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How Participatory is Corporate Environmental Performance Rating? An Assessment of Indonesia's PROPER Program

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1. Introduction

Corporate environmental responsibility (CER) dates back a few decades, to when governments in industrialized countries – alarmed at the increasing environmental problems resulting from industrial development – started to pay more attention to environmental protection, e.g. by establishing national environment ministries and supporting the emergence of environmental NGOs. Environmental responsibility of business activities followed suit, largely in response to stakeholders' demand of environmentally friendly business. For more than a decade now, transparent CER of business practices is considered a requirement (Mazurkiewicz, 2004), and corporations are considered responsible for community development and for mitigating and preserving the natural environment (Rela et al., 2019).

Not only is CER a responsibility placed upon businesses; it is also in their own favour. Studies show that companies who wish to attract environmentally responsible investors can benefit from obtaining and disclosing their environmental performance information (Dilla et al., 2019). Similarly, Zhang and Ouyang (2020) found that CER enhances a firm's prominence and favourability, through which CER indirectly improves Corporate Financial Performance. In addition, this has attracted an increased amount of research into determinants of successful CER, and for instance organizational culture and managers' attitudes and behaviours have been found to be significant driving forces (Karassin and Bar-Haim, 2016). For instance, Anser et al. (2020) found that a company's commitment to corporate responsibility positively predicts participation, which in turn significantly predicts both social performance and environmental performance. Meanwhile, the direct role of for instance local governmental environmental supervision in encouraging enterprises to undertake environmental responsibilities remains unclear (Chen et al. 2020), calling for further research.

Looking back, there have been three particularly prominent “waves” of environmental decision-making: i) the “command-and-control” approach, ii) market-based-instruments, and iii) public disclosure (Tietenberg, 1998). The last of these three – public disclosure (also referred to as environmental reporting) – refers to the provision of information to the public regarding a company's activities and environmental performance, including to consumers, the government, financial institutions, and society at large (Institute for Global Environmental Strategies, 2010). Based on the information provided, relevant stakeholders¹ can respond to companies and thereby influence their activities, e.g. towards more environmentally friendly practices. Thus, public disclosure facilitates stakeholders in their participation in environmental management by encouraging companies to be more sustainable (Wang et al., 2004).

Public disclosure generally consists of integrated sustainability reporting that includes financial, environmental and social components (Kørnøv et al., 2007). Increasing public awareness around unsustainable business practices call for sustainability reporting to provide users with information on such economic, environmental, and social impacts (White, 2015). For environmental information disclosure (EID) to be thorough and transparent, it requires that effective communication mechanisms between the public, national environmental protection departments and local environmental protection bureaus and other departments be well established (Wu et al., 2018). Moreover, EID policies need to not only entitle the public to the environmental right-to-know but also empower them with the right to exert their pressure on polluters (Fang et al., 2017). In other words, effective means for stakeholder participation need to be in place.

¹ Stakeholders are defined here as parties that can influence or be influenced by a decision (Freeman, 1984).

In this paper, we regard stakeholder participation as the act of performing consultation and including public opinion in the making of an agenda, policy or decision of an agency with respective function² (Rowe et al., 2004). At least in theory, dissemination of corporate environmental performance is therefore strongly linked to stakeholder participation (OECD, 2004). In 1998, the Aarhus Convention of the United Nations Economic Commission for Europe established that participation in the making of environmental decisions is to be recognized as a democratic right. Moreover, stakeholder participation is regarded as key to obtaining sound environmental decisions (Beierle, 2002; Richards et al., 2004; Reed, 2008). Similarly, Dietz and Stern (2008) argue that the aim of participation is to increase the *quality*, *legitimacy*, and *capacity* of environmental decisions. To ensure ‘quality’, decisions require that all relevant information and considerations from all affected parties are taken into account. ‘Legitimacy’ in turn requires a process that is considered as unbiased, lawful and proficient by involved parties, while ‘capacity’ requires that the participants be i) provided with sufficient information regarding the issue in question, ii) skillful enough to engage in the participation process, and iii) engaged in relations of mutual trust (*ibid.*).

In addition to strengthening capacity and gaining legitimacy, another advantage of public participation processes is that they help to build trust (Kasymova and Gaynor, 2014). Public participation can also guide enterprises to improve compliance and promote green development (Fu and Geng, 2019). Consequently, stakeholder participation is increasingly being adopted by environmental agencies around the world (Reed, 2008; Kizos et al., 2018), based on the argument that the public have the right to obtain information and be involved in environmental decision-making to ensure transparency and to better enable benefits to be gained from the outcomes (Lostarnau et al., 2011).

In this study, we set out to assess stakeholder participation in Indonesia, a leading country in corporate environmental information disclosure amongst emerging economies. We were familiar with the difficulties that the Indonesian government had previously faced in regulating environmental performance of companies using the conventional “command-and-control” approach, and we were intrigued by the new approach taken by the government in developing a complimentary policy of environmental performance rating of companies, namely the PROPER program (Afsah and Vincent, 1997) (hereafter referred to as “PROPER”). PROPER is considered to be the first major program of corporate environmental information disclosure among so-called less-developed countries, and following its success, the program has been replicated in several other countries.³ Even though PROPER has to date been considered successful, at least as far as decreasing pollution levels and increasing the number of participant companies goes (Wahyuningrum et al., 2020), there is one aspect that still remains largely overlooked in assessments of PROPER, namely *stakeholder participation*.

