

# Managing reform corporate

*by* Amirul Mustofa

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# MANAGING REFORM: CORPORATE SOCIAL RESPONSIBILITY PROGRAM OF SUSTAINABLE DEVELOPMENT IN EAST JAVA

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## ABSTRACT

CSR program is a concern to the company's social environment, particularly in empowering the community, has an important role in sustainable development perspective. Awareness of this kind cannot be imposed by regulatory alone. Therefore, the government of East Java Provincial needs to create a conducive environment through regulation and partnerships with companies, so that CSR programs can be utilized by the whole community and have a positive impact on all stakeholders. Through understanding the data CSR in East Java, the authors recommend: the need for reform of Regulation 4/2011, so as to raise awareness for the company to carry out CSR programs according to the needs of stakeholders; establish institutional CSR jointly between the government and companies, so that the program can be enjoyed CSR stakeholders ; the role of government in facilitating this program must be done, so that CSR programs do not overlap with the work program and the government is more focused on empowerment.

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**Keywords:** Corporate Social Responsibility, Sustainable Development and Empowerment

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## 1. Introduction

The concept of Corporate Social Responsibility (CSR) popularized by Howard R. Bowen in 1953, through his work, titled "Social Responsibilities of the Businessman". In the 1960s, the program was used to solve the problems of poverty and underdevelopment. At the Earth Summit in 1992 in Rio de Janeiro affirmed that the concept of sustainable development based on environmental protection, economic and social development. In 2000, the UN established the UN Global Compact and CSR framing concept internationally. The institute is a representation of the private sector within the framework of sustainable development and the creation of good corporate citizenship. At a meeting in Trinidad on intra corporate world (ISO Committee on Consumer Policy) workshop in 2002 in Port of Spain on the subject of 'Corporate Social Responsibility-Concepts and Solutions', asserts that corporate liability incorporated in the ISO for the welfare of the business community around the area. Then, in the "World Summit on Sustainable Development (WSSD)" Johannesburg 2002 in South Africa, led to the concept of Social Responsibility, which accompanied the previous two concepts, namely Economic and Environment Sustainability. Currently CSR implementation is planned for implementation of ISO 26000's certification on Guidance of Social Responsibility in 2010.

CSR program for the implementation of sustainable development occupies an important role. First, the CSR program shows the company's concern for the condition of the people involved think in an effort to empower communities and preserving the environment when conducting exploration and exploitation of natural resources. Second, CSR is a company's commitment to support the creation of sustainable development. Third, CSR is one of the alternative funding in order to accelerate the development program set by the government. Thus, the presence of CSR program is expected to benefit communities, companies, and governments.

For the government of Indonesia, the presence of CSR programs is essential for the recovery of the exploited resources, as well as changes the orientation program growth-



oriented development. It is recognized that in the last decade, Indonesia's economy is built on the basis of the theory of growth that provide unlimited opportunities in large companies in the exploitation of natural resources and to contribute to economic growth, both nationally and regionally, but on the other hand resource exploitation natural resources by the industrial sector is often caused severe environmental degradation. On the community side, the economy actually running very slow or even stagnant. Economic life of society increasingly involutive, accompanied by the marginalization of the local workforce - tend to suck skilled labor from outside the local community, so that the local labor force-which are generally low-skilled to be wasted.

Facilitating relations firms, governments and local communities to be harmonious and not dyed various conflicts and tensions in meeting the various demands such as compensation for damage to the environment, employment, profit sharing, and other required a more detailed regulation. Through these regulations the company will be able to build better relationship fundamentals, thus forming a framework of a harmonious relationship between the company or industry and its strategic environment, taking into account the principles of mutuality's symbiotic, mutual understanding and mutual benefit. Thus, CSR engagement in development programs greatly help the government in particular to empower rural communities are less untouched development programs. For companies CSR will help the company to further strengthen its business, for community support. As for society, CSR will be able to accelerate the empowerment of his life.

CSR programs in East Java are one program that funds are taken from the company operating the investment, so that an alternative can contribute in the development program. Government of East Java is quite enthusiastic about the CSR program, due to the acceleration of investment in East Java capital investment both foreign and domestic investment. Late in 2011, showed that in one year, the amount of foreign investment to get the company there were 117 permits principles and Domestic Investment as many as 115 companies. With the development of the investment is the potential for CSR funds to be managed.

The problem of this potential is that some potential is still not fully staffed synergy between the companies with the government. Regulations governing CSR, from Law No. 40/2007, to the East Java provincial regulations no. 4/2011, concerning Corporate Social Responsibility Java has not been able to strengthen the implementation of CSR programs in East Java. In connection with that paper to the problem, namely: how the implementation of CSR programs in East Java?, And how management reforms that can improve the performance of CSR programs in East Java?.

## 2. Method

The approach in this study uses a qualitative approach, which describes the data factual about the implementation of CSR programs in East Java. Data collected by the study documents both the regulations and the development of CSR programs in East Java. Data analysis was done by using descriptive data analysis. This analysis is used to explain the findings in the various documents, regulations and various phenomena of CSR in East Java. The results of this analysis as the primary source in the discussion on the formulation of solutions used to improve the performance of the CSR program in East Java.

## 3. Discussion

### 3.1. Journal Review

Various studies related to CSR programs, such as: Morimoto, et al., analyzes the development and implementation of CSR in relation to government, stakeholders, and Management Company, and the community. In a study of six elements is formulated to do in the CSR program success: namely: good stakeholder management, good corporate leadership, greater priority for CSR at board level, integration of CSR into corporate policy, regulation at the national and international level, Active involvement of, and good coordination between government business, NGOs and civil society. (Morimoto, et. al., 2004: 18).

