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& GOVERNANCE

23-24

OCTOBER 2013  
BANDAR LAMPUNG  
UNIVERSITY (UBL),  
INDONESIA

**ICBN-UBG**  
2013

Hosted by :  
Bandar Lampung University (UBL), Indonesia



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PROCEEDINGS

# Icon-LBG 2013

THE FIRST INTERNATIONAL CONFERENCE  
ON LAW, BUSINESS AND GOVERNANCE 2013

22, 23, 24 October 2013  
Bandar Lampung University (UBL)  
Lampung, Indonesia

## PROCEEDINGS

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## **PREFACE**

The Activities of the International Conference are in line and very appropriate with the vision and mission of Bandar Lampung University (UBL) to promote training and education as well as research in these areas.

On behalf of the First International Conference on Law, Business and Governance (Icon-LBG 2013) organizing committee, we are very pleased with the very good response especially from the keynote speaker and from the participants. It is noteworthy to point out that about 67 technical papers were received for this conference.

The participants of the conference come from many well known universities, among others : International Islamic University Malaysia, Utrech University, Maastricht University, Unika ATMA JAYA, Universitas Sebelas Maret, Universitas Negeri Surabaya, Universitas Jambi (UNJA), Diponegoro University, Semarang, Universitas 17 Agustus 1945 Jakarta, Universitas Bandar Lampung, Universitas Andalas Padang, University of Dian Nuswantoro, Semarang, Universitas Terbuka, Universitas Airlangga, Bangka Belitung University, President University, Tujuh Belas Agustus University Jakarta, International Business Management Ciputra University, Surabaya, University of Indonesia, Business School Pelita Harapan University, STIE EKUITAS, Bandung, STAN Indonesia Mandiri School of Economics Bandung, Lampung University.

I would like to express my deepest gratitude to the International Advisory Board members, sponsor and also to all keynote speakers and all participants. I am also gratefull to all organizing committee and all of the reviewers who contribute to the high standard of the conference. Also I would like to express my deepest gratitude to the Rector of Bandar Lampung University (UBL) who give us endless support to these activities, so that the conference can be administrated on time

Bandar Lampung, 22 October 2013

**Mustofa Usman, Ph.D**  
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# **ANALYSIS OF CORPORATE SOCIAL RESPONSIBILITY IMPLEMENTATION AND SOCIAL AUDIT AT PT SEMEN PADANG**

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## **Abstract**

The number of Corporate Social Responsibility (CSR) implementation in Indonesia is not so much while the potential targets are very huge, such as environmental damage, unemployment, school drop-out, and poverty. One of its implementations that are common now is community development, which the emphases are on social and community capacity development. This study describes the implementation of CSR and social audit in PT Semen Padang. PT Semen Padang as one of the largest states owned enterprise in West Sumatra has a big hand in the development of West Sumatra.

Analyses were performed with descriptive statistics and content analysis. Collecting data on the CSR activities of PT Semen Padang was done by performing content analysis on the company's annual report that has been audited. Results of the analysis showed CSR's model implementation in PT. Semen Padang is on the form of physical development such as public facilities, development of education, employment empowerment, economic empowerment, community services, public health services, environmental protection, sports, and the arts. A pattern of implementation of CSR programs is generally done directly and independently by a company-appointed team. PT Semen Padang has not implemented purely social audit of the implementation of the CSR report, but integrated in the audit of the company's annual report.

*Keywords: Corporate Social Responsibility, Social Audit, States owned enterprise.*

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## **1. INTRODUCTION**

To remain exist; the company should be able to meet the needs and demands of all stakeholders. Company's concern is not only focused on the shareholder, but it should be to all of stakeholders. Nowadays, public awareness and sensitivity is higher to the social and environmental conditions and blaming companies as a trigger factor (Sofyan HS., 2007). Furthermore, the impact of globalization, advances in information technology, and market transparency, companies should seriously and pay attention to the demands of society. This is the embryo to the birth of the concept of CSR (Corporate Social Responsibility).

