Corporate Social Responsibility and Sustainable Development

Social Capital and Corporate Development in Developing Economies

Risa Bhinekawati

FINANCE, GOVERNANCE AND SUSTAINABILITY: CHALLENGES TO THEORY AND PRACTICE

A Gower Book

ROUTLEDGE

Corporate Social Responsibility and Sustainable Development

Many different companies can significantly contribute to the integrated goals and targets of the United Nations' sustainable development goals, such as poverty reduction by 2030. Poverty is not only about people living on less than $1.25 per day, but more fundamentally, it is their lack of capabilities and access to participate in productive economic activities. If companies can contribute in order to provide access and the necessary skills, then individuals will have the capabilities to achieve their aspirations, including earning a higher income.

Corporate Social Responsibility and Sustainable Development supports Sen's assertions that poverty can be alleviated if the capability of individuals is improved. Beyond that, this book shows that sustainable development goals can be achieved when the company's CSR programs and social capital development in improving people's capabilities are combined with necessary finance access and market access for the poor. The theoretical model developed from the journey of Astra International, one of the largest public-listed companies in Indonesia, is replicable for other companies aspiring to be sustainable in developing countries. The model shows a virtuous cycle between the corporate aim, CSR programs, social capital and corporate sustainability.

This volume is of great value to academics, practitioners and policy makers interested in the themes of CSR, social capital and sustainable development of developing countries. It also appeals to professionals in industry associations, development agencies and international organisations, as well as NGOs that are concerned with the achievement of sustainable development goals by 2030.

Risa Bhinekawati is a corporate sustainability advisor and a lecturer who is very passionate about improving sustainable development in developing countries. She is now a lecturer at Podomoro University, Indonesia, and also serves as an Advisory Board Member of Women in Global Business, Indonesian Chapter.

Finance, Governance and Sustainability: Challenges to Theory and Practice Series

Series Editor:

Professor Güler Aras, Yildiz Technical University, Turkey; Georgetown University, Washington DC, USA

Focusing on the studies of academicians, researchers, entrepreneurs, policy makers and government officers, this international series aims to contribute to the progress in matters of finance, good governance and sustainability. These multi-disciplinary books combine strong conceptual analysis with a wide range of empirical data and a wealth of case materials. They will be of interest to those working in a multitude of fields, across finance, governance, corporate behaviour, regulations, ethics and sustainability.

For a full list of titles in this series, please visit www.routledge.com/Finance-Governance-and-Sustainability/book-series/FINGOVSUST

Sustainable Markets for Sustainable Business
A Global Perspective for Business and Financial Markets
Edited by Güler Aras

Sustainable Governance in Hybrid Organizations
An International Case Study of Water Companies
Linne Marie Lauesen

Transforming Governance
New Values, New Systems in the New Business Environment
Edited by Maria Aluchna and Güler Aras

Strategy, Structure and Corporate Governance
Nabyla Daidj

Corporate Behavior and Sustainability
Doing Well by Being Good
Edited by Güler Aras and Coral Ingley

Corporate Social Responsibility and Sustainable Development
Social Capital and Corporate Development in Developing Economies
Risa Bhinekawati

Cosmopolitan Business Ethics
Towards a Global Philosophy of Management
Jacob Dahl Rendtorff

Corporate Social Responsibility and Sustainable Development

Social Capital and Corporate Development in Developing Economies

Risa Bhinekawati

ROUTLEDGE
Routledge
Taylor & Francis Group
LONDON AND NEW YORK

First published 2017
by Routledge
2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN

and by Routledge
711 Third Avenue, New York, NY 10017

Routledge is an imprint of the Taylor & Francis Group, an informa business

© 2017 Risa Bhinekawati

The right of Risa Bhinekawati to be identified as author of this work has been asserted by her in accordance with sections 77 and 78 of the Copyright, Designs and Patents Act 1988.

All rights reserved. No part of this book may be reprinted or reproduced or utilised in any form or by any electronic, mechanical, or other means, now known or hereafter invented, including photocopying and recording, or in any information storage or retrieval system, without permission in writing from the publishers.

Trademark notice: Product or corporate names may be trademarks or registered trademarks, and are used only for identification and explanation without intent to infringe.

