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## **Social and Environmental Corporate Social Responsibility of Regional Water Companies in Indonesia**

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**Abstract:**

**Purpose:** *The study analyzes social and environmental responsibility and the implementation of corporate social responsibility in relation to social, environmental and market sustainability by referring to Law No. 40 of 2007 concerning Limited Liability Companies in relation with the management of natural resources.*

**Approach/Methodology/Design:** *The approach method used in this study is an empirical juridical approach, meaning that research is carried out by examining the juridical regulations and connecting with the implementation of regional water company's social and environmental responsibilities in the community.*

**Findings:** *The results showed that regional water supply companies of Kudus Regency carry out social and environmental responsibility activities which are still very limited, only carried out in the form of charity assistance. Social and environmental responsibility for consumers is still very limited, which is limited to obligations related to water quality.*

**Practical Implications:** *This study is useful for policy makers, corporate management, practitioners, scholars, and environmental activists.*

**Originality/value:** *The originality of this study lies in the comprehensive study of the implementation of public company regulations in the context of the social and environmental obligations of regional water companies.*

**Keywords:** *Social and environmental responsibility, water companies, government policy, Indonesia, juridical approach, public company.*

**JEL classification:** *Q2, K2, M3*

**Paper Type:** *Research article.*

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## **1. Introduction**

The form of business that runs economic activities in Indonesia can be a private business, a business organized by state or region, and a cooperative. Businesses held by the private sector, if viewed from the scale or amount of capital owned, can be categorized as micro, small and medium enterprise. Businesses organized by cooperatives are large scale, in spite of very few in number, medium and small, while businesses organized by the state or region are large and medium scale (Wicaksono, 2008). The form of business organized by the regional government is a business engaged in a field that is related to the needs of the people of the region concerned, such as businesses in the fields of credit, pharmacies, drinking water and others (Peniwati and Brenner, 2008). For example, Kudus district, as one of the industrial centers in Indonesia, along with its government has business in the field of banking and credit, namely businesses carried out by the rural banks of the district credit banks, the field of printing and the field of drinking water, organized by regional drinking water companies. Kudus's regional water supply company (known as PDAM) was established based on the Law No. 5 of 1962 concerning Regional Companies. In the law, it is explained that what is meant by regional companies are all companies established under this law whose whole or part of their capital is concerned regional assets, unless otherwise determined by or based on law (Al'Afghani, 2006; Sutrisno and Jazilah, 2019).

There are other definitions of regional companies, namely those established by the Law No. 17 of 2003 concerning State Finances which state that what is meant by a regional company is a business entity that is wholly or partly owned by the regional government. Water drinking company in Kudus regency in carrying out its business by utilizing natural resources, namely utilizing water taken from the ground. Every company that runs a business has juridical responsibilities and social responsibilities. Companies including water companies in carrying out their business are always in touch with the community and other stakeholders, so that the company cannot be separated from the community. Whether or not the water company is developing can be influenced by the community, because the community is a consumer of the company. Therefore, by referring to Law No. 40 of 2007 concerning Limited Liability Companies, the water company as a company which is carrying out its business related to the management of natural resources must also carry out social and environmental responsibilities (Djafar, 2014; Mardiya, 2018; Manan, 2015). In this context, this study seeks to analyze the concepts of social and environmental responsibility and the implementation of corporate social responsibility in relation to social, environmental and market sustainability.

## **2. Research Methods**

The approach method used in this study is an empirical juridical approach, meaning that research is carried out by examining the juridical regulations and connecting with the implementation of company's social and environmental responsibilities in the

community. The juridical provisions used are Laws concerning regional companies, limited liability companies laws, and regional regulations in Kudus Regency. The data collected can be primary data, secondary data, while secondary data can be in the form of primary legal materials, secondary legal materials and tertiary legal materials. Respondents or informants who are expected to be able to provide data to answer the above problems are companies and consumer communities. Respondents or informants from the company are determined by non-random sampling techniques, while informants from company consumers are determined by taking random sampling technique. Data that has been collected is presented and processed to obtain materials, whether the data in the form of legal materials are accurately correct or there is a need to cross check with data or other legal material. After being presented and processed, the next stage is to provide analysis, namely by linking existing theories and regulations with empirical practices in society.