Thus, the overarching question of this research was: “to what extent has corporate environmental performance rating in the PROPER program been participatory amongst stakeholders?” To answer this question, we assessed the implementation of stakeholder participation in PROPER whilst also investigating stakeholders’ perceptions towards the

² Note that according to this definition, the act of participating is assumed to have *influential* effect on the decision-making. Also note that the focus here is on participation of *stakeholders* rather than *the broader public* which may not hold stake in certain environmental decisions (Reed, 2008).

³ Philippines’ *EcoWatch* was launched in 1996 by adapting PROPER (Tietenberg, 1998), and similar programs have sprung up in several other Asian countries, including *Green Watch* in China and the *Environmental Rating* program in India (Institute for Global Environmental Strategies, 2010). Other developing countries following the PROPER model include Thailand, Bangladesh, Mexico, Colombia and Papua New Guinea (Kathuria, 2006).

program. Based on a framework adapted from Blackstock et al. (2007), we selected six of the most relevant evaluation criteria for our study, namely: i) shared goals; ii) capacity building; iii) conflict management; iv) transparency; v) representability, and; vi) recognized impacts. In this paper, we present the main findings of our assessment.

First, we provide a brief and general description of the structure of the PROPER program and its mechanisms, including the means for possible stakeholder engagement. We then present our methods both for data collection and analysis, followed by our results. Following that we present a general discussion according to the main evaluation criteria used, along with our recommendations for improving stakeholder participation in PROPER. Finally, we present our conclusions and point to some limitations of the present study.

2. Materials and Methods

2.1 The Case Study of Indonesia's PROPER program

Indonesia provides for an interesting and important case to study corporate responsibility. In the 1980s, the country witnessed the highest development rate of industrial growth that it has experienced to date, accompanied by increased environmental damage resulting from industrial activities. In reaction to this, government efforts to regulate industry with regard to environmental protection were designed according to the then common “command-and-control” approach, which ultimately proved to be unsuccessful. In 1995, a new program was established to resolve this issue, namely PROPER (Companies' Pollution Control, Evaluation and Rating Program).

Originally created as the “Clean Water Program”, PROPER is Indonesia's complimentary national environmental regulation system, established to assist in the enforcement of already existing regulation. The initial idea behind PROPER was to mandate companies to report their environmental performance and disclose this information publicly. Through disseminated information, more actors would be involved in identifying polluters. Meanwhile, PROPER would facilitate companies with good performance ratings to get market advantage (Afsah and Vincent, 1997). The main objectives of PROPER are to i) encourage the implementation of sustainable development; ii) increase companies' compliance regarding environmental management; iii) increase stakeholders' commitment to sustainability; iv) raise awareness of business actors in environmental legislation compliance; v) increase compliance with environmental control through the active role of the community, and; vi) reduce environmental impact in relation to companies' activities (Alifitriah, 2015).

PROPER is conducted according to the Environmental Protection and Management Act Nr. 32/2009. In this Act, the obligation of business activities towards environmental protection and management, as stated in Article 68, are as follows:

“Everybody undertaking business and/or an activity shall be obliged to: a) provide information related to environmental protection and management truthfully, transparently and punctually; b) preserve the sustainability of environmental functions; and c) abide by the provision on the quality standard of the environment and/or standard criteria for environmental damage.”

2.1.1 The PROPER Mechanism

In the PROPER mechanism, companies are graded using a five-color performance rating scheme. The colors, in order of excellence, are gold, green, blue, red, and black. Black rated companies face law enforcement, while red rated companies are given opportunities to improve their performance over a period of six months. The PROPER rating process comprises both compliance aspects and ‘beyond compliance’ aspects. Compliance aspects of companies involve evaluating whether companies already comply with environmental regulations. ‘Beyond compliance’ is evaluated according to companies’ fulfillment of additional criteria, including their environmental management system, energy and resources efficiency, emissions reduction, biodiversity protection, community development, internalization of environmental and social cost factors into business, Life Cycle Assessment, and contributing to the Sustainable Development Goals (PROPER, 2019). The assessment carried out by the PROPER program is conducted by the program’s Technical Team, formed under the Ministry of the Environment at the national level, and under the Provincial Environmental Management Agency at the provincial level. The final result is decided upon by the PROPER Advisory Board. Based on the disclosed information, relevant stakeholders can then respond and provide feedback in order to influence company activities towards more environmentally friendly directions (Institute for Global Environmental Strategies, 2010). Following up on PROPER rating results, incentives and disincentives (i.e. pressure to regulate pollution) can then be given to companies on the part of multiple actors, both from the public and private sectors. Figure 1 illustrates a diagram of the PROPER assessment process.

The PROPER program starts with identification of polluters, focusing on companies with high environmental impact, registered in stock exchange, and producing export-oriented products, or used by the public at large. Data collection, analysis, and verification stages are completed through self-assessment by companies and verified by environmental inspectors in the field. In the final rating stage, public participation is implemented through the Advisory Board. The PROPER Advisory Board members are considered to represent the public in the decision-making process of PROPER rating. Amongst its responsibilities, the PROPER Advisory Board assesses the community development criterion of the gold candidate companies through direct interviews with communities in the neighboring area of the companies. After the rating is disclosed, the public can use the information to encourage the rated companies to improve their environmental performance. For instance, a bank can suspend the credits it gives to a company if the company is poorly rated. From a financial point of view, a company's PROPER rating performance is thus considered an important part of a prospective debtor assessment by financial institutions.