Rudnicki and Sillanpää<sup>6</sup> assess contribution of CSR to socially sustainable development. Basic studies that sustainable development requires businesses to assess their performance against stakeholder ethical concerns about the economic, environmental and

6 social issues. Stakeholder-inclusive social audit can help to establish the substantive meaning of the social dimension of sustainable development in its own right, as well as facilitating the development of an audit tool integrated in the different dimensions of sustainable development (Rudnicki and Sillanpää in Morimoto (2004: 8). To measure the activity of activity CSR and its benefits to society can be viewed from two categories, namely: First, the classification of the company's activities from time to time on an even keel, which makes historical comparisons. Secondly, the definition of the various categories should apply to all companies, industries, or even a social system, so allowing for comparative analysis (Sethi (1975), on Morimoto R., 2004: 8)

5 Asif Paryani, (2011:1) chose Pakistan as a case study on "Corporate Social Responsibility, Role of Stakeholders and Sustainable Development" because Pakistan has a unique nature, social and environmental challenges faced by the corporate sector of Pakistan. Conclusion the study is: there is need for the corporate sector of Pakistan to take immediate action related CSR being adopted throughout the world, due to the recent paradigm shift in the whole world. The stakeholders are the most important element of the CSR in the community, and stakeholders need to gain awareness of what rights are and how they can be protected. The role of stakeholders needed to be more focused, effective and efficient towards corporate governance and the implementation of good CSR. All of the success of CSR depends on the regulator of the corporate sector in Pakistan to play an important role and encourage the efforts of stakeholders to good corporate governance and CSR.

Study Leal, et.al, in his study entitled The Book of Nature from the perspective of sustainable development and of corporate social responsibility, which is trying to present two concepts and the relationships between the concepts of sustainable development and CSR, and to investigate the practices of companies in the Brazilian Amazon Nature perspective integration of CSR and sustainable development. Conclusions of this study are that 1) sustainable development and CSR are concepts that match and effective practice related to the outside of the corporate environment, but its implementation need to have public participation at the local, national and even international, 2) the need to have a process of education and achieving public awareness involved, to continue beyond its existence. In addition, in macroeconomic terms, it is necessary to have the same behavior with the Nature developed by other companies, so the initiative is added and is a relevant factor for the effective achievement of the objectives of sustainable development. (Leal, et. al, 2007: 1-13)

Table -1 Formulation CSR Studies

Focus Study	Author
Analysis of corporate social responsibility (CSR), and suggest how it is reflected in financial markets	Heal, Geoffrey (2004)
Analysis of current CSR with a number of interested and knowledgeable stakeholders	Morimoto R, Ash J, and Hope C, (2004)
CSR connected with the concept of sustainable development	Sillanpää (1998), Rudnicki (2000).
Corporate Social Responsibility, the Role of Stakeholders and Sustainable Development (A Case Study of Pakistan)	Asif Paryani, Muhammad (2011)
The activity of Nature from the perspective of sustainable development and of corporate social responsibility	Leal, Carla Camargo et. al (2007)
Corporate Social Responsibility In China: An Analysis Of Domestic And Foreign Retailers' Sustainability Dimensions	Ans Kolk, Pan Hong, and Willemijn van Dolen (2010)

Source: Heal, Geoffrey (2004); Morimoto R, Ash J, and Hope C, (2004); Sillanpää (1998), Rudnicki (2000); Paryani Asif, Muhammad (2011); Leal, Carla Camargo et. al (2007), and Ans Kolk, Pan Hong, and Willemijn van Dolen (2010).

Kolk et al., in studies that have been constructed to explain the concept and characteristics of CSR in Western countries, the sustainability, and are now a concern in developing countries. This paper aims to help fill the gap of CSR in China, through the exploration of small samples (retailers) and grew up in China, both Chinese companies and non-Chinese. Analysis of CSR in the dimensions of sustainability as communicated by the major retailers both in Chinese and English, showing large differences between Chinese and international contexts. Interestingly, the biggest difference can be found between China and

the international retailers their attention to CSR companies, especially in the case of Carrefour, and to a lesser extent, Wal-Mart. The study shows that retailers may be, as in eastern countries like the United States and the United Kingdom, began to take a leading position in the CSR debate the extent of involvement and awareness among consumers involved - and to influence the entire supply chain in which they can be very influential. On the other hand, consumers can also be to affect the company because they expect a certain behavior CSR - pressure mainly foreign companies to donate relief effort after the 2008 earthquake in Sichuan province (Kolk et.al, 2010: 1-20).

### 3.2. Perspective of Sustainable Development and CSR

The term Sustainable Development was first introduced in the World Conservation Strategy published by the United Nations Environment Programme (UNEP), the International Union for Conservation of Nature and Natural Resources (IUCN), and the World Wide Fund for Nature (WWF) in 1980. In 1982, UNEP organized a special session to commemorate 10 years of the world environment movement (1972-1982) in Nairobi, Kenya, in response to dissatisfaction with the management of the environment over the years.

At the special session, it was agreed the establishment of the World Commission on Environment and Development (WCED). The results of the deliberations in the trial, elected Prime Minister of Norway (Mrs. Harlem Brundtland) and former Foreign Minister of Sudan (Khaled Mansour), respectively the Chairman and Vice Chairman of the WCED. The concept was popularized through the Sustainable Development WCED report entitled Our Common Future (Today Home we're Together), which was published in 1987. In the report defines Sustainable Development as development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs. In the concept contained two important ideas. First, the idea of the need, in particular the essential needs of the poor world should be given priority: the second, the idea of limitations, which is based on the condition of technology and social organization on the environment's ability to meet present and future needs. Thus, the goal of economic and social development must be set forth on the idea of sustainability in all countries, both developed and developing countries.

The United Nations Conference on the Environment held in Stockholm in 1972 and the Declaration of Environmental Earth Summit in Rio de Janeiro 1992 that agreed principles in development decisions must consider the dimensions of the environment and people and Summit on Sustainable Development in Johannesburg in 2002 to discuss and address the deterioration of the quality of environment. Romeiro (2001, 7) defines the term sustainable development is: *[...] it is a regulatory concept that arose with the name of eco-development at the beginning of the 70's. The authorship of the term is not well established, but there is general consensus about attributing to Ignacy Sachs, from École des Hautes Études en Sciences Sociales from Paris, preeminence in his conceptual qualifications. He appeared in a context of controversy about relations between economic growth and the environment, exacerbated mainly by the publication of the report of the Club of Rome, which advocated zero growth as a means of avoiding environmental catastrophe.*

Further developing the concept of Sustainable Development is very diverse with some comparative understanding of concepts as in table-2.