Practitioners, NGO activists, and academics have attempted to formulate and promote CSR in relation to society and the environment. Company is asked to give greater attention to social and environmental issues in economic decision-making related to its operational activities, as well as disclose CSR information in the annual report. This is in line with the philosophy which holds that the corporate entity is no longer a selfish, thus alienating itself from the community in which its operate, but rather a business entity shall conduct cultural adaptation to their social environment. This suggests that there has been a shift in the understanding of the meaning of an entity that was formerly charged only profit oriented towards the wider environment improving people's living standards. Pressure came among others from the shareholders (who are aware of CSR), Non-Governmental Organizations (NGOs), business partners (especially from countries which are sensitive to local community businesses) and public interest lawyers. In current reform and democracy climate in Indonesia nowadays, openness and accountability are very necessitated and considered by the public. The role of public oversight conducted through NGOs, as a non-profit organization whose supporters voiced various "public issues", which had a huge impact on business operations in Indonesia. Companies should be aware that these NGOs voice has great influence and is considered by the company's consumer and therefore cannot be ignored

Basically, CSR regards the company as a moral agent. With or without the rule of law, a company must uphold morality. The success of a company in the perspective of CSR is to promote moral and ethical principles, namely, to achieve the best results, without prejudice to other community groups. One moral principle that is often used is golden rules, which teaches that a person or a party to treat others the same as what they want to be treated. By doing so, the company is working with the advanced moral and ethical principles will provide the greatest benefit to the community. That is what the Minister of Environment said in a speech in the one-day seminar "A Promise of Gold Rating: Sustainable Corporate Social Responsibility" (2006).

In empirical studies, some researchers have tried to express the moral and ethical principles in a variety of different perspectives [Balabanis, et al, 1998, Heal GM (2008), Bhattacharya, C. B. & Sankar, S., (2004), and Finch (2005) Baron, D. P. M. (2007), Mathews, M.R., (1997). Their studies use specific proxy for measuring CSR and getting mixed results as well. Their results showed that:

1. CSR disclosure is positively related to the financial performance of the company
2. CSR activities can be beneficial element as corporate strategy, contributing to risk management and nurturing relationships that can provide long-term benefits for the company
3. CSR activities have a significant productive impact on efficiency, technical change, and economic scale of enterprises

From the various results of previous studies, it can be concluded that in addition to the financial condition, the values espoused by the company is also an important part that cannot be ignored by management, particularly the corporate responsibility to social and environmental areas. Financial condition alone is not enough to guarantee the value of the company to grow in a sustainable manner, but also to care for the social and environmental areas. The cases residents boycott against goods and services, the fight against the company, or destruction of a particular brand image are the price that must be paid when the company is disputed by the consumer and society.

This trend confirms that the company is only concerned with the economical but forgets the social and environmental aspects only become precedent and bad investments. There are demands and arrangement for more attention to environmental and social as well as reporting to stakeholders periodically every year.

A research conducted by SWA magazine (June-November 2005) to 45 companies on the implementation of CSR found there are 3 types of programs that run by the companies, known as the triple bottom line, namely social, economic and environmental. Table 1 below shows the program.

Tabel 1. CSR Programs That Run by Company

Types of CSR Program	Number of Activities
<i>Social</i>	49,53%
<i>Environment</i>	25,70%
<i>Economic</i>	24,67%
Total	100%

Source : (Swa Magazine, 2006).

The most widely used CSR programs is the social programs as much as 49.53%, while the environmental and economic programs respectively 25.70% and 24.67%. If it is breaking down for social then health and educational activities as well as school renovations are dominate respectively. But other activities reached 35% (see table 2). These activities are less clear in directions. Basically companies implement CSR to maintain their image and all event promotion tools. This is unfortunate.

Activities that are often run by company are an environmental campaigns and the management of physical environment with the percentage of 18.18% and 16.36% respectively (see table 3). Furthermore, the types of economic activity mostly done are coaching SMEs and partnerships in the supply of raw material production to the amount of activity respectively 37.74% and 24.53%. Empowerment and development of local workforce is only 5.66%. This shows the company's CSR activities more leads to keep the image of the company.

Tabel 2. Social Programs That Run by Company

Type of Social Activity	Number of Activities
Services and health campaigns	17,92%
scholarship	12,26%
Construction and renovation of school infrastructure	9,43%
Construction and renovation of school facilities nonphysical	8,49%
Social donations for natural disasters	8,49%
school Patronage	4,72%
IT Education and Training	3,77%
Others	34,90%
Total	100%

Source : (Swa Magazine, 2006).

Tabel 3. Environment Programs Run Company

Environmental Activity Type	Number of Activities
Coaching and environmental campaigns	18,18%
Management of the physical environment to make it look more beautiful	16,36%
Waste management	10,91%
Development of clean water	10,91%
Planting trees / greening	9,09%
inorganic farming	7,27%
Others	27,27%
Total	100%

Source : (Swa Magazine, 2006).