In 2016, the Ministry of Environment and Forestry (MEF) introduced SIMPEL (the Electronic Environmental Reporting System) application, an online reporting program that replaced manual or print reporting systems. With this, MEF made it easy for companies as they no longer need to send printed reports or come directly to the KLHK office to submit the report. The company only needs to input data from laboratory analysis and hazardous waste management onto the online system by completing the required supporting information. The annual data is stored in a data bank, so that it can easily be used to analyze trends in the environmental management behavior of a company over time (PROPER, 2019).

SIMPEL adopts Life Cycle Analysis (LCA) for calculating the environmental impact generated by an industrial product, analyzing all material and energy inputs and outputs. In the future, the reporting process is expected to be even easier and more measurable using the LCA method.

In addition, LCA can be used to find information on lower waste handling costs, energy and raw material savings, and cheaper distribution costs. Academic members of the Indonesian Life Cycle Assessment Network (ILCAN) support this system by conducting capacity-building trainings in LCA for Indonesian practitioners in industry.

2.1.2 Stakeholder participation in PROPER

Indonesia's environmental law recognizes the importance of stakeholder engagement, as seen specifically in the Environmental Protection and Management Act Nr. 32/2009, Article 70, which states that:

- “(1) The public shall have the equal and full right and opportunity to participate actively in Environmental Protection and Management.
(2) Public participation may be in the form of: a) social control; b) suggestion, opinion, recommendation, objection, complaint; and/or c) information and/or report.”

According to PROPER (2019), various stakeholders are involved during the process of executing the PROPER program, including in the creation of a detailed assessment process, the assigning of companies, and the disclosure of the results to the public. The main stakeholders in this process are the government, company managers, investors, suppliers, consultants and the public at large.

PROPER also provides for stakeholder participation in environmental management through a public complaint mechanism and via the PROPER Advisory Board. For instance, complaints regarding industrial effluents are taken into account in PROPER assessments. After the complaints are verified and evidence has been obtained to prove that a company has indeed violated one or more environmental regulations, PROPER then makes an assessment of the company accordingly (Dewi, 2011).

The public disclosure process of PROPER is implemented through mass media and internet. It is aimed at obtaining stakeholder responses regarding company performance ratings. The PROPER results are also disseminated directly to local governments, financial institutions, and announced in an annual event, namely the Environmental Award Night (PROPER, 2009). This process of ratings and awards has however been criticized for encouraging green-washing on the part of certain companies that may want to cover up for their poor environmental records. Some years ago, there were some cases of protests from NGOs about the ratings of several companies, with claims of the ratings being unacceptable (WALHI, 2012). A “Protest Letter of PROPER 2011” written by NGOs to the national government criticized the unacceptable PROPER ratings of several companies, the lack of transparency in the PROPER assessment, and weak environmental regulation as the legal framework used by PROPER (ICEL, 2011). In addition, some companies that had been rated by PROPER as “good performers” had also received environmental lawsuits from other actors, indicating a mismatch. Based on this background information, in addition to our main research questions, we decided to assess stakeholder satisfaction with PROPER by evaluating different actors' confidence in, and agreement with, the PROPER ratings (PROPER, 2009). Below we describe the methodology of our study.

2.2 Data Collection

Issues around participation are intangible, and often difficult to define precisely or measure objectively or unambiguously. Qualitative and participatory research methods are best suited to capturing such information on issues that are more complex, sensitive and/or difficult to quantify using more traditional quantitative research methods. Qualitative and participatory methods enable researchers to better understand the underlying causal links of interventions and how and why things happen the way they do (NORAD, 2013).

The fieldwork for our data collection was carried out over a period of two months, during March to May 2013, in West Java Province, Indonesia. Purposive sampling (Bryman, 2008) was used to select the informants and area of study and obtain representability from across stakeholder groups. Our evaluation of PROPER's degree of participatory processes is based on data gathered from a total of 30 key informants representing stakeholders from diverse levels, interest groups, and types of engagement with PROPER, ranging from government and academia, to industry, local communities and NGOs. Rather than aiming to obtain a maximum number of informants, this research intentionally prioritized informant diversity over informant numbers (Bellamy et al., 2001).

The key informant interviewees consisted of representatives of the PROPER Advisory Board (2), PROPER employees (3), representatives of the national government (2), academic experts (3), industry (5), non-governmental organizations (9), and local community representatives (6). Key informants were selected based on their knowledge of – and involvement in – PROPER. Our main priority were local communities and NGOs, as these actors are more likely to be involved in (or directly impacted by) environmental management (or lack of) whilst having little opportunity to participate in or influence the PROPER program.

The local case study communities, located in West Java Province in Bandung Regency, were selected based on our criteria that they be a) company-adjacent; b) in the influence area of industries with gold or green ratings, and c) accessible in the timeframe given. The local community representatives were all respected figures including community leaders and environmental activists. Meanwhile, the expert and government representatives were selected based on their direct involvement in the implementation of the PROPER program, while the NGO representatives were selected based on their knowledge on PROPER and/or environmental and human rights in general. Competence of key informants was evaluated based on triangulated snowballing methods of inquiry from other knowledgeable informants.

For the semi-structure interviews, we used an interview protocol matrix similar to the Interview Protocol Refinement Framework by Castillo-Montoya (2016). Introductory questions were asked to gauge general involvement in, and perceptions of, PROPER, as well as views on extent of stakeholder participation in general. Specific questions were derived from the above-mentioned six thematic criteria (see Table 1) - each relating to how they are incorporated in the PROPER program - thus forming the core structure of the interview. Further information was solicited related to public involvement and PROPER criteria.