**Table 2 - Concepts of Sustainable Development**

<b>World Conservation Union et al., 1991</b>	<b>Improving the quality of human life while living within the carrying capacity of supporting ecosystems.</b>
<b>Meadows, Meadows and Randers, 1992</b>	A sustainable society is one that persists over generations, one that is far-seeing enough, flexible enough and wise enough not to undermine either its physical or its social systems of support.
<b>Hawken, 1993</b>	Sustainability is an economic state where the demands placed upon the environment by people and commerce can be met without reducing the capacity of the environment to provide for future generations. It can also be expressed as... leave the world better than you found it, take no more than you need, try not to harm life or the environment, and
<b>U.S. President's</b>	ake amends if you do. Our vision is of a life-sustaining earth. We are committed to the



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<b>Council on Sustainable Development, 1994</b>	achievement of a dignified, peaceful and equitable existence. We believe a sustainable United States will have an economy that equitably provides opportunities for satisfying live hoods at a safe, healthy, high quality of life for current and future generations. Our nation will protect its environment, its natural resource base, and the functions and viability of natural systems on which all life depends.
<b>Viederman, 1994</b>	Sustainability is a participatory process that creates and pursues a vision of community that respects and makes prudent use of all its resources – natural, human, human-created, social, cultural, scientific, etc. Sustainability seeks to ensure, to the degree possible, that present generations attain a high degree of economic security and can realize democracy and popular participation in control of their communities, while maintaining the integrity of the ecological systems upon which all life and all production depends, and while assuming responsibility to future generations to provide them with the where-with-all for their vision, hoping that they have the wisdom and intelligence to use what is provided in an appropriate manner.

Source: Based on Gladwin; Kennelly and Krause, 1995, adopted Leal, Carla Camargo et. al (2007), "The activity of Nature from the perspective of sustainable development and of corporate social responsibility", Universidad Presbiteriana Mackenzie Rua da Consolação 896, CCSA – Centro de Ciências Sociais e Aplicadas Bairro Consolação - 01302-907 – São Paulo – SP., [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1007751](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1007751) page 3.

In World Summit on Sustainable Development in Johannesburg in 2002, that these concepts are retained. For Indonesia, the concept is important, because the government besides active in discussing and trying to cope with environmental degradation, the Government of Indonesia is also committed to sustainable development for the benefit of present and to come up with characteristic of the economic, social, cultural, environmental balanced as the pillars are interdependent and reinforce one another. National development policy to apply the principles of sustainable development that integrates the three pillars of development policy is a policy of economic development, social development policy and development policy and environmental protection.

Along with the perspective of sustainable development, the company also changed its orientation from pursuing one goal, namely profit (single bottom line) with the principle of "business is business, and business - there is no free lunch" to three goals (triple bottom line), i.e. : economic prosperity, environmental quality, and social justice (Elkington in Soemanto 2007: 19). The company's goal in implementing the principles of the triple bottom line, based on the consideration that the growth at the company is important, but it is not enough for companies wishing to develop their business in a long time. Therefore, we should put social and environmental aspects parallel to the economy. Environmental and social conditions need to be maintained by the company to minimize the psychological impact, and culture, as well as grow the socio-economic conditions of communities. This perspective is called the corporate governance (CG).

Corporate governance by Clarke (2004, 2) is "is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society".

Broad focus CG illustrate the complexity and diversity of this phenomenon are also theoretical roots in a variety of disciplines, all of which are mutually reinforcing corporate accountability and transparency for stakeholders is the basic purpose of the CG. Freeman and Evan (1990) proposed that stakeholders, other than shareholders should be represented on corporate boards. They presented the idea that stakeholders should be given an understanding of their stock and have voting power in the organization. Stakeholder theory outlook, that "the organization holding multilateral agreements between the company and its stakeholders" (Clarke, 2004, p 36). Furthermore, according to Clarke Stakeholder theory is divided into two major categories such as internal (employees, managers and owners) and external (customers, suppliers, competitors, special interest groups and the public) as a stakeholder governed by specific formal and informal rules.

Extensive participation of the stakeholders of the company to improve corporate governance mechanisms and social responsibility or social welfare in the company means that the company running the CSR program. The purpose of this program is to achieve good corporate Governance (GCG) with four characteristics, namely: fairness, transparency, accountability, and responsibility. According to the World Bank CSR is the commitment of the business sector to support the creation of sustainable development (Fox Ward and Howard, 2002, in Soemanto, 2006: 23). In line with this, the European Union defines CSR as a program in roommates companies decide voluntarily to contribute to a better society and a cleaner environment (European Union in Heal, 2004: 12). In addition, Heal (2004:12) interpret CSR is involves taking actions roommates reduce the extent of externalized costs or avoid distributional conflicts. Likewise Hopkins in his paper "International Labor Organization", to formulate that CSR is concerned with treating the stakeholders of the firm ethically or in a responsible manner. "(Hopkins, in Heal, 2004:12)

The coverage of CSR implementation, according to the Prince of Wales International Business Forum (Aniswaty, 2010: 1268), concerning the five pillars, namely: 1) Building human, the ability of the company to have the support of a reliable human resources (internal) and external (community). The company charged with empowerment, usually through community development, 2) Strengthening economies, stressing on improving economic communities, 3) Assessing social cohesion, it is intended that the company must maintain harmony with the surrounding community so as not to cause conflicts; 4) Encouraging good governance, meant that the company executed in good governance, and 5) protecting the environment, meant that the company must maintain environmental sustainability.

Attention companies to implement CSR, hopefully increasing empowerment. Therefore, it should CSR for companies not only seen as aspects of philanthropy (humanitarian impulse that comes from universal norms and ethics to help others and fight for social equality), but need to be formulated at the level of strategy, even extended to more macro-level policy and real (Korhonen, 2006 in Anatan 2009: 4).

