The Governance of Social License to Operate in the Forest Industry in Indonesia

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Chapter 10
The Governance of Social License to Operate in the Forest Industry in Indonesia

Stephany Iriana Pasaribu, Frank Vanclay, and Ronald L. Holzhacker

Abstract The concept of Social License to Operate (SLO) has predominantly been applied in the extractives industry, and its understanding and application within forestry has been limited to date. Nevertheless, achieving a SLO is crucial for forest companies, especially given that forestry has long time horizons, high exposure to the global market, and many and varied stakeholders. We examine how forestry companies operating in Indonesia attempt to gain a SLO from their host communities. We analyse the roles of the three main stakeholder groups in forestry operations in Indonesia: companies, communities and governments. We specifically examine: (1) whether the concepts that underpin SLO (legitimacy, credibility, and trust) can be applied to the practices of the forest industry in Indonesia; (2) the general applicability of the SLO concept in the Indonesian context and (3) what can be done to improve SLO practices in the Indonesian forest industry. We argue that obtaining and maintaining a SLO is an outcome of complex interactions between many factors and actors, rather than being the direct result of company actions. In the Indonesian context, SLO is a relatively new and not fully understood or utilized concept. Its value has not been fully appreciated by all actors. By examining two forestry companies operating in Central Kalimantan, we scrutinize the roles of companies, communities, and the local and central government in the governance of SLO to create a better understanding of this emerging concept in the Indonesian context.

Keywords Social License to Operate · Social acceptability · Community engagement · Sustainable forest management · Social forestry

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10.1   Introduction

While formal legal requirements are significant for governing production, informal social regulations are also important. An informal, unwritten social contract reflecting the opinions and expectations of the broader community about the impacts and benefits of industry or government activities is manifested in the concept of Social License to Operate (SLO) (Edwards & Lacey, 2014; Lacey, Edwards, & Lamont, 2016; Lacey & Lamont, 2014; Parsons, Lacey, & Moffat, 2014). Gunningham, Kagan, and Thornton (2004, p. 308) defined SLO as the "demands on and expectations for a business enterprise that emerge from neighbourhoods, environmental groups, community members, and other elements of the surrounding civil society". Conversely, Thomson and Boutilier (2011) perceive SLO simply as the acceptability of a company and its activities to a specific community. SLO can also be viewed in terms of stakeholder engagement (Lynch-Wood & Williamson, 2007). Simply put, SLO is the tacit permission that communities and society may grant to industry or government to access land and utilize resources. The growing awareness of the applicability of the concept reflects the changing nature of the relationships between industries, their communities and other stakeholders, including government, and is an outcome of the neoliberalisation of government (De Jong & Humphreys, 2016; Owen & Kemp, 2013; Prno & Slocombe, 2012).

Achieving a SLO is essential for long-term business success, especially in sectors with highly visible business activities, long time horizons, high exposure to global markets, and/or with diverse stakeholders keen to influence practices, such as the resource-based industries, including forestry and mining (Esteves, Franks, & Vanclay, 2012; Langbroek & Vanclay, 2012; Vanclay, 2012; Vidal, Bull, & Kozak, 2010). We focus on SLO in the context of forest management, an industry which has a long history of social conflict (Affolderbach, 2011; Vanclay, 2017). The main reason to choose forestry is because SLO has been extensively used in the mining literature, but with a few exceptions (Dare, Schirmer, & Vanclay, 2014; Edwards, Lacey, Wyatt, & Williams, 2016), its understanding and application within forestry has been limited.

Forestry is a significant industry in Indonesia, where 60–90 million people depend on forests for their livelihoods (Marti, 2008). Another reason to research forestry in Indonesia is because of the extreme forest loss, approximately 50% since 1900, resulting in serious social impacts (Obidzinski, Andriani, Komarudin, & Andrianto, 2012). Most forests are on community land with only informal traditional tenure, often belonging to indigenous peoples (Colchester, Anderson, & Chao, 2014). Due to transmigration, illegal logging, plantation companies, the expansion of palm oil production and other agribusiness investments, lands continue to be taken without regard to the livelihoods, welfare, or knowledge of the local communities (Colchester, 2011; Colchester, Pang, Chuo, & Jalong, 2007; Vanclay, 2017). These circumstances have been generating much land conflict between communities and companies (Colchester et al., 2014). We consider it crucial to reflect on the relationship between forest companies and communities in terms of SLO.