Of the thirty interviews, 24 were carried out face-to-face with the informants, while the remaining six were conducted via phone interviews. Most of the interviews were audio-recorded, and all of them were noted on paper and later translated (from the national language to English) and transcribed.

2.3 Data Analysis

Many scholars have developed evaluation criteria for participatory processes (e.g. Blackstock et al., 2007; De Stefano et al., 2010; Norad, 2013; Rosener, 1981). Similarly, there are many typologies of stakeholder participation suggested by scholars (e.g. Arnstein, 1969; Biggs, 1989; Davidson, 1998; Farrington, 1998; Goetz and Gaventa, 2001; Lawrence, 2006; Pretty, 1995). In our study, we draw first on Davidson's (1998) "Wheel of Participation" to identify the overall level of public participation in the PROPER program. The appropriate level of participation is influenced by the objectives of the project and the competency of stakeholders to affect the decision-making process, hence well aligned with Davidson's "Wheel of Participation" approach.

Our second evaluation framework is one that we have adapted from Blackstock et al. (2007), for which we selected six of the most relevant evaluation criteria, as these provide helpful guidance for deciding appropriate levels of stakeholder participation for our particular study, based on necessity, stakeholder interest and capacity. The selected criteria were: i) shared goals; ii) capacity building; iii) conflict management; iv) transparency; v) representability, and; vi) recognized impacts. The analysis is based on PROPER rating results from 2011 as these were the latest available results of the PROPER program at the time that this study was conducted. In Table 1, we explain the purpose and importance of each of these criteria in more detail.

In addition to the two frameworks mentioned above, we complemented our analysis (especially for identifying explanatory factors) using NORAD's (2013) proposed framework for analyzing participation in projects, programs, or policy cycles, drawing particular attention to design, implementation, and monitoring. This framework helped us identify the specific forms of participation, who participates in each form, the participants' motives, what factors determine the effectiveness of the participation, and the outcomes of that participation.

We analyzed our data using content analysis to code for the thematic criteria for each of the two frameworks described above.

3. Results

Types and stages of participation

The degree of stakeholder participation implemented in the PROPER program was analyzed using the different frameworks of participation outlined in Section 2.3. Using Davidson's (1998) "Wheel of Participation", we found that, of all the stages in the PROPER mechanism, participation techniques were used in only two: in the rating finalization stage (especially the assessment of the community development criterion for gold candidate companies), and in the public disclosure of environmental performance ratings. No participation was found to be implemented in the stage of identification of polluters. Although there is the public complaint mechanism at the ministry level, no participation of stakeholders was found to take place in the assessment of blue, red and black ratings at the provincial level.

In 2011, the PROPER Advisory Board did attempt to carry out public consultations with several NGOs, however this was discontinued in 2012 "due to time constraints", according to a representative of the PROPER Technical Team interviewed. The PROPER Advisory Board also carried out interviews with representatives of local communities (results of which they then included in the assessment results), but this was only done in relation to gold rated companies (that is, those companies already performing at top standards). The Advisory Board

also invited NGOs to a public meeting to discuss green and gold rated (i.e. best performing) candidates, but no discussion was held with regard to blue, red or black rated (i.e. poorest performing) companies. For a summary of these results, see Table 2.

The second framework we used to assess stakeholder participation was one using multiple criteria, as laid out in Table 1. These results are presented thematically below and summarized in Table 3.

Shared goals

Regarding the first evaluation criterion of ‘developing shared goals’, all representatives of NGOs and PROPER officials that we interviewed were of the view that there has been no discussion (at least with NGOs or local communities) about the shared goals of the PROPER program itself or of the program’s participatory process.

Capacity building

Furthermore, according to the interviewees, there had been no capacity building for the public or NGOs to better enable them to participate in PROPER. At the time of our study, capacity building had only been provided to certain companies and local governments.

Conflict management

With regard to conflict management, the PROPER representatives interviewed did not view the NGOs protests about PROPER results as a “conflict”. Rather, these were perceived by PROPER representatives as common reactions from NGOs due to their “extreme” standpoint about environmental protection, their general opposition to companies, their demand for direct punishment to violators, and also the general mandate of NGOs to critically question government actions. Whether or not NGO protests can be categorized as a conflict or not, the protests were responded to by the Ministry of Environment through mass media and an official letter containing an explanation that the PROPER assessment was done according to procedure.

Low acceptance and credibility of PROPER ratings came particularly from NGOs. Based on our interviews with NGO informants, the majority perceive PROPER as a tool only for companies to build their image and green-wash the public, as well as to cover up for poor environmental performance by trying to obtain high ratings from PROPER. None of the NGO representatives interviewed were convinced that PROPER ratings accurately represent companies’ actual day to day performance.

According to a representative of the Ministry of the Environment, one particular company had its PROPER rating lowered from blue to red after PROPER received and verified a public complaint related to the company burning waste, the pollution of which was directly affecting the local community. This goes to show that public complaint has played some – albeit a minimum – role in terms of providing important information and verification to be considered in the PROPER assessment. That said, interviewees felt that the time given for field verification (generally just one day) is far too short, limiting the number of relevant sites that the inspection team is able to inspect.

Transparency

With regard to transparency, NGO representatives stated that the access to, and transparency of, information used by PROPER in its rating should be increased so that the public, too, can know and follow how certain ratings are derived and based on what evidence. Currently, the way information is being disseminated via the internet was seen by several NGO informants as ineffective, both in terms of quality (as there is no disclosure of detailed assessments) as well as in terms of format, especially for local communities whose internet access is very limited. In contrast, the government officials interviewed defended that transparency in PROPER has been achieved through the dissemination of PROPER assessment criteria, the assessment mechanism, and PROPER ratings of participating companies through internet and mass media. PROPER officials did admit that dissemination of information through the PROPER website might not be effective, but considering the time constraints, they felt it was the best they could do.