**Table 2. Development of the CSR Program Orientation**

Paradigma	Charity	Philanthropy	Corporate Citizenship
Motivation	Religion, tradition, adaptation	Norms, ethics and universal laws	Enlightenment and reconciliation with social order
Mission	Addressing local issues	Find and fix the root of the problem	To contribute to the community
Management	The short term, addressing the issue shortly	Planned, organized and programmed	Internalized in the company's policy
Organizing	Committees	Foundation / endowment / professionalism	The involvement of both funds and other resources
Beneficiaries	Pauper	Society at large	Public and corporate
Contribution	Social grants	Development grants	Grant (development and social engagement)
Inspiration	Obligation	Common Interests	

Sources: Zaidi (2003) in Ambadar (2008: 148)

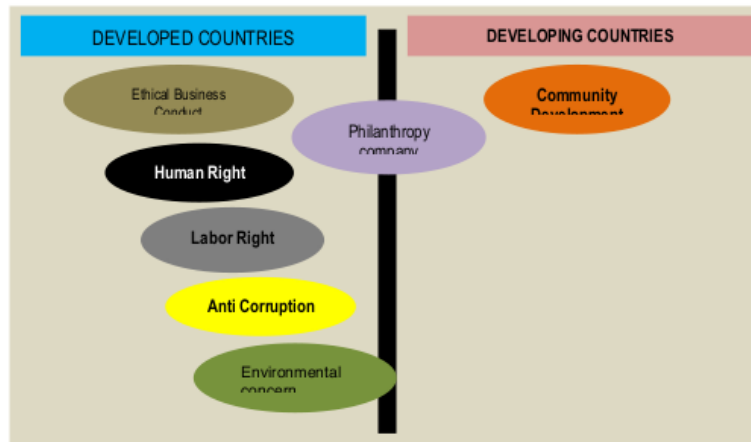
In the current development, there has been a paradigm shift in the implementation of CSR, the first stage, corporate charity is charity a boost by religious motivation; second stage, corporate philanthropy, is a humanitarian impulse is usually sourced from the universal norms and ethics to help others and fight for social equality; stages the third is corporate citizenship, namely citizenship motivation to realize social justice based on the principles of social engagement.

Unfortunately, not all companies are aware of the importance of CSR and not all companies understand the essence and various variants of the implementation of CSR. As a result, most CSR activities merely contribute financial or physical donations without contributing to the development of society, whereas for developing countries should CSR for empowerment (see figure 1). Thus, one aspect of CSR is trivial Building human activity that is

related to the company's support for the development of community capacity. The company charged with empowerment, usually through community development. Even at the end - the end is expected to companies and stakeholders to understand CSR is not just a donation but oriented towards community development. (ISO 26000:2010)

When the orientation of CSR on community development, we can be sure will support the principle of governance which became the paradigm of the current government. Governance as it struggles manages a nations affairs at all levels. Thus governance is defined as the exercise of political, economic, and administrative authority to manage an action's affairs (UNDP 1997:9). Economic Authority has a role in determining economic policy either directly or indirectly in some sectors of the economy such as: poverty, equity, and quality of life of the nation. The authority in politics refers to the process of formulation and implementation of public policies that legitimate and authoritative. While the administrative authority in the field, referring to the government's authority to implement public policy in some public sector in an efficient, impartial, and accountable and open. In the process of public management, the government can act coercive or arbitrary (or force acting arbitrarily) in order to achieve good governance, taking into account the validity of the democratic system, the market mechanism, the passage of the law.

**Figure 1. The difference in the role of CSR in Developed and Developing Countries**



Sources: Kiroyan, 2009 in Darmono (2012: 27)

Order to measure the success of the government, the World Bank - UNDP, IMF and other international financial institutions, which is the first institution proposes the use of the concept of good governance is measured from 3 variable, namely: (1) the process by roommates governments are selected, monitored and replaced, (2) the capacity of the government to formulate and implement sound effectively policies, and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them (Kaufmann et.al, Policy Research Working Paper 2772, February 2002)

### 3.3. Implementation Analysis of CSR Programs in East Java

#### The Basic Implementation of CSR Program

Implementation of CSR programs in East Java underpinned by government policies, such as: *first*, Law No. 40 of 2007, Article 74, paragraph (1) of the Company which runs its business activities in the field and / or related to the natural resources required to implement and social responsibility environment, and (2) social and environmental responsibility referred to in paragraph (1) an obligation of the company which are budgeted and accounted for as an expense of the company are carried out with respect to implementation of decency and fairness; *second*, the law no. 25 of 2007 on investment, article 15 (b) states that "every investor is obliged to carry out corporate social responsibility". The law has been set penalties on an individual or business entity that ignore CSR (article 34). This new law to reach foreign investors and have not set explicitly about CSR for companies nationwide.



*Third*, Law 19 of 2003 on state-owned enterprises, which is then translated to the regulation of the Minister of State Enterprises Reg-05/MBU/2007, which regulates the amount of funds to start procedures for the implementation of the partnership and community development. In the regulation of the Minister of State Enterprises declared that the state other than for profit, also serves to provide guidance to employers actively support the weak, cooperatives and communities. Furthermore, regulation of the Minister of State Enterprises explains that the source of the funds CSR derived from net profit allowance for a maximum of 2% is used for or community development and partnership program.

*Fourth*, East Java Province Regulation No. 4 of 2011 has given the scope and limits of classification CSR program: 1) development and social environment is a program that aims to maintain the functions and management of the environment and provide direct assistance to people who are in the target area, including environmental development of physical, social and environmental development of micro and community development cooperatives, 2) partnership of micro, small and cooperative program is to cultivate, promote and foster independence in the community trying to target, and 3) programs directly to the public is a shared program within six (6) categories of direct assistance: a) grants are awarded to public companies that need an amount appropriate to the ability of the company, b) an award of scholarships to employees or citizens who are academically capable but are not able to pay for education, c) subsidies is to include the provision of funding for community development projects, the implementation of a public facility or capital support of micro and small d) social assistance is in the form of assistance in the form of money, goods or services to the social houses / homes, the victims and the social welfare issues, e) is in the form of social services, education, health, sports and social workers compensation, and f) social protection is the provision of employment opportunities for athletes of national / regional is full devotion and for persons with disabilities has a special ability.