From a business perspective, the advantages of SLO for companies are: improved corporate reputation, ongoing access to resources, reduced regulation, improved market competitiveness, strengthened stakeholder relationships, and positive effects on employees (Esteves & Vanclay, 2009; Gunningham et al., 2004; Joyce & Thompson, 2000). The need to be perceived as being sustainable has encouraged the extractive industries to work closely with their stakeholders (including communities) to develop and maintain a SLO, and it is considered that a failure to do so would affect their financial performance (Prno & Slocombe, 2012).

In developing countries, such as Indonesia, natural resources are typically owned and managed by the government. However, private companies are often granted authority to exploit forests and manage plantations. This often leads to disputes between companies and communities, which play out locally and globally (Butler & Laurance, 2008; McCarthy, 2012; Yasmi, Anshari, Komarudin, & Alqadri, 2006). In a context where the nature of relationships between companies, communities, governments and nongovernment organizations (NGOs) is evolving and complex, SLO becomes an important concept to understand how these various stakeholders engage with each other and make decisions (Parsons et al., 2014). We argue that sustainable development can be achieved by incorporating different stakeholders and their diverse perspectives into forest management.

This chapter focuses on Kalimantan, Indonesia, which was chosen because there has been massive deforestation as well as large-scale conversion of land into industrial plantations, primarily palm oil. Palm oil plantations have been the main driver of deforestation in Indonesia, destroying the habitat of endangered wildlife, including orangutan and Sumatran tiger (Marti, 2008). This has also led to the indigenous people experiencing severe environment and social impacts (Obidzinski et al., 2012).

10.1.1   Research Questions

The primary purpose of this chapter is to scrutinize the applicability of SLO to the forest industry in Indonesia. This will be done by exploring the perspectives of the primary actors in the forestry industry: communities, companies, and the Local and Central Governments. Specifically, we examine: (1) whether the concepts that underpin SLO (legitimacy, credibility, and trust) can be applied to the practices of the forest industry in Indonesia; (2) the general applicability of the SLO concept in the Indonesian context and (3) what can be done to improve SLO practices in the Indonesian forest industry.

We argue that obtaining and maintaining a SLO is the outcome of complex interactions between many factors and actors, rather than being the direct result of company actions. In the Indonesian context, SLO is a relatively new and therefore not fully understood or utilized concept, the value of which has not been fully appreciated by all actors. By examining two forestry companies operating in Central Kalimantan, we critically scrutinize the roles of companies, communities, and the

local and central government in the governance of SLO to create a better understanding of the importance of this emerging concept.

10.1.2   Social and Scientific Relevance

This chapter is one of the very first publications to discuss the concept of SLO in the context of the Indonesian forest industry. With the established international ecological significance of natural forests in Indonesia, it is essential that forestry companies have a SLO from their local and international stakeholders. It is thus very appropriate that companies, communities, governments and NGO stakeholders have a greater understanding of this concept. An objective of this chapter, therefore, is to increase awareness of SLO. We also seek to influence forestry companies operating in Indonesia so that they understand why they need a SLO from their host communities. Finally, we contribute to the international discussion around SLO, by considering the role of SLO in forest governance. Our research highlights the thoughts of company, community and government representatives about how SLO is operationalized. This will help policy and decision makers in Indonesia and potentially elsewhere to increase awareness of the importance of SLO. It may help forestry companies consider different approaches to the issues affecting how they seek to gain a SLO in practice. The insights discussed in this chapter will assist in establishing a genuine SLO from communities and in building positive company–community relationships.

10.2   Social License to Operate

10.2.1   History of the Concept

It is generally accepted that the term, Social License to Operate (SLO), first appeared in 1997 in the context of the extractive industries. Jim Cooney, Vice President of International Government Affairs at Placer Dome, a Canadian-based mining company, claims to have coined the term (Cooney, 2017) is widely accredited as having done so (Gehman, Lefsrud, & Fast, 2017). Use of the term has grown rapidly and it is now standard industry jargon in the mining, oil & gas, forestry, and renewable energy industries (Boutilier, 2014; Dare et al., 2014; Harvey & Bice, 2014). It is also widely discussed in the academic and management literature (Moffat & Zhang, 2014; Morrison, 2014; Owen & Kemp, 2013; Prno & Slocombe, 2012).