The problem of dissemination and transparency is also one of practicality, at least according to four of the government representatives interviewed. In their view, announcing detailed assessments is cumbersome, as it would involve huge sets of data (of more than 1000 companies). According to them, the whole point of presenting and communicating the ratings in simplified color codes is so that everyone, including the public, can easily access and understand the results. They further argued that publishing such an amount of detailed technical data may result in a misuse of the data. Indeed, even when requested separately, details are not provided by PROPER. We know of at least one case where an NGO requested for detailed information of a PROPER assessment of one particular company, and the information was not given to them (Dewi, 2011).

Representability

Concerning representability, the PROPER Advisory Board (i.e. the body in charge of making the ultimate decision on the final company ratings presented to the Ministry of the Environment), constitutes members of different sectors. At the time of our research, the Board had two members from the Ministry of the Environment, two from academic institutions, two NGO representatives, one journalist, and one ex-activist from the international community (PROPER, 2009). Today, these figures stand the same, except that there is one less representative from academia, and instead one public policy observer (PROPER, 2019).

In our interviews with NGOs representatives, when asked about the representability of the PROPER Advisory Board, four of them stated that they were not even aware of the existence of the board, while five argued that the PROPER Advisory Board does not represent the public, and particularly not local communities. They argued that the board members are not aware of the real conditions that communities neighboring industrial sites are living in. One NGO representative stated that the board members are unfamiliar with actual activities undertaken by companies, and the significant environmental damage these are causing. Two NGOs representatives further pointed out that there is no clear procedure for the election of Advisory board members.

In contrast, the government representatives in the PROPER Advisory Board whom we interviewed stated that the board was formed to ensure assessment credibility, and that its current composition is considered valid for producing an assessment that is fair and free from political interests. When asked about how the Board is elected, they stated that the selection is done internally, and the criteria used is primarily that selected members be senior professionals with expertise in their field and with the capability to give “wise input” to PROPER results.

According to this set of interviewees, Board member election cannot be done openly (e.g. allowing NGOs to select their own representatives), as this would be too ‘time consuming’.

Recognized impacts

As for on-the-ground impacts and local community perspectives of the PROPER program, all but two of the local community representatives we interviewed had not even heard about PROPER. The two who had heard about PROPER perceived it to be an award given by the Ministry of the Environment and somehow related to assessments of the community development program of the company. Hence, being mostly unaware of PROPER, when asked, communities were also unable to comment on whether PROPER is participatory or not in its assessment processes. One community member did however voice that regardless of the process and interactions, PROPER currently does not have any effect on company performance, and that the impacts of companies are felt directly by the local community.

“When I became the village chief, we tried to push the company to set up [community] activities, based on existing regulation [concerning CSR]. [We demanded that] the concept [of community activities] had to be built together. At first, they dispersed large amounts of money [to be claimed as CSR], but this was never translated into any clear concept where people actually received any [benefits]. It became an advantage only for certain community groups. For the company, it was fine as long as the business activity was not disturbed. Now although it has been three years of cooperation between our community and the company in managing their CSR program, I do not know how the company can achieve GOLD PROPER rating.”

– Local community representatives of Pangalengan Subdistrict

4. Discussion

As gathered from the above results, stakeholder participation has been for the most part – if not entirely – absent in the PROPER assessment procedure, depending on whom asked. Our findings suggest that the degree of stakeholder participation present in the PROPER program is limited merely to the levels of “consultation” and “information” (Davidson, 1998; see also Table 2). Shared goals, capacity building, conflict management, and recognized impacts have to date been completely absent from the process. Meanwhile, transparency and representability are present according to government officials, but absent according to NGO representatives. We thus find a mismatch in what is considered as “transparent” or “representative” between government and NGO viewpoints. Below we elaborate further on some of the possible explanations behind these findings.

While the number of companies in Indonesia that participate in environmental-related activities continues to grow, the level of environmental disclosure by PROPER companies remains low to this day (Wahyuningrum et al., 2020). This may be due to the fact that companies are still not obliged to incorporate environmental disclosures in their annual reports. Wahyuningrum et al. (2020) found that environmental performance (described by PROPER ratings and environmental management systems) and company size both affect the extent of environmental disclosure. In contrast, financial performance (described by companies’ profitability and

leverage), and the number of board commissioners do not significantly affect the extent of environmental disclosure (*ibid.*).

Our study complements that findings of Whayuningrum and colleagues in that the reasons given by PROPER and government officials for the limited amount of participation in PROPER are largely related to practical issues, specifically time constraints and lack of dedicated human resources. In addition to time and resource constraints, there are a number of other challenges faced by officials in corporate environmental performance rating. One of the difficulties lies in establishing a representative and accountable citizen advisory board. The lack of competency of stakeholders in technical aspects and participatory skills in the decision-making process is still largely unaddressed in PROPER. Yet, as already laid out above, engaging the public in a participatory process is necessary *especially* when the public has concern over the subject in question and can be impacted upon by the outcomes of the decisions. Guidelines on how to choose and implement appropriate levels of public participation are presented for instance in OECD (2004) and Blackstock et al. (2007).