### **3. Corporate Social and Environmental Responsibilities**

The obligation to carry out social and environmental responsibilities for companies, especially Limited Liability Companies, is regulated in Article 74 paragraph (1) of the Limited Liability Company Law which states that companies that carry out their business activities in and/or related to natural resources must implement social and environmental responsibility. The provisions of this article can be used as a reference for the company as a legal entity formed by the regional government to carry out the obligation to social and environmental responsibilities. Although there are no provisions set forth in the law concerning the obligations of regional companies to carry out social and environmental responsibilities, the company as a member of the community has a moral obligation to carry out these social and environmental responsibilities. Regional water drinking utility and supply company (PDAM) as a company certainly has a purpose to seek profits (Bakker, 2007; Rietveld *et al.*, 2000).

However, the company in carrying out its business must not ignore or even harm other interested parties, so that the company must also act ethically. Business activities can be seen from two approaches, namely the approach that prioritizes the interests of shareholders and approaches that use stakeholder perspectives on the basis of social justice (Suprpto, 2006). In the first perspective, business is only an activity focused on maximizing profits with the principle of buying the cheapest and the most expensive-selling, while in the second perspective, the business cannot escape the interrelationships and intrarelationships between various parties in the community related to company.

The linkages and relationships are in order to obtain good resources as inputs that are transformed by the company for value creation, as well as those related to the transformation process of the company. This second perspective is based on the assumption that corporations must be responsible for every action that has an impact on individuals, communities and the environment. This is closely related to the characteristics of business, namely the first essential function of business for various

stakeholders, and second, the impact of outside business on the lives of stakeholders (Sones *et al.*, 2009). The company obtains opportunities in forms of privileges at the agreement of the community. The company is not only an economic institution but also a social institution that has obligations to and obtains rights from the community.

Therefore, the understanding taken for corporate social responsibility is not only responsible for an action after a negative consequence or "ipso facto" occurs, not just fulfilling the demands of the law and norms that apply in society, but being rational and respectful decision-making actions the survival and dignity of all parties so as not to think about self-interest but the public interest (Suparnyo, 2010; Garriga and Melé, 2004). The concept of Corporate Social Responsibility (CSR) has been identified in the literature for its potential to deliver a degree of competitive advantage (Plewa and Quester, 2011; Porter and Kramer, 2006). CSR has received growing attention in the various fields of business. For instance, Inoue and Havard (2015) in analysing the CSR in sport organizations, investigated that it was in relation to charitable giving and activities designed to address social issues such as youth education, leadership, environmental protection, and community development. CSR has received considerable scholarly attention over the decades of becoming an integral part of business practice (Casado-Díaz *et al.*, 2014).

In several laws, the Indonesian government has regulated matters relating to corporate social responsibility, which were originally moral responsibilities and then adopted as legal responsibility because these moral norms were legalized into a legal norm in the form of law. In addition to the implementation of social responsibility due to moral demands, and legislation, social responsibility is also implemented due to global and local demands (McWilliams and Siegel, 2001; Reynolds and Yuthas, 2008). Implementation of social responsibility because moral demands are voluntary actions, while demands from legislation are actions that must be taken because there has been a threat of sanctions for violators (Carroll, 1991; Suparnyo, 2010).

Implementation of social responsibility due to global demands can be stated when there is a global corporate meeting in Trinidad at ISO/COPOLCO dated June 10, 2002 which in the subject is "Corporate Social Responsibility-Concepts and Solution" which states that corporate liabilities incorporated in the ISO (International Standardization Organization) globally must carry out activities relating to the obligations of each company to improve the welfare of local communities around the business area (Rudito *et al.*, 2004; Castka *et al.*, 2004; Smith, 2002). Global demands include the need for a company to obtain ecolabelling certification, namely the certification given to a company that is in the process of making its products from the beginning to the end has no bad implications for the environment and human rights (Hadi and Samekto, 2007; Koszewska, 2011). Implementation of social responsibility on local demands occur because corporations/companies are required to adapt to the surrounding community and also have to deal with the politics of the country concerned. The community as consumers get legal protection from the state, namely with the burden of the company with responsibility.

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As stated in Article 19 of Act Number 8 of 1999 concerning Consumer Protection, business actors are responsible for providing compensation for the damage, pollution and/or loss of consumers as a result of consuming goods and/or services produced or traded. Provision of compensation that has been given does not eliminate the possibility of criminal charges based on further evidence of an element of error.