Awareness of the need to obtain a SLO for each specific project is now generally accepted, and it is argued that this awareness has led to a change in the culture, policies, practices and image of industry (Thomson & Boutilier, 2011). Coney used the term as a metaphor for the community's ability to stop a mining project's activities.

Nowadays, the concept has evolved to become part of the general outlook or management perspective of many companies, and has become the purpose of their corporate social responsibility (CSR) programs (Boutilier, 2014; Manteaw, 2008; Rodhouse & Vanclay, 2016). A company is perceived to have a high level of CSR when they have achieved successful SLO outcomes as demonstrated by, at the very least, a lack of conflict (Jijelava & Vanclay, 2017). From the company perspective, gaining a SLO is increasingly seen as a crucial aspect of managing environmental and social risks (Esteves, Factor, Vanclay, Götzmann, & Moreiro, 2017). Correspondingly, from the perspective of communities, SLO is increasingly recognized as a prerequisite for sustainable development (Jijelava & Vanclay, 2017).

SLO is perhaps best understood as the set of demands and expectations of local stakeholders (especially communities and broader civil society) about how a business should operate. SLO has often been represented as a "social contract" between communities and a company (Demuijnck & Fasterling, 2016; Lacey et al., 2016; Lacey & Lamont, 2014). It is often mistakenly perceived as a single License granted by all (homogenous) members of a community at a given single point in time, however it should be conceived as an ongoing process of negotiation over time with multiple groups in a society (Dare et al., 2014; Jijelava & Vanclay, 2014; Vanclay, 2012).

SLO is both tangible and intangible. It is intangible in that it is informal and unwritten. However, it becomes tangible through the consequences of how the approval or opposition of a community is expressed and experienced, which can often have significant outcomes to a project and company (Hanna, Vanclay, Langdon, & Arts, 2016; Moffat, Lacey, Zhang, & Leipold, 2016). The process of attempting to a SLO can result in a company modifying its practices in order to fit in and adapt to prevailing social norms (Stapledon, 2012), even though problems still remain (van der Ploeg & Vanclay, 2018).

10.2.2 How Do Social License and Legal License Relate to Each Other?

Arguably, SLO is just as important as any legal license. To some extent, what comprises a SLO will be aligned with the cultural norms and legal frameworks applied in a particular country. However, the process to obtain and sustain a SLO is different and distinct from obtaining regulatory or legal licenses, although they are interrelated, especially when there is a legal obligation to achieve product certification. Legal licenses are rooted in specific legislative requirements and procedural conditions, and generally must be obtained before the project or related activities are started. Legal licenses are typically granted by government or its agencies, given only for a specified time period, and clearly nominate the area over which it applies. Conversely, SLO needs to be actively earned and sustained over time by a company through timely and effective communication, meaningful dialogue, and ethically

responsible behaviour (Jijelava & Vanclay, 2017; Kelly, Pecl, & Fleming, 2017). A SLO can only be given by a community and stakeholders, and not by government, politicians, or legal authorities. SLO is rooted in the beliefs and perceptions of communities or citizens about how a company or business should operate (Edwards et al., 2016). It is dynamic in nature, meaning it is subject to continual evaluation and renewal by communities and other stakeholders based on the activities of the company and whether or not the company is able to meet their needs and expectations (Parsons et al., 2014). Nevertheless, SLO and legal licenses are similar in some respects, in that SLO is now increasingly perceived as a requirement before a project or activity can proceed (Boutilier, 2014).

Gaining a SLO does not guarantee that a legal License will also be achieved. Likewise, the legal act of licensing an activity or project does not necessarily indicate it has a SLO. Nonetheless, since legal licensing is increasingly perceived as being insufficient in fulfilling societal expectations, SLO has arguably become less voluntary and can be considered as de facto prerequisite for a project (Leith et al., 2014).

10.2.3   *Operationalization of Social License to Operate*

Although the concept of SLO is considered difficult if not impossible to measure (Jijelava & Vanclay, 2017), there have been various efforts to develop models to explain what constitutes a SLO (Gunningham et al., 2004; Joyce & Thompson, 2000; Moffat & Zhang, 2014; Prno & Slocombe, 2012; Thomson & Boutilier, 2011). We use the model proposed by Thomson and Boutilier (2011), since we believe this model to be most suitable for the context of the forest industry in Indonesia, where legitimacy, credibility, and trust are often obscured and/or questioned by environmental NGOs. Thomson and Boutilier's model was used to analyze how forest companies try to gain a SLO from communities.