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

Library of Congress Cataloging in Publication Data
Names: Bhinekawati, Risa, author.
Title: Corporate social responsibility and sustainable development: social capital and corporate development in developing economies/Risa Bhinekawati.
Description: Abingdon, Oxon; New York, NY: Routledge, 2017. | Includes bibliographical references and index.
Identifiers: LCCN 2016035098 | ISBN 9781138227583 (hardback) | ISBN 9781315395463 (ebook)
Subjects: LCSH: Social responsibility of business–Developing countries. | Sustainable development–Developing countries. | Corporations–Environmental aspects–Developing countries. | Management–Environmental aspects–Developing countries.
Classification: LCC HD60.5.D44 B495 2017 | DDC 338.9/27091724–dc23
LC record available at https://lccn.loc.gov/2016035098

ISBN: 978-1-138-22758-3 (hbk)
ISBN: 978-1-315-39546-3 (ebk)

Typeset in Times New Roman
by Sunrise Setting Ltd, Brixham, UK

Dedicated to leaders of Astra International
Mr William Soeryadjaya (1922–2010) and
Mr Michael Dharmawan Ruslim (1953–2010)
Their legacy in building responsible business that brings prosperity to Indonesia has inspired me to undertake my PhD study and write this book.

This page intentionally left blank

Contents

List of figures xi
List of tables xii
Foreword by David Crowther xiv
Acknowledgements xxi
List of acronyms and abbreviations xxii

1 Introduction: corporations and sustainable development goals 1

Roles of companies in developing countries 3
Lessons from a responsible company in a developing country 4
Implications for sustainable development goals 7
Structure of the book 10
References 11

2 Corporate social responsibility and sustainable development in developing countries 14

Sustainable development issues in developing countries 14
Extended roles of companies in developing countries 16
The concept of corporate social responsibility 18
Strategic corporate social responsibility (CSR) 20
The importance of stakeholder management in strategic CSR 22
CSR in developing countries 23
Conclusion 26
References 26

3 Social capital and corporate sustainability in developing countries 32

Social capital as a form of capital 32
Definitions of social capital 34

Bonding, strong ties, bridging, weak ties and structural holes 36
Social capital investment 37
Benefits from social capital investment to corporate sustainability 40
Conclusion 41
References 42

4 Theoretical linkages between sustainable development, corporate social responsibility, social capital and corporate sustainability 45

Theoretical framework 45
Research objectives, research gaps and research questions 49
References 51

5 Research approach 54

Considerations for qualitative case study 54
Research sampling and unit of analysis 55
Data collection and data management 58
Data storage and management 62
Data reduction and data displays 63
Data analysis 68
Discussions and drawing conclusions 70
Issues of qualitative case study 70
References 71

6 Indonesia, a very large developing country 74

Why Indonesia? 74
The roles of companies and CSR in Indonesia 75
Mandatory CSR but lack of government law enforcement 77
Research and knowledge gap on CSR in Indonesia 78
References 80

7 Astra, one of the largest companies in Indonesia 83

Why Astra? 83
The journey from small business to very large public company 84
CSR as a strategic business investment 89
CSR and corporate self-regulation 94
CSR and stakeholder management 95
Taking lessons from Astra's strategic CSR programs 99
References 100

8 Empowering micro and small enterprises to build supply chain and prosperity **104**

MSMEs and poverty alleviation in Indonesia 104
Evolution of the company's MSME program 105
Sustainable development and the MSME development program 110
The MSME program formulation and implementation 113
The MSME program and social capital development 116
Social capital and corporate sustainability 121
Conclusion 126
References 128

9 Developing vocational education to secure skilled workers **130**

Vocational education and lack of skilled workers in Indonesia 130
Evolution of the company's vocational education program 131
Sustainable development and vocational education program 136
Vocational education program formulation and implementation 140
Vocational education program and social capital development 143
Social capital and corporate sustainability 147
Conclusion 150
References 151

10 Eradicating poverty by empowering smallholder farmers **153**

Palm oil plantations and sustainable development challenges in Indonesia 153
Public roles of a palm oil company in sustainable development 154
An overview of the company's CSR program surrounding its palm oil plantations 155
Evolution of the company's CSR program in palm oil plantations 158
Sustainable development and empowerment of smallholder farmers 161
Smallholder program formulation and implementation 164
Smallholder farmers' program and social capital development 166
Social capital and corporate sustainability 172
Conclusion 177
References 179

11 Building theory on corporate social responsibility and sustainable development **181**

Sustainable development and CSR 181
CSR program formulation and implementation 183
CSR program and social capital development 189
Social capital contributions to corporate sustainability 196
Theory development: virtuous cycle of sustainable development, CSR, social capital and corporate sustainability 200
References 204

12 Conclusion: a replicable model for corporate social responsibility and sustainable development **208**

A theoretical model from empirical evidence 208
Implications to corporate practices for sustainable development 212
CSR and eradication of hunger and improvement of healthy lives (Goals 2 and 3) 213
Implications to management theory 217
Implications to policies on CSR and sustainable development 218
Limitations and further research 219
References 220

