). Nestlé added that the partnership with dairy farmers is strategic for farmers and the company (Nestlé Indonesia, 2013, p. 38).

Nestlé Indonesia identified three issues to be addressed through CSV initiatives: nutrition, environmental problems, and rural development. The company then moved to develop a business case for CSV initiatives targeting these social/environmental issues.

5.2.2. The business case

To make a business case, managers are required to analyse the potential for the company to address social issues as a step to improving business performance (Porter et al., 2012, p. 4). This step includes the process of identifying targets, activities and costs of each CSV initiative. The data below show how Nestlé Indonesia made business cases based on social issues they identified.

5.2.2.1. Nutrition

As explained in Chapter 3, milk and other dairy products were not traditionally part of Indonesian diet. With increased awareness of nutritious food more people, especially babies and children, from big cities started consuming milk as part of their daily diet. Nestlé identified the cultural diet in Indonesia as a challenge as well as an opportunity for the company to produce nutritious food. Some farmers said they sell all their milk to the Milk Processor Companies because their family, including their children, do not like the taste of fresh milk. Given that milk is not part of traditional Indonesian diet, it is not surprising that not all Indonesians are familiar with the taste of fresh milk or other milk products. Interviews revealed that fresh milk is not traditionally consumed by Indonesian families including in dairy farming communities. This information was revealed when the researcher asked about milk consumption in dairy farmers' families. A respondent explained, 'we don't

give the fresh milk to our children because they don't like it. So we just sell all the milk.' (Farmer 1). Another farmer echoing this sentiment added 'Maybe they are fed up with milk because they have seen it every day.' (Farmer 7).

Addressing this problem, the company stated nutritious food should be enjoyable and taste good. To meet local customers' taste, Nestlé produces powdered milk and other products with a variety of flavours, which are more popular among Indonesian consumers than non-flavoured products (Nestlé Indonesia, 2013, p. 46). Several studies reveal that chocolate and other flavoured milk are more palatable and play a major role in increasing milk consumption especially for children (Hanks, Just, & Wansink, 2014; Henry, 2014; Li & Drake, 2015). An interviewee said, 'My children also love instant powdered milk because it has various flavours' (Community leader 9). Flavoured milk, because of additives including sugar are also unhealthy.

In its CSV report, Nestlé (2013, p. 11) stated that through CSV initiatives, the company improves peoples' understanding of good nutrition and the importance of a healthy lifestyle. The report describes three key programs for improving local knowledge about health issues, nutritional needs, mental and physical development especially for children. The company claims to do this through Nestlé's breakfast campaign, 'Milo School Competition', and 'Dancow Nutrition Caravan' (Nestlé Indonesia, 2011, pp. 38-40; 2013, pp. 49-50).

The first of Nestlé's CSV nutrition strategies is the healthy breakfast campaign, 'Nestlé Breakfast Cereal' with the stated aim being to increase awareness and knowledge about the importance of a good breakfast (Nestlé (2013, p. 49). The breakfast campaign was launched on the 24th of July 2011 in four large Indonesian cities; Bandung, Surabaya, Medan and Makassar. With 2,000 mothers and their children from these cities, the event broke the Indonesian World Records Museum (MURI) record for the greatest number of breakfast campaign participants. Nestlé continued the campaign at 'Breakfast Cereal' social gatherings from October to December 2011. Nestlé reported that 1,858 mothers from Bandung, Pekanbaru and Banjarmasin participated in the program. The number of participants increased to 3,000 mothers and children when Nestlé held similar programs in Bandung, Yogyakarta, Pekanbaru, Medan and Balikpapan in 2012 (Nestlé Indonesia, 2013, p. 49).

Nestlé's second CSV nutrition strategy is the promotion of healthy lifestyles through the 'Indonesian Badminton Championship' and the 'Milo Jakarta International 10K'. The 'Badminton Championship' aimed to promote and grow the future of Indonesian badminton champions (Nestlé Indonesia, 2011, p. 40). Nestlé collaborated with the Indonesian Ministry of Education and Culture to organise the program. It was the only national inter-school badminton competition for elementary and junior high school in ten years and it reached 22,000 participants from 20 cities across Indonesia. Nestlé reported that 35,000 national and international runners participated in the 'Milo Jakarta International 10K' event each year since 2010 (Nestlé Indonesia, 2013, p. 49).

The third of Nestlé's CSV nutrition strategies is the 'Dancow Nutrition Caravan'. Through the program, Nestlé promoted the 10 signs of healthy kids, which parents and health workers can use to monitor the nutrition status of children. The ten signs were weight gain and height, good posture, healthy and strong hair, healthy skin and nails, healthy look of face, eyes and lips, healthy teeth, good appetite, active, focus and sleeping well (Nestlé Indonesia, 2011, p. 38). According to Nestlé the signs contributed to increasing mothers' awareness and knowledge about raising healthier children. The program has reached 250,000 elementary schools in 25 cities in Indonesia since 2008, with more than 87,000 parents, 45,000 health workers and 404,000 students involved (Nestlé Indonesia, 2011, p. 38; 2013, p. 50). Nestlé reported that the company also organised seminars and radio broadcasts in 15 cities across Indonesia to help parents build their children's self-confidence (Nestlé Indonesia, 2011, pp. 38-40). The company argued that Nestlé Indonesia contributed to increasing the quality of life all over the world through various scientific activities, including national and international seminars and training for medical practitioners and nutritionists in Indonesia (Nestlé Indonesia, 2013, p. 60).

These company CSV initiatives in Indonesia, unsurprisingly are affecting dairy farming communities' perspectives on consuming milk products. A leader of the community explained that 'most of the farmers do not allow their children to consume fresh milk for some reasons. First, it is more profitable for them to sell all the milk, so they can get more money for the family. Second, they said that fresh milk is causing diarrhoea for their children. I think it is because they are not used to drink fresh milk. Third, simply just because

their children do not like fresh milk, just like my first daughter' (Community leader 8). Supporting this, an interviewee said, 'I think it is because they are not accustomed to drink fresh milk, so they don't like it' (Farmer 6).

Moreover, the government and dairy cooperative managers are concerned about the large number of people who do not drink milk. A government representative stated, 'we still need to educate farmers because as we can see even though they produce fresh milk on the backyard, they sell all of the milk. We encourage them to keep some of the fresh milk for the family consumption, especially for children.' (Government 1). Supporting the government program, a dairy cooperative manager said, 'we actually encourage farmers to keep at least 1 litre of fresh milk a day for the family consumption. But, yeah... it is all about the taste. Even my children, they do not like fresh milk. I don't use Nestlé's product, but the other brands of powdered milk for my children' (Cooperative management 7).

Hygiene issues, the ease of using instant milk powder, and added vitamins were reasons dairy farmers chose powdered instead of fresh milk for their children. A community leader stated, 'My husband does not allow me to give the fresh milk from the backyard to our children; he worries about the hygiene issue. Moreover, as a mum, I prefer to use instant powdered milk for my children because it is easier to prepare compared to fresh milk' (Community leader 9). Another community leader added 'I think powdered milk is more hygienic because it has been processed, and it also contains vitamins, AA and DHA' (Community leader 10). This is in line with Nestlé's claims that the products contain fish oil, DHA, omega 3 and omega 6 for brain development and is a high source of protein and calcium for optimum body growth (Nestlé Indonesia, 2015). This thesis found that some respondents, who were wealthy dairy farmers sell their entire milk production to the Milk Processor Companies and buy powdered milk to feed their children.

According to Nestlé (2013, p. 11) the company addressed nutrition needs by providing nutritious products that deliver real health benefits to consumers. According to Nestlé the company implemented a nutrition profiling system based on recommendations from the Public Health and Consumer Science Institute (Nestlé Indonesia, 2013, p. 46). Nestlé reported that 72% of its products attained the criteria and deliver the best nutritional value

for customers by including fish oil, DHA, omega 3 and omega 6 for brain development, protein and calcium for optimum body growth (Nestlé Indonesia, 2015).

Moreover, Nestlé (2013, p. 11) stated that the company provided affordable and easily accessible products. Porter and Kramer (2011, p. 7) argued that the huge unmet societal needs could be potential market opportunities for business, and addressing these needs would create shared value for business and society. Examples of this win-win situation are market opportunities for food companies to produce nutritious foods to alleviate malnutrition in poor communities, or software companies helping increase digital intelligence. Porter and Kramer (2006, p. 88) argued that the closer the connection between the company's business and the CSV initiatives, the greater are the opportunities. Nestlé management explained:

'The approach of Nestlé is to create shared value for the company's shareholders and the society. For example, in the case of anaemia, iron and iodine deficiency in the society, we do not spend the company's profit to provide the medicine, but we use the company research centre to create products that address these problems. Moreover, because these problems mostly occur in the middle and low class of the society we have to provide affordable products for them' (Nestlé 1).

Nestlé stated that nutritious food should be enjoyable and have a good taste (Nestlé Indonesia, 2013, p. 46). To meet local customers' taste, Nestlé provides powdered milk and other products with a variety of flavours, which are more popular among Indonesian consumers than nonflavoured products. Several studies showed that chocolate and other flavoured milk are more palatable and play a major role in increasing milk consumption especially for children (Hanks et al., 2014; Henry, 2014; Li & Drake, 2015).

Nestlé marketed various brands of powdered instant milk for babies and children in a range of packaging materials in Indonesia, as seen in Table 5.1. Tin and box packaging were used for instant powdered milk products for children under 1-year-old, while sachet packaging was used for instant powdered milk products for children above 1-year-old. The price of

Nestlé products in tins are 2 or 3 times higher than products in carton, although the products had similar components.

The price per gram of powdered milk in sachets was higher than that in boxed packaging. In comparison, the price of 1 sachet of instant powdered milk for one glass of milk was Rp. 3,500,00 (approx. AUD 35 cents); for the price of 2 sachets consumers can get 1 litre of fresh milk (equals five glasses of milk) from the cooperative. Based on the Indonesian Bureau of Statistics, income per capita in East Java in 2012 was Rp. 71,203 per day (approx. AUD 7 per day) and more than 50% of the monthly expenditure per capita in East Java was under Rp. 16,667 per day (approx. AUD 1,5 per day) (Badan Pusat Statistik Provinsi Jawa Timur, 2013, 2016). This means that 35 cents for a glass of instant sachet milk are approx. 5% of daily income per capita or approx. 20% of the average daily expenditure in East Java. Additionally, boxed or sachet powdered milk was still the favourite product for local customers because of the convenience and ease of using instant milk compared to fresh milk.

Table 5.1. Price comparison of Nestlé’s products in Indonesia

No	Product	Packaging	Net Weight	Price* (Rp)	Price per gr of product* (Rp)	Sources
Ages 0-6 months						
1	NAN HA 1	Tin	400 gr	160,000	400,00	www.rajasusu.com
2	NAN HA 1	Tin	800 gr	319,000	398,80	www.rajasusu.com
3	Danstart	Box	135 gr	31,000	229,63	www.bukalapak.com
4	Danstart	Box	400 gr	43,000	107,67	www.bukalapak.com
Ages 6-12 months						
5	NAN HA 2	Tin	400 gr	163,000	407,50	www.rajasusu.com
6	NAN HA 2	Tin	800 gr	312,000	390,00	www.rajasusu.com
7	Danstart	Box	400 gr	43,800	109,5	www.bukalapak.com
8	Danstart	Box	800 gr	79,800	99,75	www.bukalapak.com
Ages 1 years and above						
9	Nutren Junior	Tin	800 gr	209,000	261,30	www.rajasusu.com
10	NAN PH pro 3	Tin	800 gr	265,000	331,30	www.rajasusu.com
11	Dancow Full Cream	Box	800 gr	74,000	92,50	www.rajasusu.com
12	Dancow Full Cream	Box	400 gr	40,300	100,75	www.alfaonline.com
13	Dancow excelnutri	Box	800 gr	80,000	100,00	www.bukalapak.com
14	Dancow excelnutri (Chocolate flavour)	Box	800 gr	80,000	100,00	www.bukalapak.com
15	Dancow excelnutri (Honey flavour)	Box	800 gr	80,000	100,00	www.bukalapak.com
16	Dancow Putih	Sachet	27 gr	3,450	127,78	www.alfaonline.com

*Prices valid May 2016

Observation data showed that Nestlé’ products sold in communities including in traditional markets, warung (stalls), supermarkets, and even in dairy cooperatives’ mini-markets were mostly in box and sachet packaging. The bulk price for a carton was not suitable for the

majority of families who live on daily income; therefore, sachets containing a single serve were more popular in the communities than boxes. As an interviewee reported, 'Sachets and carton containers are the most packaging available here, but not the tin packaging. Because the tin packaging milk products are too expensive for the local market, only for middle and upper class afford to buy' (Community Leader 9). She explained, 'the customers of sachet packaging products are usually mothers with irregular income. They buy the product when they have spare money, for example one to two sachets a week for their children' (Community leader 9). The respondent also revealed that 'because the price of sachet powdered milk is still too expensive for some people, they just give condensed milk mixed with water for their children. Because the price of condensed milk is cheaper than powdered milk' (Community leader 9).

Data in this section show that although Nestlé Indonesia stated that the business cases of the company's CSV initiatives address nutrition issues in the country, data from the study show otherwise. Further discussion related to this is discussed in Chapter 6.

5.2.2.2. Environmental problems

Nestlé (2013, pp. 19-30) claimed that the company's CSV environmental programs are evident in their effort towards water sustainability, water waste management, emission control, and energy usage. The company's effort to reduce environmental impacts in dairy farming communities can also be seen in the biogas program (Nestlé Indonesia, 2013, p. 41). Data below show how Nestlé Indonesia made its business case to address environmental problems in East Java, Indonesia.

Water sustainability

Nestlé Indonesia established programs to protect the natural water supply and impacts of climate change (Nestlé Indonesia, 2013, p. 19). The company announced its commitment to clean water sustainability through Nestlé S.A.'s (Nestlé International) launch of WATER programs. The company's water management strategy included reducing water usage in the production process and using recycled water. In its 2013 CSV report, Nestlé stated that water is generally used in the Kejayan factory, East Java for steam generation, cooling towers

and cleaning. The company re-used the water produced from the heating process to generate steam and built water tanks to save rainwater (Nestlé Indonesia, 2013, p. 20).

The factory also re-used cows water, from the fresh milk evaporation process, which separates water from milk solid (Nestlé Indonesia, 2013, pp. 19-20). In its 2013 CSV report, Nestlé explained that the water treatment process in the factory produced 1,300m³ clean water per day which it channelled to rice fields surrounding the factory. Nestlé (2013, p. 20) guaranteed that the waste water was strictly monitored through laboratory testing, and, the company had never received any complaints from local communities.

On the other hand, data gathered from this study show that the company did not attend to water availability and sustainability in dairy farming communities, the main suppliers for the company. Pasuruan, East Java, where Nestlé's Kejaman factory is located, is a lowland with average temperatures of 27-29°C and 80% humidity. This is not ideal for dairy farming. Therefore, most dairy farming communities are located throughout the highlands in Malang and other parts of Pasuruan, where average temperatures range from 15-24°C but is 30-60 kms from the factory. As a result, of the distance the waste water treatment from the Kejaman factory (2013, p. 8) was not available for these communities. However, these communities experience problems related to clean water availability, especially during dry seasons. Farmers and community leaders interviewed for this study explained that 'during dry seasons we do have problems with clean water availability' (Community leader 7) and some villages 'often lack clean water during the dry season. They need water for the fields and agriculture' (Community leader 2). And as a farmer said 'we have problems with water availability for the household and dairy farming needs' (Farmer 7); this means for people and animals to drink and for sanitation.

Clean water is an important factor for dairy farming to produce high quality milk. Lack of cleanliness in the milking process increases the bacteria level of the milk, which is easily contaminated, making it important for dairy farmers to attend to the cleanliness of the sheds, the cows and the equipment used in the milking process. Without adequate clean water, it is hard for farmers to follow the correct procedures. This was reflected in an interview with a farmer who spoke about the difference in their shed cleaning procedures during rainy and dry seasons.

‘Due to water availability, we do not clean the shed every day in dry seasons as we do in rainy seasons. Actually, we have to clean the shed twice a day before the milking process’ (Farmer 7).

Clean water supply also affects the dairy farming costs and farmers’ income. The study revealed three different groups of farmers. The first group have land to grow fodder to feed the cows. The second group have no or little land to grow fodder and therefore must buy grass to feed the cows. The third group are labourers who look after cows owned by others and get paid a percentage of the milk price. Water availability affects these three groups of farmers in different ways.

The first group who have land to grow fodder do not have to buy grass during rainy seasons and therefore they can make a profit from selling milk to the cooperative. A farmer informed that they ‘have to buy grass in dry seasons, but in the rainy season like now, we got grass from our land on the backyard. Sometimes we got more than we need, so we can share some with neighbours who don’t have land to grow fodder’ (Farmer 6). It needs to be acknowledged that these farmers do not take account of the cost of growing fodder for producing milk because they use their own resources.

However, due to limited water availability in dry seasons, they buy grass to feed the cows even though they have land. Interviewees reported, ‘I have my own land to grow fodder, so I still get profit during rainy season like now, but in dry seasons I need to sell a calf or sometimes a heifer to feed the rest’ (Community leader 7). It was hard to make a profit from dairy farming during dry seasons because farmers must buy grass every day. Another interviewee shared a similar experience, ‘I have 16 cows, and I have my own land to grow fodder. Therefore I don’t need to buy grass for the cows, but in dry season sometimes I need to buy grass about 40-60% of total grass we need to feed the cows’ (Community leader 8).

The impact of water availability is even greater for the second group of farmers who have no or only a small plot to grow fodder. They must buy fodder in the dry and rainy seasons. During dry seasons, they must buy or collect grass from other areas, which is costly. A community leader explained that fodder is the main problem for dairy farmers in the

community, 'some farmers must buy grass from Surabaya (approx. 90 km). They do not add the cost to the production cost, for them, it is better rather than having to sell a calf or even a heifer' (Community leader 3). In some cases, however, they must sell a calf or a heifer to feed the rest. A farmer informed that 'a long time ago, selling a calf was enough to feed the others, but last dry season, selling a heifer was not enough to buy grass' (Farmer 7).

For the third group of dairy farmers, clean water availability affects dairy farming costs, and family expenditure. These people are labourers or workers who do not own cows but look after other people's cows including feeding, milking and selling the milk to the cooperative. There is an agreement between the owner and the labourer about the percentage of revenue they receive from selling the milk or calves. During dry seasons, they must buy grass to feed the cows. Unfortunately, labourers or workers do not have the right to sell heifers to buy grass; they can only sell calves which are part of their profit. Further, lack of clean water and grass decrease the milk quality, and effect the price of the milk and the labourer's income.

'For the smallholders or labours, they think that at least we got something to do. Although in dry seasons, sometimes they have to spend the family expenditure to feed the cows' (Community leader 3).

Dairy farming communities reported that Nestlé has never provided direct programs related to clean water in the communities. Interviewees informed that some cooperatives provide clean water during dry seasons, but 'we do not get any clean water supply from Nestlé'. The same interviewee added that 'the cooperative usually sends 2 tanks of clean water per day for the community' (Community leader 2). A community leader from another area reported that 'there is an unfinished drilling water program here, between groups of farmers, supported by the cooperative since 2014. Probably Nestlé is supporting the program as well because the cooperative has a relationship with Nestlé' (Community leader 4); the respondent was not sure if the project was directly supported by Nestlé or the dairy cooperative.

Interview and observation data from the study showed that Nestlé contributed little to clean water solutions through CSV initiatives within the participating communities. The lack

of clean water is causing farmers to leave sheds and equipment used in the milking process uncleaned. As a result, the bacteria level in the milk is often high, decreasing the milk quality. Moreover, the water crisis during dry seasons increases the production costs of dairy farming because farmers must buy grass to feed the cows.

Biogas program

Biogas is a renewable gas produced from the decomposition of organic materials – from livestock, agriculture, and industry – by microorganisms in an anaerobic condition (Wahyuni, 2013, p. 15). Wahyuni explained that biogas contains 50-70% methane, 30-40% carbon dioxide, 5-10% hydrogen, and other gas. When burnt biogas produces an odourless blue flame. Nestlé Indonesia acknowledged that cow manure from dairy farming in East Java impacted negatively on the environment and ‘climate change because dairy farming waste contains methane, but with the biogas system, we contribute to reducing this’ (Nestlé 3).

Therefore, the company in collaboration with HIVOS (Humanist Institute for Co-operation with developing countries) and dairy cooperatives established a biogas program named BIRU. BIRU (translated as Blue) stands for ‘Biogas Rumah’ (domestic biogas). The program was funded by the Embassy of the Kingdom of the Netherland and managed by HIVOS (Nestlé Indonesia, 2013, p. 41). Nestlé claimed that the company supported 75% of the cost of biogas digester construction in the form of interest free loans. The remaining 25% of the cost was provided by HIVOS and the government (Nestlé Indonesia, 2013, p. 41).

As explained in Section 4.2.3 and by Wahyuni (2013), manure from dairy farming is a potential alternative energy for dairy farmers who have a biogas system; however, farmers must have space and the financial ability to install the biogas digester. The installation price depends on its size.

In its 2013 CSV report Nestlé Indonesia (2013, p. 41) indicated that the biogas program was initiated by Nestlé and that the company supported 75% of the cost; HIVOS and the government covered the remainder. Nestlé’s claim is supported by an observation made during this study. Billboards in dairy farming communities suggest that Nestlé Indonesia

established the biogas program, a suggestion disputed by a dairy cooperative manager and Government representative.