In the model, SLO is represented as a continuum with four positions: (1) the withholding or withdrawal of SLO; (2) acceptance; (3) approval and (4) ownership or psychological identification (see Fig. 10.1) (Thomson & Boutilier, 2011). Which position a company is located at depends on the community's (and other stakeholders') perceptions about the levels of legitimacy, credibility and trust they assign to that company and its activities (Dare et al., 2014; Jijelava & Vanclay, 2017; Moffat & Zhang, 2014; Parsons et al., 2014; Prno & Slocombe, 2012; Thomson & Boutilier, 2011).

Jijelava and Vanclay (2017) have expounded the Thomson & Boutilier model. They consider that (social) legitimacy can be defined as the acceptance of the project by affected communities, especially in terms of fairness. Fairness is perceived in terms of whether there was a fair procedure to approve a project, and whether the benefits of a project are shared or distributed fairly with and within communities and other relevant stakeholders. Credibility is defined as the extent to which a project or a company is perceived to be trustworthy. In other words, whether a company
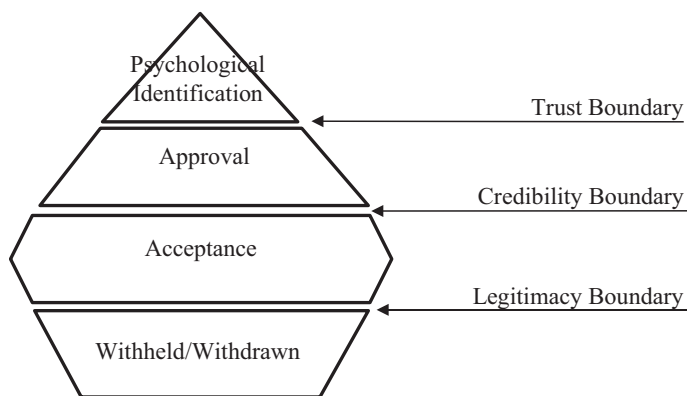
Fig. 10.1 The pyramid model of Social License to Operate (Thomson & Boutilier, 2011)

is perceived as being honest with what they say and do in relation to the project, with no intention to deceive or engage in deceptive activities, being realistic about their project and their ability to fulfil community and other stakeholders' needs and expectations. Trust is a firm belief among the members of a community that they can rely on the company, that the company will make decisions that will likely bring reasonable benefits to the communities and the company. Trust is the confidence by a community or other relevant stakeholders that a company will always fully consider, acknowledge, and resolve all potential issues that the community might have regarding the project.

According to Thomson and Boutilier (2011), legitimacy needs to be gained to acquire the lowest level of SLO, acceptance. There are several types of legitimacy: legal, economic and social. Legal legitimacy is a perception about whether the regulatory requirements and procedures have been followed properly, and whether the decision taken is fair for both the company and the affected communities. Economic legitimacy is defined as the perception of the affected communities about whether the benefits and/or compensation they will receive from the project are fair. Social legitimacy is an intricate concept involving: the wellbeing of the communities, the appreciation of the cultural values of the communities by the company, and the ways in which the company treats the communities and other stakeholders (Joao, Vanclay, & den Broeder, 2011; Vanclay, Esteves, Aucamp, & Franks, 2015). When a company reaches the acceptance level, it means the communities agree that the company's project can proceed, but there may still be doubt whether the company will genuinely address their concerns in the future. At the acceptance level, communities usually have complaints about the project, although they approve the company to continue. Therefore, acceptance can be considered as the temporary willingness of a community for the project to proceed (Thomson & Boutilier, 2011).

When a company has succeeded in creating legitimacy, the next stage is to establish credibility, which will advance them to the approval level of SLO. Credibility is achieved by consistently delivering true, consistent, and clear information to

communities. Credibility can also be achieved when the company keeps its promises, listens attentively to the concerns and complaints of communities, and treats communities fairly. The approval level is considered as having been achieved when communities openly and strongly express their support for project (Thomson & Boutilier, 2011).

