

## **Industrial Role Optimization in Regional Development through Corporate Social Responsibility**

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Received: July 12, 2020; Accepted: August 28, 2020; Published: November 2, 2020

**Permalink/DOI:** <http://dx.doi.org/10.17977/um002v12i22020p176>

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### **Abstract**

Sustainable development is a complex problem that demands a partnership to create synergy from government and the industrial sector. This study aims to minutely examine how the industrial world optimally performs its role in regional development with its social responsibility. This research used the content analysis method, while the respondents were 18 CSR Forums out of regencies/cities in East Java, and companies incorporated in those forums. The results showed that most of the companies had carried out their social responsibilities with variations in their numbers and activities. A report said that three trillion rupiah were granted for the CSR fund. It was a significant amount compared to the 30 trillion development budgets of East Java in 2018. The implementation of CSR tends to be charity, instead of be directed and arranged into continuous and sustainable programs. The CSR Forums are to perform a proactive synergy between companies and the government. However, due to various limitations and constraints of each region, this has not reached its optimal level. Ongoing efforts are needed to establish government and industry harmonization with the intention that the existing CSR funds unquestionably become one of the regional development reinforcements.

**Keywords:** Corporate social responsibility, CSR forum, regional development

**JEL Classification:** M14; O18; P25

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### **INTRODUCTION**

Joining issue with the objectives of business organizations and corporate management strategies, corporate social responsibility (CSR) becomes a central topic. CSR is closely defined as a tool to enhance reputation and notch up commercial success for companies in a way that respects ethical values in society, and the natural environment (El-Bassiouny, Darrag, & Zahran, 2018; White, 2006). The strategic approach developed by the management illustrates changes in how people perceive the company (Gretta, 2010; Matten & Crane, 2005). Rochayatun et al. (2016) added that CSR as an organization or company commitment to continuously behave, ethically conduct, legally operate and contribute to the economic improvement, in line with improving its stakeholders' life quality.

However, numerous companies in certain areas remain absent to engage in CSR. Companies properly implementing CSR are generally still in the form of spontaneous and ad hoc or temporary charity, while the community development remains untouched (Maulidiana, 2018). There are three reasons for businesses to have their perceptions leading to CSR delayed implementation. First, CSR is charity, not mandatory. It is perceived as a burden, or a must-do investment disruption (Lars, 2016).

From the government side, the complex problem of sustainable development requires partnerships able to create synergies. CSR partnership programs with the principles of sustainable development through values, norms and languages are needed to bring government issues (Westley & Vredenburg, 1991). The partnership development emphasizes the importance of clear communication (Steve, 1997). While mutual trust is a crucial contributor to partnerships (Waddell, 2000). To achieve the sustainable development, commitment and awareness of sustainability are required to improve by means of engaging the whole environment in every corporate strategy planning (Huda et al., 2018). The substantial synergy between stakeholders in decision-making with balanced economic and environmental responsibilities enables CSR to describe the profitability of the company (Ying-Pin, 2015).

An understanding of each other's positions, tasks, functions and structures underlies CSR programs (Tennyson & Forum, 1998). Partnerships between companies, governments and communities, called three parties-partnerships, are expected to be a synergy (Backstrand, 2006; Tennyson & Forum, 1998). Some researchers name this as a three-sector partnership (Nelson et al., 2000; Selsky & Parker, 2005). A preliminary research by Tuokuu and Amponsah-Tawiah (2016) supported that business and society are out of the question to exist without cooperation. A responsible business is the key to sustainable development. Studying CSR Forums, Hendrayani and Hashim (2018) came to the conclusion that the communication and harmonization process was important for the success of collaboration.

Various researches have been conducted on CSR. Galbreath (2006) stated that there are four CSR strategies considerable for company's business operations, including shareholders; altruistic; reciprocity; and citizenship. These strategies are specifically directed to the needs of stakeholders, including employees, consumers, suppliers, the community environment. This means that corporate responsibility is not only focused on the company and employees but also to the environment and society financially or economically. Tuokuu and Amponsah-Tawiah (2016) conducting a study on CSR in Africa argued that the company and society environment sustainability cannot arise in the absence of cooperation between the two parties. Furthermore, corporate responsibility occupies a major role in sustainable development in the African Region.

CSR synergy with regional development initiates the CSR Forums. Rochayatun et al. (2016) verified that the excellence of CSR Forum is the company's CSR program synergism with the Regional Government's priority programs. This is due to a common focus on CSR issues between companies and regional governments, such as, poverty, health, education, and economy. In addition, it requires special arrangements of the overlapping CSR programs. In relation to the role of CSR in development, (Urip, 2014) explained several programs

possible for CSR to support. These are infrastructure, and community development, as well as the improvement of human resource competencies, environmental security, public health and security and community welfare. Moreover, Machmud, (2015) explained that CSR through public private partnership in West Java Province can be put-upon as an alternative source of regional development. The cooperative relationship between the private sector and the community is a spectrum lined by the public private partnership.