Picture 5.1. Biogas program billboard in the communities (Sources: research documentation)

The manager reported that HIVOS initiated the program to reduce the environmental impact of dairy farming. He said, 'the biogas system was our collaboration with HIVOS. They provided 2 million rupiahs (Approx. AUD \$ 200) for every biogas digester installation. Then Nestlé offered loans for the rest of the costs' (Cooperative management 1). The Government representative made the same point, 'the biogas program was part of HIVOS' international aid for development. HIVOS subsidized 2 million rupiahs per biogas digester, then Nestlé provided loan for farmers to pay the rest, and farmers have to pay back the loan' (Government 1).

As the remaining cost was still too expensive for cooperative members, Nestlé offered them interest free loans, to be repayed from their fortnightly milk payment in two to eight years. The loan amount and period required for repayment varied depending on factors such as the size of the biogas digester. For instance, Farmer 7 is 'using the 6m³ biogas, it was 6 million rupiahs, and it was subsidized 2 million rupiahs. We got 2 years' loan to pay the rest.' Farmer 1 'has the 8m³ biogas digester, it cost me 8 million rupiahs, and I pay it in 5 years.' While most farmers in the study area have installed biogas digesters, data from this study revealed that the use of biogas systems in the communities was not optimal.

Several issues related to the effectiveness of the biogas system in the study area are discussed here. First, the cost of biogas was more expensive than the cost of using LPG 3kg per fortnight. Chart 5.1 compares the cost of using biogas, kerosene, and LPG either 12kg or 3kg per fortnight. It reveals that the cost of using biogas was cheaper than kerosene;

however, using LPG 3kg was cheaper than using biogas 8m³, 6m³ and 4m³. This issue is discussed in Chapter 6.

Second, most families only used the biogas digester for daily cooking. A respondent explained, 'I don't use the biogas for light because I don't have the genset' (Farmer 1), a component needed for producing light. This is a common reason for farmers not using biogas for light. A genset – component for converting gas to electricity – is too expensive. Although they can access another loan from the cooperative to buy a genset, it decreases their already small income from selling milk.

Third, the gas produced by the digester was not enough for 'big cooking' needs. It 'is only for daily use such as cooking. We cannot use it for 'big cooking' for example if we have parties or a special event in the family [wedding, religious celebrations and community meetings]. The biogas won't be enough' (Community leader 8). For these needs, families buy firewood or LPG. Observation from the study showed that farmers therefore used biogas for daily cooking, and stockpiled firewood for special occasions, as seen in the picture 5.2 and 5.3.

Chart 5.1. Cost comparison per fortnight



Data processed with additional information:

- a) Biogas price: $8\text{m}^3 = \text{Rp. } 8,000,000$; $6\text{m}^3 = \text{Rp. } 6,000,000$; $4\text{m}^3 = \text{Rp. } 4,000,000$ (biogas digesters mostly used in the communities)
- b) Biogas loan payback 5 years
- c) Kerosene and LPG price in East Java, in 2015
- d) LPG average use 3 kg for 9 days (Ministry of Energy and Mineral Resources, 2011, p. 45)
- e) Kerosene average use 1 litre per day (Ministry of Energy and Mineral Resources, 2011, p. 45)
- f) Biogas digester lifetime 10-20 years



Picture 5.2. Farmers are still using firewood for big cooking
(Sources: Research documentation)



Picture 5.3. Biogas stove for daily cooking
(Sources: Research documentation)

Fourth, the dung needed for the biogas digester is only a fraction of the dung produced from dairy farming so that farmers dispose of the excess cow manure in water drains. Although farmers need to fill the biogas digester with dung up to 60% capacity, this is only when using the digester for the first time (Wahyuni, 2013, p. 61). The biogas can be used for the first time 13-20 days after filling up the digester. To maintain biogas levels, farmers only need to add 2 kg dung and 4 litres of water every day (Wahyuni, 2013, p. 61).

According to Wahyuni (2013, p. 52) one dairy cow with an average weight of 640kg produces 50kg of dung per day, resulting in 96% of the dung being unusable for biofuel per day. Farmers cannot add more manure to increase gas production for bigger family needs. An interviewee reported, 'It does not need too much dung. I don't need to put all the dung from the shed because it will be too much. If I put too much dung in it, it won't work. So I just throw the rest of the dung to the water drain' (Farmer 6). The biogas digester will stop working if it is overfull. Another farmer said he adds 'dung once a week, that will be enough for the family's daily use in a week. I just throw the rest of the dung' (Farmer 7). A community leader added, 'I use the 8m^3 biogas digester. I just need the dung from 4 cows, while I have 16 cows here. We cannot put all the dung because the digester won't work. I just throw the rest of the dung to the water canal there' (Community leader 8). Comments

by the community leader and farmers indicated that throwing dung in the water canal was an acceptable practice in the community.

A benefit of the biogas system is that it produces slurry or sludge that can be used as organic fertiliser which farmers could sell for additional income (Wahyuni, 2013, p. 105). However, although farmers know that the slurry is a good source of organic fertiliser, as a respondent said, 'yes, I know the slurry is good for planting, but I don't use it because I don't have time to do it' (Farmer 7). Another reason for not using the slurry was transporting it to their farm, as an interviewee explained, 'some people say that the slurry is good for the farm, but I don't use it. Because the farm is not directly next to the shed, so I have to transport the slurry to my farm' (Community leader 8).

Additionally, the biogas loan program was only for dairy cooperative members who supplied milk to Nestlé Indonesia. Interview data from dairy cooperative management revealed that Nestlé Indonesia required dairy cooperatives and individual farmers to pay off all loans when the cooperative ceased supplying milk to the company. As a cooperative manager revealed:

'When we decided to stop supplying milk to Nestlé, we had to pay all the remaining loans even though the due date was still years ahead'
(Cooperative management 1).

This section provided data on Nestlé's CSV initiatives related to environmental issues in Indonesia. Data from the study showed that the effectiveness of Nestlé's CSV initiatives in addressing environmental issues in dairy farming communities was questionable. For instance, dairy farmers faced the problem of clean water availability. Nestlé Indonesia's CSV initiatives did little to address this issue. Data from the study showed that the effectiveness of the biogas system as an alternative energy supply to address environmental problems was limited. Further analysis related to this issue is discussed in Chapter 6.

5.2.2.3. Rural development

Nestlé Indonesia identified low productivity as one social issue facing dairy farming communities in Indonesia. In its 2013 CSV report, Nestlé stated that the company established CSV programs to support stakeholders to fulfil Nestlé's requirements for raw materials as well as benefiting the communities (Nestlé Indonesia, 2013, p. 40). They claimed to do this by increasing farmers' knowledge of dairy farming. Nestlé encouraged farmers to increase productivity through financial and technical support to improve the quality of milk, obtain a higher price and thereby their quality of life (2013, p. 40). This section provides data on how Nestlé Indonesia made the business case for addressing issues in rural development.

Standard Operating Procedures (SOP)

Nestlé Indonesia launched its Standard Operating Procedures (SOP) in March 2004 based on the company's concern that milk produced by local farmers was poor quality. The SOP is Nestlé's procedures for all stakeholders including dairy farmers, cooperatives and other stakeholders who have a role in producing milk for the company. The SOP details procedures for every step in the milk process from farm to cooperative. The SOP regulates the transport of milk from cooperatives to Nestlé's factory in Kejayan, Pasuruan, East Java and states the punishment and penalties imposed if stakeholders do not abide by them.

This research found that the SOP may be achievable for large-scale dairy farming. However, the requirements were challenging for small scale dairy farmers with limited resources. As one study informant said, 'Nestlé provided the standard, but because we were not able to fulfil the requirement, Nestlé provided loans for us to buy cooler machines and other equipment. So we can fulfil the minimum standard of the company' (Cooperative management 3).

Financial support

As explained previously, Nestlé Indonesia provided financial and technical assistance to dairy farming communities to help improve facilities at milk collection centres and buy equipment such as cooling units and milk cans and thus improve the productivity and the quality of milk supplied to the Kejayan factory (Nestlé Indonesia, 2013, p. 39). One Nestlé

manager said, 'we give support as loans to dairy farmers, not as gifts. If we give all for free, it won't be sustainable' (Nestlé 1) and would not meet the aim of CSV. Further, 'because of the competitiveness of price, the value chain has to be efficient. We cannot have waste on the value chain' (Nestlé 1). Nestlé management argued that a loan was the best form of support because it did not increase cost in the value chain or create dependency; unlike government subsidies that created dependency for some people and does not solve poverty.

Technical assistance

Nestlé Indonesia provided technical assistance to dairy cooperatives and farmers. Through the Milk Procurement Team Nestlé focused assistance on the cooperatives and the milk collection process to improve the milk quality. They did this by providing training to dairy cooperative staff on the application of the SOP along the value chain to ensure they met the required quality standard (Nestlé Indonesia, 2011, p. 61; 2013, p. 39).

Nestlé Indonesia, through its Agriservice Department, provided basic training programs about hygiene standards, healthy livestock, and feeding formulation and provision. Nestlé argued that the company's 30 year effort had significantly improved the milk quality and quantity. As a result, the company reduced the volume of imported milk as raw material, and argued that local farmers enjoyed a better quality life (Nestlé Indonesia, 2011, p. 61).

Stakeholders acknowledged that Nestlé Indonesia has an economic agenda for its CSV initiatives. As a Government interviewee said of Nestlé's programs, they 'are part of their business interests. They want the milk quality to meet their requirement. Therefore they provided technical assistance for farmers' (Government 1). One respondent said while Nestlé Indonesia 'provides technical assistance and loans for farmers. I think it is all about the business. They do the programs because they need good quality milk' (Community leader 3). This opinion was reinforced by a cooperative manager who explained:

'The company provides loans because they need a good quality of milk from us. All financial support for us is loans. We pay back all the loan, so I

think it is a pure business partnership between the company and us’
(Cooperative management 3).

These initiatives were provided by Nestlé Indonesia for dairy farming communities to increase the milk quality produced by farmers. With the higher price offered by the company for better quality milk, Nestlé argued that these initiatives increased farmers’ income and in the end enhanced the quality of life in communities. Therefore, Nestlé asserted that the initiatives created value for the company as well as the community.

Nestlé Indonesia and dairy farming contributed to the local economy by providing daily cash flow and jobs for farmers. A community leader from one dairy farming community explained that:

‘The relationship between the cooperative and Nestlé increased the local economics. At least we can see from the cash flow here. It is hard for us to figure out the number of unemployment on the society because most people here have dairy cows’ (Community leader 2).

A community leader from the other dairy farming community reported similar conditions. He said ‘there is almost no joblessness in the society, because at least they have 1-2 cows to work with’ (Community leader 7). The interviewee explained that dairy farming could be a side job for farmers, who have other agriculture businesses, which provided additional income for the family. Dairy farming also provided activities for those without other agriculture business or who are otherwise jobless. The cooperative manager added that ‘our statistical data showed that 65% of the society are doing dairy. It shows that dairy farming has major impact on the economic sector here’ (Cooperative management 7).

The high number of dairy farmers in the society did not mean however that dairy farming was profitable for all farmers. As described in Chapter 3, most dairy farming in Indonesia was categorised as smallholder dairy farming with an average ownership of two to three cows with only a few farmers having replacement heifers. One interviewee revealed that ‘some farmers have more than 10 cows here, but on average a farmer has only two to three cows’ (Farmer 7). The government representative stated, ‘with only two to three cows, it is

hard for farmers to get profit from dairy farming, especially when none of the cows are in the lactation period' (Government 3). Moreover, the quantity of milk produced by household scale dairy farming in Indonesia was far from ideal. The average production of milk per cow is approximately eight to ten litres per day. 'If we want to be profitable, a cow should produce 15 litres a day. However, the average production here is only eight to ten litres a day' (Cooperative management 7). In these circumstances, a dairy farmer requires a minimum of 5 lactating cows and some replacement heifers to be profitable. Otherwise the milk price could not overcome the production cost:

'Dairy farming with five to seven cows is profitable. If you only have two cows, it means you just work for the cows' (Farmer 1).

As dairy farming was not the main business for most farmers, they usually relied on family members, as unpaid workers, to clean the shed, milk, harvest Napier grass or other fresh forage, feed, and deliver the milk to the cooperative or milk collection post. An interviewee explained 'farmers here are doing dairy farming as a family business, we do not take into account the labour costs because it is part of the daily task as the family member' (Community leader 8). Household scale dairy farming in these communities was not profitable if all costs were calculated:

'Yeah, members always inform me that the production cost is getting higher now, and it is hard to get profit from dairy farming. I tried to do dairy farming professionally. With all cost included, it is not benefiting. Unless we do it all by ourselves. It means we do not take account of labour and the grass because we use our own grass. However, that is not a business' (Cooperative management 7).

For some farmers, dairy farming was not only about business. As a government representative said, 'usually farmers are doing dairy farming because it is the heritage from their parents and they are continuing it. It is like they are looking after what their parents had before, although it is not profitable, but at least they do not lose it' (Government 3). A cooperative manager shared his experience, 'my son is doing dairy farming like me, maybe because he has seen me doing dairy farming. I also continued this dairy farming business

from my parents' (Farmer 1). A farmer from another community stated, 'my parents started dairy farming since 1960s and become the cooperative member since 1974, while I started in 1978' (Cooperative management 7).

For some people, dairy farming was no longer a promising business. One respondent suggested that dairy farming was getting harder, 'I had 3 cows, and I had to buy 2 to 3 bunches of grass every day to feed them. A bunch of grass was about Rp. 10.000 rupiah (approx. AUD \$ 1). The milk price cannot overcome the cost, so I just sold the cows and used the money for family needs' (Farmer 4). A community leader explained, 'decades ago, dairy farming was the main income for the local community, but not now. More people are doing agriculture here because it is more benefiting for farmers' (Community leader 3). He added, 'if the milk price is still like this, the number of dairy farmers will decrease in the future. I can say it is happening at the moment. Almost all local big farming is out of dairy business. Only smallholders are still doing it. It is because they have no choice' (Community leader 3).

As explained in Chapter 2, although government statistics show an increase in the cow population, the number of dairy cows in Indonesia has decreased since 2012. A cooperative manager argued:

'The government report or statistics data could say that the population is slightly increased now, but as the practitioner here I can say that dairy farming is sharply decreased. We lost up to 9,000 cows since 2011' (Cooperative management 7).

This is consistent with Nestlé's report of a decline in the dairy cow population and milk production in Indonesia (Nestlé Indonesia, 2013, p. 40). However, a Nestlé interviewee denied that dairy farming is not profitable for farmers, 'If we are saying that farmers are not getting profit from dairy farming, I think it is not right. Because if it happens, they would have left the business a long time ago. The fact is they are still doing it. It means it is profitable' (Nestlé 1). However, the same interviewee argued, 'although the productivity is very low, they can survive (Nestlé 1). He also acknowledged that farmers do 'keep doing it because they have no choice.' (Nestlé 1)

Although dairy farming had an impact on the local economic sector, interview data indicated that it was hardly profitable for farmers especially those, the majority, who have two to three cows. Data in this section revealed that Nestlé Indonesia's CSV initiatives did little to improve the quality of life for dairy farming communities.

5.2.3. Track progress

The third step in the implementation of the shared value approach is tracking the progress of the initiatives using the business case as the road map (Porter et al., 2012, p. 4). The next section describes how Nestlé Indonesia tracks the progress of its CSV initiatives to enlarge revenue and profits that, according to Nestlé and Porter and Kramer, benefit both the company and society (Porter & Kramer, 2011, p. 5).

Nutrition issues

As explained in the previous section, Nestlé Indonesia has implemented several programs through its CSV initiatives to address nutrition problems it identified in Indonesia. These programs are in line with the government and the Food and Agriculture Organisation (FAO) campaign to increase national milk consumption. The FAO established 'The World Milk Day' in 2001 to focus attention on the importance of milk as a global food (FAO, 2015). The Indonesian government also introduced the 'National Milk Day' campaign on June 1st 2009 to increase milk consumption. Nestlé argued that the company's CSV nutrition initiatives assisted to elevate the nutritional levels of Indonesian human resources for the future (Nestlé Indonesia, 2013, p. 8).

Nestlé reported that more than 20,000 primary school students benefitted from the 'Nestlé Healthy Kids' program; 2,000 pairs of mother and children joined the 'Healthy Breakfast Programs'; and more than 35,000 people participated in the 'MILO 10K' running competition (Nestlé Indonesia, 2013). The number of participants indicated that Nestlé Indonesia's campaigns had reached thousands of Indonesians. This data suggests that thousands of people received knowledge about health issues and nutrition from the company. The number of participants indicated that Nestlé products are broadly known in the communities. This is supported by observation data and interviews with local people in East Java. A community leader said 'there are lots of Nestlé's products here such as the

sweets, coffee, Milo and powdered milk for children' (Community leader 9). Another interviewee cited 'Dancow, Nescafe, Milo and baby foods' (Farmer 6) as products easily purchased everywhere in Indonesia including supermarkets, local markets, warung (small stalls), and dairy cooperative stores.

However, it is not clear how the company measures the progress of CSV initiatives for addressing problems with nutrition in the communities. As explained in section 5.2.2.1. Nestlé developed an indicator of healthy children and information about nutrients contained in Nestlé's products; However, data from the study shows that programs provided by the company did not address nutrition issues. Moreover, observation data revealed that Nestlé's products were far from affordable, especially for low level income families in East Java. These issues are discussed further in Chapter 6.

The environmental problems

In relation to addressing environmental problems, Nestlé claimed that their water management program reduced water usage up to 13% and increased efficiency of water usage up to 47% (Nestlé Indonesia, 2013, p. 19). In its 2013 CSV report Nestlé stated that the company treated the waste water to produce clean water that is safe for the environment. According to the report, waste water treatment increased up to 1,7% in two years, demonstrating the company's commitment to protecting the environment. The Kejayan factory waste water treatment produced approximately 1,300m³ of clean water daily which is channelled through a 1,2 km water canal to irrigate 26 hectares of rice fields surrounding the factory, creating benefits for farmers in the area (Nestlé Indonesia, 2013, p. 20). Nestlé also reported that the company has reduced the Green House Gas (GHG) emission up to 4.1% per tonnes of production.

Nestlé Indonesia's 2013 CSV report outlines five benefits of using biogas digesters. First, using a biogas system decreased the use of firewood, kerosene, and LPG. Second, it reduced health problems caused by smoke, including eye infections, eye irritations, coughs and breathing disorders. Third, using a biogas system significantly decreased the amount of firewood gathered. Fourth, biogas systems developed bioslurry as organic fertiliser. Fifth, it

provided 250 job opportunities. (Nestlé Indonesia, 2013, p. 41). This data is supported by a Nestlé management interviewee, who said:

‘With the biogas system, we were helping communities to decrease the environmental impact of dairy farming waste. Moreover, they can use the waste for cooking, light and so on. And the slurry goes to their farm. It becomes a whole cycle’. And, ‘The family could save money because they do not have to buy firewood or gas for cooking anymore’ (Nestlé 3).

However, data of the study demonstrated that environmental problems in dairy farming communities in East Java were not addressed by Nestlé Indonesia’s CSV initiatives. Clean water is one of the most important issues for dairy farming in East Java; yet, the company did not make this a focus of the company’s CSV initiatives. Moreover, the effectiveness of the biogas programs in dairy farming communities was also questionable. The biogas program has not significantly decreased the negative impact of dairy farming waste in the communities. Further analysis of these issues is provided in Chapter 6.

Rural development

Rural development was one of Nestlé Indonesia’s focus areas for its CSV initiatives and according to Porter and Kramer an example of enabling local cluster development to increase dairy farmers’ revenue in sustainable ways (2011, p. 13). Porter and Kramer (2011, p. 5) compared this with the fair trade concept. They argued that fair trade only expands value at distribution; meaning customers pay more for the same crops to increase poor farmers’ revenue. Porter and Kramer argued shared value practice should focus on improving farmer’s efficiency not doubling the price of the product. This is supported by an interviewee from Nestlé management who explained:

‘If we just double the price on the farmer’s level to increase the revenue of farmers, we should double the price of the product. It won’t be sustainable and competitive for the business’ (Nestlé 1).

Technical assistance, loans and other Nestlé Indonesia programs have significantly increased the quality of milk in East Java, Indonesia. A cooperative manager explained that

'persuading farmers to follow the SOP was not easy and took a long time. I explained to them that following the procedures will increase the quality of milk, therefore they will get a better price for milk from Nestlé' (Cooperative management 4). The same interviewee said, 'farmers are getting better in following the procedures after Nestlé established the SOP. Before, some farmers were using plastic buckets and the bacteria levels were very high' (Cooperative management 4) resulting in them delivering inferior milk. This is consistent with a government interviewee's comment 'that about 90% of milk produced by dairy farmers in East Java has met the national quality standard including the bacteria level' (Government 1). Nestlé offers a higher price for better quality milk, which Nestlé claims will increase the dairy farmers' revenue, and will elevate the quality of life generally in communities.