Gaining trust from communities is a signal that a company has reached the highest level of SLO, "psychological identification". When there is a demonstration of a high level of trust, communities will identify and align their future with the project. This means that they perceive their future highly depends on the success of the project, and they are willing to fight for its success and the interests of the company, and vice versa. In this case, both the company and the communities believe they share the same interests and goals. Full trust may be established by repeatedly proving to the communities that the company has a genuine interest in promoting their wellbeing, and by being evidently proactive advancing the communities' objectives.

10.2.4   Critiques of the SLO Concept

Although the SLO concept has attracted much support, there are also some detractors at a general conceptual level and at a practical level. The concept is considered to be ill-defined, hard to measure, and variously understood by different groups, including industry, academics, local communities and NGOs (Harvey & Bice, 2014; Moffat et al., 2016). Some consider it to be a neoliberal concept that emerged in response to community opposition to projects, with the intention of constraining debate about the underlying issues, rather than being proactive engagement (Manteaw, 2008; Meesters & Behagel, 2017; Owen & Kemp, 2013). Others believe that it is nothing new, and just another name for legitimacy (Gehman et al., 2017). Some believe that not all companies are convinced that gaining a SLO is necessary—that the business case for a SLO is not fully developed—and that projects can sometimes more profitably proceed without local community support (Boutilier, 2014; Owen, 2016; cf. Ehrnstrom-Fuentes & Kroger, 2017). Finally, the process of gaining a SLO requires community engagement and discussion about the project within the community, which may be a source of conflict within communities, and between communities and forest companies (Wiersum, Ingram, & Ros-Tonen, 2013). Despite these criticisms, we believe the concept has value, as we discuss below.

10.3   Methods

Case study research was undertaken by looking at the SLO practices of two forest management companies, Taiyoung Engreen (PT.TYE) and Hutan Amanah Lestari (PT.HAL), which operate in Central Kalimantan, Indonesia. As with all case study

research (Yin, 2014), mixed methods were used, including: document analysis; in-depth interviews with representatives of forest companies, communities and governmental agencies; focus group discussions with representatives of an environmental NGO and a research organization; and field-observation.

In-depth interviews and document analysis were used to gain an understanding of: how PT.TYE and PT.HAL perceived the SLO concept; how they have attempted to achieve SLO from their communities; how the communities perceived those attempts; and the roles of local and central government in the governance of SLO. The interview discussion topics were developed by reviewing the literature on SLO. Document analysis included reviewing the annual Social Engagement reports from PT.TYE and PT.HAL, as well as other appropriate reports. Qualitative data analysis was undertaken using MaxQDA, with data coded to identify the key themes.

Interviewees in the forest sector were identified by a snowball process using the professional networks of the lead author in Indonesian forest industry, the Ministry of Internal Affairs of Indonesia, and various NGOs networks in Central Kalimantan. In total, eight in-depth interviews were conducted in January 2018 (six in Kalimantan, two in Jakarta) and two focus groups in January 2018 were conducted in Palangkaraya, Central Kalimantan (one with the local NGOs, one with a research organization). Two company managers, two community members, two government officials, a senior forestry academic, and one international NGO staff were interviewed. For all interviews, the general principles of ethical research and informed consent were applied (Vanclay, Baines, & Taylor, 2013), although signed consent sheet were not used because it was not appropriate in this specific context. Interviews were conducted in Bahasa Indonesia and were recorded, with the permission of the interviewee. Detailed notes from the interviews were written in Bahasa Indonesia and reviewed to find themes.

10.4   The Social License of Two Forestry Companies

10.4.1   Background to the Case Studies

Our research involved case studies with two forest management companies operating in Kalimantan in Indonesia. PT.TYE is a Korean company that has established plantations in Indonesia for rubber and sengon (*Albizia chinensis*), which is used for pulp. Its plantations are in the Gunung Mas district of Central Kalimantan. They acquired an operational permit (SK-IUPHHKA-HT) from the Indonesia government in 2009 for a concession area of 59,810 ha. PT.HAL is a private Indonesian company that invests in carbon sequestration using 25,800 ha in the South Barito and East Barito Districts of Central Kalimantan. PT.HAL sells carbon credits by protecting existing forests and by reforestation. PT.TYE and PT.HAL were selected as appropriate cases because they are relatively recent in starting their projects in Central Kalimantan (PT.TYE in 2009 and PT.HAL in 2013). They facilitate our

exploration of what companies do to achieve and maintain a SLO from affected communities.