Tabel 4. Program Ekonomi Yang Dijalankan Perusahaan

Type of Economic Activity	Number of Activities
Coaching and Empowering SMEs and Entrepreneurs	37,74%
Partnerships in the supply of raw materials and production	24,53%
Financing loans and capital for business development	13,21%
Empowerment and development of local workforce	5,66%
Others	11,32%
Total	100%

Source : (Swa Magazine, 2006).

From the SWA results, CSR is often used by companies to build brand image so that only occurs green wash. Ceremonial activities, involving a lot of mass, as well as highly exceptional news allure are often used as an easy target to boost the public's attention. This is evidenced by the many CSR activities that are less precise as other activities which cannot be identified and has a weight value of 34.90% for social activities and 27.27% for environmental activities.

In Indonesia, the debut CSR became stronger, especially after Corporate Law 40 of 2007 passed the DPR (Indonesia Legislative Assembly). The law have mentioned that the corporate who operates in the field or concerned with natural resources required carrying out social and environmental responsibility (Article 74 paragraph 1). Company Law does not mention in detail how the amount of costs to be incurred by the company for CSR as well as sanctions for noncompliance.

CSR implementation will be disseminated to the public through social disclosure in annual reports. However, the CSR implementations meet some problem, because it raised the issue of how to ensure that the company has been carrying out its social responsibility in accordance with the corporate code of conduct. It required more technical devices. General mechanism that occurs during this time was reporting and verification. Reporting is done by a company that claims to have operated responsibly. Verification is checked by an independent party for what has been reported by the company. Social audits are included in the verification mechanism.

Social Audit is related to monitoring, assessment and measurement of company performance as well as his involvement with social issues. Generally, audit known as an assessment and evaluation that involves gathering information about the system and the financial statements of a company. Such audits are usually performed by a competent, independent and known as the objectives of the auditor or accountant. However, this time not only the audit often includes gathering information about the



company's finances, but also aspects of the environment and even the socio-economic conditions of the community. Social audit is an audit related to social monitoring, assessment and measurement of company performance and involvement with social issues. Social audit can be conducted on environmental issues, production, safety, provision of jobs, payroll, pensions and old age security and other related social interests.

PT. Semen Padang, which was established on March 18, 1910 under the name NV Nederlandsch Indische Portland Cement Maatschappij (NIPCM), is the oldest cement factory in Indonesia. Ir. Carl Christopher Lau and Ir. Koninbjerg find rocks in the grotto and alleged White Coral can be used as raw material for cement manufacture. Having examined the material Voor Landerzoek Laboratory in the Netherlands shows that the rock is a raw material for making cement are limestone (lime stone) and stone silica (silica stone). The plant started production in 1913 with a capacity of 22,900 tons per year, and never reach output of 170,000 tons in 1913 which is the highest production at that time.

Quality, customer satisfaction and environmental friendly are three aspects that are considered by the management of PT. Semen Padang. This is evidenced by the achievement of international recognition from the International Organization for Standardization in the form of Certificates of ISO 9002 and ISO 9001. ISO 9002 standards are internationally recognized quality management field in terms of Raw Material Mining, Cement and Cement Manufacturing Packaging and Marketing. ISO 9001 is an award in the field of Design, Development, Production, Installation and Servicing of Equipment for Industries. In addition, PT. Semen Padang has also received the ISO 14001 certificate for Environmental Management System field.

In connection with the above, it is necessary to examine and audit the performance of CSR in PT Semen Padang. This company is one of the biggest cement manufacturer in Indonesia. Issue raised in this study is, how CSR disclosure in PT Semen Padang and how the social audit conducted by PT Semen Padang.

## **2. THEORETICAL FRAMEWORK**

The concept of CSR is an evolving and dynamic concept. In general, CSR is a company's way of achieving a balance or integration of economic, environmental and social issues and in the same time to meet the expectations of shareholders and stakeholders. Hopkins (2005) stated that CSR relates to the treatment of the company's stakeholders in the context of ethical or socially responsible. Implications of social responsibility is to create higher standards of living, with the backing corporate profitability, for its stakeholders both from within and from outside the company.