Nestlé Indonesia (2013) reported that it has contributed to rural development in the country. A member of the Nestlé management stated, 'we can see the tangible result of Nestlé's role in the society' (Nestlé 3), which the company attributes to its role in the development of dairy cooperatives and milk processing facilities. 'There were only 2 cooperatives in East Java when we started, but now it becomes many' (Nestlé 2). Further, 'some of them are growing from small cooperatives to be big cooperatives with side businesses such as local people's banks, supermarkets and so on' (Nestlé 1). This is in line with Porter and Kramer (2011, pp. 12-13) who argued that building clusters, 'geographic concentration of firms, related to business, suppliers, service providers and logistical infrastructures' in key locations will create multiplier effects for communities including providing jobs, seeding new companies and increasing the local economy and thereby contributing to broader aspects of community life.

Importantly, Nestlé Indonesia's CSV programs also create economic benefit for the company, a requirement of CSV. For CSV to be effective 'it is not because Nestlé is generous, or charitable, or we want a great rating for our company. No, we do it for us, for our future business. Because we believe that without farmers the business will stop. So we do it for us to make money, that's all. To make money for the next 150 years and more' (Nestlé 1). This member of Nestlé's management explained, 'We are thinking about the long-term business in Indonesia. Therefore, we have to create value in the value chain. We

want our customers to get a better product with ... not with less money, but with better value for their money. We also should create value for our transporters and farmers' (Nestlé 1). When asked about how Nestlé will achieve these business goals one Nestlé manager said, 'we did capacity building, improve productivity, establish technical assistance and [offer] financial support for dairy farmers' (Nestlé 1). The manager went on to explain that this is part of Nestlé's long term business agenda as is the need to be sustainable. 'For [these] business reasons, we realised that we have to have sustainable resources. If farmers are not sustainable, our business will be threatened. I think that is the interest for us' (Nestlé 1). This interview with Nestlé management revealed that Nestlé Indonesia's CSV initiatives were in line with their business competitiveness strategy and according to the company has achieved positive progress in addressing social needs.

However, data from the study reveal a different conclusion from Nestlé' Indonesia's account of their CSV initiatives than that expressed by the Nestlé management. Dairy farming was hardly profitable for farmers, especially for those who only had two to three cows. This issue is discussed further later in this chapter and in Chapter 6.

5.2.4. Measuring results to unlock new values

The final step in measuring shared value is validating the anticipated link between social and business results and providing information to unlock the opportunity for further value creation (Porter et al., 2012, p. 4). Nestlé Indonesia has developed indicators to measure its CSV activities, sustainability and compliance based on the Global Reporting Initiative (GRI) G3.1 guidelines (Nestlé Indonesia, 2013, p. A). In its 2013 CSV report, Nestlé Indonesia stated that 72% of Nestlé's products meet the Nutritional Foundation profiling criteria and Nestlé received 90% positive feedback from its customers (Nestlé Indonesia, 2013, p. A). Moreover, the report also stated that the company complied with product responsibility indicators including consumer health and safety, products and service labelling, marketing communication, and customer privacy (Nestlé Indonesia, 2013, p. 77).

Nestlé argued that through its CSV initiatives the company empowers eco-friendly and efficient production, provides water access for farmers surrounding its factory in Kejayan, and promotes awareness of the link between health, wellness and the environment (Nestlé

Indonesia, 2013, p. 69). Nestlé stated that these initiatives relate to the environmental section of the United Nations Global Compact (UNGC) principles in water management. The company claims that through its focus on environmental issues, it has increased water efficiency, the percentage of water re-used and energy efficiency.

In its 2013 CSV report Nestlé stated that 35,000 dairy farmers received technical assistance from the company and 5,000 biogas digesters had been installed by the end of 2012, a huge increase from the 1,262 biogas digesters installed in 2010. Nestlé's target is for all dairy farmers to install biogas digesters, including farmers who have less than five cows (Nestlé Indonesia, 2013, p. 41).

Also in 2013 Nestlé reported that the company adopted the GRI 3.1 guidelines for measurable indicators in measuring CSV initiative results. As proof that it was measuring CSV results and achieving high standards Nestlé quoted high (90%) customer satisfaction for its products. Nestlé (2013, p. 41) further reported that CSV initiatives have had positive influences on reducing the company's environmental impacts in the communities as indicated by its improved water usage efficiency and the increased number of farmers using biogas digesters.

This framework for measuring the outcomes of CSV initiatives provided data on how Nestlé Indonesia applied its strategies and steps for measuring shared value initiatives. This is clearly explained in the company's 2011 and 2013 CSV reports.

However, this framework was not able to capture the broader impact of Nestlé's CSV initiatives on dairy farming communities. The next section provides an account of dimensions for measuring the impact of Nestlé's CSV initiatives on dairy farming communities which were not covered in the CSV framework and were not explained in the company's CSV reports.

5.3. Corporate responsibility measurement framework

Blowfield and Murray (2014, p. 287) created a framework to capture outcomes of CSR initiatives by interpreting a broader range of corporate responsibility impacts than Porter et al.'s CSV framework measures. Blowfield and Murray's framework provides five dimensions

for measuring the impact of corporate responsibility; this section provides data on the first four dimensions. The fifth dimension which relates to the theory of CSR is discussed in Chapter 6.

5.3.1. The big picture

Corporate responsibility has been linked to big challenges including climate change, the consequences of globalisation and human rights. Blowfield and Murray (2014, p. 288) seek to measure impacts of corporate responsibility initiatives on these big picture issues. They based their measure on the GRI sustainability reporting guidelines and international standards. Blowfield and Murray divided these big challenges into three categories: environment, economic and social. The environment and the economic impact of Nestlé's CSV initiatives on dairy farming communities has been explained in the previous framework, therefore this section provides data on the social impact of Nestlé's CSV initiatives in the dairy communities.

According to Blowfield and Murray (2014, p. 290) the social impact of corporate responsibility initiatives is related to human rights, working conditions, labour rights, impact on indigenous communities and the impact on local communities. While the study findings show that dairy farming is not profitable for smallholder farmers in East Java, it revealed other benefits. Dairy farming provided a regular cash flow for farmers. One farmer stated 'the prices of other agriculture products such as fruit and vegetables go up and down. Sometimes, we bought the seeds on the high price, but on the harvest time, the price of the product dropped. But dairy farming is different. The price is stable, and we got support from the cooperative' (Farmer 7). Dairy farmers could join a local dairy cooperative that allows members to market their product and access dairy farming requirements such as feed, artificial insemination or vet services. This was supported by a cooperative manager who, stated that as cooperative members 'farmers can buy complete feed at a special price with the 2:1 ratio. It means they are allowed to buy 1kg complete feed with special price, for every 2 litres of milk they sell to the cooperative. They are allowed to buy more complete feed with normal price' (Cooperative management 7).

Cooperative members received their milk payment every 10 or 15 days. The payment was determined by the quantity and quality of milk with deductions for services such as veterinary care and the repayment of loans. The first deduction is the 'potongan wajib' (compulsory payment) for services including artificial insemination, the vet, and medicine for dairy cows. A community leader explained that while 'the artificial insemination, vet service, and medicines are free for the cooperative members. ... it is not actually free, because they pay it from the cutback of the milk payment. So actually they pay for it' (Community leader 8). This ensures that 'anytime they need the artificial insemination or vet service; they just need to let the management know, and it is all free for them because they have paid it from the cutback of the milk payment' (Community leader 7). It is useful to farmers that they do not need to pay each time they need a service.

The second pay deduction, 'simpanan sukarela' (additional saving), was optional for farmers who want to save money from their milk payment, which they can access anytime they need the money. As an interviewee said, 'sometimes it is hard for us to save our money at home. The saving facility from the cooperative helped us for saving money especially for Hari Raya needs' (Farmer 7); the day in Indonesia when Muslims celebrate the end of Ramadhan.

Loans are Nestlé Indonesia's mechanism for providing financial support for dairy farmers. The third milk payment deduction is therefore, for the repayment of loans 'for biogas, chopper, water tank and so on. But it is not for all members, just for those who get the loan' (Farmer 6).

In some communities, a fourth deduction to farmers' milk payments, was made to cover the cost of community 'maintenance or any activities in the community' (Farmer 7), including fixing roads or other facilities. This deduction meant that farmers did not need to pay for community services, as explained by interviewees:

'We have the post budget here. It is collected by a reduction of milk payment every time they sell milk to the cooperative. We use the money for the community needs, for instance, fixing roads, drainages and so on.

So we don't have to collect money door to door to fund community programs' (Cooperative management 7).

Being a dairy cooperative member offers economic security for farmers by providing soft loans for members who need cash or extra money for their family. A community leader revealed, 'most of the cooperative members were joining the cooperative because they thought that by joining the cooperative they can access the loans' (Community leader 1). Dairy cooperatives also managed member savings to provide bonuses or extra cash to celebrate Hari Raya. An interviewee said, 'the cooperative provides an extra bonus for Hari Raya such as sugar, rice and other basic needs for the family. It is really helping for members' (Farmer 7). Another farmer stated that 'group leaders also get cash as an extra bonus for Hari Raya from the cooperative' (Farmer 6). These bonuses and extra cash help them prepare a feast and buy new clothes to celebrate Hari Raya.

One dairy cooperative in East Java had a clinic that serves the general community. This clinic provides free health services for its members and their families. 'The cooperative has a hospital for its members. It is free for the cooperative members and his or her husband or wife. But the children have to pay about 75% of the cost. It is not too expensive' (Farmer 7). A community leader provided the same information and added that 'the hospital is only for minor ailment like influenza, cough and so on' (Community leader 8). The clinic had a 24-hour emergency department which was helpful for common illnesses, but patients needing further treatment were transferred to a hospital in Malang.

Dairy cooperatives also had programs for the broader community including 'scholarships for children of dairy farmers who had financial difficulties, water and so on' (Cooperative management 3). A community leader said 'the cooperative also supported building a mosque in the community and provided a scholarship. The programs were not only for its members but also for all the community.' (Community leader 2). The community leader added that 'I don't think there are any programs from Nestlé to the community, but the cooperative has some, such as the scholarship program (Community leader 2). A farmer supported this observation about Nestlé 'and added 'we use the post budget from the cooperative' (Farmer 7).

Interviews with community leaders and cooperative management revealed concerns about younger generations' changing interest in dairy farming. Respondents spoke of a trend among the younger generation, especially those with higher education, away from dairy farming. One respondent said:

'For example, in my own family, I have two daughters and both of them do not show any interest to continue the business. They are taking other majors instead of dairy farming. Except one of them will marry with a dairy farmer, I can say that dairy farming generation in my family will be ended on me' (Cooperative management 7).

The lack of profitability is a reason younger generations are not interested in continuing their family's dairy farming. It also requires farmers to work seven days a week. A farmer described his dairy farming activities as starting 'about 4 o'clock in the morning, feeding, cleaning the shed, milking, and sending the milk to the post. We also do the same thing in the afternoon. And we have to do it every day, including weekends and public holidays. Sometimes it is hard when we need to do something else or when we need to go to another village for visiting families or relatives for instance' (Community leader 8). One farmer said that dairy farming 'is not a hard job ... you just need to spend ... about 15 minutes for milking in the morning, and 15 minutes in the afternoon. We also need to get fodder, feed the cows and clean the shed every day, but it is not too hard if you do it every day'. However, he added that 'the challenge is we have to do it every day; we cannot just skip one or two milking times. Therefore, we can't go anywhere else' (Farmer 7). A former farmer explained, 'I sold the cows because it was not profitable, and when I had dairy farming, I was not able to do other jobs' (Farmer 4).

A cooperative manager explained that given the challenges of dairy farming, including the need to work every day and the lack of profit for those owning two to three cows, 'most of the young generations do not want to continue the business. It is better for them to have their own business in the local market because it is clearly profitable for them rather than dairy farming' (Cooperative management 7). This trend raised concern for older generations about the future of dairy farming. A community leader argued, 'I think if we do not develop dairy farming to be more professional, easier and more profitable for farmers, there is no

future for the business here. Dairy farming will no longer exist in the communities unless we change the way we do dairy farming' (Community leader 8).

Data above highlighted the impacts of Nestlé's CSV initiatives on social aspects of dairy farming communities in East Java, Indonesia. Chapter 6 discusses how these CSV initiatives affect the economic and social value created and the relationship between Nestlé Indonesia and the communities.

5.3.2. Instrumental benefit

Instrumental benefit is the second dimension of Blowfield and Murray's corporate responsibility framework. According to Blowfield and Murray instrumental benefit relates to the connection between financial performance and Economic, Social and Governance (ESG) performance (2014, p. 287); the main point of CSV. As stated by Porter and Kramer (2011, p. 7), companies can create economic value by creating social value. Interview and observation data related to this point have been included in the shared value measurement framework.

As explained in Section 5.2.2, Nestlé's business case is based on the company's perceived need for local peoples' knowledge about nutrition, environmental issues and rural development, which Nestlé Indonesia claimed to have addressed via its CSV initiatives while generating opportunities for the company to create economic value. Nestlé claims to have done so through campaigns and activities to increase knowledge of nutrition and living a healthy life, while at the same time promoting its products. Nestlé Indonesia argued that its CSV initiatives contributed to addressing environmental issues through its focus on water sustainability, in part by providing recycled waste water for farmers surrounding the factory. In response to rural development issues, Nestlé Indonesia argued that its CSV initiatives improved the quality of milk produced by local farmers and thereby improved the quality of life in dairy farming communities and benefited the company.

5.3.3. Business attitudes, awareness and practice

The third dimension of Blowfield and Murray's framework for measuring the effects of CSR is used here to analyse the impact of Nestlé Indonesia's CSV initiatives on business

attitudes, awareness and practice. They argued that corporate responsibility has changed awareness and the behaviour of companies around the world as seen by the growing number of initiatives, which they argue is a clear sign of learning what issues can or should be considered appropriate for CSR (Blowfield & Murray, 2014, pp. 295-296). This section provides data on Nestlé Indonesia's CSV initiatives related to the company's marketing and promoting of its products.

Nestlé Indonesia (2013, p. 51) claimed that it has a strong commitment to provide responsible and reliable marketing to consumers. To do this, the company provides a 'Nestlé nutrition compass' on the label of their products including halal label, registration number, directions for use, production code, expiry date and consumer service call number. On its website Nestlé also provides information about the nutritional value of its products, especially powdered milk, which apparently protects and helps brain development and children's body growth (Nestlé Indonesia, 2015). However, the website did not provide directions for preparing and handling products including powdered milk. The importance of the information about preparing powdered milk is discussed in Chapter 6.

Nestlé claimed that its marketing of infant formula complies with the WHO code on marketing breast-milk substitutes and supports exclusive breastfeeding of babies for the first month in line with the WHO recommendations (Nestlé Indonesia, 2013, p. 52). Moreover, the company provides training to employees and suppliers to ensure compliance. Although the company produces infant formula for children under the age of one, the company does not display and promote the product on the website (Nestlé Indonesia, 2015).

A local midwife interviewed for this study revealed that years ago, powdered milk companies in Indonesia freely promoted their products especially powdered milk through local midwives. In response to the researcher's question about how she promoted formula milk, a midwife said 'we just need to socialise the product to new mothers. For doing this promotion, we got point as the rewards' (Community leader 10) and the company provided free samples of the product to new mothers. For doing this, the midwife received rewards from the company including 'traveling to some places in Indonesia or overseas to attend seminars from specialists. I have been travelling to some countries like Malaysia and

Singapore sponsored by a formula milk company'. She also has 'done a pilgrim journey supported by the company and [was] promised to receive some cash, but I have not got the money yet' (Community leader 10). WHO has since stopped this practice:

'Two years ago, there was a new regulation from the WHO for midwives to support and encourage exclusive breast feeding to new mothers. Since then, we have not got any rewards from the company' (Community leader 10).

The midwife explained that rewards she received were not from Nestlé. She said 'the company that sponsored us was the partnership of midwife association' (Community leader 10). However, Nestlé's CSV report (2013, pp. 50-51) indicated that Nestlé Indonesia provided similar opportunities, to attend national and international seminars, to medical practitioners in Indonesia. According to its report, the company collaborated with Nestlé Nutrition Institute in Switzerland to provide programs for scientists, medical practitioners, and nutritionists in Indonesia to foster science for better nutritional literacy. The company's report also stated that the company provided free milk products to several social organisations and hospitals through charity programs. Nestlé Indonesia listed these programs in its CSV report in 2013 (Nestlé Indonesia, 2013, pp. 50-51):

- '74 programs of Nestlé Nutritional International Workshops with 94 Indonesian medical practitioner participants',
- 'Paediatric Update. There were 13 update meetings involving 1,250 paediatricians across Indonesia',
- 'Nestlé Fellowship Training Programs with 11 paediatricians at a reputable hospital in Singapore',
- 'Nestlé regularly donates milk products to several orphanages, foundations, hospitals and social organisations.

Based on Porter and Kramer's CSV theory, a CSV initiative should create social value for society and economic value for the company. Although the social value of the initiatives listed were clearly stated in the report, the economic value created for the company through these programs was not stated. However, the medical practitioners who attended

these programs were not part of the communities of this study, therefore the researcher was not able to confirm the economic value created for the company through these programs. Yet, the impact of product socialisation through gatekeepers such as midwives or health workers cannot be ignored. This issue is discussed further in Chapter 6.

5.3.4. Non business stakeholders

The fourth section of Blowfield and Murray's (2014, p. 300) framework concerns business' impact on other stakeholders. This section focuses on dairy cooperatives and the Indonesian government and the impact of Nestlé Indonesia's CSV initiatives in this relationship. It does not include data on the impacts of CSV on stakeholders such as Nestlé factory workers, because this research is limited to dairy farming communities.

5.3.4.1. Dairy cooperatives

Dairy cooperatives, responsible for marketing their members' products, have an important role in dairy farming in Indonesia. Until 1960, dairy farming communities in Pasuruan only marketed milk to surrounding cities including Malang and Lawang. It was difficult for farmers to send milk to cities further away such as Surabaya because it is perishable and cannot remain long at room temperature (KPSP Setia Kawan, 2011). Dairy farming communities in East Java established a dairy cooperative in 1960 to help them market the product and started to supply milk to Nestlé Indonesia in 1975. Since then more dairy cooperatives, including SAE in Malang, Karya and Berdikari in Nongkojajar were established in East Java (KPSP Setia Kawan, 2011; SAE Cooperative, 2002). This is supported by information from cooperative management, who explained that dairy farming in East Java developed rapidly once the cooperative supplied milk to Nestlé. Supporting this information, a community leader stated 'before we had a relationship with Nestlé, it was hard for the cooperative to sell the milk. It was not easy for the cooperative and dairy farmers. But, since we built a relationship with Nestlé in 1970s, we ensured the market of our product' (Community leader 8).

From 1975 until 2010, Nestlé was the only large milk processing company in East Java and purchased approximately 50% of the total milk produced (Data processed from Dinas Peternakan Jawa Timur, 2015; Nestlé Indonesia, 2013). As the main market for milk in East

Java, Nestlé Indonesia had bargaining power with dairy farming communities, as stated by a cooperative manager:

‘Because Nestlé was the only buyer at that time, if Nestlé did not buy our milk, we did not know what to do with the milk’ (Cooperative management 3).

‘Nestlé always provides payment on time, including public holidays. It is important for the cooperative members, because they need regular income from dairy farming’ (Community leader 8). A government representative confirmed that Nestlé Indonesia has had a long relationship with dairy farming in East Java and Nestlé provided programs to increase the milk quality produced by farmers. Cooperative management added that Nestlé was a fair market and always bought the product based on the agreement.

Dairy cooperatives also have responsibility to ensure that the quality of milk produced by its members meets the milk processing companies’ requirement. Dairy cooperatives also determined the milk price paid to farmers. In Indonesia, the government did not determine the basic milk price. The milk price was decided based on the contracting agreement between dairy cooperatives and the milk processing companies. Nestlé’s milk price was based on the quantity and the quality of the milk, determined by the Total Solid (TS), Milk Fat and total milk. These components are measured by the post operator at the milk collection post. The test detects compounds such as water, margarine or skim milk added to the raw milk. Some farmers add water or other materials to elevate the volume or the fat level of the milk to get a better milk price. The operator measured and recorded the TS, Milk Fat and Total milk on a recording card. The milk price was also determined by the TPC level; ‘total plate count or a test to measure contamination in milk by measuring in million bacteria colony units per ml milk’ (Moran, 2009, p. 77). Nestlé offers different prices for different grades of milk. The lower the number of bacteria colonies per ml of milk, the higher quality is the milk, and the better is the price offered by Nestlé. A cooperative manager explained, ‘Nestlé has grades and levels to determine the milk price from farmers. The higher the milk quality, the better price for it’ (Cooperatives management 7). Related to the grades and level, he argued ‘I think the grade and price level motivate farmers to increase the milk quality’ (Cooperative management 7).

Farmers who are not satisfied with the milk price offered by Nestlé through dairy cooperatives argued that the government needed to protect dairy farmers by setting a basic milk price. A respondent and community leader argued that 'some farmers felt that the price or grade determination is not fair enough for them. Therefore, some of them think that producing high quality milk does not mean creating higher income for them. So why should they produce the high quality of milk' (Community leader 3). His argument was based on his own experience, as he said 'I sent half the milk produced by my cows with high quality feed and farming procedures, it was valued at 2.800 rupiah per litre. At the same time, I mixed the rest of the milk with amount of water then I asked my assistant to bring the milk to the milk collecting post, and surprisingly it was valued at 3.300 rupiah per litre. Therefore, most of farmers are mixing the milk with water not because they don't know about milk quality or dairy farming procedures, but because they are thinking that even though milk quality will be rated lowly, they get more money from the quantity' (Community leader 3). The community leader stated that 'It is ok if Nestlé requires the high quality of milk, but the problem is they do not (yet) provide a good price for farmers' (Community leader 3).