With Indonesia being a signatory to the United Nations Declaration of the Rights of Indigenous Peoples, but not to the Convention 169 of the International Labour Organisation, Free, Prior and Informed Consent (FPIC) (see Hanna & Vanclay, 2013) is not a strict requirement and it is not formally required in Indonesia, however it is de facto expectation (Colchester, 2010; Colchester, Anderson, & Zazali, 2010), and is specifically expected because of the certification requirements of forestry companies in Indonesia.

One reason to examine PT.TYE was because 70% of their concession area is customary forest of the indigenous people, the Dayaknese. This forest primarily comprises Ulin trees (ironwood, *Eusideroxylon zwageri*), which are believed by the Dayaknese to be sacred, thus needing protection. However, the local government has not officially recognized it as a customary forest (Mongabay, 2016). Without this recognition, the Ulin forest is at risk. It is a good case study because PT.HAL has attempted to preserve the protected forest. However, the communities still demand financial benefits from the reforestation project.

10.4.2   Gaining SLO from Local Communities: The Company Perspective

In both companies, the understanding of the SLO concept was limited. Essentially, they equated SLO with social management, CSR and community development, which are required by the government-mandated code of forest practice and the forest certification schemes. SLO was also perceived as being somewhat similar to FPIC. However, the essence of the interviewees' understanding of SLO was community acceptance of company activities.

Legitimacy was perceived as being key to gaining SLO. However, both companies primarily relied on economic legitimacy to achieve SLO from local communities. Economic legitimacy was considered as when the benefits being provided by the project to the affected communities were fair. Economic legitimacy was seen as being compensation or financial entitlements for those who have been negatively affected by the project and in terms of benefits or contributions by the company to the communities beyond normal taxation or other legally-imposed costs of operation. In both cases, the benefits provided were considered to be shared infrastructure, job opportunities and transfer of skills, knowledge, and technology to local people.

A critical issue identified by the interviewees was the need for the company to gain legitimacy from the communities. Achieving genuine legitimacy through direct involvement was considered difficult because the communities overestimate the value of money rather than prioritizing forest protection. PT.HAL had difficulties to gain genuine legitimacy from the communities without paying money. The

communities measured fairness of the compensation and benefits based on a comparison with what they had acquired from another company, as revealed by one interviewee:

> Communities are not as naïve as people from outside think. They know the value of money. For instance, if we want to promote awareness of our programmes in a village, the community members would not come to the awareness events if they knew we would not give them money for transport—or, when we invited them to plant trees together, they would ask whether they would get paid for it. I think this is due to the influence of how the other company has treated them. For PT.HAL, it is because there is a mining company that has given the communities money and material things to attend their programs. Thus, the local communities expect us to do the same (PT.HAL representative)

To gain legitimacy, it is important that the company understands and respects the local context, including cultural norms, wisdom and habits (Jijelava & Vanclay, 2017; Prno, 2013). In the case of PT.HAL, the communities are mostly Muslim. For Muslims, it is very important to go on a pilgrimage to Mecca. This creates a pressure on the communities to collect money from various activities, including illegal logging, illegal mining, and by asking money from PT.HAL and other companies. Hence, the main strategy to secure legitimacy revolved around economic legitimacy.

Once legitimacy had been achieved, the companies were challenged to achieve trust. PT.HAL attempted to achieve trust by contributing clear and fair economic benefits to the communities and by being responsive to the shifting community expectations over time. However, the process of gaining trust had been negatively influenced by the legacy of a local NGO, which had deceptively attempted to teach Islam to the local communities under the guise of food security. This reveals that gaining trust depends not only on how a company treats local communities, but also on the legacy of past activities and relationships with other stakeholders. When the legacy is negative, it will be a challenge for a subsequent company to gain trust from communities, with them questioning whether the company's intentions are genuine or not.

Both PT.TYE and PT.HAL had awareness that it will take years to achieve a high level of trust from the local communities. Both companies translated a high level of trust as a situation without significant conflict with communities for an extended period. They were also conscious about the key role of trust for the success of the company's projects. However, they were concerned that a high level of trust might be accompanied by high level of dependency on them.