New modern concept of CSR started since the advent of writing Bowen (1953) entitled *The Social Responsibility of Businessmen* (Carroll, 1999). According to Bowen, CSR refers to a company's obligation to make policy decisions or to follow a line of action that is more directed at the target and societal value (Bowen in Carroll, 1999). Kotler and Lee (2005) uses the definition of CSR as a commitment to improving society for the better through wisdom (discretionary) business practices and contributions of corporate resources. Kotler and Lee (2005) emphasize the discretionary components, which can be interpreted as corporate volunteerism in implementing business practices that are beneficial to the public welfare.

Garriga and Mele (2004) performed mapping theory and the concept of CSR in explaining his conclusion that CSR has focused on four main aspects:

1. Achieve the goal of sustainable profit
2. Using the strength of our business responsibly,
3. Integrating social needs
4. Contributing to the community by doing things that are ethical.

Thus, according to Garriga and Mele, CSR theories in practice can be classified into four groups of profit-dimensional theories, political, social and ethical values (Garriga and Mele, 2004).

Based on stakeholder theory, there is a positive relationship between CSR and financial performance. The reason, the satisfaction of the various groups of stakeholders is a tool for organizational financial performance (Donaldson & Preston, 1995; Jones, 1995). Agency theory states that the implicit and explicit negotiation and contracting process requires reciprocal relationships, serve bilaterally between management and stakeholders. This is because the monitoring and enforcement mechanism that prevents the actions of managers out of the organization's financial goals (Hill & Jones, 1992; Jones, 1995).

Several previous studies have examined the relationship between CSR and financial performance and they find mixed evidence (Steiner & Steiner, 2006: 136). The majority of studies show a positive relationship between social performance and economic performance. According to Steiner & Steiner

(2006) the mixed results due to the different methodologies used in each study. Most studies define CSR by analyzing the contents of the annual report, citing social action in a news article about a particular company or see the reputation index based on public perception. Thus criterion certainly has weaknesses as a reliable appraiser CSR. Although economic performance measures (such as net income, return on equity, stock price) are more objective because of the size it is generally used to show only the performance of the economy.

From the analysis of various data studies on CSR and economic performance, Ullmann (1985) concluded that the majority of studies showed positive relationship between CSR, social performance and financial performance. The researchers implicitly stated that in the context of strategic, social programs set forth in the existing social disclosure in the annual report, is a tool to drive social demand. Because of a variety of empirical evidence to conclude that the annual report to shareholders are also consumed by the other stakeholders. Thus, voluntary disclosure correlates with the company's strategy to achieve specific goals, such as obtaining additional financial resources or securing access to financial markets (Spero 1979 in Ullmann, 1985).

The meta-analysis of 52 studies conducted by Orlitzky et.al (2003) had total sample size of 33,878 observations. The result of his study had finding that the good of the company through CSR positive response by the community. It has reflected in a significant and positive relationship between social performance and financial performance.

Meta-analysis was also carried out by Allouche & Laroche (2005) who used a sample of more and diverse state than Orlitzky et al (2003). Allouche & Laroche (2005) was using multivariate statistical analysis (known as meta-regression) of the 373 observations from 82 studies. The study results Allouche & Laroche (2005) is consistent with Orlitzky et al (2003), the social performance impact positively to the financial performance of the company.

Further meta-analysis conducted by Wu et al (2006) on the relationship of CSR, financial performance and the size of the company concluded that the measure of market performance (market based performance) is a weak predictor compared with financial performance, such as profitability, ROA and growth (growth). This meta-analysis also concluded that the cost for CSR activities covered by the benefits of CSR activities, primarily related to employee morale and productivity. (Wu et al, 2006).

The main conclusions of this phenomenon is, only a little evidence to suggest that CSR actions significantly harm economic performance in the long run. Given the amount of political and social pressures that currently the company social responsibility, this means that managers have to think about social goals when they plan, organize, lead and control the business (Steiner & Steiner, 2006). CSR gives attention to environmental and social into the operations and interactions with stakeholders that exceeds responsibility in law (Darwin, 2004). In the progress of industry, the public pressure the company to them to reform the company into an operating system that has a system of care and responsibility towards society. In addition, technological developments and rapid industrial also required to make a positive contribution to the environment.

CSR is directed either to the (internal) and outgoing (external) company. Into, this responsibility is directed to shareholders in the form of profitability and growth. As is known shareholder has invested its resources in order to support the various activities of the company's operations, and therefore they will expect optimal profitability and growth of the company so that their future well-being has increased. Social responsibility to the next is also directed to the employees. Because of only with hard work, contributions, and sacrifices the company can run a variety of activities as well as success. Therefore the company is required to provide fair compensation and provide career development opportunities for its employees.