Appendix: notes to contributors 223
Index 227

Figures

4.1	Theoretical framework: the interrelationships between sustainable development, CSR programs, social capital and corporate sustainability	48
7.1	The vision of William Soeryadjaya about Astra's role in Indonesia	85
7.2	Astra's corporate social responsibility (CSR) framework	91
7.3	Organisation structure: Astra's corporate foundations	92
7.4	Performance of companies within the Astra group regarding compliance with Astra Green Company (AGC) and Astra Friendly Company (AFC) standards, 2002–2011	95
7.5	Astra's stakeholder framework	96
7.6	Astra's net revenue, net income and market capitalisation, 1997–2011	99
8.1	The linkages between driving forces, CSR programs, social capital and corporate sustainability of the micro, small and medium enterprise (MSME) program	111
8.2	Organisational structure of YDBA's executive office	116
8.3	Astra's purchases from MSMEs	122
8.4	Training of youth dropouts as mechanics by YDBA	126
9.1	The linkages between driving forces, CSR programs, social capital and corporate sustainability of the POLMAN program	137
9.2	The organisational structure of Polman Astra	142
9.3	Graduates of Polman Astra from 1999 to 2015	148
10.1	Summary of, and linkages between, driving forces, CSR programs, social capital and corporate sustainability in the case of the PALMOIL program of AAL	162
10.2	Organisational structure of LKMs	172
10.3	Performance of LKM Mitra Surya Sejahtera (SRL1), 2008–2011	175
10.4	Performance of LKM Benteng Kayu Mangiwang (SRL2), 2008–2011	175
11.1	The virtuous cycle of the linkages between sustainable development, CSR programs, social capital and corporate sustainability of Astra's CSR programs	201
12.1	Theoretical model: the linkages between sustainable development, CSR programs, social capital and corporate sustainability	209

Tables

1.1 Large company's contributions to sustainable development goals 8
2.1 The United Nation's sustainable development goals 2030 16
3.1 Different forms of capital 33
3.2 Definitions of social capital 35
4.1 Operational definitions of sustainable development, CSR programs, social capital and corporate sustainability 46
5.1 Case study design 57
5.2 Illustration of interview questions for the smallholder farmers (the PALMOIL program) 60
5.3 List of interviews for the case study 61
5.4 Data collection activities 62
5.5 Illustration of the link between concepts, code labels and process observed 64
5.6 Illustration of manual coding to categorise evidence from interviews (similar technique to code documents and archives) 65
5.7 Illustration of actual manual coding process 67
7.1 Translation of Astra's corporate philosophy into Astra's ways of working 90
7.2 Examples of Astra's CSR programs in dealing with sustainable development goals 93
7.3 Astra's responsibilities and actions towards its stakeholders 97
8.1 Comparison of aim, philosophy and vision of Astra and YDBA 112
8.2 Interrelations between Astra and YDBA 115
8.3 Training modules of Dharma Bhakti Astra Foundation 119
8.4 MSMEs developed by YDBA 2011–2013 124
9.1 Comparison of aim, philosophy and vision of Astra and YABI 139
9.2 Interrelations between Astra and YABI 141
9.3 The POLMAN program: target skills, sources of competence and capacity 146
9.4 Total graduates of Polman Astra from 1999 to 2015 148
9.5 Student application and acceptance to Polman Astra, 2009–2015 149
10.1 Responsibilities and actions of Astra Agro Lestari (AAL) towards its stakeholders 156

10.2 Value of AAL's transactions to the local economy 157
10.3 Comparison of aim, philosophy and vision of Astra and AAL 163
10.4 Interrelations between Astra, AAL and Astra corporate foundations 164
10.5 The PALMOIL program – assessment aspect, component and criteria 169
10.6 Coverage of the PALMOIL program as of 2011 174
11.1 Inventory of sustainable development issues in Indonesia and the alignment with the three CSR programs of Astra 184
11.2 Evolution of the MSME, POLMAN and PALMOIL programs 187
11.3 Social capital development: social relations/social network (bonding and bridging) of Astra's CSR programs 190
11.4 Social capital development: resources embedded in the social network of Astra's CSR programs 192
11.5 Social capital development: collective actions of Astra's CSR programs 195
11.6 Economic performance generated from the enhanced social capital of Astra's CSR programs 197
11.7 Social performance generated from the enhanced social capital of Astra's CSR programs 198
11.8 Environmental performance generated from the enhanced social capital of Astra's CSR programs 199

Foreword

One of the most used words relating to corporate activity at present is the word sustainability. Indeed, it can be argued that it has been so heavily used, and with so many different meanings applied to it, that it is effectively meaningless. Certainly, there is no specific definition of corporate sustainability and each organisation needs to devise its own definition to suit its purpose and objectives, although all seem to assume that corporate sustainability and corporate social responsibility are synonymous and based upon voluntary activity which includes environmental and social concern.