While much research has been carried out on the impacts of participation (for a comprehensive review, see Mansuri and Rao (2012), wide empirical research is still needed on understanding the effects of different types of citizen participation and engagement on achieving good governance and human rights (Gaventa and Barrett, 2012). Below we discuss the implications of our key findings and suggest ways in which stakeholder participation in PROPER could be strengthened and improved, particularly in terms of: i) legitimizing decision-making, ii) informing decisions, and iii) increasing capacity.

4.1 Legitimizing decision-making

PROPER was designed to generate both incentives and pressure for companies to perform more responsibly, specifically through public disclosure. However, rather than responding to, or using, PROPER ratings to put even more pressure or incentive on companies, there was instead protest on behalf of the public sector with regards to the PROPER ratings disseminated by the government. This protest, particularly on the part of NGOs, shows that the decisions on company PROPER ratings are not widely accepted. This also reveals different perceptions and expectations of the PROPER program, at least between NGOs and the government. This disconnect between government and NGO views of PROPER can be regarded as a lack of legitimacy of the PROPER program, making the case for stakeholder participation all the more valid as this could help to increase public acceptance.

Related to this is the criterion of shared goals, an important step in building legitimacy of decisions made. Participation based on shared goals that take into account all of the participants' interests generally leads to decisions that are more widely accepted and hence also more likely to lead to successful implementation (Richards et al., 2004). Similarly, community-driven development can be achieved by aligning development priorities with community goals (Mansuri and Rao, 2012). In order to achieve a successful participation process, the step of developing shared goal needs to be carried out together with the public, or at least with representatives of the public. In the case of PROPER, this could perhaps best be done with NGOs who already have an interest in the program or experience with CER in order to maximize public acceptance of representation.

With regard to the criterion of conflict management, in the case of PROPER, the national government perceived that the protests by NGOs was not a conflict triggered by the PROPER program, but rather an inevitable consequence of NGOs with extreme viewpoints criticizing governmental programs in general. What neither the NGOs nor the national government voiced was the potential that NGOs have in providing valuable contributions to the PROPER program and thus for yielding better environmental management. Yet, as Richards et al. (2004) point out, public participation should always include conflict management, and coming to an agreement on defining the problem and finding the solutions is advantageous for all participants in order to support environmental management. Meanwhile, with increased stakeholder participation, conflicts could be minimized and trust between parties could be increased (Dietz and Stern, 2008). Indeed, the active involvement of citizens is considered an important mechanism for managing conflict at all levels (Mansuri and Rao, 2012). Complaints and grievance systems can be powerful tools for ensuring that difficulties experienced by various project partners are considered and addressed in a timely manner. If used correctly, these systems can not only enhance project effectiveness but also promote a sense of community ownership. In contrast, using these mechanisms inadequately can undermine the engagement of different stakeholders if their complaints are not acted on (*ibid.*).

The lack of transparency was in turn one of the main reasons why many of the NGOs protested against PROPER. Limited media coverage about PROPER results in the public – particularly local communities – being left unaware of PROPER. The NGO representatives argued that genuine participation requires absolute transparency of public information for all stakeholders, especially those directly and negatively affected by companies. However, the government officials interviewed in our study had quite different views regarding the degree of transparency required in PROPER. According to them, transparency was intentionally limited in order to avoid possible misunderstandings and misuse by the public of complex information. Regardless of the reasons for its absence in PROPER, transparency remains a necessary element for building public trust (Dietz and Stern, 2008). In other words, a decision is much more likely to be considered as unbiased when it is done and explained in a transparent manner (Richards et al., 2004).

In addition, we discuss here the notion of representability, another key ingredient for a successful participation process (Richards et al., 2004). According to Arnstein (1969), forming an accountable and representative citizen board is challenging, however, by giving NGOs the opportunity to select their own representatives, they are also granted power in shaping decisions. The same goes for local communities: community-driven development can be achieved by strengthening the capacity of community-based organizations to represent and advocate for their communities (Mansuri and Rao, 2012). Tippett et al. (2007) argue that fair and legitimate participation processes may be attained through equity in the power of influencing decisions among participants and building relations of trust. Amongst those stakeholders interviewed, we found differing opinions with regards to the representability of the PROPER Advisory Board. While the NGO representatives felt that they were not represented enough by the Advisory Board, the government officials interviewed felt they did not have the time to form a more representative board.

4.3.2 *Informing decisions*

Another underlying reason given by the NGOs for their protests against PROPER was the inaccuracy in how PROPER assesses and assigns company ratings. The NGOs interviewed

argued that it is highly likely that several companies that received good PROPER ratings were actually violating environmental regulations. Moreover, companies have been known to use their disproportionately positive (and misinformed) PROPER ratings as their defense against lawsuits submitted by the public in order to avoid violations of environmental regulation.

According to the Ministry of the Environment Regulation Nr. 5/2011, public consultation is not mandatory, but may be done upon request by the PROPER Advisory Board. Meanwhile, the NGOs interviewed argued that allowing for public complaint is crucial for filling the large gaps in PROPER assessments, which are currently based only on onsite verification conducted in the course of only one given day per company. According to the NGO representatives, PROPER ratings affected by verified public complaint should be included in the legal framework of PROPER assessments. Allowing for greater public participation would enable PROPER to yield far more precise and credible information, results, and thereby environmental performance ratings. As Fischer (2000) stresses, excellence of decisions made through participatory processes is achieved through the inclusion of comprehensive knowledge. The importance of gathering information from multiple sources, including from relevant stakeholders, is therefore even more important in order to ensure credibility in the ratings. Public participation in collecting and providing information on company performance is therefore a huge missed potential, currently overlooked and undermined.