A result of research that has been done Balabanis, Phillips and Lyall (1988) suggests that CSR disclosures made by companies listed on the London Stock Exchange are positively correlated with overall corporate profitability. However, the hypothesis of 'ethical investors' indicates that capital markets tend to be attracted towards CSR activities undertaken by such companies, it is empirically proved that CSR disclosure negatively affect market performance, but a positive impact on the overall profitability of the company.

For the company, there are 4 benefits of implementing CSR (MA Effendi, 2008), which is as follows

- a. The existence of the company can grow and sustained and companies getting the image positive from the wider community.
- b. Companies gain easier access to capital.
- c. Companies can retain human resources quality.
- d. Companies can improve decision-making on matters of critical and facilitate risk management.

CSR can enormous benefits to society, as well as the government. The perceived benefits are very depending on the form of CSR activity program implemented by the company. But in general it is certain that the implementation of CSR can reduce the risk of environmental damage, reduce the social burden, ease the burden on the government, all of which led to an increase in social welfare.

CSR program is so important because it is associated with human obligation to take responsibility for the integrity of the conditions of human life in the future. The areas that need attention to make a better CSR program are:

1. *Stakeholders*, Special attention of stakeholders (including the perspective that affect company) is planning CSR in making decisions and monitoring stages. Stakeholders here include employees, communities, shareholders, regulators, suppliers, contractors, consumers, social community.
2. Environment, the environment is defined here is all the environmental factors either directly or indirectly has a relationship with the company operations.

## 2.2. Social audit

Social Economy Agency (Northern Ireland) began promoting the social audit in 1996. The first social audit involves training and mentoring 10-organization. External consultants are used to design the social audit methodology, and provide training and support to auditors in any organization.

Audit is generally known as an assessment and evaluation that involves gathering information about the system and the financial statements of a company. These audits are usually performed by a competent, independent and known as the objectives of the auditor or accountant. However, this time not only the audit often includes gathering information about the company's finances, but also aspects of the environment and even the socio-economic conditions of the community. The social workers, consultant or policy analyst typically performs social audits. According to Graham Boyd (1998: 1):

*Social audit are a process that enables an organization to assess and demonstrate its social, economic, and environmental benefits and limitations. It is a way of measuring the extent to which an organization lives up to the shared values and objectives it has committed to. Social auditing provides an assessment of the impact of an organization's non-financial objectives through systematically and regularly monitoring its performance and the views of its stakeholders.*

Social audit process requires a strong commitment from key people, such as the CEO and Board of Directors, the organization being audited. In implementation, the social audit also require the involvement of stakeholders, including employees, clients, volunteers, founders, contractors, suppliers and local residents related to the company's operations. The social auditors typically work with shareholders and stakeholders to design, collect, coordinate, and analyze information. The method used in this study involves surveys, interviews, bookkeeping and even case studies. Organizational objectives is "the starting point" by which the impact indicators are determined, stakeholders are identified and developed research techniques in detail.

The challenge in developing a CSR program audit protocol does not only lie in the complexity of its formulation, but also in its implementation. Social audit involves environmental and social aspects which are relatively more difficult to formulate and measure than the financial aspect. The audit will require experts who have comprehensive competence in the field of environmental and social, in addition to the ability to implement a variety of research methods. The main difficulty in designing an audits system for standardized CSR programs is variables and formulates appropriate indicators and also can be applied to all sectors. The two main requirements that need to be met are:

1. Definitions of the various categories should be applicable to all companies, industries and even the social system that allows a comparative analysis can be done
2. Categories to classify the activities of the company must be stable within a certain time, so that the historical comparisons can be made.

Social Audit is a process that enables an organization to assess and demonstrate the performance benefits and limitations of social, economic, and environmental. This is one way to measure the extent to which an organization achieves a goal and shared values and a commitment. Social audit provides an assessment of the impact of non-financial objectives through regular and systematic monitoring of the performance and the views of stakeholders. The audit will require the involvement of stakeholders. This may include employees, clients, volunteers, donors, contractors, suppliers and the local people who are interested in the organization. Stakeholders are defined as individuals or organizations that have an interest, or which has been invested in the organization's resources.