Thus the term sustainability currently has a high profile within the lexicon of corporate endeavour; indeed it is frequently mentioned as central to corporate activity without any attempt to define exactly what sustainable activity entails. This is understandable, as the concept is problematic and subject to many varying definitions – ranging from platitudes concerning sustainable development to the deep green concept of returning to the 'golden era' before industrialisation – although often it is used by corporations merely to signify that they intend to continue their existence into the future. Indeed, their accounting leads them to the assumption that cost reduction equates to efficiency and therefore continued existence. This is true even when their cost reduction sacrifices future capability at the expense of present cash flow by the elimination of technical experience and expertise in the manner categorised by many people. This represents a misunderstanding of the meaning of sustainability as mere continued existence.

The sustainability discourse is of course significantly different and has implications in terms of managing corporate behaviour. Sustainability implies that society must use no more of a resource than can be regenerated. This can be defined in terms of the carrying capacity of the ecosystem and described with input–output models of resource consumption. Viewing an organisation as part of a wider social and economic system implies that these effects must be taken into account, not just for the measurement of costs and value created in the present, but also for the future of the business itself. This approach to sustainability is based upon the GaiaTheory – a model developed by James Lovelock in the 1970s and which now has widespread acceptance – in which the whole of the ecosphere, and all living matter therein, is co-dependant upon its various facets and formed a complete system. According to this hypothesis, this complete system, and all components of

the system, is interdependent and equally necessary for maintaining the Earth as a planet capable of sustaining life.

Such concerns are pertinent at a macro level of society as a whole, or at the level of the nation state, but are equally relevant at the micro level of the corporation, and increasingly these two conflate into a common issue and approach. At this level, measures of sustainability would consider the rate at which resources are consumed by the organisation in relation to the rate at which resources can be regenerated. Unsustainable operations can be accommodated for either by developing sustainable operations or by planning for a future lacking in resources currently required. In practice, organisations mostly tend to aim towards less unsustainability by increasing efficiency in the way in which resources are utilised. An example would be an energy efficiency program.

It is no longer questioned that the activities of a corporation impact upon the external environment and that therefore such an organisation should be accountable to a wider audience than simply its shareholders. This is a central tenet of both the concept of corporate governance and the concept of corporate social responsibility. Implicit in this is a concern with the effects of the actions of an organisation on its external environment and there is a recognition that it is not just the owners of the organisation who have a concern with the activities of that organisation. In addition, there are a wide variety of other stakeholders who justifiably have a concern with those activities, and are affected by those activities. Those other stakeholders have not just an interest in the activities of the firm, but also a degree of influence over the shaping of those activities. This influence is so significant that it can be argued that the power and influence of these stakeholders is such that it amounts to quasi-ownership of the organisation.

This leads to a consideration of the performance management system, and an important feature of all approaches to performance management is the alignment of organisational objectives, measures of performance and strategic decision-making towards the promotion of value creation at all levels of the business. It is recognised therefore that the link between the aims/objectives of an organisation and performance measures needs to be made clear. In addition, the multiple nature of objectives can generate the need for multiple performance measures. Furthermore, as objectives tend to be conflicting, the measures used can require trade-offs and composite measures. A concern for sustainability makes this more complex and requires additional measures to be incorporated into the management system. The making of significant decisions is an area that has already been aligned with the shareholder objective in finance theory and the concern for shareholder value.

This suggests that it is the management of shareholder value which is the overarching criterion for the management of performance by a firm, but there has been a rapid growth in reporting requirements and changes in existing requirements, with less emphasis on earnings and more on soft data and a greater emphasis on disclosure. There has been a shift from an economic view of income to an informational perspective with a recognition of social implications of an organisation's activities and a shift from treating financial figures as the foundation of performance measurement to treating them as part of a broader range of measures.

Indeed, companies are no longer the instruments of shareholders alone but exist within society and so therefore have responsibilities to that society, and there is therefore a shift towards the greater accountability of companies to all participants. Recognition of the rights of all stakeholders and the duty of a business to be accountable in this wider context therefore has been a relatively recent phenomenon, and the economic view of accountability only to owners has only recently been subject to debate to any considerable extent. Interestingly these changes are reflected all over the world and no longer led from the West.

The measurement of performance is, however, crucial to the management of that performance, and in order to be useful, a performance indicator must be measurable, relevant and important to the organisation's performance. Such indicators must also be meaningful to anyone seeking to evaluate performance and the cost of obtaining the information must not outweigh its value. Often it is not a simple process to identify good performance indicators and a comparative measure against the performance of other organisations can give misleading signals and can cause resources to be focused on the wrong things.