The milk price has been a protracted problem in the dairy business in Indonesia. In 1978, 14 dairy cooperatives in Java established the Indonesian Dairy Cooperatives Union (*Gabungan Koperasi Susu Indonesia*, GKSI) to mediate between dairy communities and milk processing companies such as Nestlé Indonesia, especially in milk price negotiations (GKSI Jawa Timur, 2015). Interviews with dairy farming communities revealed however, that dairy farming cooperatives and GKSI have not found a solution to this problem. As a community leader said, 'I don't think GKSI (Dairy Cooperative Association) has a role here. They are supposed to be the government's hand to manage the relationship between dairy cooperatives and milk processing companies but they cannot do anything. They do not have power to determine the minimum price of milk, or manage the contract with IPS (milk processing company)' (Community leader 3). A community leader from another dairy farming community similarly said that 'the GKSI is supposed to be the representative of dairy farmers or cooperatives to negotiate with milk processing companies for better price of milk, but in fact they do nothing about it' (Community leader 8).

A cooperative manager argued that government protection is needed to determine the milk price. He said 'I think the government should take a role here, to determine the minimum price of milk. Because supports or programs are just temporary' (Cooperative management 7). He compared the recent government regulation to the Soeharto era. He argued, 'there is no will from the government for dairy farmers. It was better during the Soeharto era, because the government had power to pressure Nestlé about the milk price. But now, no more. The price depends on the market' (Community leader 8).

The roles of dairy cooperatives included managing and distributing Nestlé Indonesia's CSV initiatives and government aid for dairy farming communities. The cooperatives could provide members with assistance for dairy farming and access to facilities such as financial assistance, loans and health facilities as explained in Section 5.3.1.3. Observation data from the study found that dairy cooperative management positions were usually dominated by people with a strong influence in the communities for instance community leaders or their relatives. This was affecting the role of the cooperative in the communities, when deciding, for example, where to sell the milk, negotiating the milk price with milk processing companies and establishing programs for local communities.

Data from this study show that dairy farming cooperatives had an important role in dairy farming communities in East Java, Indonesia. The power dynamics between farmers, cooperatives, milk processing companies and the government are discussed further in Chapter 6.

5.3.4.2. Government

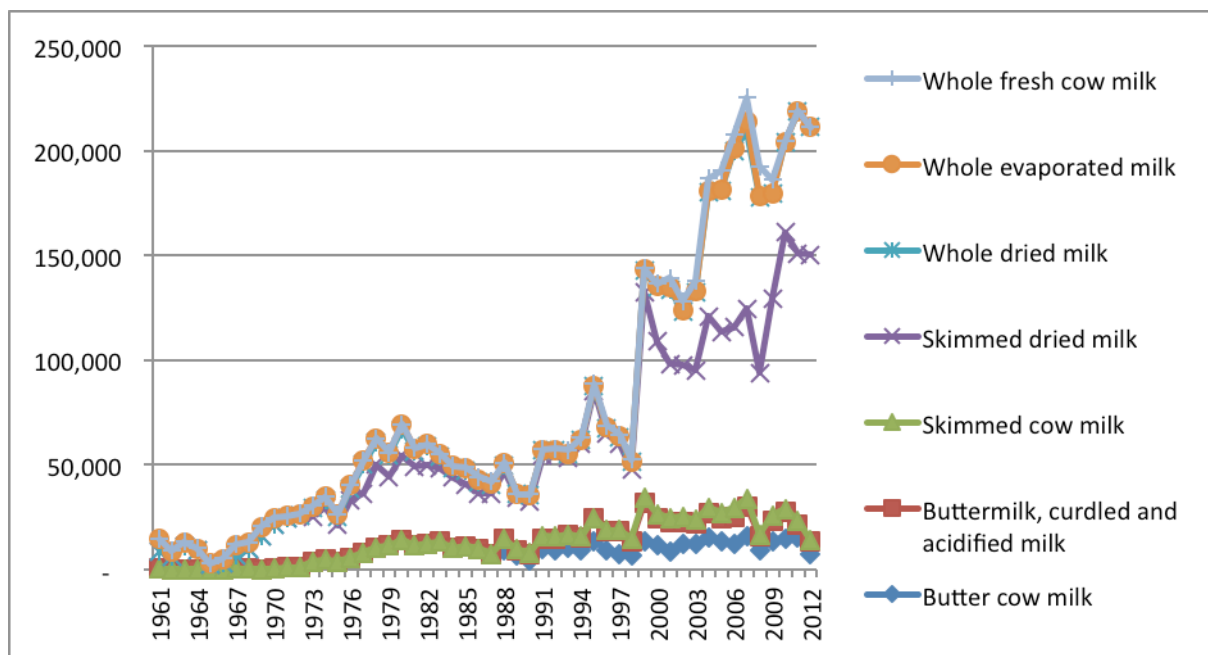
As indicated in Chapter 3, dairy farming was not a priority for agriculture in Indonesia (Ministry of Agriculture Regulation, 2015, p. 129) as can be seen by the lack of government regulation pertaining to a basic milk price. As explained in Chapter 2, the most significant government regulation of the dairy farming industry was that for domestic milk procurement in July 1982. Through the regulation, the government legislated that milk-processing companies could only import milk with proof of local milk procurement (Ministerial Regulation, 1982). However, the government revoked the regulation on February 1998 (Ministerial Regulation, 1998) after insistence from the IMF. Since then,

there has been no strong government regulation to protect dairy farmers and their relationship with milk processing companies.

Since the abolition of milk companies' requirement to buy local dairy products and a cut to tax on importing milk products, dairy farmers have had to compete with imported dairy products, without government protection. In 1999, the volume of imported milk and dairy products doubled and in some cases tripled with the largest imports being skimmed dried milk, whole dried milk, whole evaporated milk and whole fresh cow's milk. Chart 5.2. shows that the number of imported products since 1999.

An interview with the East Java Livestock Service staff revealed that the government established programs to increase the productivity of dairy farming, especially in East Java, in response to the challenges that industry was facing. In 2013, the government imported 2,300 dairy cows from Australia and distributed them to dairy farmers in East Java to increase the population (The East Java Livestock Service, 2014, p. 25). According to the interviewee the government guaranteed that the imported dairy cows were good quality dairy cows. The interviewee observed however, that poor farm management caused low productivity. As previously shown, a cow in Australia can produce up to 25 litres of milk per day, but because of poor local dairy farming management the cow only produce 8-10 litres of milk per day. The same Interviewee added that the government provided support programs for dairy farmers including complete feed, technical assistance and other financial support. Different from Nestlé initiatives, all government programs were free.

Chart 5.2. Imported milk to Indonesia (1961-2012)



(Data processed from FAOSTAT, 2015)

However, dairy communities reported that the government programs were just temporary. A respondent informed that the programs were for reporting purposes, rather than for helping dairy farmers. As he stated:

‘I can say that Nestlé’s technical assistance program is much better than the similar programs from the government. The government was only doing it for a report, they did not really do the program for farmers’ (Community leader 3).

During an interview with a government representative, he stated that Nestlé was a multinational company that paid attention to dairy farming communities and encouraged and supported dairy farmers to produce good quality milk through its programs. The government representative stated that the milk price offered by milk processing companies in East Java was quite good. He argued that farmers could gain non cash profit from the business:

‘We cannot just see from the farmers’ complaint about the milk price. No one will get enough, but if farmers are still doing the dairy farming it indicates they get profit from the business. We can see farmers can get a

calf to be sold, utilise the biogas system to reduce the family expenditure and they can get extra cash from selling the slurry from the biogas digester output. Even some farmers send their children to university. I think we can see the profit here' (Government 1).

This government representative's statement was in line with Nestlé management's argument that 'our CSV initiatives are often shown as success stories or best practice' (Nestlé 3). The interviewee said, 'in some occasions, the government always talks about our programs, even to our competitors. For example, when I went to Lampung, Sulawesi and so on the governors were always mentioning Nestlé in their speech' (Nestlé 1). The interviewee added when 'The Minister of Trade showed one of our projects in Ponorogo, East Java, to the Norwegian ambassador one day. He said that if all companies can do programs like Nestlé, it will be great to our society' (Nestlé 1)'. Another example is Nestlé Indonesia being the winner of the East Java Investment Awards in 2013 in the foreign investors' category (Anwar, 2014). Another interviewee from Nestlé management admitted 'we use our CSV initiatives as the selling point for the company when we talk in international forums such as WWF yesterday. I think international forums have recognised Nestlé's CSV initiatives' (Nestlé 3). Although Nestlé management argued that the company did not focus on building the company image in society, the interview data from Nestlé management showed that Nestlé Indonesia's CSV initiatives were part of the company's strategy for building image and reputation. This aspect and other data presented in this chapter is critically analysed and discussed in Chapter 6 and 7.

5.4. Summary

This chapter provided data gathered from interviews, focus group discussions, observation and secondary resources. Data were organised in line with the shared value measurement framework and the corporate responsibility measurement framework. The former framework was introduced by Porter et al. (2012), to measure the effectiveness of CSV initiatives, while the latter framework was adapted from Blowfield and Murray's (2014) to measure the impact of corporate responsibility. The connection between financial performance and ESG performance was the focal point of CSV, data from the study related to this dimension have been included in the shared value measurement framework. The

researcher utilised the second framework to think in broader dimensions when measuring the impacts of Nestlé Indonesia's CSV initiatives beyond a mere focus, on the intersection between business and social value creation.

Nestlé identified problems related to nutrition, the environment and rural development as its CSV focal points. The second step was making a business case based on these social issues. Through CSV initiatives, Nestlé Indonesia claims to address nutrition problems in the society and increase awareness about good nutrition and health. To deal with environmental issues, Nestlé established the biogas program and increased the efficiency of water usage in the factory. Rural development initiatives included the extension program and financial support for dairy farming. Third, Nestlé tracked progress using the business case as a road map. They tracked the progress of CSV nutrition initiatives by measuring the number of participants involved in CSV programs such as their breakfast campaign. Nestlé claimed to alleviate environmental problems through efficient water usage in its factory and by increasing the number of biogas digesters installed in communities. Moreover, regarding rural development, Nestlé claimed that the number of dairy farming cooperatives and the financial and technical assistance they offered were indicators of the progress of CSV initiatives. The fourth step was measuring the results of the initiatives to unlock new values. In measuring the result of CSV initiatives, Nestlé Indonesia referred to the GRI.G3.1 guidelines. The company reported that 75% of Nestlé products met the nutritional foundation criteria and received 90% positive feedback from customers. Nestlé also reported that the effectiveness of water usage in the factory increased. Moreover, the number of biogas digesters installed in the communities increased to approximately 1,000.

Although the framework for measuring shared value included data related to environmental impacts, a closer examination revealed that dairy farmers in the study who are not located near the Nestlé factory have problems with water availability, especially during dry seasons; and, the use of biogas systems was not as effective as suggested by Nestlé in its CSV report. Moreover, the data showed that farmers with fewer than 8 cows made little or no profit from dairy farming, and the average ownership in the communities is 2 to 3 cows per farmer.

Nestlé acknowledged the cultural and economic challenges of potential markets for the company's products. Therefore, the company claimed to provide products that suited market needs; for instance, sachet packaging to match the daily income of most family in the communities. However, study data showed that the price per gram for products in sachet packaging was higher than that for products in bulk packaging. Further, Nestlé Indonesia convinced customers in Indonesia of the importance of the product through campaigns and other programs.

The study revealed that dairy cooperatives played important roles in the relationship between dairy farmers and Nestlé Indonesia, including verifying the quality of milk produced by its members and managing Nestlé's CSV initiatives in dairy farming communities. Nestlé Indonesia demonstrated its community engagement, especially in dairy farming communities, to the government, through CSV initiatives. Informants of the study reported that technical assistance provided by Nestlé is better in term of increasing milk quality than programs provided by the government, as dairy farming is not a priority agriculture sector for the government.

The data presented in this chapter is critically analysed and discussed in Chapter 6 and 7. Chapter 6 analyses the effectiveness of Nestlé Indonesia's CSV initiatives in addressing social problems, especially in dairy farming communities in East java, Indonesia. Then the implications of Nestlé Indonesia's CSV initiatives for CSR/CSV theory and practice are discussed in Chapter 7.

Chapter 6

Analysis of case study data

6.1. Introduction

The previous chapter provided data about the effectiveness of Nestlé Indonesia's CSV initiatives in East Java as gauged by using two frameworks: shared value measurement and corporate responsibility measurement. The shared value measurement framework recorded the economic and social value dairy farming communities derived from Nestlé Indonesia's CSV programs. The corporate responsibility measurement framework, using broader dimensions, measured the overall impact of CSV initiatives for dairy farming communities.

This chapter analyses the economic and social impacts and effectiveness of Nestlé Indonesia's CSV initiatives for dairy farming communities in East Java, focusing on the areas of nutrition, environmental problems and rural development, which the company identified as targets, as explained in Section 5.2.1. Measuring the impact of Nestlé's CSV initiatives is the initial step in determining the relative value of CSV.

Porter et al. (2012, p. 1) established a framework for identifying and measuring shared value initiatives. The framework focuses on the interaction between the business and the social result of CSV measures displayed in Figure 2.1 in Chapter 2.5. 'Purportedly, the shared value measurement framework is practical, achievable and powerfully informs improvements and innovation in shared value strategies' (Porter et al., 2012, p. 2). This is different from measurements of social or environmental outcomes such as SROI (Social Return on Investment), a method often used to measure impacts on stakeholders relative to the company's investment (Porter et al., 2012, p. 14). The shared value measurement is not supposed to replace other measurement approaches, but is said to tailor the measurement of the connection between business and social progress (Porter et al., 2012, p. 12).

Porter and Kramer argued that a comprehensive measurement is important to demonstrate the power of capitalism in solving social problems while addressing investors' concerns that societal issues are costly and a burden to the company. According to Porter et al. (2012, p. 13), shared value measurement establishes direct links between social needs and business

strategies and provides financial results for investors. The framework is meant as a pathway to guide managers in designing, implementing and measuring a company's CSV initiatives so that management can communicate with external stakeholders (Porter et al., 2012, p. 12).

According to Nestlé Indonesia the company identified three social issues – nutrition, the environment and rural development – to be addressed through CSV initiatives. The next section discusses these three social issues and how Nestlé Indonesia's CSV initiatives address them.

6.2. Nutrition

The Director of Nestlé Indonesia reported (Nestlé Indonesia, 2013, p. 5) that nutrition gave the company a unique opportunity to create economic and social value through CSV initiatives. As explained in Section 5.2.3., Nestlé Indonesia claimed to address nutritional issues in Indonesia through CSV initiatives by increasing knowledge of nutritious foods and providing healthy products that are tasty and affordable for Indonesian consumers. The nutrition problems Nestlé claimed to identify in Indonesia were peoples': lack of knowledge about nutrition, cultural diet, and low income. Based on these issues, Nestlé Indonesia made a business case for CSV by connecting these perceived nutrition problems with the company's core business.

Nestlé Indonesia argued that the community's lack of knowledge about nutrition, especially for babies and children was the first issue Nestlé sought to remedy through CSV. To address these perceived problems, Nestlé established campaigns and events in several cities around Indonesia. Through CSV initiatives the company promoted '10 signs of healthy children' including weight gain and height, good posture, healthy and strong hair, healthy teeth, and being active, as explained in Section 5.2.2.1. They also provided criteria for nutrition profiling based on Public Health and Consumer Science Institute recommendations (Nestlé Indonesia, 2013, p. 46). According to Nestlé, the company's products, including powdered milk, contain additives to provide the nutrition needed for good health. Nestlé Indonesia also provided and facilitated local and overseas training for hundreds of Indonesia's health professionals as part of its CSV initiatives to increase awareness and knowledge of healthy foods. Nestlé claimed that these programs increased parents' knowledge and awareness of

the requirements for raising healthier children thereby contributing to the health of Indonesia's future generations.

However, this study found that Nestlé's claims that its CSV initiatives address nutrition issues in the country were allusive. There are three main arguments supporting this statement.

First, this research found that Nestlé's promotion of its products, through CSV initiatives, is morally problematic because the company's 'information' about nutrition for healthy children included the advice that they could achieve the best nutrition for their children and their future by giving them powdered milk. Nestlé promoted powdered milk, as nutritious, innovative, and convenient for consumers. The company claimed that powdered milk contains fish oil, AA, DHA, omega 3 and omega 6 for brain development and is a high source of protein and calcium for optimum body growth for healthy and smart children (Nestlé Indonesia, 2015). In fact, powdered milk, which is made from cows' milk, is not a natural source of AA, DHA, omega 3 and omega 6 (Meyer et al., 2003, pp. 395-396). These components are essential for infants because milk is their only food source. For this reason, milk processing companies add these components during the process of powdering fresh milk (Pisecky, 1997, p. 121). However, children of two years and above can get these fatty acids from other natural food sources; for example, egg yolk is a source of DHA, LA and LNA, (Meyer et al., 2003; Simopoulos & Salem, 1992), fish and meats are sources of AA, omega 3 and omega 6 (Meyer et al., 2003, p. 393). Arguably, Nestlé's information about nutrition, especially for children, is thus misleading.

Powdered milk is not a sterile product and may be a medium for bacteria proliferation that can cause serious illness including meningitis, brain abscesses, and other infections that cause a high risk of mortality especially for infants who are not fully breastfed (Agostoni et al., 2004). The risk is greater for children under 12 months of age, and infants under two months are the most vulnerable group (WHO, 2006). Powdered milk has the risk of contamination during preparation, rehydration, storage and handling, making it more likely to make babies sick than to protect them (WHO, 2007). That powdered milk needs to be mixed with water before being served is a problem in Indonesia especially in low-income communities where water quality and poor hygiene are common issues. This is the reason

as stated in Section 5.3.3. that clear information and directions for preparing powdered milk is important for customers; which Nestlé Indonesia did not provide on their website. This issue is echoed in other low income countries such as Africa, Laos, and Latin America (Muller, 1974; Unicef, 2012). Therefore, since 2001 the WHO required that where possible babies should be exclusively breastfeed up to 6 month of age (WHO, 2014, p. 234).

Second, the promotion of formula milk is undermining breastfeeding campaigns. Even though the benefit of exclusive breastfeeding is clear, the breastfeeding rates worldwide are relatively low, including in Indonesia (WHO, 2014, p. 234). Lack of knowledge, socio-economic cultural changes, and lack of support for breastfeeding in the work place are the main reasons for women in Indonesia choosing to feed their babies with formula milk (WHO, 2014, p. 234). The most common place for women in the communities to find information, support and counselling related to breastfeeding and nutrition for their children are from community-based workers and village health centres (*Posyandu*). However, as Nestlé stated in its CSV report, one of its initiatives was providing nutrition education to 10,000 cadres of *Posyandu* all around Indonesia (Nestlé Indonesia, 2011, p. 3). 'Information' provided by Nestlé equated to advertising, promoting the belief amongst parents that powdered milk is the best nutritious food for their children and convincing new mothers to stop breastfeeding and feed their babies with formula milk.

Nestlé has faced boycotts since 1978 because of the company's aggressive marketing and unethical promotion of baby foods and formula milk that has contributed to the unnecessary death of infants (Baby Milk Action, 2016b; Nestlé Global, 2016; Sethi, 1994, p. 21). In 1979, Andy Chetley from the War on Want organisation reported the unethical promotion of baby food and marketing of infant milk, which he claimed caused serious problems such as malnutrition for babies in Third World countries (Chetley, 1979). Although Nestlé argued that the company has adopted the WHO code of marketing formula milk and that the boycott was dropped in 1984 (Nestlé Global, 2016), boycotts are ongoing (Baby Milk Action, 2016b) as Nestlé refused to stop promoting formula milk. Nestlé now employs language such as 'gentle start' and 'growth engine' and promotes its baby milk products as a 'natural start' and means to 'protect the baby', while in reality its products are more likely to make a baby sick when compared to breastfeeding (Baby Milk Action, 2016a).

Breastfeeding awareness campaigns have increased worldwide. The World Alliance for Breastfeeding Action (WABA) was established in 1991 to protect, promote and support breastfeeding worldwide (WABA, 2017). Together with WHO, UNICEF and other organisations and governments, WABA celebrates breastfeeding week every year from 1st to 7th August in more than 120 countries. The aims of the movement are to increase breastfeeding worldwide (WABA, 2017). In Indonesia, the breastfeeding movement also works to increase mothers' knowledge and understanding about the importance of breastfeeding their children. A non-profit organisation namely Indonesian Breastfeeding Mothers' Association (IBMA) was established in 2007 to provide support for Indonesian mothers through publications, seminars and counselling before and during the breastfeeding period (IBMA, 2017). However, the activities were concentrated in some larger Indonesian cities. At the same time, there are large numbers of new mothers in small villages all around Indonesia who lack information about, and support for, breastfeeding.

Third, for low income communities the price of one sachet of powdered milk – Rp 3,500 (approx. 35 cents), for one glass – was far from 'affordable'. As most families in Indonesia have more than one child, providing formula milk for all children is too expensive so that some mothers mix it with extra water, thus diluting nutrition (WHO, 2014, p. 234). Several respondents reported that some mothers used condensed rather than powdered milk because it is cheaper. This is dangerous as condensed milk has no nutritional value and a high sugar content, while dairy farmers can have free fresh milk from their back yard. Parents can also buy fresh milk from the dairy cooperative more cheaply than buying Nestlé products. The price of one sachet of powdered milk is equal to half a litre – two to three glasses – of fresh milk from the cooperative. Alternatively, they could spend the money on other natural sources of DHA, AA, and omega 3, such as eggs which are also cheaper.