#### **Optimization Analysis of CSR Funds in East Java**

Conditions in East Java in 2011, showed that the low allocation of finance-related financing community development in basic services. Increased funding allocation for basic services should be supported by optimizing the CSR funds as a solution, without having to remove or reduce the allocation of funding from the government. Table 2, will simulate a number of matters that can be supported by government funding CSR. The illustration is based on a 2 (two) indicators. First, the concept of optimization of financing to maximize the existing budget, on the other hand is supported by 2% from the fund CSR. Second, the optimization of the financing allocated CSR; it can save 2% of budget allocations.

Government's financing needs for the 9 budget allocation based on the function of the East Java provincial budget in 2011 reached 10,626 billion rupiah. Financing of the CSR strategy optimization can be done in two methods. First, by adding 2% CSR funds in the budget calculation, resulting in an increase in the budget allocation for each function of financing, and government financing for each function will increase significantly. Secondly, by reducing the burden of financing that will be replaced by the financing sources of CSR funds by 2%, then the burden of government funding will be reduced significantly and there was an austerity budget in East Java provincial budget structure.

Several functions can be replaced by the role of CSR funding, among other things: first, the function of financing the economy. CSR costs directed to: (1). Development of micro and cooperative environment, (2). Partnerships social enterprise, micro, small and cooperative, and (3). Subsidies; Second, health function. CSR costs geared to social service programs; Third, the environment. CSR funding is directed to social and environmental development programs. Fourth, public service functions. CSR Funding is directed to social services programs; Fifth, the function of social protection. CSR funding is directed to the type of social protection programs; Sixth, housing and public facilities functions. CSR funding is directed to the program subsidy; Seventh, educational functions. CSR funding for the scholarships and subsidies award program. Then to implement the optimization of the financing of the CSR is where financing at 2% of the budget allocation of government funding to reach 209.385 billion rupiah. These savings can be made if the government can do with a corporate partnership to allocate funding to a number of CSR programs that target is still a burden on the budget.

**Table 3. Illustration Optimization Funds CSR in East Java Based Allocation Budget 2011 Budget by Function**

No.	Function	Allocation (Rupiah)	Utilization of CSR Referral Program * (Classification based on the Program)	Optimization CSR 2%** (Rupiah)
1	Economy	1,666,781,179,472.00	<ul style="list-style-type: none"> <li>➤ Development of micro and cooperative environment</li> <li>➤ Partnerships social enterprise, micro, small and cooperative</li> <li>➤ Subsidy</li> </ul>	33,335,623,589.44
2	Health	1,737,417,121,136.00	➤ Social service	34,748,342,422.72
3	Order and peace	68,368,048,511.00	-	-
4	Environment	40,434,215,874.00	➤ Community development and social	808,684,317.48
5	Tourism and culture	88,724,051,450.00	-	-
6	Public service	5,768,832,966,456.00	➤ Social services	115,376,659,329.12
7	Education	384,641,479,231.00	<ul style="list-style-type: none"> <li>➤ Awards in the form of scholarships</li> <li>➤ Subsidy</li> </ul>	7,692,829,584.62
8	Social protection	152,561,227,109.00	➤ Social services	3,051,224,542.18
9	Housing and public facilities	718,601,098,313.00	➤ Subsidy	14,372,021,966.26
Total		10,626,361,387,552.00		209,385,385,751.82

Sources: Ministry of Finance Director General of Financial Affairs, 2012. [www.djpk.depkeu.go.id/datadjpk](http://www.djpk.depkeu.go.id/datadjpk).

Note: \*). CSR Referral Program, Regulation 4/2011 in East Java.

\*\*). Based provision of 2% profit for CSR funds: Law 19/2003 and the Regulation of the Minister of SOEs No: Reg-05/MBU/2007.

Potential partnerships with corporations in the use of government financing of the CSR in the Provincial Government and Regency / City in East Java, can be traced from several documents the implementation of CSR in East Java in the period 2009 to 2012. In 2009, unidentified type of CSR activities undertaken, there are 6 (six) types of activities most commonly undertaken by SOEs, among others: (1). concern for the customer, (2). human resource development through formal and informal education, (3). developing a green environment, (4). increased awareness of healthy behavior and, (5). supported the community development and socio-economic environment, and (6). forms other strategic activities in accordance with the company's development.

The move was followed by a policy of partnership formation Permanent Secretariat of the partnership program and community development in East Java in April 2009. Later in 2010 formed a partnership forum and community development programs. The establishment of a forum and community development partnership program is a partnership commitment shown by the government of East Java province. In 2009, the institutional structure of the East Java provincial government also formed of Financing Development in the organizational structure Regional Planning Agency East Java Province whose job identifying revenue opportunities outside the provincial budget, with a breakthrough source of funds outside the budget for development financing.

### Analysis of Community Development Fund and the Partnership in East Java

Policy implementation in the areas of community development financing and partnership proved to increase the amount of funds that can be distributed to the community through various programs of direct assistance and partnership. When referring to data from Information Systems partnership program and community development in East Java until 2012 financing partnerships and community development programs reached 84.38 billion rupiah. As for the financing of the partnership reached 63.97 billion rupiah. Total companies involved in direct assistance programs reach 73 companies by the number of targeted beneficiaries reached 1952. For partnership programs conducted by 18 companies to achieve the target number of 701 beneficiaries. Recapitulation of funding community development and partnerships implemented by several companies in East Java can be seen in Table 4 and 5 below.