The theoretical discourse of managing according to the creation of shareholder value gives primacy to the shareholder and assumes that all other stakeholders will benefit from the creation of that value without any of the proponents being specific as to how they will benefit or to what extent. Practitioners, however, recognise that these other stakeholders are important to the long-term success of their business, and all firms which manage according to shareholder value creation recognise the importance of other stakeholders and seek to manage their performance in recognition of the most important of these stakeholders. For every company, customers and employees are recognised as being significant stakeholders. Thus all firms which purport to manage according to shareholder value creation in actual fact use some kind of balanced scorecard which seeks to take into account the other major stakeholders in their management of performance. In this respect also theory and practice diverge as shareholders are not necessarily awarded primacy, at least according to the strategic management of the organisation. Certainly, when considering sustainable development multiple stakeholders need to be considered.

Although all companies purport to recognise the importance of various stakeholders to their management of performance, this is often only at the level of strategy, and it is often not carried forward into operational practice. It is readily assumed that the management of value created by the organisation is only pertinent insofar as that value accrues to the shareholders of the firm. Implicit within this view of the management of the firm is that society at large, and consequently all other stakeholders to the organisation, will also benefit as a result of managing the performance of the organisation in this manner. From this perspective therefore, the concerns are focused upon how to manage performance for the shareholders and how to report upon that performance. This view of an organisation has, however, been extensively challenged by many writers, who argue that the way to maximise performance for society at large is both to both manage on behalf of all stakeholders and to ensure that the value thereby created is not appropriated by the shareholders but is distributed to all stakeholders. Others argue that

organisations maximise value creation not by a concern for either shareholders or stakeholders but by focusing upon the operational objectives of the firm and assuming that value creation and equitable distribution will thereby follow.

The shareholder theory of the firm is often also referred to as agency theory, as the role of the management of a firm is to act as the agents of the shareholders (the principals). The separation of ownership and control that is apparent in large modern-day (joint stock) companies – presently the most common way for a business to be organised – is another significant change since the days of Adam Smith and John Stuart Mill. It is this separation that leads to what is known as the principal-versus-agent relationship. It is also argued that within this role it is only appropriate for managers (the agents) to use the funds at their disposal for purposes authorised by shareholders (the principals). Consequently, as shareholders normally invest in shares in order to maximise their own returns, then managers, as their agents, are obliged to target this end. In fact, this is arguing that as an owner a shareholder has the right to expect his or her property to be used to his or her own benefit.

But it has been suggested that it can be morally acceptable to use the shareholder's money in this way if it is to further public interest. The ethical and moral acceptability of this suggestion is questionable Kant's principle states that a person should be treated as an end in his or her own right rather than as a means to an end. By using shareholders' money for the benefit of others it is argued that the shareholders are being used as a means to further others ends. This defence of shareholder theory is as ironic as it is compelling given that the exact same principle is often cited to defend stakeholder theory. Increasingly also, in the modern world, the separation between private and public in this way is being blurred as companies exhibit a return to earlier times with a concern for more than just creating financial value – a recognition that value is not always expressed in financial terms. This is particularly apparent in developing countries where such things as poverty alleviation, social exclusion and environmental degradation are much more serious issues.

Assumed within agency theory is a lack of goal congruence between the principal and agent, and that it is difficult to confirm the agent's actions. In other words, left to their own devices, the agents will prefer different options to those that would be chosen by the principals. The agent would make decisions and follow courses that further their own self-interest as opposed to that of the principal – an overly simplistic conception of human behaviour. In addition to self-interested motives, altruism, irrationality, generosity, genuine concern for others and other motivations also characterise multifaceted human behaviour.

The term 'corporate social responsibility' is in vogue at the moment but as a concept it is vague and means different things to different people. The broadest definition of corporate social responsibility is concerned with what is – or should be – the relationship between the global corporation, governments of countries and individual citizens. More locally, the definition is concerned with the relationship between a corporation and the local society in which it resides or operates. Another definition is concerned with the relationship between a corporation and

its stakeholders. More recently the terms sustainability and sustainable development have come into use as being synonymous with corporate social responsibility. All of these definitions are pertinent and represent a dimension of the issue. Another debate, in the arena of ethics, is concerned with whether corporations should be controlled through increased regulation or whether the ethical base of citizenship has been lost and needs replacing before socially responsible behaviour will ensue. However this debate is represented, it seems that it is concerned with some sort of social contract between corporations and society.

Relatively recently, many people have recognised that the activities of an organisation impact upon the external environment and have suggested that such an organisation should therefore be accountable to a wider audience than simply its shareholders. Such a suggestion probably first arose in the 1970s and a concern with a wider view of company performance is taken by some who are concerned with the social performance of a business, as a member of society at large – in other words that business was recognising the need to adapt to a new social climate of community accountability, but that the orientation of business to financial results was inhibiting social responsiveness. Consequently, it is possible to state that companies are no longer the instruments of shareholders alone but exist within society and so therefore have responsibilities to that society, and that there is therefore a shift towards the greater accountability of companies to all participants. Again it is possible to state that this concern has always been more prevalent in developing countries and our focus has shifted beyond a narrow Western-centric view of the business world.