The company management also claimed they were addressing nutrition issues in Indonesia by providing affordable products to low-level income and poorer communities. Nestlé noted that low-income families had little cash flow and so could not buy their products. To include these people in their market, Nestlé therefore revamped its packaging especially for powdered milk, changing it from can to box containers and sachets to meet peoples' purchasing ability. Sachets are now commonly used for packaging in Indonesia to sell products in small amounts in line with most customers' small daily income. This strategy

allows the company to capture low-income families as customers. It suits the families' everyday cash flow – and allows them to do 'the right thing by their children' according to Nestlé promotions – even though customers are faced with higher prices per unit of product. Nestlé Indonesia's CSV initiatives for addressing nutrition issues in Indonesia were in line with Porter and Kramer's strategy for creating value by reconceiving products and markets (Porter & Kramer, 2011, p. 7) and thereby increasing revenue and profits (Porter et al., 2012, p. 3). Nestlé Indonesia implemented this strategy through its nutrition programs. The country's population is a potentially large market for the company to create economic value. This potential was increased because its CSV initiatives provided opportunities for the company to promote its products to Indonesian consumers through health professionals.

During an interview, a Nestlé manager asked 'what could be wrong with Nestlé's CSV initiatives in addressing nutritional issues in the society?' (Nestlé 2). The manager said that those who argued the company made a profit from advertising products through the CSV initiatives were right, and doing this does not break any rules because any company's main purpose is to create profit; it is not a charitable body. However, arguably, Nestlé should be transparent – providing clear information about ingredients and potential side effects – when advertising or promoting products as part of its CSV initiatives.

As explained in Chapter 2, because of economic conditions in Indonesia the government to relies on foreign investors such as Nestlé and their ability to protect the society from economic exploitation is limited, when the government needs foreign investors' capital and employment. CSR could play a productive role by ensuring ethical practice while making profits for shareholders. However, the case study of Nestlé Indonesia shows that this is not what is happening in the company's operations in Indonesia.

Nestlé's advertising claim that powdered milk provides important nutrition for healthy children affect customers' opinion of powdered milk. Moreover, this claim was supported by health professionals who play an important role in educating customers. Parents will therefore blame themselves if they are not able to give their children powdered milk even though they must spend up to 5% of the family income or 20% of the family expenditure per day to buy one sachet of milk as explained in Chapter 5.3.3.

According to Porter and Kramer (2011, p. 9) a deeper understanding of productivity and reimagining value chains will lower productivity costs and increase sustainability. Nestlé's change of packaging from cans to boxes and sachets was rooted in this idea. Repackaging powdered milk was a strategy Nestlé used to include low-income families as customers, and improve efficiency. SIG Indonesia, one of the packaging companies for Nestlé Indonesia's products note that the use of carton packaging is efficient for transporting and distributing products. The rectangular packaging utilises the full capacity of pallets, lorries, warehouse facilities, supermarket shelves and it takes 30% less space than metal cans. These efficiencies reduce emissions, fuel consumption for distribution and costs are lowered (SIG Indonesia, 2016).

The business case for addressing nutrition issues in the society are similar to the concept of the bottom of the pyramid (BoP) theory introduced by Prahalad and Hart (2002). The concept of BoP takes account of the poor as a potential market that is blocked by their socio-economic circumstances. Prahalad and Hart (2002, p. 3) argued that wealthy companies could make profit by providing access to products and services to the poor. At the same time, it helps the poor to improve their lives. To achieve this, corporations must understand the local culture; provide products and services that address environmental problems especially in these communities; and create profit from selling to the poor. In this way, multinational companies can play an important role in market development for BoP consumers (Prahalad & Hammond, 2002).

The idea of BoP is evident in Nestlé Indonesia's CSV initiatives in dairy farming communities. As a Nestlé manager said in an interview for this research, they are trying to address nutrition problems that the company identified in the society while at the same time creating profit (Nestlé 2). But while the large Indonesian population is a potential market the traditional diets and low incomes were constraints, for which Nestlé's 'affordable' and 'tasty nutritious foods' were solutions. In this way, Nestlé Indonesia's CSV initiatives for addressing nutrition problems in Indonesia is similar to Prahalad and Hart's view of the role of MNCs (Prahalad & Hammond, 2002). According to Faulconbridge, multinational companies can have a positive impact on BoP communities 'through trade not aid' (Faulconbridge, 2013, p. 393). Doing business in BoP markets can however also threaten local cultures, norms, needs and infrastructures, largely through knowledge deficits

(Faulconbridge, 2013, p. 395). On this point, Karnani (2007, p. 97) argues that targeting various products and services at the poor is often not about choices. Even worse, it could exploit the poor because they often lack information, education, and the economic conditions needed to make informed choices.

Nestlé argued that its CSV initiatives addressed nutrition issues in Indonesia. This research revealed, however, that the effectiveness of Nestlé Indonesia's CSV initiatives in addressing nutrition issues was questionable. Nutrition information provided by Nestlé is potentially misleading and problematic. Sachet packaging as one of the company's strategies to provide 'affordable' products was questionable. The sachet packaging price per gram of the product is more expensive than bulk packaging. Moreover, the sachets also contribute to serious environmental problems as discussed further in the next section.

6.3. Environmental problems

Nestlé Indonesia identified two environmental problems in Indonesia which could be addressed through CSV initiatives. The first problem, and the company's main CSV focus was water sustainability. The second issue were the environmental problems caused by dairy farming waste that contributes to climate change and problems such as river pollution.

6.3.1. Water sustainability

According to Nestlé, water sustainability was a priority for the company as part of its commitment to environmental sustainability. As described in Section 5.2.1., Nestlé Indonesia acknowledged that Indonesia is facing serious problems related to water sustainability and claimed they therefore established programs such as water management at Nestlé's factories, emission control and energy usage and saving. These programs were part of clean water sustainability programs launched by Nestlé Global. Nestlé Indonesia outlined the achievement of these programs in its CSV initiative report.

Nestlé claims that through its water stewardship the company prioritises water for its suppliers especially in water scarce locations and important water areas (Nestlé Global, 2014, p. 2). According to Nestlé's website, the company provided training on water use,

water quality and soil moisture and all action plans to improve water management will be implemented by 2020 in all the company's upstream supply chains (Nestlé Global, 2017).

Although Nestlé Indonesia's CSV report highlighted their concern about clean water availability and provided details of water efficiency, the number of trees planted and, biopore holes near its factory, the contribution of these initiatives in addressing water problems in Indonesia was not clear. For instance, while the company provided cows water for agriculture around the factory, as data in Chapter 5 showed dairy farming communities that required clean water were not located near the factory. The cows water produced and rain water saved by the company was not available for dairy farming communities to solve their water crises during dry seasons. The lack of clean water availability remained an important factor affecting the quality of milk produced. Without clean water, it was difficult for farmers to maintain the required cleanliness and therefore milk quality which resulted in increased bacteria levels and decreased income for dairy farmers.

Lack of water further affected the cost of dairy farming because farmers had to buy grass to feed the cows during dry seasons. As interviewees reported (Chapter 5) many farmers make no profit from dairy farming during dry seasons because of the extra cost of buying grass. As a result, most farmers were pushed to sell one or two cows. This condition was problematic for dairy farming labourers who did not own the cows but often shared the family's expenditure to feed the cows. Data in Chapter 5 revealed that it was the cooperative, not Nestlé, that considered this problem. For instance, one dairy cooperative provided clean water twice a day to dairy farmers who had problems with water availability.

Nestlé stated that the company, in supporting human rights to water and sanitation (Nestlé Global, 2014, p. 2), collaborated with the Indonesian Red Cross, to establish clean water programs for local communities in Desa Telaga Luhur, Kecamatan Waringinkurung, Serang, Banten, Indonesia in 2009 (Nestlé Indonesia, 2013, p. 15). The community in Desa Telaga Luhur is located approximately 65 km from Nestlé's factory in Serang, Banten and was thus not able to access the recycled water, raising questions about why Nestlé Indonesia did not provide recycling programs in dairy farming communities. Moreover, water sustainability is only one environmental problem in Indonesia related to Nestlé.

The change of powdered milk containers from cans to laminated plastics or sachet packaging, as discussed in the previous section, is causing serious environmental problems. Laminated sachets have a larger environmental footprint than can containers. One 800gr can, which can be recycled for other uses equals 30 laminated sachets, which cannot be reused and are therefore waste (Santos, Gatti, Dantas, & Santos, 2016).

The sachet packaging contributes to the high volume of plastic waste in Indonesia where public behaviour for reducing, reusing and recycling solid waste is very low. A study about recycling of plastic packaging conducted in Bandung Indonesia found that respondents did not consider that plastic bottles or other solid waste should be reused or recycled (Chaerul, Fahrurroji, & Fujiwara, 2014, p. 516). A study in Jakarta found that 81 percent of respondents did not separate their waste and 91 percent of respondents disposed of hazardous waste together with household waste (Aprilia, Tezuka, & Spaargaren, 2013, pp. 643-644).

Solid waste management is a serious problem in developing countries including Indonesia. Indonesia is the second largest contributor to plastic waste in the ocean after China (Merkel, 2015, p. 7). The total biodegradable organic waste in Indonesia was 74%, while in other developed Asian countries such as Japan the percentage was less than 30% (Shekdar, 2009, p. 1440). Waste collection processes, open dump landfills and no control of gas emission in landfill cause the high percentage of biodegradable organic waste in Indonesia (Dhokhikah & Trihadiningrum, 2012, p. 329). A community neighbourhood unit with inadequate equipment and a manual door to door system is responsible for waste collection in Indonesia. In the waste collection process, solid waste is collected together with other waste and disposed of in open dumps or landfill, buried, composted, burnt or disposed of in rivers (Dhokhikah & Trihadiningrum, 2012, p. 331). The 3Rs (reduce, reuse and recycle) technologies for solid waste management as done in most developed countries are too expensive for low income countries (Shekdar, 2009, p. 1438).

A small amount of non-biodegradable waste is occasionally recycled by waste pickers, people who make their livelihoods collecting and selling discarded items. However, the recycling rate of solid waste collected by waste pickers is small. In several big cities in Java, the waste pickers contribution was 4 percent or less of the total waste (Mangkoedihardjo et

al., 2007, p. 32). Often, these waste pickers build temporary houses near the final disposal sites, causing sanitary hazards, inadequately treated solid waste and health problems.

Discussion in this section showed that Nestlé Indonesia's commitment to water sustainability has failed to acknowledge water problems in dairy farming communities that supply milk to the company. Moreover, Nestlé Indonesia ignored several environmental problems caused by its economic activities. This suggests that Nestlé Indonesia cherry-picked environmental issues as a measure for CSV impact, and the CSV measurement framework does not measure the real environmental impact of the company's economic activities and those within its supply chain. This problem is also apparent in Nestlé's participation in the biogas program, as discussed in the next section.

6.3.2. Biogas program

In its 2011 and 2013 CSV reports, Nestlé Indonesia stated that the company recognises the environmental problems caused by dairy farming. This statement was supported by an interview with a member of Nestlé management who said that the company acknowledged dairy farming waste contributed to environmental issues such as climate change and therefore Nestlé worked to address this environmental problem through the biogas program. Billboards clearly show that the biogas program was part of Nestlé Indonesia's CSV program to dairy farming communities. Additionally, the company promoted the biogas program nationally and internationally. This promotion of the company's programs in communities, while participating in reducing environmental impacts of dairy farming, facilitated the company to build its reputation nationally and internationally.

However, interview data from local community members revealed that the biogas program was initiated by HiVOS, not Nestlé to solve the environmental problems caused by dairy farming waste. The price of a biogas digester varied between Rp. 4 - 8 million (Approx. \$ 4 - 8 thousand) depending on its capacity, making it unaffordable for traditional dairy farmers and therefore an obstacle to them using biogas systems (Wahyudi, Kurnani, & Clancy, 2015, p. 222). Therefore, HiVOS provided a Rp. 2 million (Approx. \$2 thousand) subsidy per biogas digester installation and farmers paid the remainder. As this was still too expensive for farmers Nestlé offered soft loans to fill the gap, for dairy cooperative members who wanted to install biogas digesters.

While the framework for measuring shared value captured the increased number of biogas digesters installed in the community, observation and interviews showed that Nestlé's CSV initiative failed to address the problems caused by dairy farming waste. There were four reasons for this: the cost, the use of biogas as an alternative energy source, generating income, and reducing the environmental impact of dairy farming.

First, although a biogas system can be an alternative source of energy to kerosene, firewood and LPG (Wahyuni, 2013, p. 9), a biogas digester is expensive. Wahyuni (2013, pp. 6-10) explained that the biogas system would provide alternative energy and help the government to reduce the budget for its kerosene subsidy as kerosene was the main source of energy for household needs. The government subsidised kerosene to keep the price affordable for Indonesians on lower level incomes. However, an increase in the kerosene price seriously damaged the government budget causing the government to switch the subsidy from kerosene to 3kg LPG (Liquefied Petroleum Gas) in 2007 (Ministry of Energy and Mineral Resources, 2011). The price per kg for a 3kg tube of LPG is cheaper than for a 12kg tube, because the government subsidises the price of the smaller tube to provide affordable energy for people on low incomes (Ministry of Energy and Mineral Resources, 2011, p. 8).

Consequently, the fortnightly cost for farmers to repay the biogas loans was higher than the cost of using LPG 3kg, as seen in Chart 4.1. Moreover, it did not include the operational cost of a biogas digester and the land investment. The operational cost of a biogas digester is approximately 10-15% per year of the purchase price, as stated by Kalia and Singh (in Wahyuni, 2013, p. 109). In addition, Wahyuni (2013, p. 40) explained that a biogas system ideally needs 18m² of land for installation. In fact, as explained in Chapter 2, limited land ownership among dairy farmers makes using biogas digesters difficult.

During the early stage of the government switching the subsidy from kerosene to LPG 3kg, many people refused to use LPG for safety reasons, because they were not familiar with it. These people saw a biogas system as an alternative when the kerosene price skyrocketed. However, with the government's effort to socialise and provide information about using LPG, more people in Indonesia realised that using LPG was easier, cleaner and cheaper than kerosene. A similar situation also existed in Central Java when the government subsidy on 3kg LPG decreased the economic benefit of biogas systems (Wahyudi et al., 2015, p. 222).

Second, the gas produced from biogas systems was insufficient for household cooking needs resulting in some continuing to use firewood and LPG although they had installed biogas systems. This is supported by observation data collected during my field work; farmers with biogas digesters also had stockpiles of firewood or LPG for cooking.

Third, communities only used biogas systems for daily cooking. Theoretically, biogas can be used for several purposes including cooking, lighting, power generator, rice cookers, ovens, pasteurisation machines or, and gasolec appliances (infrared heaters) (Wahyuni, 2013, p. 90). However, as discussed in Chapter 5, interview data showed that farmers rarely used the biogas system for purposes other than daily cooking because most had not installed the required additional hardware. Although dairy cooperatives offered loans to install additional equipment, most farmers preferred to only use the biogas system for cooking because additional loans further decreased farmers' income from the daily milk payment.

The dissemination of biogas systems in Indonesia is low compared to developing countries such as China and India (Wahyudi et al., 2015, p. 219). Wahyudi et al. argued that financial arrangements, government policies and people's perceptions of using biogas systems were obstructing the development of biogas systems in Indonesia. Data from this study revealed that the price of installation, not government subsidising of 3kg LPG tubes or an unwillingness by communities, was the key obstruction to communities using biogas systems. The high number of dairy farmers who installed a biogas digester attests to the willingness of dairy farming communities, especially in East Java to use this technology. However, their experience of using the biogas system showed that it was not an effective energy alternative, especially compared with the LPG 3kg tubes. This was supported by Buidarto et al., (2013, p. 513) in their study in Yogyakarta, Indonesia which found that the community was interested in using the biogas system but the lack of operation and maintenance standards hindered them from doing so. Data from this study also showed that using LPG 3kg tubes is cheaper and more efficient than installing a biogas digester.

Fourth, a biogas digester only uses approximately 4% of dung produced by one dairy cow per day and has not significantly reduced the environmental problems caused by dairy farming. Moreover, farmers explained that they disposed of the remainder of the dung in the water canals in front of their houses. The environmental impact of this practice, as

identified by Nestlé, was still ongoing and remained unresolved despite the biogas system program. The negative impact of dairy farming waste was even worse because the local community was not aware of the situation. Throwing dung in the water canals did not produce complaints within the neighbourhood as most community members were dairy farmers who treated dairy farming waste in a similar way. Poor handling of cow manure contributes to the degradation of local water resources and leads to the loss of ecologically important areas such as prairies, wetlands and forests (WWF, 2017).

It is not suggested here that the biogas system in general is ineffective. There is evidence from other countries showing that the system can be an effective tool for minimising the impact of dairy farming and for providing alternative energy for farmers. For example, pig manure in Australia is used in a biogas system to convert the methane to power generators (ABC Australia, 2016). However, the conditions are different to dairy farming in Indonesia. First, the Australian piggery in question is a big farm with 25,000 pigs. Second, even though the cost of the biogas installation was approximately 1 million Australian dollars, the pay-back period is relatively short, approximately two and a half years. Third, farmers can sell the excess electricity from the biogas system to the government. The farmer stated that before using the biogas system she had to pay up to \$15,000 per month for electricity and gas, but with the biogas system, she earned \$5,000 per month from the Government's Emissions Reduction Fund program. There were 6 other farmers earning profits of up to \$7 million from selling excess electricity from the biogas system to the government (ABC Australia, 2016).

The Australian example demonstrates that the use of biogas systems can reduce negative environmental impacts of farming waste and generate income for farmers. However, in East Java the installation of household biogas systems in dairy farming communities is not effective in addressing the environmental problems caused by dairy farming waste or in providing efficient alternative energy for farmers. Further research on the use of biogas systems in small scale farming is needed to find ways of increasing the efficiency of the biogas system use in Indonesia.

Although Nestlé Indonesia stated in its CSV reports that the biogas system benefited the community by providing alternative energy and reducing costs for households, this research

found that the biogas system had not significantly addressed the social and environmental problems caused by dairy farming. Even worse, the biogas loan provided by Nestlé was found to trap dairy farmers into long periods of loan repayments. This has decreased their weekly income from selling milk to Nestlé Indonesia. The further impact of loans provided by Nestlé Indonesia to dairy farming communities are discussed in the following section.

6.4. Rural development

Data in Chapter 5 showed that Nestlé Indonesia identified social and economic problems in dairy farming in East Java from its experience and long relationship with the communities. Nestlé pointed out that poor quality dairy farming management caused low productivity and low income for farmers. The quality of milk produced did not meet the company's requirements. Nestlé Indonesia therefore introduced technical assistance to dairy farmers through its CSV initiatives. The company also established Standard Operating Procedures (SOP) as a guide for farmers to produce higher quality milk for which they offered higher prices.

Nestlé Indonesia's CSV initiatives are in line with Porter and Kramer's strategy to create value by building supportive industry clusters at company locations. The building of clusters and thus increasing the 'geographic concentration of firms, related to business, suppliers, service providers and logistical infrastructures,' in key locations, is suggested to create multiplier effects in communities, including jobs creations, the seeding of new companies and overall helping to increase grow the local economy. Porter and Kramer (2011, p. 12) cited Nestlé's program for strengthening regional farmer cooperatives by providing financial and technical assistance to increase the productivity as an example, and that value would be created both for farmers and Nestlé.

Nestlé also provided financial support for dairy farmers in the community to fulfil the standards required by the company. For instance, the SOP stated that milk should be chilled to 10 degrees as soon as possible after the milking process because chilling inhibits bacteria growth and results in better quality milk. However, cooling machines were too expensive for farmers and dairy cooperatives. Nestlé thus provided loans for dairy cooperatives to buy tools and equipment such as cooling machines, aluminium tanks and cooler trucks to enable

them to attain the required milk quality. As stated in the SOP, the use of plastic buckets in the milking and transferring process is prohibited. Nestlé provided loans to dairy cooperative members to buy equipment such as milk cans to support them produce high quality milk and reduce bacteria proliferation. Dairy cooperatives also provided access to credit for its members for any purpose.

The company argued that the technical program and loans provided were effective in elevating the quality of milk. As explained in Chapter 5, Nestlé Indonesia stated in its CSV reports that the technical assistance program for dairy farming communities had reached more than 3,000 farmers in 2012 and increased to 9,000 farmers by the end of 2012 (Nestlé Indonesia, 2013, p. 39) and it covered approximately 37% of the 35,000 farmers in East Java. The company also reported that its CSV initiatives in dairy farming communities have changed dairy farmers' attitudes so that they follow Nestlé's SOP which affected the quality of milk produced as explained in Chapter 5.2.2.3. Moreover, Chapter 5.3.1.2. explained that dairy farming has contributed to the economic growth of the society in general. Nestlé's CSV initiatives in taking the form of financial and technical assistance are arguably a substitute for the government's role in providing support and facilities to increase the quality of milk produced in East Java. Although the government provided programs to improve farming conditions, interview data from local farmers and community leaders revealed that Nestlé's technical programs were more effective than similar programs provided by the government.