**Table 4. Recapitulation Environmental Development Fund of East Java Province up in 2012**

No	Regency / City	Number of Corporate		Nominal (Rupiah)	Number of Recipients
		Giving Community Development Fund	Total		
1	Bojonegoro	10	11	33.114.565.000,00	76
2	Pasuruan	16	17	8.823.788.550,00	381
3	Surabaya	12	12	20.832.062.967,00	618
4	Trenggalek	5	5	2.786.179.178,00	190
5	Sidoarjo	1	1	25.000.000,00	1
6	Malang	2	17	21.500.000,00	26
7	Jember	5	6	834.054.131,00	98
8	Jombang	4	6	2.167.379.000,00	305
9	Madiun	7	10	3.338.939.000,00	68
10	Kediri	4	4	1.069.276.000,00	38
11	Tuban	5	3	10.995.185.499,00	107
12	Mojokerto	1	2	348.000.000,00	42
13	Magetan	1	1	30.000.000,00	2
Grand Total		73	95	84.385.929.325,00	1952

Source: <http://csrjatim.org>, 4 July 2012.

**Table 5. Recapitulation Partnership Fund in East Java Province up in 2012**

No	Regency / City	Number of Corporate		Nominal (Rupiah)	Number of Recipients
		Giving Partnership Fund	Total		
1	Surabaya	3	12	29.510.499.999,00	579
2	Jombang	1	6	0,00	2
3	Madiun	8	10	3.922.950.000,00	64
4	Kediri	3	4	29.572.996.999,00	21
5	Tuban	2	3	962.302.800,00	34
6	Magetan	1	1	5.000.000,00	1
Grand Total		18	36	63.973.749.798,00	701

Source: <http://csrjatim.org>, 4 July 2012.

The data indicate a number of conditions related to the development finance community development and partnerships in East Java until 2012. First, the financing community development and partnership depends on the commitment of the company in exercising corporate social responsibility for the environment and society. These conditions can be seen from the total companies in East Java and District / City not all companies carry out obligations in the field of CSR. The government has to optimize their CSR funds from existing SOEs and DOEs. Second, the financing of environmental development and partnerships for each different region, to areas with a high number of companies would potentially obtain financing distribution CSR is relatively high, and vice versa for regions with

seamless enterprise with low numbers certainly are not able to optimize the financing of the company's CSR. Third, the trend to community development programs and partnerships such as the type charity is unable to maximize the functions of empowerment.

#### **Analysis of Program Types, Magnitude Fund Partnership Program and Community Development in East Java**

According to documents in the East Java Provincial Government, namely: participation in a survey of the business world in order to support the financing of regional development, and making effective use of CSR policy strategy for the performance of regional development, identified the type of program, the amount of program funds partnerships and community development in East Java as the following:

- 1) Types of business corporations varies the organizers of the CSR consists of 13 lines of business. Sequence based on the percentage, the 13 business sectors include manufacturing (22.22%), oil (16.67%), textiles and textile products (13.89%), fisheries (9.72%), food and beverage (8.33%), mining (8.33%), trade (6.94%), chemical industry (4.17%), livestock, agriculture, and construction of the / real estate 2.78% respectively, and automotive (1.39%).
- 2) CSR implementation mechanism is largely done through the stages of identification of target selection CSR (corporate conducted by 84.29% sampling). Planning CSR activities are also carried by most (41.43%) sampling corporation. In addition, corporations that implement CSR as corporate sample 62.86%. Technical assistance activities undertaken by the corporation as much as 24.29% sampling. Monitoring and evaluation activities in the implementation of CSR undertaken by respective 42.86% and 32.86% corporate sampling. Amounted to 21.43% corporation has planned a follow-up mechanism of CSR implementation.
- 3) Implementation of CSR strategies in general (85.90%), carried out by the corporation. 11:54% while as many left to private agents, and the remaining 2.56% left to government agencies. Corporations generally held their own CSR activities with consideration of the interests of the target environment and conditioning better planned, coordinated, and facilitates the implementation of M & E and follow-up CSR program. By implementing its own, it is expected that the good relations between corporations and the environmental community CSR target.

Interpretation of the data is that the implementing CSR are varied compared with variations specified in the regulations CSR East Java, but the mechanism of the implementation was entirely done by the company without any coordination with the government, so some existing CSR programs are overlapping with the development program established by the government both in terms of location and work programs, and the recent implementation of that strategy is still largely done by the company. Thus, the role of government as a facilitator of development, it not seems.

#### **3.4. Managing Reform of CSR Programs In East Java**

In an effort to improve the performance of CSR programs in East Java, a synergistic effort is needed between rules with real conditions (and potential problems). Because it takes a sustainable reforms and formulate an intelligent innovation. Formulation step in an effort by the authors thoughts are: regulatory reform, institutional strengthening, and strengthening government intervention.

##### **Policy Reform of CSR programs**

CSR policy reform in an era of governance in East Java Provincial Government shall be built through the primary approach that emphasizes awareness of the company from the obligation to care for the environment. Through this perspective, it is expected that the formulation and implementation of CSR has the power in the interests of governments, communities, and stakeholders. In other words, policy reform is a total system of thought designed specifically for governing by a group of peers, borrows from-but does not mimic-

management (Carver, 2001: 1). Accordingly, CSR policy reform program in East Java through the provision of space on citizen participation in policy making, providing information channel space, and giving space to assess the performance of government. Thus will be realized an effective government, and responsive to the needs of citizens.

In the perspective of democracy and development, the effectiveness of the government must be seen not only in terms of power and control but in the government's ability to achieve and facilitate the goals that were set. These objectives include the implementation of the decisions of democracy, support for economic growth led by the private sector, and the defense of basic freedoms. (Kim Eric Bettcher (ed), 2009: page 22). Therefore in cases of short-term, requires creative efforts of the government to find ways to legally and publicly acceptable. One such tactic is the use of liberalization "consent agenda" which is legally required, but conceptually not counterproductive. The challenge in the long term is to educate the public understanding, modernization of laws, and creating new traditions (Carver, 2001: 24).

Referring to the reasoning above, the model of policy reform became an important reference in the formulation of policies in the field of CSR, to: *First*, Law No. 40 of 2007, is very limited, not to be followed up in detail the important points of interest of the public, stakeholders, and government in using CSR funds. Most alarming is that in article 74 paragraph 1 to 3 only set that requires the company to implement corporate social responsibility in the form of CSR programs. For the Company which carries on business in or related fields and natural resources required to run social and environmental responsibility also tends to cause multiple interpretations. In fact, social responsibility and the environment are important issues; especially the commitment of the Company to participate in sustainable economic development to improve the quality of life and environment is beneficial, both for the company itself, the local community, and society at large.