Recognition of the rights of all stakeholders and the duty of a business to be accountable in this wider context therefore has been largely a relatively recent phenomenon, although mirroring past behaviour. The economic view of accountability being due solely to owners has only recently, however, been subject to debate to any considerable extent. Some owners of businesses have always recognised a responsibility to other stakeholders and this is evident from the early days of the Industrial Revolution. Thus, there is evidence from throughout the history of modernity that the self-centred approach of accounting for organisational activity only to shareholders was not universally acceptable and was unable to satisfactorily provide a basis for human activity.

Implicit in this concern with the effects of the actions of an organisation on its external environment is the recognition that it is not just the owners of the organisation who have a concern with the activities of that organisation. In addition, there are a wide variety of other stakeholders who justifiably have a concern with those activities, and are affected by those activities. Those other stakeholders have not just an interest in the activities of the firm but also a degree of influence over the shaping of those activities. This influence is so significant that it can be argued that the power and influence of these stakeholders is such that it amounts to quasi-ownership of the organisation. It is in this arena that corporate concern with such things as poverty alleviation and sustainable development are taking place. Indeed the performance of businesses in a wider arena than the stock market and its value to shareholders has become of

increasing concern. In many respects this can be considered to be a return to the notion of the Social Contract.

The Social Contract is most often associated with the work of Hobbes (1651) and Rousseau (1762) where a contract, usually considered to be implied or hypothetical, is made between citizens for the organisation of the society and as a basis for legal and political power within that society. The idea is that for the legal and political system to be legitimate it must be one that the members of society would have rationally contracted into. Social contract theory has been applied to the question of business in society in a similar fashion by considering the conditions that would have to be met for the members of such a society to agree to allow corporations to be formed. This can be summarised as follows, that the members of society would need to be satisfied that the benefits outweigh the detriments implying a greater welfare for the society while remaining within the bounds of justice. This can be summarised as the basic requirements that relate to social welfare and justice. This obviously has a strong resonance with stakeholder ideas. Social contract theory has been criticised most usually because the contract is taken to be either implied or hypothetical: there is no actual contract. Members of society have not given any formal consent to such a contract, and would be surprised to learn of its existence. It is considered that although the contract is fictional, this does not undermine its underlying moral theory.

Much of the broader debate about corporate social responsibility can be interpreted as an argument between two positions: greater corporate autonomy and the free market economic model versus greater societal intervention and government control of corporate action. There is clear evidence that the free market proponents are winning the argument. They point to the global spread of capitalism, arguing that this reflects recognition that social wellbeing is dependent on economic growth. Opponents concede this hegemony but see the balance shifting in their favour through, for example, greater accountability and reporting. Some opponents suspect the corporate team of cheating on their environments, both ecological and social, while others object fundamentally to the idea that a free market economy is beneficial to society.

Resolving these arguments would seem intractable if not impossible because they assume divergent philosophical positions. Probably there is no definitive answer, since any attempt to do so would itself involve make value judgements, although it is possible to highlight the environment in which these arguments roam. It is always possible to find evidence of the relationship between economic growth, as manifest through corporate profitability, and socially responsible behaviour in an effort to resolve this seemingly dichotomous position, as the creation shareholder value is often not through the operational activities of the firm but rather through the externalisation of costs, which are passed on to customers, employees and other stakeholders including society at large. Examples of this practice exist and it seems that companies adopt a philosophy that any stakeholder does not matter in isolation.

There is, however, a growing body of evidence which shows a link between corporate socially responsible behaviour and economic profitability, which is

reinforced by much of the research into socially responsible investment funds. This evidence suggests that there is a positive relationship between the two if a longer term view of corporate performance is recognised. One of the problems of shareholder value management – exacerbated by the unfounded belief in the validity of Agency Theory as a mechanism for motivated managers to optimise performance – is that the techniques are essentially short term, in the belief that summative short-term value maximisations will ensure value maximisation in the longer term. This is, of course, a mistaken belief as much of the evidence accumulating demonstrate.

There is much still to explore in this area of business behaviour, especially in the context of less studies parts of the world where cultural differences may impact upon corporate behaviour. This book is therefore timely, in that it is investigating an important area of study from a very interesting part of the world. Moreover, it does this primarily through a detailed case study rather than a survey. Consequently, the findings are more detailed and expose areas which would not otherwise be considered. It is therefore an important book in the field and one which will be considerably referred to by scholars of this topic.

David Crowther
Professor of Corporate Social Responsibility, UK
June 2016

References

Hobbes T (1651); Leviathan; many editions.
Rousseau J (1762); *Du Contrat Social*, translated as The Social Contract; many editions.