Data from the study revealed that dairy farming was getting harder and remained an unprofitable business for most farmers. The average ownership of dairy cows had remained at two to three cows per farmer for decades. However, farmers and practitioners reported that the breakeven point can only be achieved with a minimum seven to eight head of cows per farmer. This means that farmers do not profit by owning two to three head of cows. As described in Chapter 2, the population of dairy cows in East Java has decreased since 2012, (Dinas Peternakan Jawa Timur, 2015). Also, young people were found to be less interested in dairy farming, as suggested by community leaders. The way to help dairy farmers to become profitable is by helping them to develop their business further. The interview data indicated that dairy farmers realised the potential to develop dairy farming. As stated by dairy cooperative management, they have informed and suggested Nestlé focus CSV initiatives on increasing the population of dairy cows in the communities rather than on the

milk quality as they did for the past 30 years. However, the company management stated that it was not a company focus; rather, Nestlé's focus is increasing the quality of milk produced by dairy farmers (Nestlé_2).

Even though Nestlé acknowledged that the dairy farming population decreased and the number of cows owned was affecting farmers' income, Nestlé management denied that dairy farming is not profitable for farmers. They argued that dairy farming was providing weekly cash flow for farmers when compared to other agriculture products. A manager added that if dairy farming was not profitable farmers would have stopped the business a long time ago. But they are still doing it, which means they benefit from the business (Nestlé_1).

Nestlé Indonesia's financial support to dairy farming communities is similar to microfinance. According to Yunus (2004, p. 4077), the founder of the Grameen Bank, studies have shown the significant impact of microcredit on the lives of its members including moving out of poverty, improved nutrition, and the empowerment of women. The aim of microfinance is to provide easy and affordable access to credit and other financial services for the poor, especially women, in the community, because they are not creditworthy to access credit from formal banks. This is similar to Nestlé's argument that Nestlé initiatives were addressing needs of the poor in the communities who were bank-able (Nestlé_3). They added that with Nestlé's CSV initiatives all dairy farmers in East Java have access to loans and become bank-able through the cooperative (Nestlé_1). However, even though microcredit increased self-esteem, social cohesion and empowered women, the impact of microfinance to eradicate poverty is questionable (Karnani, 2007, p. 103). This is an exceedingly important concern because as Karnani found the benefit of microfinance is limited. The limitation of microfinance were reconfirmed by a study in Bangladesh, where microfinance was popularised by Yunus, which revealed that microfinance increased the level of indebtedness and economic, social and environmental vulnerability among the poor (Banerjee & Jackson, 2017, p. 63).

The Bangladesh example mirrors the experience of dairy farming communities in East Java. Respondents informed that some people in the communities joined the cooperative because they wanted access to loans; and, because only dairy farmers could join the

cooperative, they keep 1-2 dairy cows even though as explained in Chapter 5, it is not profitable. Even worse, the farmer would spend some of the family income to feed the cows. It is understandable why farmers keep cows, in these circumstances when otherwise they must borrow money from money lenders at very high interest. However, microfinance provided by Nestlé through dairy cooperatives is not a solution for the poor farmers. Based on data gathered, this thesis argues that loans provided by Nestlé Indonesia to dairy farming communities are problematic. The loans trap dairy farmers, especially those who have little choice, in a poverty cycle. They are not able to break the poverty chain while continuing with unprofitable dairy farming. They can not stop supplying milk to Nestlé because they would have to repay the loan immediately if they stopped supply. Despite Nestlé Indonesia operating within dairy farming communities in East Java, Indonesia for more than 30 years, the socio-economic conditions of the majority of dairy farmers has not improved during that time.

Most importantly, for the people who are cronicly poor the fear of losing access to loans may lead to debt bondage slavery. According to the United Nations, debt bondage is: 'the status or condition arising from a pledge by a debtor of his personal services or those of a person under his control as security for a debt, if the value of those services as reasonably assessed is not applied towards the liquidation of the debt or the length and nature of those services are not respectively limited and defined' (OHCHR, 2002, p. 14). Bonded labor slavery occurs because of poverty, discrimination and government failure to protect the rights of its vulnerable citizens (Upadhyaya, 2008, p. 8). People who are trapped in debt bondage are pressured to work for little or no pay because all the money they earn goes to repay a loan. Dairy farmers who have 1-2 cows get little or no profit from the business and worse, they often spend family income to feed the cows, but cannot stop supplying milk as Nestlé does not support them to repay their loans by other means.

Bondage labour in the agricultural sector is not new, as seen in developing countries including India, Pakistan and Nepal (Upadhyaya, 2008, p. 7). This situation is similar in East Java, Indonesia. For example, farmers who have 1-2 cows have no choice except to keep their dairy cows and supply milk to the cooperative even though they know that the money from selling milk will not cover the cost. They must repay the full amount of the loan from the cooperative. Further, they have little control over how much they earn from selling milk

every day, because the price is decided based on the milk quality. Unfortunately, only the cooperatives have the tools to measure milk quality. Dairy cooperatives stated that farmers could complain to the cooperative if they were not happy with the milk quality test result. However, most farmers in vulnerable conditions came have a low social status and limited knowledge, making it hard for them to fight for their rights.

Nestlé Indonesia's CSV initiatives were not designed to trap dairy farmers in a bondage labour scheme. However, it is important to increase awareness of bondage labour as a consequence of Nestlé Indonesia's CSV initiatives in the communities. Nestlé managers, researchers, accountants and other decision makers are certainly able to identify the negative effects of company loans, as data from the case study show that vulnerable people including dairy farmers who have 1-2 cows can easily be trapped in a bondage labour scheme working every day to repay loans and unable to find a way out of it.

An example from another respondent in this study revealed that bondage labour exploits vulnerable peoples' limited knowledge of their rights and obligations. One respondent reported that she helped a woman who had only 2 cows and was trapped in a long term loan from the cooperative which had been fully paid a long time ago. However, with her limited knowledge and inability to understand the loan she did not know when the loan was fully payed or that she was still receiving reduced milk payments as if repaying the loan. Moreover, because of the loan she was not able to stop supplying milk to Nestlé and sell the milk to another company for a better price.

As explained in Section 5.3.1.3. dairy farming cooperatives had an important role in dairy farming communities in East Java, Indonesia. This was affecting the role of the cooperative in the communities, including the integrity of the cooperative account keeping process. Observation data from the study found that dairy cooperative management positions were usually dominated by people with strong influence in the communities, for example community leaders or their relatives. This means that although some of the dairy cooperatives in East Java, Indonesia wanted to help its members, data from the study showed that cooperatives could also take advantage of members in vulnerable conditions.

As explained in Chapter 2, Nestlé was the only large milk processing company in East Java, purchasing approximately 50% of the total milk production before 2010 (Data processed

from Dinas Peternakan Jawa Timur, 2015; Nestlé Indonesia, 2013). This condition changed in 2010 when another milk processing company was established in East Java. It opened opportunities for dairy farmers to choose which company they would sell to. Some dairy communities stopped supplying milk to Nestlé and sold the milk to an alternate milk processing company for a better price.

The establishment of another milk processing company created opportunities for dairy cooperatives to get better prices for milk. However, as explained in Section 5.3.1.1. dairy cooperatives were required to pay off all remaining loans from Nestlé Indonesia before they could stop supplying milk to the company. Moreover, dairy cooperative management reported that government representatives were intervening with cooperative management decisions when the cooperative decided to stop supplying milk to Nestlé Indonesia. The company's CSV initiatives and its long historical relationship with the communities were two reasons government representatives used to pressure the cooperative to keep supplying milk to Nestlé Indonesia. At the same time, the government was not able to solve the milk price problem in the Indonesian dairy industry. Lack of government intervention raises concern about the power of transnational companies, including Nestlé to dictate their terms to governments in developing countries.

Although Nestlé stated that the main purpose of its initiatives was not building the company's image, interview and observation data showed that the company actively promoted its CSV programs to governments at local and national levels. As explained in Chapter 5.3.4.2., a Nestlé manager stated that the company often promoted its CSV initiatives at international forums as success stories for 'best practice' of a multinational company's role in society.

This study found that the shared value measurement framework failed to adequately measure the impact of Nestlé's CSV initiatives, relying also on self-referential data. For instance, the report states, Nestlé's factory increased the use of water treatment up to 1,7% and the efficiency of water usage up to 47% since 2010. Additionally, the company outlined its participation in water sustainability by planting 8,000 trees and creating biopore holes to accelerate the infiltration of water in the soil (Nestlé Indonesia, 2013, p. 24).

Another example can be seen from the company statement, which reads that the company has received no complaints about factory waste from the community surrounding the factory (Nestlé Indonesia, 2013, p. 20). Nestlé Indonesia's water sustainability program is in line with its CSV strategy to create value by redefining productivity in the value chain to provide better management of internal operations and increase productivity (Porter et al., 2012, p. 3). This strategy was implemented by Nestlé Indonesia through the water sustainability program in the factories, as explained in Chapter 5.2.2.2. Water sustainability programs reduced costs in Nestlé's factory and built a positive company image in the surrounding community.

These examples show that data provided in Nestlé Indonesia's CSV reports was tailored to fit the company's agenda. Nestlé Indonesia's CSV reports provided information for stakeholders including investors, the Government and NGOs; however, it ignored farmers and dairy cooperative members, presumably because they were unlikely to read the report. Nestlé Indonesia's CSV report did not take account of business consequences on these stakeholder groups. This is in line with Blowfield and Murray's critique of corporate responsibility reports as voluntary, without an accepted format of what information or which stakeholders should be included or omitted (Blowfield & Murray, 2014, p. 184).

The CSV measurement framework is particularly problematic for measuring the impact of CSV on society. In Nestlé's 2011 CSV report, the company cherry picked two success stories to show the social impact of CSV initiatives. For instance, the report cited a farmer's statement that 'dairy farming is a good source of income, and we now have a better life' (Nestlé Indonesia, 2011, p. 58). Nestlé stated that CSV initiatives in dairy farming communities had changed the attitude and behaviour of dairy farmers so that they now produce high quality milk and are reliable milk suppliers. While CSV initiatives increased dairy farmers' income in some circumstances interview data showed that the increase in milk quality did not necessarily increase farmers' income and their quality of life, especially for those – the majority – who only have 1 or 2 cows. This issue is discussed further, later in this chapter.

This is demonstrating that the shared value measurement framework offered by Porter et al. has not remedied the problems of measuring the impacts of CSR. Determining the

outcome of CSR for stakeholders is as difficult as it was in the past, because the practical challenges of assessing what to measure and whose interests are being measured is difficult to gauge (Blowfield & Murray, 2014, p. 303). Blowfield and Murray found that the information used to measure the impacts of CSR were mostly self-referential company data, making it difficult to properly identify the key issues and outcomes of initiatives. Consequently, measurements were more about fulfilling the criteria of standards established by the International Organisation for Standardisation (ISO) or ratings such as Government awards, rather than examining the contribution of the initiatives to improving society (Blowfield & Murray, 2014, p. 303). Moreover, companies may have an interest in selecting what and to whom the outcomes will be reported; for instance, shareholders or specific stakeholder groups, affecting the way outcomes are determined and described (Blowfield & Murray, 2014, p. 305). Even though businesses are expert at measuring economic results, their ability to measure social progress is questionable; Nestlé Indonesia is no exception.

The question of Nestlé Indonesia's CSV initiatives creating economic value and addressing social needs is discussed in the following section in light of the case study data.

6.5. Effectiveness of CSV practice in creating economic value and addressing social problems

Porter and Kramer stated that societal needs are not just conventional economic needs, defining markets, or creating internal costs for companies; they should create opportunities for companies to increase productivity and expand markets (Porter & Kramer, 2011, p. 5). Porter and Kramer's statement suggests that social issues are the starting points for creating shared value. This is supported by Porter et al.'s framework for measuring shared value as seen in Figure 3.1. The first step in this CSV strategy is identifying social issues for the company to target. In other words, companies are required to identify social issues in societies, then find ways to make business cases for addressing the problems. In this way, the company can address societal problems that it identifies while creating economic benefit for the company. In the end, CSV initiatives provide win-win solutions in the relationship between business and society according to Porter and Kramer.

Data from the study as described in Chapter 5 and the discussion in this section revealed that Nestlé’s CSV initiatives created economic value for the company. However, as seen in Table 6.1. the effectiveness of Nestlé Indonesia’s CSV initiatives in addressing social problems in Indonesia was very weak.

Table 6.1. Economic and social value created through Nestlé Indonesia’s CSV initiatives

Nestlé Indonesia’s CSV initiatives	Economic value created	Social value created
Nutrition issues		
Healthy food campaigns and events	<ul style="list-style-type: none"> • Provide a large potential market for the company 	<ul style="list-style-type: none"> • Morally problematic • Potentially provide misleading information about food nutrition • Destroying breastfeeding campaigns
Sachet packaging	<ul style="list-style-type: none"> • More efficient in distributing products • Takes account of low income communities participating as company customers 	<ul style="list-style-type: none"> • Far from affordable for low-income communities • Environmentally damaging
The environmental issues		
Water sustainability	<ul style="list-style-type: none"> • Reduce cost • Raises the company’s public profile 	<ul style="list-style-type: none"> • The company failed to remedy water problems in dairy farming communities
Biogas program	<ul style="list-style-type: none"> • Raises the company’s public profile 	<ul style="list-style-type: none"> • Too expensive for dairy farmers • Low effectivity in addressing environmental problems
Rural development issues		
Technical assistance	<ul style="list-style-type: none"> • Raises the company’s public profile • Increases the milk quality • Ensures milk supply for the company 	<ul style="list-style-type: none"> • Does not increase famers’ income. • Does not increase the quality of life for majority of farmers and animals
Loans	<ul style="list-style-type: none"> • Raises the company’s public profile 	<ul style="list-style-type: none"> • Traps farmers in poverty cycle

Porter and Kramer’s idea of placing social issues as the starting point for CSV strategies sounds promising. In practice, the first step in designing a strategy for shared value initiatives is identifying the opportunity to create value based on the company’s core business. In the case of Nestlé Indonesia, the company stated that nutrition is a societal

issue to be addressed through Nestlé's CSV initiatives. Even though lack of nutrition is one perceived problem in Indonesia, there are many other problems including pollution, poverty, and low education levels. However, Nestlé Indonesia chose nutrition as the societal problem to be addressed through CSV initiatives because it relates to the company's core business. Nestlé stated that nutrition issues provide a unique opportunity for the company to address societal problems in Indonesia. This is supported by interview data with Nestlé management who stated that they use its research division to develop products to address specific problems in the society. The company has not provided an analysis of historical and contemporary health and nutrition in Indonesia, neither does it address the negative health related issues caused by added sugar, salt and chemical from consuming flavoured milk and other products.

Developing products to fulfil a need identified by Nestlé is also used by other companies as part of their CSV strategies as stated by Porter et al. (Porter et al., 2012). For example, Intel chose technology education transformation as the social issue to target through CSV initiatives. NOVO Nordisk, a global healthcare company targeted diabetes through its CSV strategy. This supports Porter and Kramer's argument that companies are not charitable bodies; they aim to create profit for their shareholders. Identifying societal issues is therefore not the first step in CSV strategies; rather, the company's core business is the starting point for designing CSV strategies.

The next step in implementing CSV is connecting the core business or economic activities of the company with any social issues it could address. In the case of Nestlé Indonesia, the company produces foods, beverages and products aimed at children. Therefore, 'nutrition issues' in society are great opportunities for the company to link to CSV strategies. For families to be able to buy nutritious products, as determined by Nestlé, the company changed its product packaging. As stated by Nestlé's management during an interview, the company tries to address nutrition issues in society by providing affordable products, especially for low level income communities. The strategy of changing the packaging from cans to boxes or sachets demonstrates the company's effort to break down the price of the product to meet the daily cash flow of low income households. Moreover, changing the shape of its products to boxes is clearly more efficient for the company to distribute and

transport the products. However, the company ignored the environmental problems caused by using sachet packaging that should be addressed through CSV initiatives.

Nestlé Indonesia's strategy to provide clean water for farmers surrounding the factory was related to the next step of forming the CSV strategy, and making the business case for CSV initiatives. Nestlé identified water as an environmental problem in Indonesia. The company stated that with the waste water treatment plant the company provided 1,300m³ clean water per day to be distributed to rice farmers surrounding the factory. Connecting economic activities with a societal issue to address through CSV initiatives is a clever strategy. With or without farmers, the factory must release its water waste. However, the CSV initiatives make this strategy look even better thus highlighting the company's role in addressing water problems.

Nestlé repackaged its buyer-supplier activities which have been occurring for more than 30 years. Identifying this business strategy as a CSV initiative is important for the company because of external pressure to build the company's reputation nationally and internationally. It also allows Nestlé to fulfil and report on its own CSV initiative.

The last step in designing a shared value strategy is measuring the impact of the initiatives relative to the cost for the company. Because CSV initiatives are based on the economic purpose of the company, the proper way to measure the impact of the initiatives is by measuring the economic value created for the company. Social value created through the initiatives is determined by the company specific to the social issues targeted; for example, the biogas programs for dairy farming communities. Nestlé stated in its CSV report that almost all dairy farmers in East Java had installed a biogas digester and the number of farmers who installed the biogas digester rocketed in only a few years. Nestlé also stated the benefit of installing biogas digesters was to reduce the negative impact of dairy farming waste, provide cheaper renewable energy and create additional value for dairy farmers. However, data from this study found little proof that the use of biogas systems addressed these problems. Even worse, the inefficient use after installing the biogas digester could trap farmers in a loan for a long period of time.

Social value created through CSV initiatives depends on the company's understanding and the way the company measures the impact relative to the cost of the initiatives. Moreover,

these strategies are excellent for legitimising the company's role in society, which is important for the company's reputation and to show that the company has done something for the society, not merely make profit. Therefore, this thesis argues that CSV is a good strategy for creating economic value for the company, however, whether social value is created through this strategy is questionable. The next chapter provides an analysis of CSV in theory and practice based on the case study of Nestlé Indonesia's CSV initiatives.

6.6. Summary

This chapter analysed the impact of Nestlé's CSV initiatives in dairy farming communities in East Java, Indonesia based on the case study data presented in Chapter 5. Nestlé Indonesia made many claims about how the company addressed social problems by improving knowledge about nutrition and health issues, improving water sustainability, and increasing dairy farmers' revenue. Data from the study demonstrate that the economic value created for the company through Nestlé's CSV initiatives were evident. The large population in Indonesia provides the company with many potential consumers. Nestlé Indonesia's CSV initiatives were part of the company's strategy to increase its reputation nationally and internationally. On the other hand, there was little evidence of social value created through Nestlé's CSV initiatives. The study showed that the company was not willing to address various problems in the communities, which while related to the interest of the company, for instance biogas digesters, merely received minimal input from the company. Drawing on instances of large biogas digesters such as in the Australian piggery example and reproducing this at the community level might be a way Nestlé could move beyond self-interested CSV and assist in breaking poverty cycles.

This chapter explained how Nestlé Indonesia's approach to measuring the impact of CSV is in line with Porter et al.'s framework (2012), which focuses on the intersection between business and social value. However, the framework is self-referential when measuring impact. The chapter highlighted the failures of CSV effectiveness and its measurement, especially from the community perspective. The question remaining now is whether CSV, at the level of theory, is an improvement on CSR and whether it is effective in overcoming the perceived failings of CSR. This is addressed in the next chapter.

Chapter 7

Implication of theory and practice

7.1. Introduction

The previous chapter analysed the outcomes of Nestlé Indonesia's CSV initiatives in addressing nutrition, environmental and rural development issues in dairy farming communities in East Java, Indonesia. It also discussed the economic and social value created in the communities. The analysis and discussion in Chapter 5 revealed that Nestlé Indonesia's CSV initiatives in dairy farming communities created direct and indirect economic value for the company, however comparatively little social value for the communities.

This Chapter provides a critical discussion of CSV theory, based on the case study data, to determine whether CSV offers a sustainable model for business operations and ethical relationships with society and questions whether it is a credible alternative to CSR. This chapter thus interrogates the reliability of CSV for creating economic and social value. It discusses how economic value created through CSV initiatives motivates companies to engage in corporate responsibility discourses in ways that are not cosmetic or for public relation purposes. In a final discussion of CSV's impact on capitalism, it is argued that CSV is a repackaged neoliberal CSR with its Friedmanite overtones disguised.

As discussed in Chapter 2, the development of CSR theory from CSR 1.0 to CSR 3.0 reflects a growing awareness of business's role in society. Scholars and practitioners have developed the concept to find a win-win solution for business and society (Osburg & Schmidpeter, 2013), yet without necessarily challenging the main values of business (Blowfield, 2005). However, how this win-win solution serves social interests is questioned in discussions about CSR theory (Banerjee, 2014). Banerjee argued that the current structure of CSR is designed to create value for shareholders which limits the ability of the company to create social value.

Although awareness of the importance of CSR in business-society relationships has increased there is a lack of moral grounding and ethical direction for business. Table 7.1.

shows the stages of development of corporate responsibility theories as discussed in Chapter 2. The evolution of CSR from CSR 1, 2, 3 and CSV reveals that much research has been undertaken to determine best practice to enhance business-society relationships; and that further research is required.