*Second*, Law no, 25 of 2007 on Investment. Although there is no necessity to prepare CSR and penalties for individuals or business entities that ignores CSR (Article 34), this new law to reach foreign investors and have not set explicitly about CSR for companies nationwide. *Third*, Act 19 of 2003 on state-owned and State-Owned Enterprises Minister Reg-05/MBU/2007 a set amount of funds to start procedures for CSR. As is known, is a state-owned CSR for Partnership and Environment Development Program. In state law it is stated that in addition to making money, the role of state-owned enterprises are also actively provide guidance assistance to entrepreneurs the weak, cooperatives and communities. Furthermore, CSR funding comes from the company's net income allowance for a maximum of 2 percent that can be used for or Community Development and Partnership Program.

*Fourth*, the East Java Provincial Regulation No. 4/20011, also do not have the rigor and detail as well as strong institutional and coordination of the implementation of CSR programs for companies operating in East Java. Thus overlapping execution still found. With respect to regulatory conditions, to develop a CSR program in East Java needs to be done in terms of policy reforms do reconstruction policy by referring to the principles of CG and GCG, in the hope of all the interests of the public and stakeholders can be contained in the policy formulation.

### **Strengthening Implementation Management**

To enhance the successful implementation of CSR policies and programs necessary to strengthen management of implementation and management of resources. CSR management reform by thinking Brinkerhoff and Crosby (2002), at the time of implementation of CSR policies are:

- 1) At the time of the construction of the concept of CSR at the level of constituencies (constituency building), reform must be marketed and promoted;
- 2) Resources accommodation, including the implementation of CSR in the human, technical, material, and financial need to be sought and allocated;
- 3) Organization design and modification. An introduction of new tasks and objectives accompanying policy reform will likely cause modifications in the Implementing Organizations (introduction about the activities and goals of policy reform CSR needs to be modified at the time of the organization of the implementation.) This is done because the necessary modifications to the current interests of multiple stakeholders. Reform



involves multiple interests in different scopes. Reform at the level of implementation and monitoring of the condition of external interests outspoken and collaborate, and communicate with external stakeholder organizations associated with this policy;

- 4) Mobilizing resources and actions. Resource mobilization, the reforms carried out in the current CSR plan formulation and implementation. This includes clarifying targets and performance standards specified, and control activities; and
- 5) The CSR policy reforms must be carried out monitoring of performance (monitoring progress), and thus will be known success and failure. Policy reform always brings out the effects (benefits and impact) you need to know as soon as possible, because that monitoring is an important activity.

When implementing CSR activities that the author borrowed the method proposed by Brinkerhoff and Crosby is divided into 3 sections of activities that need to be made during the implementation of CSR policy reforms, namely: implementation activities, implementation of strategies, mechanisms and means of implementation activities (see table 6)

**Table 6. Implementation Tasks, Strategies and Mechanisms**

IMPLEMENTATION TASKS	STRATEGIES	MECHANISMS
The establishment of legitimacy	<ul style="list-style-type: none"> <li>Increasing awareness, questioning the status quo is not essential for CSR program</li> <li>Identify the important reforms CSR policy</li> <li>Creating a new forum for discussion of CSR policy</li> <li>Create mechanisms to accommodate the interests of CSR</li> <li>Developing a CSR management authority</li> </ul>	<ul style="list-style-type: none"> <li>Conducting CSR policy dialogue through workshops</li> <li>Establish a forum for dialogue between the government and companies</li> <li>Stakeholders Workshops that address CSR program</li> <li>The division of tasks implementing CSR programs</li> </ul>
Development constituents	<ul style="list-style-type: none"> <li>Support the alternative selected policy</li> <li>Identify and mobilize key stakeholders CSR</li> <li>Promote and negotiation and coalition building</li> <li>Mobilize or decisive advantage over its CSR stakeholder</li> </ul>	<ul style="list-style-type: none"> <li>Analysis of Stakeholders CSR</li> <li>Mapping political interests and political actors related to CSR</li> <li>Analysis of CSR network</li> <li>Negotiation and roles of CSR programs</li> </ul>
Accumulation of resources	<ul style="list-style-type: none"> <li>Identification and understanding of the finances of both internal and external</li> <li>Negotiations on financial authority and resources</li> <li>Development of a partnership with the implementing agent, NGOs, and community groups</li> <li>Establishment and formulation of new capacity CSR</li> <li>Human Resource Development implementing CSR</li> </ul>	<ul style="list-style-type: none"> <li>Lobbying by donors outside the company</li> <li>Review of Public Financial about CSR program</li> <li>Transparency in the budget process are accessed CS</li> <li>Lobbying – bargaining</li> <li>Identify new skills and develop new skills training programs for CSR program</li> </ul>
Modifying the organizational structure	<ul style="list-style-type: none"> <li>Creation and replacement of new missions to the old organizations or new organizational CSR</li> <li>Build capacity of implementing CSR programs</li> <li>Develop the scope limits for CSR program</li> <li>Developing networks and</li> </ul>	<ul style="list-style-type: none"> <li>Analysis of the organization implementing CSR approach to SWOT</li> <li>Improved organizational advice or remodeling an existing.</li> <li>The creation of ad hoc task forces and cross-ministerial commission CSR</li> </ul>