A social audit can complete an annual financial statement audit by providing clear and concise information about the performance. Results can be attributed to the organization's strategic planning and review processes to improve overall performance and social impact. Social Audit has been shown to increase the accountability of the organization to stakeholders and to improve the practice of democracy. In addition to serving as a management tool, social audits can be used for marketing, promotion and advocacy purposes. Social audit process requires a strong commitment from key people, such as the CEO and Board of Directors, the organization being audited. In implementation, the social audit also require the involvement of stakeholders, including employees, clients, volunteers, founders, contractors, suppliers and local residents related to the company's operations. The social auditors typically work with shareholders and stakeholders to design, collect, coordinate, and analyze information. There are three possible mechanisms of verification, namely:

- **First party verification**, this verification is done by the private sector alone. This approach is very widely used in the scheme of internal audit as part of the management company inside, and often is loaded from a standard such as ISO 9000 and ISO 14001. However, this mechanism is considered not credible to claim in the absence of external independent confirmation that the claim accurately.
- **Second party verification**, this mechanism is done by someone / an organization that has a relationship with the private sector that provides jobs (usually this relationship such representative buyers of products of the first private sector). The verification mechanism is very important and useful and is widely used by the private sector, particularly in examining the requirements such as quality, safety, environmental protection and others. Such an approach is useful for a relationship business-to-business between the two institutions in the private sector. However, because organizations that do not wholly independent verification, any claim to the public of the results of this verification are not fully credible.
- **Third party verification**, This mechanism is carried out by a person / organization who are considered independent views of the producers and buyers and also generated public so that verification is considered the most credible to claim to the public. The problem is the person / third agency asked for help to verify loads often lead to considerable costs for the company.

### 2.3. Relationship between Social Audit and CSR disclosure

Disclosure of information regarding the implementation of CSR is described in the annual report will be understood and not cause incorrect interpretation if the annual report is equipped with adequate social disclosure. Provide sufficient information is expected to be useful for decision making by stakeholders as financial statement users. However, the implementation meets a problem, because it raised the issue of how to ensure that the corporation has been carrying out its social responsibility in accordance with the corporate code of conduct. It required more technical devices. General mechanism that occurs during this time was reporting and verification. Reporting is done by a company that claims to have operated responsibly. Verification is checked by an independent party for what has been reported by the company. Much the same is independent oversight (independent monitoring). Social audits are included in the verification mechanism. Social audit is expected to provide accurate information and quality for interest parties.

Disclosure of corporate social accounting performance, both internally and externally, can be reached through social audit approach, ie measuring and reporting the impact of economic, social, and environmental programs, as well as the socially-oriented companies operating regular. Initially, the company managers were asked to make a list activity with social consequences. Once the list is generated, then the social auditors assess and quantify the impacts of corporate social responsibility. Social audits carried out regularly by the group of internal and external consultants, as part of regular internal checks, so that managers know the social consequences of their activities.

## 3. RESEARCH METHOD

This research is a qualitative descriptive exploratory study. This study aimed to describe CSR disclosure and social audit in PT Semen Padang. The data used in this study is secondary data obtained from the financial statements of PT Semen Padang from 2006-2008. CSR activity data can also be obtained from the website of PT Semen Padang in <http://www.semenpadang.co.id>. Besides, it is necessary to strengthen the primary data analysis and discussion.

Analyses were performed with descriptive statistics and content analysis. Collecting data on the CSR activities of PT Semen Padang, is done by performing content analysis on the company's audited annual report. Holsti (1969) in Stemler and Steve (2001) state that content analysis is a technique for making

inferences by identifying certain characteristics of the message systematically and objectively. The data analysis is done by using a model of interactive analysis. Interactive analysis is done with a presentation and a conclusion (verification).

## **4. RESULTS**

### **4.1. Implementation of CSR models on PT. Semen Padang**

PT Semen Padang CSR program is also intended as a vehicle to strengthen the company's position in the community, which ultimately enhance the harmonious relationship between the company and the environment. PT. Semen Padang implementing CSR programs in a variety of models. Implementation of the program is not only prioritizing the external stakeholders, but also the company's internal stakeholders. Following are the CSR's implementation models in PT Semen Padang:

- a. Physical development and public facilities
- b. Educational development
- c. Public health services
- d. Conservation
- e. Employment empowerment
- f. Social, sports, and the arts
- g. Economic empowerment

#### **a. Physical development and public facilities**

This program is directed to the construction of public facilities such as houses of worship, repair of roads and bridges, construction of educational facilities, the construction of the secretariat of the youth, rehabilitation of public facilities, irrigation and water supply lines, markets, society sports facilities and orphanage.