Table 7.1. Stage of corporate responsibility development

Stage of CSR	Business age	Motive	Focus	Key enabler	Stakeholder target
CSR 1.0	Greed	Defensive	Ad hoc intervention	Investments	Shareholders, government and employees
	Philanthropy	Charitable	Donations	Projects	Communities
	Marketing	Promotional	Public relations	Media	Public
	Management	Strategic	Management systems	Codes	Shareholders, NGOs/CSOs
CSR 2.0	Responsibility	Systemic	Business models	Products/ Core business	Regulators and customers
CSR 3.0*	Social Innovation	Sustainable company future	Innovation	Core business operation	Social entrepreneur
CSV**	Shared value	Sharing value	Business case	Core business	Management and targeted stakeholders

Table is adopted from Visser (2011, p. 43)

* (Osburg & Schmidpeter, 2013)

** (Porter et al., 2012; Porter & Kramer, 2011)

In 2006, Porter and Kramer introduced CSV as an advancement on CSR capable of providing a win-win solution for business and society. Porter and Kramer also criticised CSR as a mere strategy used by companies to meet their moral obligations, obtain a licence to operate, and build the company's reputation. They argued that CSR is separate to companies' business agendas and has trapped business in an outdated approach to managing business-society relationships. For Porter and Kramer CSV differs from CSR in that it connects social

issues with the company's core business. Critics of Nestlé might well think that doing this would meet their moral obligation and support Porter and Kramer's claims for CSV.

However, the case study of Nestlé Indonesia evidences that although Porter and Kramer introduced the concept of CSV in 2006, Nestlé had already incorporated their practice into their relationship with dairy farming communities in East Java, Indonesia. Data from this research showed that current CSV initiatives were not much different from what the company introduced 30 years ago. Porter and Kramer also admitted that integrating business's agenda and social problems has been practiced by Nestlé in India since 1962 when the company created a milk district model in Moga, India (Porter & Kramer, 2006, p. 90). This verifies that connecting social issues with the company's core business is not a novel idea.

This thesis is obviously not the first in criticising the originality of the CSV concept. As stated in Chapter 2. some scholars have criticised Porter and Kramer's narrow understanding of CSR. For instance, Crane et al (2014, p. 134) stated that Porter and Kramer ignored the broad literature and research on CSR. Table 7.1. shows that Porter and Kramer's critique of CSR refers to the early stage of CSR known as CSR 1.0. The development of CSR literature confirmed that the strategy of connecting the core business of the company with CSR initiatives was applied in the 2nd generation of CSR. Beschorner (2014, p. 109) argued that the limited understanding of CSR was utilised by Porter and Kramer to claim the originality of CSV.

The next section provides further discussion on how CSV differs from CSR based on the case study of Nestlé Indonesia's CSV initiatives in dairy farming communities in East Java, Indonesia.

7.2. CSV relates social issues and competitive advantage

According to Porter and Kramer (2006, p. 78) CSV is the link between firms' competitive advantage and CSR, which will increase social value to society. Porter and Kramer argued that CSV differs from CSR because it is not about the reputation of the company and is embedded in the company's strategy to create competitive advantage.

In Porter and Kramer's view (2011, p. 4) the more business embraces corporate responsibility, the more it is blamed for social failures. Drawing on the Body Shop example as discussed in Chapter 2, Porter and Kramer argued that 'reputation' is about marketing, campaigns and building a high profile for the company (Porter & Kramer, 2006, p. 82). They argued therefore that CSV differs from CSR because it integrates social issues and competitive advantage, needed to break the cycle of imitation, zero-sum competition and to establish sustainable improvement in society. Further, when designing CSV initiatives, a company should link them with its business agenda, be integral to profit maximisation and competition and align with the company's budget (Porter & Kramer, 2011, p. 16). In this way, CSV initiatives would not be merely cosmetic or a public relations or media campaign; rather, they would create economic and social value for the company and broader society. Porter and Kramer argued that license to operate offers a way for business to identify social issues that matter to its stakeholders, which can mean however that companies rely on outsiders to take control of their CSR agenda (Porter & Kramer, 2006, p. 82). They argued that CSR thus traps business in a vicious cycle and creates minimal value for society and provides no strategic benefit to the business.

On the other hand, data from this study revealed that a company's positive reputation is related to its social license to operate. Nestlé Indonesia's CSV initiatives were part of the company's strategy to achieve and maintain a license to operate, reputation and protection from external pressures.

Nestlé's CSV initiatives in dairy farming communities cannot be separated from the company's aim to protect its 'license to operate'. In 1971, Nestlé – under the name PT. Food Specialities Indonesia – established the first factory in Indonesia (Nestlé Indonesia, 2012). During this time, almost all transnational companies, including Nestlé which expanded their business in Indonesia had to have relationships with Chinese big businessmen or Soeharto family members (Backman, 1999, p. 289; Ning, 1997, p. 219). Nestlé built a relationship with Soeharto's middle son, Bambang Trihatmojo (Backman, 1999, p. 289), which benefitted the company's operations in Indonesia. As explained in Chapter 2, the Soeharto regime was the golden era for dairy farming development in Indonesia. At that time, the government imported and distributed more than 60,000 dairy cows free to dairy cooperatives in Java (GKSI Jawa Timur, 2015) to encourage farmers to produce and supply milk to the milk

processing companies including Nestlé. In return, the government required these companies to procure local milk before importing milk from other countries for producing powdered milk (Ministerial Regulation, 1982). Because of this requirement and because milk produced by local farmers was poor quality, providing technical and financial assistance were the best strategies for the company to increase the milk quality produced by local farmers. Increasing the milk quality to meet the company's requirement was important for the company to fulfil the government requirement as well as show casing the company's role in society.

As discussed in Chapter 6, since 1978 Nestlé has faced International boycotts because of its unethical marketing of powdered milk in developing countries. Therefore, Nestlé's CSV initiatives in dairy farming communities such as technical assistance, financial support and biogas loans were important for building the company's reputation, nationally and internationally. This links to Porter and Kramer's idea of connecting firms' competitive advantage with social issues. Nestlé's approach to working with small farmers demonstrates the company's impact in developing countries, even though the company's reputation remains marred by controversy over promoting infant formula (Porter & Kramer, 2006, p. 90).

For Nestlé these external pressures, and the need to repair its reputation, dictated that the company reported positively on its CSV initiatives to national and international audiences to demonstrate that the concept works well. Nestlé management supported this finding during an interview by commenting that external pressures demanded the company publicise its initiatives in society (Nestlé_2).

Nestlé Indonesia's biogas program in dairy farming communities in East Java, is another such example. Although the CSV program has been successfully implemented as reported, using the biogas system has little effect on reducing the negative environmental damage caused by dairy farming, including farmers' lack of knowledge about disposing of dung in waterways and lack of alternative ways to dispose of dung. However, Nestlé promoted this program nationally and internationally as a contribution to providing clean energy for communities as well as reducing gas emissions from dairy farming activities. Although data from this research revealed that the program's effectiveness was questionable, the program

was important for the company to show its contribution to developing countries such as Indonesia. This is similar to Sylla and Leye's (2014) critique of fair trade programs, as an example of CSR 3.0, because their ability to increase income for poor farmers is questionable.

As with the critique of fair trade, this research found that through the biogas program, which is not linked to the company's core business, Nestlé Indonesia takes advantage of the poor to enhance the company's reputation. Furthermore, Nestlé did not seek alternatives to the single household biogas systems which were not efficient in addressing environmental and energy problems in society. Importantly, a review of Nestlé Indonesia's CSV initiatives in dairy farming communities, which have been implemented for more than 30 years reveals that they have not improved most peoples' quality of life.

This section demonstrates that relating social issues to competitive advantage for the company clearly benefits the company. However, it is certainly not addressing social problems in society. This is in line with Beschorner's (2014, p. 109) critiques that Porter and Kramer's understanding of social needs in CSV is not about ethical practice but rather, about economic success for the company. According to Beschorner's critique Porter and Kramer's concept of CSV comes from standard management, not ethical practice.

The next section, based on findings from the Nestlé Indonesia case study, provides evidence confirming that CSV is rooted in strategic management.

7.3. Addressing economic and social value

According to Porter and Kramer integrating business and society is foundational to advancing CSR because business and society need each other (Porter & Kramer, 2006, p. 83). They argued that understanding the interrelationship between business and society, by following the principles of shared value, will ensure long-term prosperity of both.

For Porter and Kramer 'value' in the concept of CSV refers to the worth of things in terms of money, usefulness or importance (Hornby, 2005, pp. 1692-1693). Value is broader than just profit. From an economic view, a value is related to the maximum exchange for money, profit, stability and wealth (Ouden, 2012, p. 29) and thus the benefit or importance of something in creating profit. In the concept of CSV, Porter and Kramer (2011, p. 6) defined

value as ‘benefit relative to costs, not just benefit alone’. In other words, the value created through CSV strategies should take account of the costs incurred.

Understanding Porter and Kramer’s view of ‘value’ is important for analysing ‘shared value’ in the relationship between Nestlé Indonesia and the dairy farming community. ‘Shared value’ is not a redistribution approach and does not mean sharing the value created by the company; rather, it means enlarging the pool of economic and social value (2011, p. 5). According to proponents of CSV companies traditionally view value as a fixed pie when actually it can be enlarged through business activities, and in collaboration with customers (Bertini & Gourville, 2012). Creating shared value is recognising societal needs as an opportunity for business to enlarge the pie and create value for business and society at the same time (Porter & Kramer, 2011, p. 5).

Nestlé’s Standard Operation Procedures (SOP) is an example of ‘enlarging the pie’. With the establishment of the SOP Nestlé argued that the company encouraged farmers to produce better quality milk and offered higher prices for this milk. Nestlé Indonesia argued that value would be created for both the company and the communities through this process. Moreover, this strategy established a long-term beneficial relationship between the company and the communities.

However, analysis of the Nestlé Indonesia and dairy farming community relationship demonstrated that ‘enlarging the pie’ focused on the company’s goals with less concern for how increased wealth was distributed. The SOP delivered obvious operational and financial benefits to the company, while social benefits stemming from SOP were questionable. Even though Nestlé explicitly framed SOP improvements in terms of improving local dairy farming operations and delivering local benefits, the focus was primarily supply chain considerations. Although the increase in milk quality can be measured, it did not correspond to improvement in the quality of dairy farmers’ lives. Farmers reported that producing higher quality milk meant higher production costs for better quality feed and operational costs. However, the price offered by Nestlé barely covered the increased production costs. Creating economic value for the company through CSV initiatives does not automatically provide socio-economic improvements in society. Nestlé has not acknowledged this in CSV reports or in its annual meetings with dairy farmers and cooperative managers. Not doing

this, a first step to improving outcomes for farmers, suggests that the company is not interested in reviewing and revising CSV as its business strategy.

Another justification for introducing the concept of CSV is that 'business should act as business in addressing social issues, not as charitable donors' and therefore innovate and grow productivity to address social problems (Porter & Kramer, 2011, p. 4) which will reshape capitalism and its relationship to society. In this way, the company creates profit and contributes to addressing problems in society. For instance, Nestlé's management said that lack of knowledge and awareness of nutrition leads to problems in society. As Nestlé is not a charitable donor, but a company that produces food, it did not provide philanthropy to reduce problems related to nutrition in Indonesia; rather it used its resources to develop products designed to address these problems. However, Nestlé has not raised concerns about Indonesian consumers increased sugar intake, resulting from the consumption of Nestlé products.

Porter and Kramer critique charitable CSR because it involves sharing company success by giving back to society. Business acting charitably has a long history, long before the concept of CSR was popularised; for example, the Rockefeller foundation and Rockefeller Institute of Medical research in the United States was created in 1901 (Farley, 2004). Since then, the Rockefeller foundation has established many philanthropic initiatives worldwide. Still today, billionaires including Warren Buffet, Bill and Melinda Gates as well as Ray Kroc's (McDonalds Corp) widow donate much of their wealth to charitable causes (Cheng, 2009, p. 120; Visser, 2011, p. 77). While charitable CSR shares the success of business, it does not account for how the success was achieved (Visser, 2011, p. 72). Moreover, being benevolent may not always be the reason for business or wealthy people providing charitable CSR. Government regulations, tax or estate duty encourages charitable giving in some countries (Cheng, 2009, p. 123). For example, in the UK and the US, estate duty reaches up to 45 percent, and the government offers estate tax reductions for charitable giving. It prompts wealthy people to plan their charitable giving and bequests. In contrast, the percentage of charitable giving in countries without estate duty and zero tax benefits is very low (Cheng, 2009, p. 123).

As Porter and Kramer argued CSV differs from charitable CSR because it is about both social and economic value creation (2011, p. 4). The opportunity for shared value comes from

strategic CSR that connects the social and business benefits by the company identifying what it does differently from competitors (Porter & Kramer, 2006, p. 88). For example, Porter and Kramer cited Nestlé in India and its relationship with local dairy farmers. Nestlé Indonesia later implemented initiatives, similar to those implemented by Nestlé in India, to dairy farming communities in East Java, Indonesia.

Creating economic value while addressing social problems allows managers to justify their use of shareholders' resources as managers do not have the right to use shareholders' money for charity (Porter et al., 2012, p. 2). Nestlé's loans program to dairy farming communities is a good example of CSV being used to create value for both society and the company (Nestlé_1). Through the loan initiative, Nestlé provides soft or even interest-free loans to farmers who supply milk to the company. The loans were not philanthropy as farmers repay the loans every payment day and repayment periods are long. The company ensures its shareholders that the money will be repaid, because the loans ensure that the farmers keep supplying milk to the company. Further, these CSV initiatives were good for the company's reputation; promoting Nestlé's role in developing countries by addressing social issues.

Nestlé stated in its CSR reports that CSV initiatives for dairy farming communities gradually changed farmers' attitudes to become outstanding and reliable suppliers. With the capacity to produce higher quality milk at a competitive price, Nestlé argued that the program has increased the livelihood of dairy farmers in East Java, Indonesia, even though they know that the dairy farming industry is diminishing. Nestlé quotes a dairy farmer who has been supplying milk to the company for 20 years:

'Dairy farming is a good source of income, we now have better income'
(Nestlé Indonesia, 2011, p. 58).

This is supported by a Nestlé manager's statement that many dairy farmers support the company's contention that dairy farming is profitable. The manager argued that positive economic outcomes of CSV initiatives can be seen from the development of dairy cooperatives in the communities. The manager added that loans provided to dairy farmers helped them be bankable and support local economics in the communities.

The data from this study revealed that although dairy farming was profitable for some East Javanese farmers, this was not the case for all farmers, especially those who have two to three cows and are staying in dairy, as discussed in Chapter 6, because they had no choice. Low-productivity activities do not help people out of poverty (Chang in Sylla & Leye, 2014, p. 138), and Nestlé Indonesia's CSV initiatives sets farmers up to keep supplying milk to the company through its loan programme. Loans provided by the company through dairy cooperatives tied farmers to the business even when it was not profitable as seen by those who had to spend the family income to feed the cows. This finding leads to the conclusion that Nestlé Indonesia's CSV initiatives do little to support local community economics.

Through its CSV reports Nestlé Indonesia advertised that the company provided 'affordable nutritious foods' for Indonesian customers and that it had initiated programs to improve peoples' understanding of good nutrition and the importance of a healthy lifestyle. However, as discussed in Chapter 6, there was little evidence that Nestlé Indonesia's CSV initiatives effectively addressed nutrition problems in the country; rather the company's advertising of its products, promoted through CSV initiatives, were found to be morally problematic. This is particularly alarming given the increases in obesity, diabetes, heart disease and other medical issues that often parallel the increased consumption of processed foods.

Nestlé made nutrition a cornerstone of its CSV strategy in Indonesia, targeting issues such as low milk consumption, little knowledge about nutritious food and low household incomes. The promotion of 'affordable' products through sachet packaging was found to be problematic for it did not give poor people access to 'healthy' food. As explained in Chapter 6, misleading information about healthy foods convinced consumers that the company's products are the best sources for a healthy diet. The modern lifestyle of consuming Nestlé products contributes to poor communities. In the end, the company wins by maintaining the communities as loyal customers for its products.

Another example from the case study showing that CSV is morally problematic is Nestlé Indonesia's strategy to connect environmental issues and competitive advantage. Nestlé Indonesia stated in its CSV reports that the company has contributed to reducing environmental impacts. For example, the company's water management program was

reported to reduce water usage by up to 13% and increase efficiency of water usage up to 47% (Nestlé Indonesia, 2013). However, analysing water problems in dairy farming communities reveals that Nestlé Indonesia failed to acknowledge the impact of dairy farming waste and water availability across its local supply chain.

The same is true of greenhouse gas (GHG) emission reductions, for which Nestlé reported efficiency gains of up to 4.1% per tonne of production. The company claimed that the community biogas system contributed to reductions in GHG emissions produced by dairy farming activities. Purportedly, the biogas system shows how environmental problems resulting from dairy farming activities can be an opportunity to produce cleaner and more efficient fuel for the community. According to one dairy farmer cited by Nestlé:

‘Cooking with wood is expensive. We save money using biogas. It also keeps the kitchen cleaner’ (Nestlé Indonesia, 2011, p. 52).

However, data from the study shows that use of biogas in dairy farming communities was not effective for providing cheaper fuel. Although the biogas system was cheaper to use than wood or kerosene, biogas installation was more expensive than using the LPG 3kg cylinder, because this was subsidised by the government. Moreover, as discussed in Chapter 6, only 4% of daily dung produced by one cow was consumed in the biogas system. Farmers were still throwing the rest of the dung into the water canal. This is a problem that Nestlé is morally obliged to address. The company knows the damage to water ways caused by disposing of dung in them; the company has tied the farmers to biogas digesters even though it does not provide a solution.

Nestlé could argue that the company has participated in reducing gas emissions in their factory, but they have not addressed the environmental impact of the gas emissions produced from dairy farming activities in the community. Although the environmental impact of Nestlé’s CSV initiatives was not significant, in its CSV reports Nestlé Indonesia highlighted its target to increase biogas digester installation in the communities. There are two main reasons for Nestlé Indonesia to keep the biogas system as part of its CSV initiatives. First, the program was promoted by the company in national and international forums as one of its achievements in dairy farming communities. Second, loans provided by Nestlé Indonesia for this program are strategic in keeping farmers supplying milk to the

company. Once again, this highlights that dairy farming communities are a commodity to create value for the company under the guise of 'creating value' for business and society.

Addressing economic and social value, the double dividend the concept is said to deliver, has been the mantra of proponents of CSV. Statements in Nestlé's CSV reports, providing testimony from dairy farmers in the communities are examples of heart-warming success stories of CSV initiatives in dairy farming communities in East Java. Numbers and percentages reporting the efficiency in reducing gas emissions, stated in Nestlé's CSV reports demonstrate that it is possible to address social issues while creating economic value for business. However, the case study revealed this is not what is happening. CSV, as perceived by participants in this study, is not a win-win solution for society, it is however a strategic initiative for maximising company profits.

Again, discussion in this section based on the case study proves that CSV departs from management rational with minimum attention to ethical issues in society. This is raising question on how CSV reshape capitalism and its relationship with society as stated by Porter and Kramer. The next section provides further discussion related to this issue, based on the case study of Nestlé Indonesia.

7.4. Nothing is new about capitalism and its relationship with society

'Redefining business purposes through CSV is reshaping capitalism and its relationship to society' (Porter & Kramer, 2011, p. 17). Nestlé Indonesia uses this rhetoric in its justifications for connecting business and society. Implementation of the concept is problematic however, as in the case of Nestlé Indonesia. While CSV should unlock 'the next wave of business innovation and growth by connecting company success and community success' (Porter & Kramer, 2011, p. 17) it fails to do this, as evidenced in the biogas example. This section discusses how or whether CSV reshapes capitalism as promised by Porter and Kramer:

CSV offers a more sophisticated form of capitalism infused with social purposes because it focuses on creating profits that create societal benefit.

The way companies address social problems through CSV is not charity, but a

deeper understanding of competition and economic value creation (Porter & Kramer, 2011, p. 17).

CSV is not philanthropy, but self-interested behaviour to create economic value by creating social value (Porter & Kramer, 2011, p. 17). While social value might be created through the initiatives, their effectiveness in addressing social problems is limited.

Nestlé's CSV initiatives in dairy farming communities were clearly in line with the company's goals. They benefitted its reputation. Financial and technical assistance ensured the milk met Nestlé's quality requirements. This was important because the milk previously produced by local dairy farmers had been below the standard required by the company.

Moreover, Nestlé also rejected dairy cooperative suggestions to shift the focus of its CSV initiatives from quality to quantity. As previously explained, the average cow ownership in dairy farming communities has remained the same for 30 years, approximately 2-3 cows per farmer, which is unprofitable. Although Nestlé argued that the company paid a higher price for higher quality milk, respondents explained that the price for better quality milk did not meet production costs, particularly during dry seasons so that farmers sold their calves for extra cash. Data in Chapter 5 revealed that dairy farming communities tried to negotiate with Nestlé to change the CSV initiatives from increasing milk quality to increasing the number of dairy cows in the community to help make dairy farming profitable. However, cooperative managers reported that Nestlé rejected this idea because it was not a company focus. Such decisions demonstrate that social issues will not be addressed through CSV initiatives, even if it would create economic value for the company, if a company manager does not regard it as a priority.