The main challenge the companies perceived to achieve credibility and trust from the communities was associated with land entitlement. From the perspective of PT.TYE and PT.HAL, the concession areas belonged to the State and because they had acquired a business land use permit (*Hak Guna Usaha*), they considered that they had the right to use the land and that the State had endorsed their presence and operational activities. However, the communities believed that the concession areas were their customary forest lands (*hutan adat*), which they had held for generations. This highlights three things. First, the local government does not have clear information regarding land tenure, especially relating to unregistered land and customary land. Second, the land rights of the indigenous people are not adequately

recognized or respected by the Government of Indonesia. Third, the customary institutions of indigenous peoples lack a legal basis. These issues raise questions for PT.TYE and PT.HAL in terms of gaining credibility and trust from the communities, including whether the communities have a right to approve or not the presence and operational activities of the companies.

> In our case, the forest is clean and clear, meaning that it is absolutely owned by the State. So, how is it that the communities have a right to give us a SLO or not? (PT.HAL representative)

Both the PT.TYE and PT.HAL representatives described the need to engage early in dialogue with the local government to achieve a SLO. They considered that the involvement of local government will secure a SLO at the community and regional levels. However, it is often the case that local governments fail to monitor company activities despite there being funding for this. This is suggestive of corruption or at least of their lack of willingness to recognize indigenous people rights to land.

10.4.3   The Perspective and Role of Government at all Levels

The representatives of the Local and Central Governments—specifically the Provincial Forestry Agency and the Forestry Ministry—had a clear preference for terms such as social management (*kelola sosial*), CSR, and community development over SLO. To a lesser extent, they also used the term, social forestry (*kehutanan sosial*), which aims to simultaneously conserve forest and create prosperous communities (Hyde & Köhlin, 2000). They considered SLO as a relative new term for an existing and well-known concept.

As mentioned earlier, SLO and legal licenses are different although interrelated, as was clearly evident when looking at forestry practices in Indonesia. When a company has acquired forestry certification (*Pengelolaan Hutan Produksi Lestari*), it has the right to undertake forest management according to its own determination of what it considers is appropriate. Thus, the certification process is a form of self-regulation that minimizes the ongoing role of government. There is no monitoring and no compliance checking by government.

This regulatory framework reveals a shift in forest governance regarding sustainable forest management, away from the state to corporate bodies and with an important role for NGOs in resisting (Hanna, Vanclay, Langdon, & Arts, 2014; Hanna et al., 2016). This transfer of authority from state actors to companies impacts on the role of the local government in relation to SLO: there is no monitoring or control by local government of company's activities to achieve a SLO; there is no role for the government in relation to addressing community grievances; and there is uncertainty around who is responsible for mediation and problem solving in relation to contentious issues between a company and communities. The surveillance of company SLO practices is thus highly dependent on NGOs, indigenous people's groups,

and on the personal goodwill and individual initiatives of staff of the Provincial Forestry Agency, who do act in support of communities but without a clear mandate.

Forest companies are assessed annually by Central Government for their community engagement and environmental management performance. However, this assessment is based only on company self-reporting, without any field inspection. This shows that both Local and Central government do not take it very seriously. However, the Local and Central government representatives recognized the need to monitor how forest companies attempt to earn a SLO from local communities. Their challenge is to be able to fulfil this role as an honest and brave watchdog, free from corruption or collusion, especially when a forest company is owned by a powerful individual. This was outlined by an interviewee:

> There is a case where the forest company is owned by the leader of the local government, a person who also is the President of the Indigenous people's group. In this case, how can the communities express their concerns regarding the company? How can the true concept of SLO be applied when this is the case? (Central Government Representative).

10.4.4   SLO from the Perspective of Communities

In the case of PT.TYE, the local community considered that forestry activities had negatively influenced their sources of livelihood. Over time, the price of some forest commodities sold by community members (e.g. rubber latex and rattan) has been declining. Furthermore, since 2008, swidden or shifting cultivation (*ladang berpindah*), their customary way of life, has been forbidden. These things together have prompted them to engage in illegal mining and logging to survive. For local communities, developing alternative livelihoods is a primary concern. Therefore, economic legitimacy is the first requirement for a company to obtain their acceptance. A form of economic legitimacy provided by PT.TYE was the provision of shared infrastructure, such as improved roads. This has enabled the communities to bring non-timber forest products to market.