4.3.3 Increasing local capacity

Public participation also implies empowering the public (Arnstein, 1969). Participant empowerment includes building the capacity of participants to influence decisions, by providing them with technical competency (Richards et al., 2004) and power (Tippet et al., 2007) to shape the decision. Public trust is also developed through capacity building (Dietz and Stern, 2008). Similarly, when participants are given only limited power and capacity to affect decisions, the benefits of participation are not fully achieved (Burton et al., 2004).

When a decision requires some kind of technical know-how or expertise, the participants have to have sufficient understanding and competency to be effectively involved in the decision-making process (Reed, 2008). Hence, in the case of the PROPER program, if communities were for instance trained to recognize, identify, and report illegal dumping of waste, they could also play a much greater role in monitoring and submitting complaints to the Provincial and Municipal Environmental Management Agency, thereby also improving PROPER results.

In association with the criterion of recognized impact, as discussed above, the positive outcomes of PROPER should be broadly disseminated in order to encourage the public to participate more actively in the program. The public's self-interest in participating should also be more clearly explained: if the public were to recognize that their involvement in PROPER could bring positive changes for them, they would have more incentive and motivation for active participation. As Davies et al. (2004) points out, it is the nature of humans to become involved in processes when they are seen as beneficial for oneself or one's community. Highlighting the positive impacts that PROPER can have to society might be of interest to NGOs who stand in an optimal position to mediate and inform both ways, between PROPER and the public.

Most of the NGO representatives interviewed expressed that the implementation of stakeholder participation in the PROPER program needs to be significantly strengthened and improved in order for the process to be considered genuinely participatory. Similarly, the NGO

representatives voiced that PROPER should be more persistent in demanding that companies comply with and cooperate in improving mechanisms and instruments of environmental management. Adequate resources should be factored into the PROPER budget and time set aside in the assessment schedule in order to allow for adequate public consultation and stakeholder participation. As Mansuri and Rao (2012) point out, in order to gain effectiveness and significant improvement on the participation process, a program needs to be designed for the long term, supported by careful facilitation, capacity building, and funding. In addition, careful planning and evaluation should also be allocated for in the assessment cycle (King and Hyder Consulting, 1999) in order to obtain more successful implementation.

5. Conclusions

Our study presents an evaluation of stakeholder participation in the case of PROPER, Indonesia's environmental performance rating program. The PROPER program is designed to provide tools for more effective environmental management in Indonesia. These tools include the strengthening of the national government's regular monitoring activities, filling the gaps in regulation with the help of a community development program, and providing a legal framework on environmental protection for companies. PROPER is also meant to have broader positive effects on society, e.g. through an amelioration in environmental quality. Despite these grand goals, we found that these potential positive outcomes of PROPER were not seen, known, or acknowledged by the public. Similarly, according to Davidson's "Wheel of Participation" (1998), our findings demonstrate that the level of participation in PROPER consisted merely of *information* and *consultation*, thereby constituting a relatively low level of limited consultation and customer care.

We also found no attempt on behalf of the national government to develop shared goals or build stakeholder capacity to better participate in the PROPER program. Our findings on public perceptions of current stakeholder participation reveal that PROPER does not provide sufficient opportunity for NGOs and local communities to influence the PROPER ratings. Transparency and conflict resolution were considered by most stakeholder representatives as lacking. Moreover, the PROPER Advisory Board was regarded by most informants as being unrepresentative of the public, especially of NGOs. In addition, the public is currently poorly aware of all the possible or real positive outcomes that the PROPER program can provide to society at large.

Based on our findings, we see that the PROPER program could be significantly improved through increasing trust and public acceptance of PROPER assessments by better incorporating the diverse viewpoints of stakeholders in the decision-making process and allowing for a transparent process with equity in the representability of its Advisory Board. Government commitment in the participation process could be enhanced through a greater provision of resources both in terms of time and personnel. In addition, for its optimum use as a tool for public participation, PROPER would need to be redesigned such that the public participation component be institutionalized and incorporated into a legal framework. After all, through enhanced stakeholder participation, the ultimate objective is to find ways to improve PROPER, especially by making the program more accessible for society to actively participate in influencing companies to do business in a more environmentally friendly way.

We hope that this research helps to better inform the national government of Indonesia in improving the PROPER program, and particularly in implementing more effective stakeholder participation processes through PROPER. We also hope that this study serves to inspire and inform further research and initiatives on programs of environmental regulation and corporate responsibility elsewhere.

Limitations of the study

We acknowledge that our study carries a number of limitations, which are important to note, particularly in terms of the applicability of our results. Firstly, it was difficult for us to set up interviews with stakeholders from industry as company representatives meeting our criteria of competence and representation were hard to find in the limited time given. Similarly, it was challenging to reach many of the communities located in the influence area of companies in the different provinces of our case study region. As a result, we have less representation from both industry as well as different communities than what we aimed for. This makes the distribution of the representation from different categories of stakeholders slightly skewed and uneven in our sample.

Moreover, it is important to note that our study is based on data that represents approximately one-third of the number of companies that are today evaluated by PROPER (690 companies in 2010 compared to 2045 companies in 2019). Similarly, the geographic scale of coverage that these companies represent has more than tripled (from eight provinces in 2010 to 30 provinces in 2019). For these reasons, the results presented here need updating, and in the present form are not generalizable to other cases or countries.