Acknowledgements

This book is a slightly revised version of my PhD thesis at the College of Business and Economics, the Australian National University in Canberra. The study answers intriguing questions about the actual roles of companies in developing countries by showing why and how, since 1957, one of Indonesia's largest listed public companies has been striving to solve social issues in fulfilling its business needs through CSR programs and social capital development. The theoretical model developed from the journey of the company is replicable for other companies aspiring to be sustainable in developing countries.

I would like to acknowledge all those who have made this book possible. First and foremost, I thank God the Almighty for countless blessings during my PhD journey followed by the publication of this book. I would like to thank the Department of Foreign Affairs and Trade of the Australian Government for granting me both the 'Australian Leadership Award' and the 'Allison Sudradjat Award' to support my living and education expenses in Canberra, Australia. I express my heartfelt thanks to Astra International for providing me with the knowledge and access to documents and interviews with its internal and external stakeholders on the cases of small enterprise development, manufacturing polytechnic and palm oil smallholder farmers' development. I am so inspired by the collaborative actions between Astra and thousands of its 'grass root' partners in achieving their aim 'to prosper with the nation'. Indeed, the study of Astra has shown that mutual relations and trust between companies and communities can improve the dignity and prosperity of society in a developing country.

I would also like to thank my primary supervisor, Dr Royston Gustavson, and the Chair of my supervisory panel, Dr Andrew Bradly, for their dedication and commitment in guiding me and providing me with valuable insights for more than five years of my PhD journey. I am very grateful to Professor David Crowther for his encouragement and support for publishing this book; Professor Güler Aras; Ms Kristina Abbotts and Ms Eleanor Best of Routledge for their support; and to the anonymous reviewers for their suggestions and comments on the manuscript. I would also like to acknowledge Ms Maura Kwik for copy-editing important parts of this book. Finally, on a very personal level, my sincere gratitude goes to my husband, Adhyasa Yutono, and my son, Rifqi Adhyasa, for keeping me motivated along the way. Thank you all for enabling me to go this far.

Acronyms and abbreviations

5R/5S	*Resik* (clean), *Rapih* (tidy), *Ringkas* (simple), *Rawat* (well-maintained), *Rajin* (diligent). Astra's simple management principles to be adopted by MSMEs
AAL	Astra Agro Lestari, subsidiary of Astra in agribusiness
ADM	Astra Daihatsu Motor
AFC	Astra Friendly Company, Astra standard for stakeholder relations and social responsibilities
AGC	Astra Green Company, Astra standard for environment, health and safety responsibilities
AHASS	Astra Honda Authorized Service Stations
AHM	Astra Honda Motor
AGIT	Astra Graphia Information Technology, information technology business of Astra
AMV	Astra Mitra Ventura, Astra venture capital company, in charge of MSME financing
AOP	Astra Otoparts, automotive spare parts business of Astra
AOTS	Association for Overseas Technical Scholarships
BNSP	Badan Nasional Standardisasi Profesi = National Body of Professional Certification
BoD	Board of Directors
BoC	Board of Commissioners
CDO	Community Development Officers, AAL field officers in charge of PALMOIL program
CSR	Corporate social responsibility
CEO	Chief Executive Officer
CPO	Crude Palm Oil
FTA	Federal Technical Academy, the embryo of POLMAN Astra
FM	Federal Motor
GRI	Global Reporting Initiative
HBBA	Community of car service stations assisted by Astra
HDI	Human Development Index
IGAs	Income Generation Activities, smallholder palm oil development of Astra Agro Lestari
ISO	International Organization for Standardization
JAVADA	Japan Vocational Ability Development Association

KOBBA	Cooperative of motorcycle service stations assisted by Astra
LPB	Lembaga Pengembangan Bisnis = Business Development Services, established by YDBA and its partners to develop capacities of MSMEs in nine provinces of Indonesia
LKM	Lembaga Keuangan Mikro or Micro Finance Institution
MNC	Multinational corporation
MSME	Micro, small and medium enterprise, interchangeably referred to as SME
NGO	Non-governmental organisation
PDCA	Plan, Do, Check, Action = Astra's planning cycle
PIC	Person in Charge
QCC	Quality control cycle
QCD	Quality, cost and delivery standard of Astra
QCDI	Quality, cost, delivery and innovation (usually for MSME, Astra only requires QCD)
SRI	Sustainable and Responsible Investment
SRL	Surya Raya Lestari, a subsidiary of AAL. In West Sulawesi SRL operated 2 plantations: SRL1 and SRL2
SME	Small and Medium Enterprise, interchangeably referred to as MSMEs
TAM	Toyota Astra Motor
TMMIN	Toyota Motor Manufacturing Indonesia
UNDP	United Nations Development Programme
UT	United Tractors, heavy equipment business of Astra
WBCSD	World Business Council for Sustainable Development
WCED	World Commission on Environment and Development
WKAK	Wadah Komunikasi Antar Kelompok = Communications Forum Among Farmers' Groups
YABI	Yayasan Astra Bina Ilmu (Astra Bina Ilmu Foundation), in charge of Astra Manufacturing Polytechnic
YFBI	Yayasan Federal Bina Ilmu, the embryo of YABI
YDBA	Yayasan Dharma Bhakti Astra (Dharma Bhakti Astra Foundation), in charge of MSME development