#### **4. Regional Companies in Promoting Social and Environmental Responsibility**

Corporate Social Responsibility is an increasingly important activity for national and international businesses, because there are many companies that recognize that social responsibility brings many benefits. Social responsibility activities are currently being carried out by companies throughout the world (Asocio, 2004), so that regional water supply companies also carry out social responsibility activities even though the level of implementation is different from other large companies. Regional water company is a company whose position is in the midst of the community and is always in touch with the community, the people who are consumers and people who are not consumers, so the company must also implement corporate social responsibility.

Corporate Social Responsibility is an organization's responsibility for the impact of decisions and activities in society and the environment through transparent and ethical behavior, which is consistent in fighting for sustainable development and community welfare (Hohnen, 2007). When referring to the broad paradigm, the company's social responsibility includes responsibility in the pursuit of profit or seeking profits, being involved in fulfilling people's welfare, and actively participating in protecting the environment (Hay *et al.*, 2005; Susilo, 2018).

Regional water companies in Indonesia whose capital is owned by the local government, the first social responsibility is to seek or pursue profits. The pursuit of profit is certainly not to ignore the existing business ethics and leave the applicable legal rules, but must pay attention to these two things. First, as a regional company, they every year always prepare work plans and annual budgets and among these plans are to seek profits that are always targeted by the district government. The annual work plan and budget in which this is seeking profit is one of the responsibilities of the regional water companies, namely responsibility to the owners of capital. This responsibility can be in the form of legal responsibility and social responsibility.

Among the social responsibilities that must be done by companies that are related to law are the fulfillment of rights to consumers or the implementation of obligations to consumers. From the results of the research obtained through interviews with the appointed company leaders, data was obtained about corporate social responsibility carried out by the company. The company is a regional company that tends to be social in nature, meaning that this company prioritizes the interests of the community rather than profit motives. However, regional companies, including water companies, are

also one of the sources of local revenue that can support the regional budget to support the goal of the welfare of the people (Muda, 2017; Tugushev, 2018).

As a regional company, water companies know the term corporate social responsibility. This knowledge is obtained from socialization and explanations carried out by the Government. Besides that, it is also known from various media both mass media/electronic media and also information from other companies. This knowledge of CSR encourages water company in Kudus regency to participate and play an active role in implementing social responsibility in various forms. In carrying out its business, companies often establish cooperation or establish good relations with stakeholders as interested parties that are around the company. The form of good relations carried out by the company is paying attention to the surrounding community, which is prioritized on network development, while the attention to the surrounding community to become workers is not done, because the company prioritizes the quality of human resources. This consideration of the capacity or competence of prospective employees is prioritized, so that the company has not been able to utilize the human resources around the company to become employees in the water company in Kudus. However, the company in recruiting workers has paid attention to the surrounding community in a broad sense, namely members of the Kudus district community.

## **5. Social and Environmental CSR of Water Companies**

In the area of network development, water companies help the needs of the surrounding community such as making or repairing civil security apparatus, as well as helping the surrounding community in celebrating holidays. Participation given to the surrounding community is given in the form of financial donations, meaning that it is not a physical building. Clean water assistance is also given during droughts in the dry season and when residents are affected by floods and there is no clean water. Clean water assistance during the dry season or even during the flood is very much needed by the community, so that its benefits are greatly felt. The company has not been able to help the surrounding community in developing education and providing educational scholarships to children around the company, because the company considers that some of the budget has been used for the community or especially consumers, even though it is not in activities in the world of education. The company has also not implemented tangible activities to provide assistance to young people around the company with training or skills for entrepreneurship. Regarding environmental preservation, the company has participated in protecting the environment, namely planting greenery around the company.

Companies provide wages/salaries to workers not in accordance with the provisions/scale of salary as applicable to civil servants. This is due to the condition of the company which is not possible to provide salaries that always follow salary increases received by civil servants, but when compared with other private companies, the water companies are already quite high and are above the district minimum wage.

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The company no longer provides salaries to workers below the district minimum wage but is provided on the basis of an agreement between the company and workers. For employees who occupy certain positions, facilities are provided in the form of transportation equipment. On the other hand, the company pays attention to the interests and desires of the owners of capital (the district government), because the district government certainly expects adequate profits, which can be one source of local government budget.

Based on information from the water companies above, it can be seen that the water company in the district of Kudus has implemented its social responsibility, especially to internal stakeholders such as employees and the local government. The implementation of social responsibility to these employees turned out to not be able to meet the salary as applicable as much as the salary of civil servants, because the salary of civil servants every year has always increased. The company has not been able to participate in empowering micro, small, medium-sized entrepreneurs, and also does not establish cooperative relations with mass media or electronics.