#### **b. Educational development**

Educational development programs implemented through scholarships, internship opportunities, foster care and educational facilities assistance. In addition, the company also distributes educational assistance through the Igarar Foundation. Distribution of scholarships at PT. Semen Padang has increased each year, in 2006 a total of 707 people who receive student aid. In 2007 increased to 773 students and in 2008 the company provides scholarships 2X more than the previous year i.e. 1546 students.

#### **c. Public health services**

Public health program managed by PT. Semen Padang is free medical services, mass cataract surgery, and cleft lip, blood donors, as well as aid to patients who cannot afford. Semen Padang Hospital Foundation also serves the medical treatment to surrounding community around the plant up to 300 people each day with a very affordable cost. In addition, PT. Semen Padang also raises funds through managing alms, donation, and the employees' charity. The funds are used for social activities undertaken by the company.

#### **d. Nature and the Environment**

Conservation program conducted in cooperation with universities and research institutions are constantly being developed specially for activities development of the area around the plant, as well as environmental reforestation activities. It is including improvement of the system of production equipment as well as environmental management, so as to obtain the blue category from the Ministry of Environment (MoE).

The company has been successful in reducing emissions across the cement factory, as well as reducing byproducts such as dust and waste water, reduction of dust emissions from smokestacks of the cement plant Indarung II, smokestack emission reduction through false air modification of Indarung II refinery, reduction of dust emissions from smokestacks of cement plant Indarung III, smokestack emission reduction of Indarung IV refinery, rivers sediment reduction, waste reduction from the conveyor belt so as not to affect the water quality of the river used by the local community, review and revision of the factory environment with improved drainage, plant and other greening.

However, environmental development on Bukit Kapur has not been well planned in the company nature conservation programs. PT. Semen Padang program should be oriented on the control of negative impacts of the company, as well as a long-term program planning for environmental damage in Bukit Kapur which has been exploited. Exploitation of natural resources by the company has resulted in environmental degradation. This is what makes CSR's concepts relevant and important to be implemented by the company.

Because, these things are the major impact of the company existence to the environment, that should be planned carefully by PT. Semen Padang.

**e. Empowerment Employment and Human Resources.**

Human Resources empowerment program is through giving serious attention to the employee. Attention can be training activities such as integrated training, administrative training, and technical skills training. To keep the loyalty of employees, companies also reward high performing employees and employees who have served long in the company. Besides, the company also pays attention to occupational safety and health program (K3).

**f. Social, sports, and the arts**

Corporate is a sponsor for Semen Padang Football Club Association (PS) and Semen Padang marching band. Through Padang Cement Employee Communications Forum (FKKSP), the company guide/supervise sports and arts in West Sumatera. At the time this was done coaching for 21 branches of sports. Regular social activities undertaken are commemorating various national holidays, religious and distribution of goods that worth taking. PT. Semen Padang is also active in helping communities affected by natural disasters that both within and around the company.

**g. Economic Empowerment in the Community Partnership Program**

PT. Semen Padang has been done the development toward small and medium enterprises (SMEs) and cooperatives. Partnership programs are implemented to increase harmony with social community where companies conduct their business activities so as to strengthen long-term business foundation. Activities formerly named PUKK are financed from provision of corporate profit. Of funds that set aside and that has been deposited into the cash of Partnership Program.

Partnership Program was started in 1987 and in the year of 2008 has distributed venture capital loan funds to 2700 SME Partnership Program. Compared to previous years, the distribution of partnership program funds in 2008 increased.

Until 2007, the total distribution was to 2555 SME companies, and until 2006 the total was 2360 SMEs. SMEs that receive assistance partnership of PT Semen Padang is SMEs who came from counties or cities in West Sumatra, including the city of Padang, Bukittinggi, Agam, Padang Pariaman, Pesisir Selatan, and Sawahlunto.

#### **4.2. CSR pattern at PT. Semen Padang**

CSR implementation pattern at PT. Semen Padang is generally distributed directly to the people who would receive assistance. Company run CSR program transparently in any social activities. In addition, PT. Semen Padang also distributes social funds through foundations. The Foundation that is managed by PT. Semen Padang is Igasar Foundation which funds education for students and Semen Padang Hospital Foundation which funds health care for the community and the employees of the company.