East Java, one of the provinces in Indonesia, has developed CSR Forums in the regencies/cities to synergize the company's CSR program with the regional development program. Regional CSR Forum is a concept of relationship by understanding the process of cooperation in developing trust, solving joint problems, corporate management, government and society relations (Sukada, 2007). The basic idea of setting up a regional CSR Forum is partnership. It plays an important role as a cooperation forum consists of three stakeholder sectors, including the corporate, government and community sectors in various fields. In 2018 there were 816,804 companies in East Java (BPS, 2018). With the extraordinary potential of industries in East Java, and CSR Forums in various districts/cities, it is very interesting to study how to optimize the industrial world in regional development through its social responsibility programs.

## **METHOD**

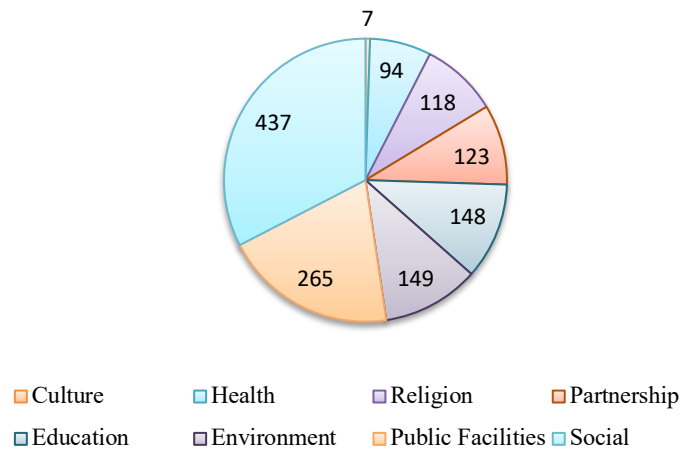
This is a qualitative study adopting a content analysis approach. According to (Carley, 1993; Duriau, Reger, & Pfarrer, 2007) the content analysis method is a technique for drawing conclusions by objectively, systematically, and generally identifying specific characteristics of a message. The population of this study were 38 regencies/cities in East Java Province. The samples were 18 CSR forums spread across 18 regencies/cities in East Java, selected purposively according to clusters in the province. In addition to the 18 CSR Forums, respondents of this study were companies that joined the East Java CSR Forums. The data collection process was carried out in stages, namely at the end of 2017 and early 2018.

## **RESULTS AND DISCUSSION**

### **Implementation of Corporate CSR Programs in East Java**

Data of CSR implementation in 2017 were collected two times, at the end of 2017 and at the beginning of 2018, by identifying 278 companies and 18 CSR forums around 18 regencies/cities. From 278 companies or 0.3% out of 812,026 companies in East Java, the reported CSR funds were three trillion rupiah or 10% of the total East Java development budget in 2018 by 30 trillion rupiah. It is a substantial amount for the sustainable development program booster when all companies in the province are willing to spend their CSR funds. Nearly all the companies had carried out CSR with variations in numbers and types of activities. Based on interviews with several members of the CSR Forums, the companies carried out their social responsibilities to gain a place in the society. This is in line with the legitimacy theory by Samkin and Deegan (2009).

The CSR funds were allocated for several programs and activities including education, health, environment, social, public facilities and partnerships, with the following proportions (see Figure 1).



**Figure 1.** CSR fund allocation

The results of 11 CSR activities carried out by social companies are dominants for the CSR implementation. It makes sense that the simplest thing for companies is to help the surrounding community in various social activities. This is in line with stakeholder theory stating that companies should maintain their reputation by shifting goals solely measured by shareholder orientation that tends to be economic measurement for social life as an alignment with social problems (stakeholder orientation).

Interviews with each company’s informants reveal various obstacles encountered by several companies, both private and state-owned companies, in implementing the CSR program. Those are a total absence of standard operational procedure reporting system, difficulties in synchronizing policies and programs, monotonous programs in responding the demands of the surrounding community, untargeted and non-continuous programs, improperly built synergy between corporate and government, no clear sanctions for companies with no CSR activities, and CSR forum unavailability in several districts/cities.

These constraints indicate the absence of strong collaboration from the parties concerned. A multi-stakeholder approach in designing and implementing CSR programs is really indispensable. In line with (Tuokuu & Amponsah-Tawiah, 2016), governments, civil society, communities and companies must constantly collaborate and involve stakeholders, to accentuate win-win solution benefits.