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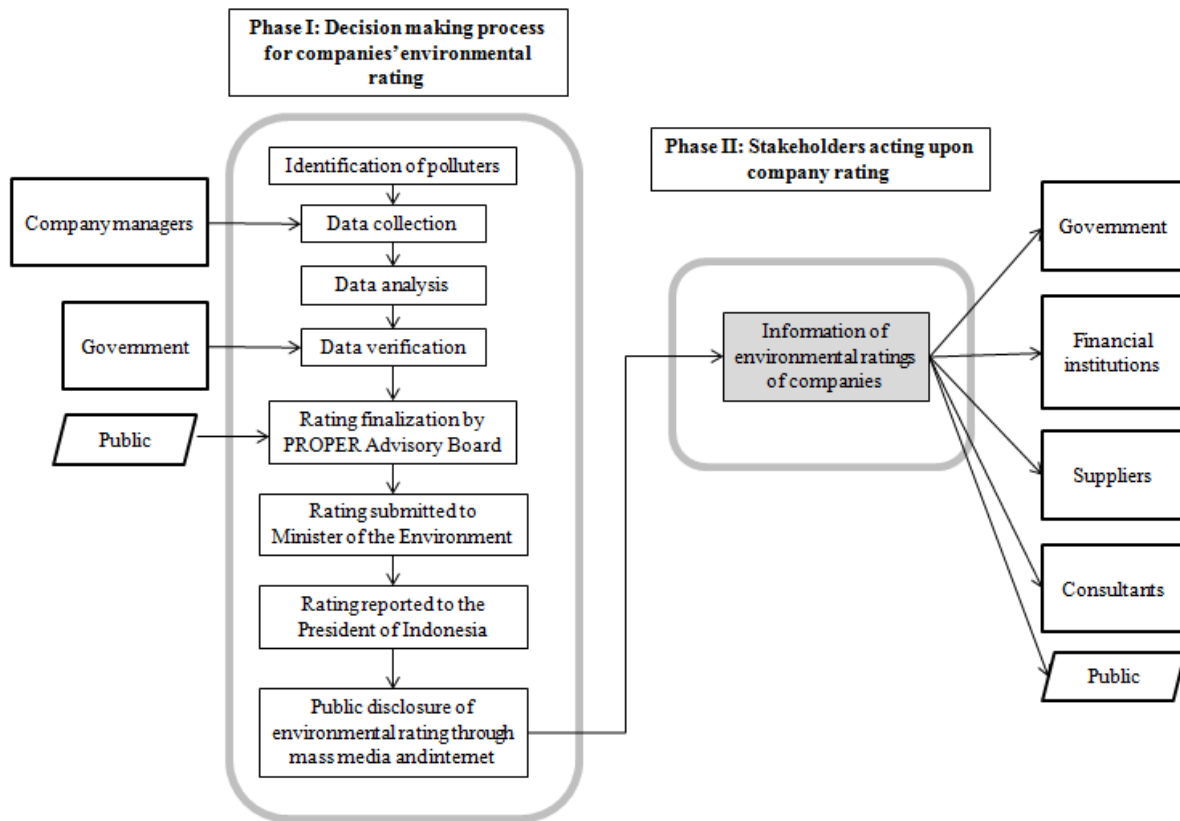


Figure 1. The PROPER assessment process

Table 1. A multi-criteria framework for analysis of stakeholder participation in PROPER

Criteria	Purpose	Importance of criteria
Shared goals	To reach an agreement among stakeholders on the goals of the program and its decision-making process	A publicly accepted outcome can be achieved when clear goals which accommodate the interests of all participants are agreed upon based on the same level of understanding (Hibbing and Theiss-Moore, 2001).
Capacity building	To build good relations and provide sufficient competency such that all stakeholders can be involved as participants in the process	Not only providing the opportunity (Weber and Christopherson, 2002); rather, it is essential that all stakeholders have equal access and capacity to participate (Richards et al., 2004).
Conflict management	To prevent, minimize and/or resolve any conflicts that may arise, using the participation process itself	Conflicts can be expected in the processes involving different points of view and differing interests among participants. Therefore, it is important to have already established a sound plan and methodology for conflict management (Burton et al., 2004).
Transparency	To make the program and the decision-making process accessible to – and acknowledged by – all stakeholders	Transparent participation processes are more likely to increase public trust and can eventually encourage the public to be more active participants (Dietz and Stern, 2008).

Representability	To represent the broader society and ensure legitimacy of this representation	O'Meara et al. (2004) stress the importance of the board or council of a decision-making agency being representative of the larger community
Recognized impacts	For stakeholders to recognize the impacts, benefits, and outcomes of the participatory process	It is in the nature of the individual to be motivated to participate if there is a perceived incentive or benefit resulting from the participation (Davies et al., 2004), especially when the effort or time required to participate effectively is high or demanding.

Adapted from Blackstock et al. (2007)

Table 2. The Type¹ of Stakeholder Participation in PROPER

Stage in PROPER Mechanism	Technique used	Type of participation
Identification of polluters	None	None
Data collection	None	None
Data analysis	None	None
Data verification	None	None
Assessment of blue, red and black ratings	None	None
Assessment of green and gold ratings	Limited public consultation; Direct interviews with local communities located in proximity of only gold candidate companies	Limited consultation Customer care
Public disclosure of environmental performance ratings	Dissemination of information via internet and media	Limited information

¹Types of participation as defined by Davidson, 1998.

Table 3. Results of a multi-criteria analysis¹ of stakeholder participation in PROPER

Criteria	Presence in PROPER
Shared goals	Absent
Capacity building	Absent
Conflict management	Absent
Transparency	Present according to government officials; absent according to NGOs
Representability	Present according to government officials; absent according to NGOs
Recognized impacts	Absent

¹Based on criteria outlined in Table 1