Awareness of the company also expressed in sustainable community empowerment policy. It is carried out in different activities independently and in collaboration with higher education institutions. Internally, this role carried out by the Environmental Care Team of PT. Semen Padang in coordination with Kerapatan Adat Nagari (KAN) and Badan Musyawarah Nagari (BMN) Kecamatan Lubuk Kilangan.

All the social activities carried out by the management arrangements in accordance with the principles of good corporate governance. It will hopefully ensure the future and sustainability of PT. Semen Padang.

#### **4.3. Constraints of PT. Semen Padang in CSR Programmed Implementation**

Communities tend to want assistance in the form of physical material. Physical assistance is both in the provision of financial assistance or cement distribution in the various activities to be carried out. However, the aid allocation made by the company is sometimes less targeted.

#### **4.4 CSR Disclosure in PT. Semen Padang Annual Reports**

CSR disclosure in annual reports of PT. Semen Padang is made in the form of CSR reporting. CSR reports are described in the form of corporate social responsibility activities undertaken by the company. In that section, the company explained the company's general policy regarding the implementation of CSR models and patterns used by the company. The company also provides information on the CSR activities of the company in one year.

Report prepared by PT Semen Padang each year already refers to the social, economic and environmental, as set out in the Sustainability Reporting Guidelines issued by the Global Reporting Initiative (GRI). In that Sustainability Reporting contains the documents created by the company relating to the performance economic, social, and environmental management aspects as a means of management control to both internal stakeholders and accountability tools (mainly) to external stakeholders.

#### 4.5. Social Audit Practice in PT Semen Padang

Performance reporting that includes three aspects, namely, economic, social, and community can only be called sustainability reports when performance reporting within certain period of time has been sustained or showed improved trend toward a positive impact. Sustainability Reporting is addressed to various stakeholders, so that they can get the right information, so it must be distributed by the company.

As a whole, sustainability reporting can create transparency and accountability of a report. Every year, company has always delivered that report which also always verified by a third party. Transparency and accountability are principles that cannot be liberated directly in implementing CSR in their entirety. Audit of the report has been integrated with the annual audit conducted on the company's financial statements. Nationally, since 1995, the financial statement of PT Semen Padang is integrated in the financial statements of PT Semen Gresik because PT Semen Padang is a subsidiary of PT Semen Gresik.

### 5. CONCLUSION

- a. Implementation model of Corporate Social Responsibility (CSR) PT. Semen Padang is in the form of physical development as well as public facilities, development of education, employment empowerment, economic empowerment, community service, public health, environmental conservation, social, sports, and arts.
- b. Comparing CSR implementation model PT. Semen Padang to ISO 26000, it can be seen that the most important issue in the ISO 26000 has not been implemented in the model of the company's CSR program.
- c. Implementation pattern of CSR program in PT Semen Padang is generally done directly and independently by a company team. However there are several CSR programs such as education and health are using the foundation as a conduit in these activities, namely Igasar Foundation funds in education & Semen Padang Hospital Foundation funds in health.
- d. In the strategy of PT Semen Padang, one of which is expressed is "Maintaining harmonious relationship with local governments, related agencies and surrounding communities". In the company's strategy can be seen that the concept of CSR is not yet fully visible, because the CSR program not only prioritize harmonious relations with governments, institutions concerned, and the surrounding communities, but also to prioritize CSR to all stakeholders in the company. Besides, the strategy has not described the important concept of CSR that is how a company is highly committed to implementing CSR programs voluntary. Constraint in the application of CSR is many people want assistance in the form of physical (material). In fact, social programs of PT. Semen Padang also provide assistance in the form of immaterial, such as mental coaching and spiritual activities that involving the community.
- e. CSR disclosure in annual reports of PT. Semen Padang is in the form of corporate social responsibility report. The report contains CSR programs and activities that have been realized during the year. PT. Semen Padang has not implemented sustainability reporting in CSR disclosure.
- f. PT Semen Padang has not implemented purely social audit to the CSR implementation report, but the audit conducted by the integrated audit of the company's annual report.

### SUGGESTION

PT. Semen Padang should fully implement CSR for long-term benefit. It is started by implementing programs that really work to minimize negative impacts and maximize the positive impact on all stakeholders to achieve sustainable development goals. If all things are implemented properly, automatically the image, benefits, and sustainability of the company will be achieved properly. The greater the proportion of those who feel that their interests really satisfied by the company, the more likely the company is to benefit in the long run.

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