Legitimacy, credibility and trust are earned when a company undertakes community engagement that leads to economic benefits for local communities. Communities expect companies to provide real, ongoing benefits, such as helping them sell the non-timber forest products, providing social benefits, and addressing all social and environmental issues that arise. The communities frequently emphasized the importance of listening and participation. They would like to cooperate with the companies. Effective community engagement is very important to develop opportunities for positive interactions that create credibility and trust (Moffat & Zhang, 2014; Prno, 2013). Trust is only achieved when community engagement methods ensure that all groups in the communities are included (Dare et al., 2014), as was revealed by an interviewee:

> Conflict between company and communities occur when we do not engage with all groups in the local communities. They will protest and not trust us. Then they will start to claim that our areas are theirs. (PT.HAL representative)

For PT.TYE, the communities expected Local Government to be involved at the village level, playing the roles of adviser to the community and go-between with the company. It was noted that village leaders sometimes have their own vested interests and often received financial benefits from the companies. Consequently, some community members felt alienated or ignored, with their concerns going unaddressed. Nevertheless, in general, conflict between company and communities will only be solved with the help of community leaders because communities usually respect and listen to them. In the Indonesian context, community leaders often play a pivotal role in shaping trust between communities and company. Establishing harmonious relationships and providing effective channels for delivering complaints can significantly improve trust.

10.5   Understanding the Place of SLO in the Indonesian Forestry Industry

Forestry companies operating in Indonesia are either owned by individuals with enormous power and influence, or by significant foreign companies. This inherently creates governance issues, including corruption risk, elite capture, conflicts of interest, and issues about access to remedy (Barr & Sayer, 2012). Sometimes, roles and positions of the various parties overlap. In the case discussed above, one person was both the leader of the local government and the leader of the indigenous community, as well as something of a local entrepreneur and power broker. His various roles meant he often had a conflict of interest. Potentially he could acquire a permit without having properly gained FPIC or without following the normal legal procedures. In general, companies perceive that they need to earn a SLO from communities only when communities express their concerns or demands explicitly (see also Hanna et al., 2014, 2016).

Communities often demand financial benefits or compensation, and usually companies will grant these demands. Companies tend to equate SLO practices with CSR. Therefore, to earn a SLO from local communities, companies sometimes undertake community engagement activities around alternative sources of livelihood, they provide capacity building for the skills required for those alternative livelihoods, and they carry out philanthropic activities to fulfil the needs of communities (Esteves & Vanclay, 2009; Vanclay, 2017).

Communities usually expect that NGOs will help and guide them in their interactions with a company or play a role as trusted buddy in negotiating with the company. However, not all NGOs have a genuine intention or commitment to this role. Some NGOs or individuals manipulate the system and deceptively exploit the communities to gain information, lands or resources fraudulently. Even though the companies are themselves not responsible, their reputation and social licenses are at risk, especially when they take no action to establish who the legitimate voice of the

community might be. There is no oversight or control by government at any level to prevent unscrupulous operators.

10.6 Conclusion

Our analysis of the two forestry companies, PT.TYE and PT.HAL, revealed the value of thinking in terms of legitimacy, credibility, and trust, and the general utility of the Social License to Operate concept. Our research revealed the contested nature of SLO within the Indonesian forest industry, but also that SLO, as a concept, was considered important by the three main actors (company, community and government), even though it was not fully understood. However, our research participants tended to characterize SLO activities as being equivalent to corporate social responsibility, social management, or community development programs aimed at improving the company–community relationship. Both companies and communities perceived that economic legitimacy was key to earning a SLO. Therefore, they tended to prioritize economic benefits over legal or social legitimacy issues, such as whether the company fully respects the local culture or community way of life, or whether a company carries out its activities legally and competently.

Within the Indonesian context, SLO practices were complicated by three things. Firstly, Indigenous people's rights have not been fully recognized by the Indonesian government or by companies. Secondly, overlapping roles and the lack of a culture of good governance or an awareness of conflicts of interest means that it is possible for some individuals to have unrestricted influence, leading to a risk of corruption and the inability of local people to seek redress. Thirdly, the Indonesian Government tends to issue business permits to forestry companies without any assessment that the affected communities accept the presence and operational activities of the company, even though the communities notionally do have a right to give or withhold their free, prior and informed consent. In this context therefore, we consider that constantly examining the risks associated with SLO practices and the complexities of the power relations among the actors are crucial to improving SLO practices in the Indonesian forest industry.

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