Nestlé Indonesia's CSV initiatives were strictly commercial, not about addressing problems in dairy farming communities, as seen by the company, ceasing all initiatives once farmers stopped supplying milk to the company. Before 2010, Nestlé was the only large milk processing company in East Java, purchasing approximately 50% of the total milk produced (Data processed from Dinas Peternakan Jawa Timur, 2015; Nestlé Indonesia, 2013). This put the company in a strong position to continue or stop its initiatives at any time. In 2010, a second milk processing company was established in East Java, opening an opportunity for dairy farmers to choose where to sell their milk. Some dairy communities stopped supplying

to Nestlé and sold the milk to an alternate processing company for a better price. When the community ceased supplying milk to Nestlé, the company immediately stopped all the community initiatives and required the community to pay the entire remaining loan even though the due date was still years ahead, revealing that Nestlé Indonesia's CSV initiatives were no more than a commercial relationship between purchaser and supplier. This is in line with Crane et al.'s (Crane et al., 2014, p. 140) critique of CSV as a shallow relationship between business and society.

For Porter and Kramer (2011, p. 17) CSV is a broader conception of the 'invisible hand' introduced by Adam Smith, a Scottish, economic philosopher in 1759 (Smith, Raphael, & Macfie, 1976, p. 184, part IV, chapter I.10). Smith introduced the philosophical distinction between justice and beneficence, perfect and imperfect rights in the relationship between business and society (Brown & Forster, 2013, p. 301). Based on Adam Smith's statement in the *Theory of Moral Sentiments*, Brown and Foster argued that Smith recommends companies engage in philanthropy/beneficence if and only when it is economically feasible for them to do so (Brown & Forster, 2013, p. 308). Adam Smith's idea of the relationship between business and society is said to have influenced Friedman's position on CSR (Schwartz & Saiia, 2012, p. 10).

As explained in Chapter 2, Friedman argued that the key responsibility of business is profit maximisation while conforming to the rules of society (Friedman, 1970, p. 1). Porter and Kramer (2011, p. 6) called Friedman's idea a 'narrow view of capitalism' because it prevents business from taking potential opportunities to create value. Outcomes of Nestlé Indonesia's CSV initiatives in dairy farming communities in East Java demonstrated that the concept of CSV repackages Friedman's logic of capitalism in a new language acceptable to business and the broader society. Porter and Kramer explained that CSV is not company responsibility or philanthropy, rather it is a new way to achieve economic success (Porter & Kramer, 2011, p. 4). This is in line with their definition of 'value', which basically refers to profit maximisation, as discussed earlier in this chapter.

Nestlé's CSV initiatives in dairy farming communities clearly follow Porter and Kramer's definition of shared value as benefit relative to costs. In other words, business could allocate its resources to CSV initiatives when there is a business's case for it. Analysis of

Nestlé Indonesia's CSV initiatives showed that value was created for stakeholders only when it created economic value for the company. This was also the reason a company manager gave for why Nestlé Indonesia and Nestlé International labelled its initiatives as CSV rather than CSR (Nestlé_1).

While Porter and Kramer introduced the concept of creating shared value as an innovation to reshape capitalism and its relationship to society there was no evidence of this occurring in the case of Nestlé Indonesia. In fact, CSV perpetuates neoclassical capitalism by focusing on the company's self-interest and controlling what value is produced, who benefits and who shares the value. This is in line with Crane et al.'s (2014, pp. 140-141) argument that CSV does not provide a solution to capitalism's legitimacy problem, yet it follows the traditional model of competitive strategy to protect the business from competitors.

Nestlé's CSV initiatives echo Friedman's idea of business roles in society. Based on the case of Nestlé Indonesia, it was clear that value is shared with society if and only if it creates economic value for the company; even then the share is not even. This study demonstrated that Nestlé Indonesia limited the business-society relationship to market-mediated relations in that the company dealt with the community merely as a supplier or customer.

Discussion in this section demonstrates that the concept of CSV lacks moral grounding and ethical direction. The analysis of Nestlé Indonesia's CSV initiatives found that profit maximisation was the company's impetus for implementing the strategy; and, social issues were addressed to a limited degree, highlighting that CSV is determined by a microeconomic conception of the relationship between business and society. Reinventing capitalism is not only about connecting social problems and narrow economic perspectives as stated by Porter and Kramer. Companies are required to develop moral capabilities to be suitable and acceptable to social context beyond the economic discourse (Beschoner, 2014).

This thesis therefore argues that CSV does not reshape capitalism as promised by Porter and Kramer; rather, it brings a neoclassical logic to the discourse of CSR. This could have more negative impacts in the case of developing countries such as Indonesia. The history of Indonesia proved that the neoclassical economic implementation was never successfully implemented in the country. As outlined in Chapter 2, the cultivation system introduced by

the Dutch caused the exploitation of farmer instead of bringing prosperity among farmers. Chapter 2 also showed the failure of neoclassical logic to distribute wealth in the country under the Soeharto regime. The lack of moral grounding, ethical responsibility and the narrow economic perspective of companies together with the government's inability to protect society and the environment could lead to exploitation of customers, workers, suppliers, and the environment. These issues have been the focus of CSR discourse over decades. However, CSV as practiced by Nestlé Indonesia has overlook the importance of CSR especially in developing countries.

The next section provides further discussion of whether CSV advances CSR based on the case study of Nestlé Indonesia.

7.5. CSV – a disguised neoliberal form of CSR

Discussion in previous sections highlighted 'sharing value' as the root of CSV implementation for business and society. However, the case study revealed that economic value was the focus of the initiatives. Social value could be created, but the effectiveness of it was limited. This thesis therefore argues that CSV does little to advance CSR theories. Moreover, it repackages neoliberal rationale in CSR discourse.

Table 7.1. shows that interrelating core business with company social responsibility was not a new idea, having been utilised in CSR 2.0 and 3.0. As discussed in Chapter 2, a win-win solution in the relationship between business and society is the focus of CSR theory. The economic rationale for the CSR business case has been promoted through dominant CSR initiatives (Holme & Watts, 2000). However, how CSR theory addresses its purposes is still debatable. Although in some cases CSR initiatives clearly made economic sense for the company, the ethical responsibility to avoid harm to society and the environment are questionable.

Nestlé Indonesia designed, implemented and evaluated the efficiency and effectiveness of its CSV initiatives based on Porter et al.'s CSV frameworks, with the result that there was no objective measurement. The micro-economic underpinnings of CSV limited its value for addressing social issues. Financial and technical assistance programs provided by Nestlé Indonesia in dairy farming communities are an example. As explained in Chapter 5, these

initiatives were provided to increase the milk quality for Nestlé Indonesia as the main buyer of the product. Better milk quality leads to high quality raw material for the company. The company's initiatives successfully changed dairy farmers' attitudes so that many followed Nestlé's SOP. Respondents reported that programs and initiatives provided by Nestlé Indonesia were better than similar programs established by the government, and were instrumental in improving milk quality; in line with the company's core business. The case study revealed that the targeted stakeholders were mainly shareholders; consistent with the agenda to exclude outsider influence. External pressures such as government requirements and boycotts were considered in CSV implementation if it related to the company's strategy for creating economic value. Additionally, this study found that in the case of Nestlé Indonesia once CSV initiatives no longer create economic value for the company, the company discontinues the initiative, reinforcing that CSV as implemented by Nestlé Indonesia is consistent with neoclassical economic theory.

This study revealed that CSV, as implemented by Nestlé Indonesia, echoes the shortcomings of CSR. Win-win solutions offered through CSR initiatives also tend to be rather self-interested and tied to the microeconomic goal of profit maximisation. As such not much has changed from Friedman's logic (Brueckner & Mamun, 2010) that business's responsibility is to increase profits for shareholders and therefore initiatives related to social and environmental impacts are only required if legislated by government (Friedman, 1970; Osburg & Schmidpeter, 2013). The case study also revealed that Nestlé Indonesia took advantage of the voluntary nature of CSR. Although CSR is compulsory in Indonesia under law 40/2007, as explained in Chapter 3, the implementation of it is voluntary. There are no guidelines or accountability for creating CSR initiatives, which is problematic for CSR/CSV implementation. First, since CSV initiatives are voluntary, the company can stop the initiative at any time. Second, business can choose the social issues they are willing to address. This means, the company can easily ignore broader issues related to negative impacts of the company's activities. This is similar to critiques of CSR theories as discussed in Chapter 2, which too are voluntary initiatives with minimum legal requirements and self-interested for business's benefit.

Furthermore, this thesis argues that CSV is another example of Friedman's logic of the 'invisible hand' based on neoliberal business responsibility to make profit for business.

Discussion in Chapter 6 revealed that CSV is business-centred when assessing social issues. Nestlé Indonesia's implementation of CSV is problematic in relation to addressing social issues, as is CSV itself because it views social problems from a business viewpoint. As a result, only social problems that provide economic value for the company will be addressed, while other serious problems may be ignored. This is similar to Banerjee's critiques of CSR theory and practice, as explained in Chapter 2, that the structure of CSR is designed to create value for shareholders, limiting the ability of the company to create value for society (Banerjee, 2014).

The findings from the Nestlé Indonesia case study increases doubt that business can be ethical within a neoliberal capitalist system. For example, Nestlé Indonesia has acknowledged that dairy farming is unprofitable for most farmers. During an interview with Nestlé management in Jakarta, one of the managers explained that the company has been thinking about how to further develop dairy farming businesses in East Java. Land availability is one of the challenges especially for household dairy farming. Nestlé management also argued that moving dairy farming to other Indonesian islands such as Kalimantan, as suggested by the government, would not be effective because most dairy farming communities with basic knowledge of dairy farming are in East Java. Moreover, Green Field Company, a business scale dairy farm in East Java, showed that business scale dairy farming is possible. Nestlé management has a plan to encourage farmers to develop household dairy farming to a business scale. In this way, potential farmers and those who can make the change would have a profitable business.

As previously explained, fresh grass is the main feed component for dairy cows, but adequate supply is a problem, especially in dry seasons. To address this problem Nestlé could support some dairy farmers to change their business to fodder production. Nestlé's manager argued that it is possible for farmers to use the limited land they have to grow fodder. He also believed that farmers could work together with the government to use the government's land to grow fodder. Nestlé calculated that farmers could harvest the fodder in 3-4 months, or at least harvest fodder three times a year. With local dairy farmers as buyers it would be easy for fodder growers to market their product. Moreover, growing fodder is relatively easy compared to other agricultural products such as vegetables or fruit.

In this way, the number of dairy farmers in the communities could be reduced dramatically, which does however raise issues about dairy cooperative membership for fodder growers. Potential fodder growers are farmers with limited capital ability who need the financial access offered by dairy cooperatives. Nestlé could revise its regulation by working together with dairy cooperatives to allow fodder growers to be cooperative members because their commodity is supporting dairy farming. Further, dairy cooperatives could provide support for fodder growers by supplying high quality fodder seeds to produce high-quality fodder. In this way, dairy cooperatives would not lose any members while at the same time fodder growers maintain their access to cooperative facilities. If the facilities available to fodder growers benefit their income and lifestyles this should keep them in the Nestlé-dairy farming relationship.

This could be a potential innovation with tangible positive outcomes for dairy farming communities. Potential farmers would be able to develop their dairy farms into a profitable business, and others could have profitable fodder growing businesses. Moreover, the company would have a sustainable relationship with milk suppliers who produce high quality milk. This could potentially break the poverty chain and increase the quality of life in dairy farming communities in East Java, Indonesia. Thus, Nestlé Indonesia's CSV initiatives could have tangible positive impacts on business and society, not merely be a cosmetic tool for the company.

This thesis argues that there are options for Nestlé as it relates to social and economic value creation for local communities as well as the company. This, however, requires the company to take a broader view of social and environmental issues; I wonder why Nestlé has not moved on the idea.

This section discussed the extent to which CSV differs from CSR concepts as stated by Porter and Kramer. Previous discussions indicated that CSV has not moved from the neoliberal logic and microeconomic conception of the firm commonly guiding business behaviour. CSV, as implemented by Nestlé Indonesia, does not materially improve on CSR's shortcomings. The analysis of Nestlé Indonesia's CSV initiatives showed that the focus of CSV is creating value for society only if it creates economic value for the company, which does little to advance CSR theory. Within CSR, the way companies choose to be responsible is

questionable and debatable (Blowfield & Murray, 2014, p. 14). This remains unresolved by CSV as offered by Porter and Kramer as CSV is rooted in a neoclassical economic understanding of capitalism. This thesis found that Porter and Kramer repackaged the neoclassical logic of CSV to fit with CSR discourses.

7.6. Summary

This chapter analysed CSV theory based on Nestlé Indonesia's CSV initiatives in dairy farming communities in East Java, Indonesia. CSV is perhaps hopeful of 'renewing' capitalism in business-society relationships by convincing people that equal value will be created for business as well as society.

However, the case study of Nestlé Indonesia for dairy farming communities in East Java, Indonesia revealed that using business cases as a CSV approach limited the effectiveness of CSV in addressing social/environmental issues in society. The case study reveals the inequalities created under neoliberal globalisation. This has not stopped Nestlé optimistically presenting CSV to national and international audiences as having addressed social problems faced by poor farmers in developing countries.

Based on the case study of Nestlé Indonesia's CSV initiatives for dairy farming communities in East Java, Indonesia, the discussion in this Chapter demonstrated that CSV could potentially address problems in the communities. However, it must genuinely be from a desire to strengthen local support to help farmers increase their quality of life.

Chapter 8

Conclusion

In the previous decade CSV has increasingly become part of the discourse about business-society relationships. Proponents of the concept believe that CSV advances traditional CSR theories by establishing direct links between a company's core business and society needs. CSV provides companies with the justification for their business cases and allows managers to demonstrate tangible results for investors and assess the value creation by tracking social and business results relative to cost. CSV could be the win-win solution in the relationship between business and society. The concept has been adopted by some companies.

Nestlé is one well-known multinational company which has adopted CSV as the company's strategy for building its reputation and its relationship with society. Nestlé, including Nestlé Indonesia is the pioneer of the concept. The company claims that the idea of CSV was implemented by the company long before Porter and Kramer introduced it in 2006.

This thesis analysed the impact of Nestlé Indonesia's initiatives on dairy farming communities in East Java, Indonesia that supply raw material to the company. The case study data revealed that Nestlé Indonesia's CSV initiatives created economic value for the company; however, the effectiveness of CSV initiatives in addressing social problems was found to be questionable. For instance, Nestlé Indonesia's technical and financial programs for dairy farming communities might be beneficial for farmers who have privileges, such as owning more than 10 cows, but not so for most farmers who only have 2-3 cows. Farmers living in vulnerable economic conditions were unlikely to make profits from dairy farming. Even worse, they were at risk of being trapped in poverty by engaging in unprofitable business.

Similar outcomes were demonstrated for Nestlé Indonesia's CSV initiatives which they claimed addressed nutrition and environment issues in Indonesia. The company's CSV initiatives combined with managerial language promoting its products as nutritious foods clearly create economic value for the company. However, information provided by this 'nutrition company' provides misleading information about what foods are nutritious; for

instance, their promotion of flavoured milk for children. Information provided by the company advertised the benefit of the fresh milk contained in, and the good taste of their product. Importantly, the company did not explain that the product contained sugars and added flavours which could lead to health problems if consumed regularly. This is dangerous for people with limited access to information or a low level of education. Moreover, there is no strict government regulation of how companies provide product information to consumers; the case in most developing countries including Indonesia.

The research from this thesis did not find evidence that CSV provides a win-win solution for company and society or that it advanced traditional CSR. CSR first emerged as an ethical concern about business-society relations (2011, p. 4), which can be understood as the implementation of Polanyi's 'double movement' against neoliberalism (Eberstadt, 1973). However, the case study demonstrated that CSV is fuelled by an economic logic, that assumes social benefit will be created from economic activity and growth. In light of the data presented here CSV does not deliver win-win outcomes or theoretical advances, rather it moves business further from productive solutions (Levy & Kaplan, 2008, p. 443). Therefore, CSV has failed to provide an alternative to CSR theories. It lacks moral grounding and ethical direction. Indeed, CSV articulates the relationship between business and society in advanced managerial language. Arguably, CSV is a repackaged neoliberal logic made palatable through a seductive win-win narrative.

This study found that Porter and Kramer's' argument that economic activities automatically benefit the society a company operates in is false. This neoliberal logic does not work, especially in the case of developing countries such as Indonesia. Weak government regulation and lack of ability to enforce laws allow companies to focus on their economic purpose and ignore the negative impact of their economic activities in the society. Although corporate social responsibility is legally regulated in Indonesia, the voluntary nature of corporate responsibility allows companies to design initiatives that create the most value for the company while providing limited social contribution.

Results from the case study showed that CSV initiatives should not be a one size fits all strategy for all situations and conditions. Nestlé's CSV initiatives were designed and approved by Nestlé Global and implemented by Nestlé in several countries including

Indonesia. However, the different characteristics in every country, including cultures, challenges and potential conditions lead to different CSV results. Successful CSV implementation in one country might have different consequences if a similar program is implemented in Indonesia. Conditions specific to a community could be explored to maximize the possibility of value being created for the company and the society.

This research revealed opportunities for companies, and in this case Nestlé Indonesia, to marry effective business with social objectives. For instance, Nestlé could work with the community to install community sized biogas digesters. This would help address environmental issues arising from dairy farming activities, particularly disposing of dung in open water canals. This could also improve the effectiveness of the biogas system for lighting, large cooking needs and heating, which this study found household biogas digesters fail to do. In doing so, Nestlé Indonesia could develop CSR/CSV to a higher level and increase the effectiveness of the initiatives, and not merely consider social problems through the economic lens of the company as CSV does.

Based on the case study, this thesis suggests companies combine three elements of CSR approaches; stakeholder theory, social innovations and glocality to advance the effectiveness of CSR/CSV initiatives. First, companies should consider stakeholders equally, including suppliers, consumers and communities. This agrees with stakeholder theory as popularized by Freeman (Crane et al., 2014, p. 45), which takes account of relationships among groups that have a stake in business activities. The case study for this research found that the unequal relationship between Nestlé Indonesia and dairy farming communities contributed to the company's failure to recognize the importance of dairy farming communities' role as milk suppliers to the company, especially when the company was the only buyer of the product. This has led to the company failing to address stakeholders' real problems. Giving proper consideration to stakeholders and their problems will facilitate companies, including Nestlé, deal effectively with three problems: value creation and trade in the global business context; the connection between capitalism and ethics; and, a better managerial mindset (1984).

Second, in advancing CSR, companies should combine stakeholder theory with the concept of social innovations. Social innovations take account of social, environmental and ethical

considerations in making economic decisions (Freeman et al., 2010), not merely focusing on the company's interests. In this way, genuine positive outcomes will be created to address social problems without changing company values (Osburg & Schmidpeter, 2013). Innovation is needed to maximise company profits, and to increase social benefits for society. For instance, Nestlé Indonesia has implemented CSV initiatives for dairy farming communities in East Java, Indonesia for more than 30 years. Although the technical and financial support may have been suitable to meet challenges of dairy farming in Indonesia at that time, new innovations are needed to increase the effectiveness of the initiatives to meet current requirements. Nestlé Indonesia could focus on the quantity of dairy cows in the community, to assist farmers profit from their business. The company could work with dairy cooperatives to support farmers develop their business to the minimum level needed to be profitable; including supporting some farmers to diversify. Financial and technical support is needed for farmers to participate in dairy farming by growing fodder and providing high quality grass for dairy cows. Both dairy farmers and fodder growers in the communities should have equal access to facilities provided by Nestlé and dairy cooperatives. In this way, farmers will be able to create profitable businesses and secure the milk supply for the company in different and sustainable ways.

Third, the idea of glocality in the second generation of CSR or CSR 2.0 (Blowfield, 2005) that calls on companies to think globally and act locally is important in advancing CSR. For instance, Nestlé has a global reach, as shown by its implementing CSV initiatives in countries including Indonesia, China, India, and Latin America. However, the Nestlé Indonesia case study found that the company provided similar initiatives in East Java, Indonesia to those in Moga, India and this was not successful. The company had failed to consider the local culture of the communities in which they implemented initiatives. The uniqueness of the social conditions across countries will result in different outcomes from initiatives; knowing this is the point of thinking globally and acting locally.

The case study of Nestlé Indonesia shows that there are opportunities for companies to create win-win solutions in business-society relationships which genuinely bring positive outcomes, for business, and address social problems. The researcher argues that if companies do this in genuine relationships with all stakeholders then the conflict that Marx once identified of competing interests might be ameliorated.

Proponents of CSV and Nestlé, especially Nestlé Indonesia, might find the results of this study – CSV is not a win-win solution in the relationship between Nestlé Indonesia and society – unexpected. However, this should not be the case given their claim to measure the effectiveness of CSV initiatives. It is important for Nestlé to understand and acknowledge that CSV initiatives do little to help farmers break out of the poverty cycle, and in many cases, exacerbate the poverty cycle, yet help the company create economic value. This thesis was not written for the purpose of criticising Nestlé Indonesia; rather, to provide empirical research on the effectiveness of Nestlé Indonesia's CSV initiatives in addressing social issues in communities.

This thesis focuses particularly on Nestlé Indonesia's CSV initiatives for dairy farming communities in East Java, Indonesia. Consequently, this study is not intended to examine the details of Nestlé Indonesia's CSV initiatives on other stakeholders such as factory workers, suppliers such as coffee farmers, or communities surrounding other Nestlé factories. Examples and recommendations made by the researcher focus to advance CSR/CSV initiatives in the dairy farming communities. Thesis recommendations about CSR/CSR initiatives are possibly transferable to other situations, with the stipulation that specific conditions, including the company's business, location of operation, and local culture must be taken into account. Further research could analyse CSV efficacy in different contexts, explore the role of regulation amidst growing calls for more government intervention in questions of business-society relations.

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