IMPLEMENTATION TASKS	STRATEGIES	MECHANISMS
	<ul style="list-style-type: none"> <li>partnerships</li> <li>Increase cooperation and coordination between the implementing agencies CSR</li> </ul>	<ul style="list-style-type: none"> <li>Policy coordination and management unit implementing CSR</li> <li>Partnership between government and private</li> </ul>
Mobilize resources and activities	<ul style="list-style-type: none"> <li>Develop concrete plans, expectations, performance, accountability, and create and implement multiple activities CSR</li> <li>identifying, creating, and / or change the incentives implementing CSR</li> <li>Perform resistance to conflict</li> <li>Create a coalition governance and conduct compliance</li> <li>Recognizing the importance and mobilize action for the early success of CSR programs</li> <li>Communicate success stories</li> </ul>	<ul style="list-style-type: none"> <li>Creation of the planning and implementation of CSR programs in a participatory</li> <li>Workshop on CSR solutions together</li> <li>The use of a multi-party action against CSR plan</li> <li>Innovative Revolution of the dispute mechanism CSR</li> <li>Creation of a reward system for performance and CSR performance connection CSR</li> </ul>
Monitoring of the impact	<ul style="list-style-type: none"> <li>Position monitoring of the CSR policy in the political arena</li> <li>Make an analysis of the position of capacity</li> <li>Linking learning programs and operations CSR</li> <li>Set realistic standards of CSR performance</li> <li>Establish mechanisms for the application of managerial CSR lessons</li> </ul>	<ul style="list-style-type: none"> <li>Monitoring of inter-agency unit</li> <li>Conduct hearings</li> <li>Review the performance of the implementing agencies CSR routinely</li> <li>Involve external monitoring groups</li> <li>Evaluation of the impact of policy and CSR programs</li> <li>Conducting oversight by civil society through service survey</li> </ul>

Source: Adapted from cultivated and thought Brinkerhoff and Crosby, 2002, *the Managing Policy Reform: Concepts and Tools for Decision Makers in Development and Transitioning countries*, Kumarian Press, p.36-37

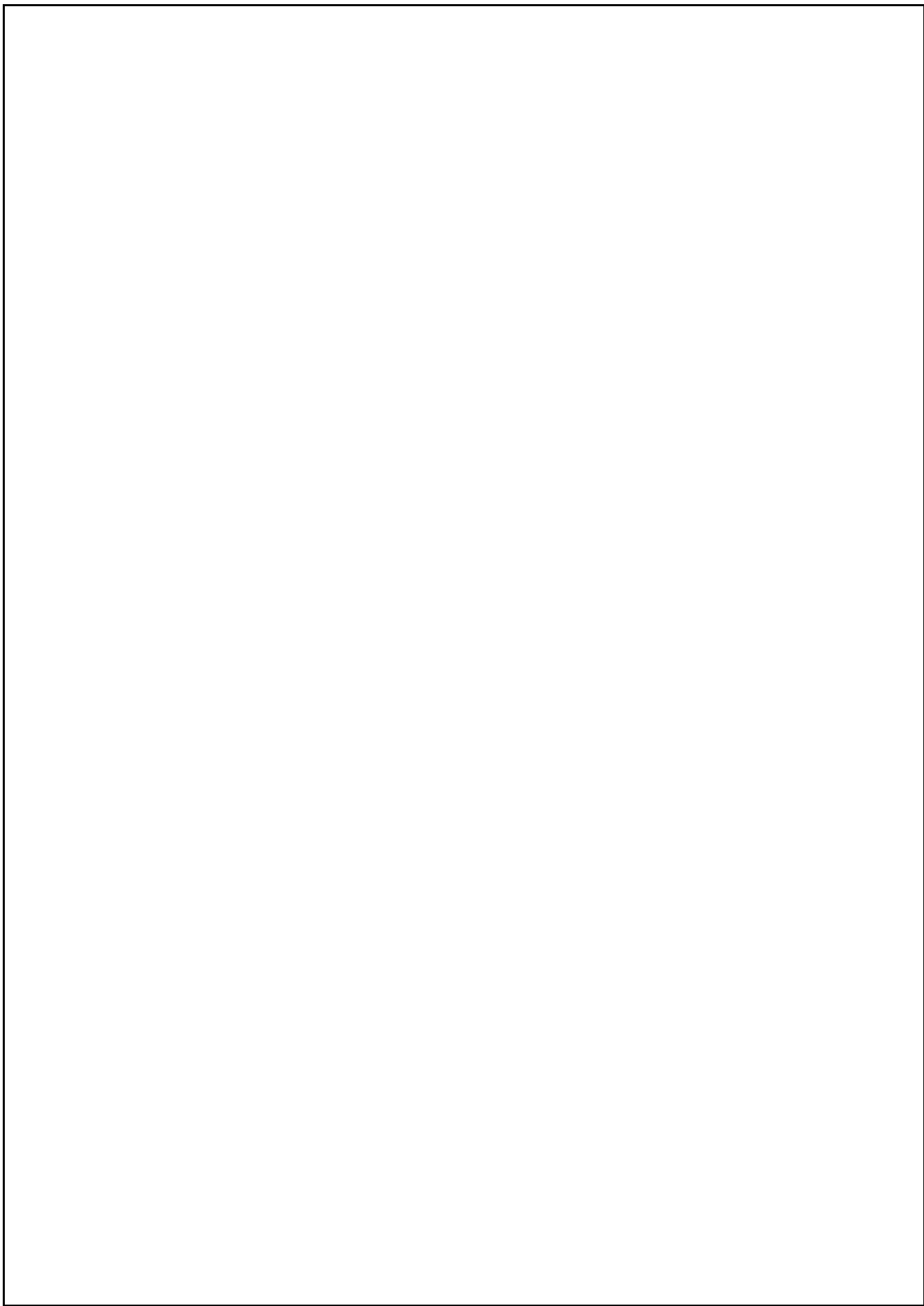
#### 4. Conclusion

In an effort to improve the CSR performance in East Java Province with reference to the study of the theory and analysis of problems of CSR in East Java, especially in the implementation of development sustainable, required 3 management reform agenda, namely: 1). CSR policy reform, this reform is built on the company's concern for society and the environment as well as providing space for managing CSR programs. With these reforms are expected to have power in the interests of the public and stakeholders 2). Strengthening of managing implementation. This pattern is used to implement the current reform CSR activities with respect to 3 parts, namely: the implementation of activities, implementation of strategies, mechanisms and means of implementation activities, and 3). the importance of coordination between the company and the government in determining the program, implementation, evaluation, and continuous reforms to the success of CSR programs in sustainable development programs.

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