However, the company has established good cooperation with other large companies which are intended as an introduction to the public and also cooperate well with suppliers. Cooperation is carried out by providing good and satisfying services to companies that will or have become company customers. The company has not seen the need to cooperate with competitors, because the company does not have direct competitors as well as creditors (such as banks). In the absence of this competitor, it is expected to always pay attention to the quality of both the products produced and the services.

In the development area, the company participates in activities organized by the local village government, participates in activities organized by the district government, and participates in activities organized by the provincial or central government. The company has paid attention to the welfare of workers, both on basic salaries and other benefits. In addition, the company also provides opportunities for leave to workers, gives bonuses to workers who excel, gives holiday allowances to workers, gives mourning money to workers whose families experience disaster, and holds recreation together with workers. The company has provided salaries to employees or employees of 15 times given to workers. This attention is expected to provide welfare for employees and their families as expected from the concept of corporate social responsibility. The company once provided assistance to the surrounding micro, small and medium enterprises. The assistance is given in the form of network connection installation loans, namely through company cooperatives. The company provides credit facilities to customers periodically, every month. The assistance in the form of this loan is used in the form of paying in installments, not to be paid in full at the time of submitting the application for the installation of a company connection network. The provision of credit by company to micro, small and medium entrepreneurs is one of the activities that supports the implementation of Corporate Social Responsibility.

## **6. CSR for Public Awareness and Market Sustainability**

Empirical data obtained in this study by distributing questionnaires to 100 respondents have shown that there are still many company consumers who do not know, that is as much as 60%, about Corporate Social Responsibility. By not knowing the existence of corporate social responsibility, consumers will not demand fulfillment of social responsibilities by the company. This can be understood because many Indonesian people are not happy to claim rights, especially those that are voluntary and do not have significant economic value. Indonesian people still often or much consider in demanding their rights, whether profitable or not because in practice it often happens that if they will claim their rights, the costs that must be incurred are greater than the rights to be obtained.

Water company consumers' knowledge of corporate social responsibility programs 40% is obtained through news in the mass media or electronic media. It is certainly a concern that most company customers, about 60%, still do not utilize this increasingly advanced information system, because mass media or electronic media have often reported on corporate social responsibility, although it is also understandable that the concept of corporate social responsibility in Indonesia is also still relatively new. Consumers who are the company customers have run with the company on average for more than 9 years. This shows that customers get attention both in terms of company legal responsibility and social responsibility. Furthermore, the level of service provided by company's officers is carried out well, even only 10% answered very well. The good service of this company is a manifestation of the implementation of corporate social responsibility, the end result of which is one of the characteristics of the implementation of Good Corporate Governance (GCG).

All consumers stated that they did not know about the organization/association established by company consumers, so consumers gave suggestions that the company felt the need to form an organization to accommodate and channel consumer aspirations. This is needed in order to be able to represent the voices of consumers and in order to ensure the implementation of the rights of consumers. Sitting together between company and drinking water customers is very necessary in terms of providing enlightenment about the rights and obligations of the parties and in order to participate in providing input on tariffs and several other important inputs.

## **7. Conclusion**

Regional water supply companies of Kudus Regency carry out social and environmental responsibility activities which are still very limited, only carried out in the form of charity assistance. The social and environmental responsibilities carried out by regional water companies are given to internal stakeholders, namely capital owners and workers or employees, and external stakeholders, namely the surrounding community. Social and environmental responsibility for consumers is still very limited, which is limited to obligations related to water quality.



This study has several limitations, in the object of research, data and study design. In the object aspect, this study specifically highlights the management of natural resources in developing countries through the establishment of regional water supply companies. This study does not analyze broad water supply from ecological management and its use in households, industry and agriculture. From the aspect of data, this study is limited to the study of corporate social responsibility in water companies in Kudus, Central Java. From the research design, this study is a qualitative and normative-juridical design.

Future studies are expected to investigate water resources management more broadly by analyzing ecological, economic, and sustainability aspects in water production and use. In addition, further studies also need to analyze the relationship between corporate social responsibility and consumers' perceptions of water company services more broadly in various cities in Indonesia with quantitative and longitudinal study designs. This is to find out the relationship between CSR and the existence of a company that is associated with the production and utilization of water.

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