**Synergy Optimization between Regional Government and Industry**

East Java provincial government strived for optimizing the synergy of local governments and companies to form a mediation forum called the CSR forum. The East Java Regional CSR forums organize collaboration as a strategy to build cooperation among forum members to achieve sustainable development and overcome the challenges of economic, social and environmental problems in the region. As stated by (Fiszbein & Lowden, 1999). Collaboration is a process of social change, which is the midpoint of a continuum between cooperation and partnership. (Steger et al., 2008) illustrated that the collaboration process is related to goals, communication systems, leadership, community participation, and continuity. Thus, this collaboration is characterized by a regular, open, and clear communication

system. Steger et al. (2008) argued that partnerships have many goals. Thus, all forms of partnership or collaboration are necessarily initiated with involvement.

An interesting finding from this research is that the East Java CSR Forum applied the Rp. 0 - CSR principle meaning that there were no deposits to the government. The funds were managed by each company and the CSR program was merely adjusted according to the local government development road map to restrain overlapping. This was consistent with Hendrayani and Hashim (2018) which stating that the principle of CSR was = 0 rupiah and it greatly influenced the government to remain neutral with strong supervision and legitimacy to review the situation. Overlapping programs will certainly not in the picture due to its equity goals to make sustainable development achieved. The overlapping of CSR programs, both in organizational units or even at the district/city level, are needfully to address.

According to Rochayatun et al. (2016), the tasks of the CSR Forum are to conduct CSR socialization and education, facilitate and serve companies to actualize CSR, record, document and publish all CSR activities, provide consultation needed by the company in implementing CSR, and give appreciation to those that have implemented CSR in a real and effective way and contributed to improving the welfare of society.

In this case, the Indonesian local development planning agency has tried to get closer to the industry players by making several special invitations for CSR program synergy socialization in accordance with the road map of the development program to avoid overlapping. Other efforts were by making a written letter requesting CSR program reports, however this appeared not to optimally run. From invitations or report requests distributed to companies, the average feedback obtained was only 30% of the total amount. This portrayed that involvement remains poor, whereas to achieve a successful CSR program requires constant involvement from each stakeholder (Backstrand, 2006; Nelson et al., 2000; Selsky & Parker, 2005; Tuokuu & Amponsah-Tawiah, 2016).

Data collected shows that the industry needs stimulus to ensure that synergy brings benefits to both parties. Based on the interviews with companies, they concluded that since active or passive participation in CSR forums brought no significant differences, they decided to run their own CSR programs according to the company's road map. It gives the full picture of theory of legitimacy stating that the company needs recognition from its stakeholders. The company is socially accepted and judged to be fair and worth supporting (Eugenio et al., 2013).

Based on the interviews with 18 regency/city CSR Forums and joining companies, it brings to conclusion that the existence of CSR Forums has not served a prominent role. This is due to: a) several regency/city CSR forums were newly established, b) some regency/city CSR forums posited to strengthen their internal coordination, c) there was no linear SOP between the activities of the provincial CSR Forums with regency/city CSR Forums, d) budget and personnel provided by local governments to support the operation were inadequate, and d) guidelines governing the process of coordination, monitoring and evaluation among Regency/City CSR Forums with Regional Coordinating Board CSR Forums and East Java Provincial CSR Forum were insufficient.

## CONCLUSION

East Java as one of the provinces with many industrial areas has a great potential to be able to synergize its development budget with CSR programs from companies spread throughout the region. The results showed that almost all companies surveyed had carried out their social responsibilities with various types of activities and numbers. The amount of funds obtained from the company's CSR report is IDR 3 trillion or 10% compared to the 30 trillion East Java Development Budget. It is considerably sufficient to make a tangible contribution to the regional development. CSR Forums in various regencies/cities in East Java have been established, despite the fact that, the implementation has not been maximally brought off yet. The government has tried to synergize with the industrial world, however it is undeniable that there are egocentric issues on the companies. Hence, it is not easy to align CSR programs with government programs. To optimize CSR funds originating from the industries to be in line with government programs, extraordinary efforts are still demanded and undoubtedly require support by human resources competent in their fields. Continual and sustainable efforts are necessary to create harmonious synergy, and produce strong collaboration in encouraging sustainable development in East Java as well. Further research is suggested to expand the research object comprising all regencies/cities in East Java, not limited to those 18 regencies/cities. With immense number of companies in East Java, clustering could be brought into consideration to ease the CSR implementation analysis of each business cluster. The companies were less open for data extraction and CSR Funding reports. In addition, companies' excessive bureaucracy was another burden for data retrieval. The company clustering based on the turnover and business type was unavailable. This research was only conducted in 18 regencies/cities in East Java.

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