This page intentionally left blank

1 Introduction

Corporations and sustainable development goals

We would like Astra to grow and flourish like a shady tree that serves as a shelter for many during rain or shine. In a nutshell, Oom[1] *would like Astra to become a company that generates benefits to society and the country, in line with Astra's aim: to prosper with the nation.*

William Soeryadjaya, Astra founder

The above statement was made by the founder of a major corporation in Indonesia and became the company's corporate aim. Over time, the virtues and the vision of the founder have inspired the next generations of the company's leaders to take actions in enabling many Indonesians to prosper through their business presence, because they believe that the company can only be prosperous if the nation is prosperous. Established in 1957 as a family business, PT Astra International Tbk (Astra) became one of Indonesia's largest public listed companies employing 221,046 permanent employees across its 198 subsidiary companies in 2015 (Astra International, 2015). From 2009 to 2014, Astra has always been selected as a responsible and sustainable investment (Kehati, 2015). Through its corporate social responsibility (CSR) programs, Astra empowered 8,106 micro and small businesses by 2013 (Widjaja, 2014) and 7,297 palm oil farmers by 2011 (Astra Agro Lestari, 2011) to become its business partners to fully finance one of Indonesia's best manufacturing polytechnics, develop curriculums of secondary vocational schools and train high school dropouts to overcome skilled labour scarcity. With the United Nations' ambitious plan to eradicate extreme poverty and achieve other sustainable development goals by 2030 (UN, 2015) and the demands that companies contribute to these goals, are there any management lessons that we can learn from Astra? It is this question that sets the tone for the rest of this book. This book captures the two main lessons from the company. First, through its strategic CSR programs, the company contributes to sustainable development goals by building social capital such as social relationships, capability building for the poor, and collective actions along the company's supply chain. Second, the company's experience in undertaking CSR for more than 30 years in a developing country has shown that the concepts of sustainable development, CSR programs, social capital and corporate sustainability are actually interlinked.

Sustainable development will become the world's main agenda by the next decade. Members of the United Nations (UN) pledged in their assembly on 25 September 2015 that they were determined to work collaboratively to implement the 17 sustainable development goals, which includes freeing the world from extreme poverty and hunger, and healing the world significantly by 2030. To do so, the UN calls for actions by the stakeholders to contribute in balancing the economic, social and environmental conditions of the world. Collaboration among stakeholders is fundamental to achieve such ambitious targets. But what kind of collaborations can make such impact? Experts argue that social capital or social relationships that generate trust and collective actions among stakeholders are the key to capability building and poverty eradication in developing countries. Theoretically, as has also been discussed, corporate social responsibility programs that can generate social capital can then build the corporate sustainability that contributes to sustainable development goals. However, experts' opinions need empirical evidence to show how the process under which such interrelationships among different concepts and collaborations by different stakeholders evolves in real life, especially in the context of developing countries.

Hence, this study explores why and how companies can institutionalise sustainable development goals into their business operations. The study of Astra with three embedded cases will be used to directly answer the questions on how a company can dedicate resources in developing rural areas by supporting smallholders and building infrastructure surrounding palm oil plantations; develop vocational education at secondary and tertiary levels; provide access for people to have life-long learning opportunities in acquiring skills and knowledge to be productive partners of the company; and build economic foundation by empowering micro, small and medium enterprises along and outside the company's supply chain.

Poverty, in this study, is not only addressing people living below US$ 1.25 per day, but more importantly, it shows why and how a company addresses a more fundamental cause of poverty, which is lack of capability, access to finance and access to markets. If the company can contribute in providing the necessary skills and access, then people will have the capabilities to achieve their aspirations, including earning better income. This book supports Sen's (1992, 1999) assertions that poverty can be alleviated if the capability of people is improved. Beyond that, this book also shows that companies can innovatively combine the improvement of people's capabilities with necessary finance access and market access, so both the company and the community can achieve sustainable development goals.

The theoretical model, which was based on empirical evidence of over 50 years of company practice and more than 30 years of its strategic CSR programs, can help companies, scholars and states translate development policies into concrete actions. It is expected that insights from the virtues and commitments from the company's leaders in embedding social issues into their corporate aim 'to prosper with the nation' can inspire decision makers at the state and company levels in combating poverty and building dignity of people in which they operate. Thus, the