

**MASTER THESIS**

**The Cooperation Arrangement between  
Public and Private Sector in Corporate  
Social Responsibility (CSR) Scheme**

Case Study: The Cooperation between Surabaya Municipal  
Government and Unilever Indonesia in Green and Clean Program  
in Indonesia

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## ABSTRACT

**Research focus:** Both national and local government faces various problems related to the urban environment as an impact of high population in the urban area. When governments cannot deal with the entire urban problem, the cooperation with private sector is one of alternatives to fulfill public facilities. Corporate Social Responsibility (CSR) cooperation between government and private sectors offers potential opportunity to involve private sector to urban development programs. Nevertheless, the CSR idea doesn't spread evenly to every business activities in Indonesia. Accordingly, the implementation of CSR requires further investigation. Knowing the motives of company for engaging in CSR practices is the basis question in this research, which leads to the second research objectives. After we found the motives of the company, it can be used as the basis to find the benefit and cost of the company if the company joins CSR cooperation with government. Game theoretical model is applied to analyze the situation of CSR cooperation. The interaction between both actors is analyzed, it involves the behavior of each actor which influencing the benefits (payoffs) of the company and the government.

**Research methodology:** This research is conducted under a single case study approach, by choosing CSR implementation in Surabaya, Indonesia. To collect the data, document analysis and in-depth interview methods are applied. The document analysis supports some information about CSR activities of Unilever Indonesia and the background of the company. While, to get more information about the CSR behavior of the company, the author interviewed two CSR coordinators of Unilever Indonesia. Moreover, the authors also made interview with the officers of Surabaya local government, which in this case has authority on urban environment matters and also experienced CSR cooperation with Unilever Indonesia.

**Findings:** The CSR behavior of Unilever Indonesia is driven by internal and external motives. Voluntary, ethical and economic preferences are the most influential motives that originally from the internal of the company. On the other hand, ethical and economic preferences have been motivated the company to act in socially responsible way. From the findings, it is found that the legal preferences do not underlie the motive of CSR behavior of Unilever Indonesia. It is because, the legal regulation on CSR has not been thoroughly implemented. For the CSR cooperation issues, game theory explains the available best strategy of every actor as to get the optimal benefits in the cooperation scheme. Besides, game theory established situations in which under those circumstances, CSR cooperation is the only best strategy for both actors.

**Conclusions:** Voluntary, ethical and economic preferences are the internal and external motives of the company for engaging in CSR implementation. Nevertheless, the current legal regulation (CSR Law in Indonesia) has not sufficiently enforced the CSR behavior of the company. It is assumed that the successful CSR practice of Unilever Indonesia in Surabaya because the company is one of the biggest multinational company (MNC), which has realized the need of being socially responsible company while doing business. The internal motives are very influencing the CSR behavior rather than the external factors. In the CSR cooperation issues, it is concluded that CSR cooperation brings a lot of benefits (advantages) for both company and local government. In the current situation, CSR cooperation has become an option

to be the potential model for financing the public facilities procurement. However, by adding the incentives and disincentives mechanism will impose the company to join in the cooperation with the government if the company expects more benefits for the business sustainability in the country.

**Keywords:** *Corporate Social Responsibility (CSR), Game Theory, CSR cooperation, Assurance Game, Collective Action, Unilever Indonesia, Surabaya Local Government, Indonesia.*

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# CHAPTER I. INTRODUCTION

## 1.1. Introduction

Globally, urban growth peaked in the 1950s, with a population expansion of more than 3% per year (WHO, 2012). By the middle of 21<sup>st</sup> century, the number of urban population will almost double in 2050. Almost all urban population growth in the next 30 years will occur in cities of developing countries. The rapid growth of urban population stimulates the increase of poverty rates in developing countries. Consequently, it emerges more tasks of the governments to meet the citizens' basic needs.

When the government cannot meet the local demand of public services, the engagement with the private sectors is required. The public sector hires the private sector to supply a certain service instead of providing the facilities directly. In some cities, the private sector has developed an important role in supplying a variety of basic services and infrastructure to low income communities (Werna et.al, 2009). The institutional mechanism for private sector engagement has included various forms: contracting out, lease/franchise, public regulation of private competition and joint ventures.

Cooperation with private sectors is an option to encourage private sector in supplying public goods, where they usually charge the utilization of facilities, e.g water supply system. In this case, the private sector stimulates fair competition in supplying public facilities which are monopolistic in nature. It is virtually impossible for another company to build another water supply system in order to compete if the quality is not good or if the price is too high (UNHCS, 1996a). However, in developing countries, the practice of engaging private sectors in delivering public goods will meet some hindrances. Wern (2009) states that the actual sale of public firms to the private sector is mainly suitable for those areas of the economy where the markets are already working very well. Long discussion about the type of cooperation is still happening, while another approach of partnership is underway, Public-Private Partnership. Through PPP, the form of cooperation between public and private parties is structured in the planning, construction in which they share

or reallocate risks, costs, benefits, resources and responsibilities (Koppenjan, 2005). PPP successfully supports, mainly, infrastructure development since both public and private sector present their good institutional capacity. Notwithstanding, the latter partnership should also consider not only the financial resources but also social and environmental entities. In this sense, Corporate Social Responsibilities (CSR) is possible to contribute the provision of public facilities and basic needs to enhance the urban environment.

Practice of CSR was firstly applied in western countries around 1990s, which was in the form of philanthropic activities of the company for its employees and families. Besides this, many foundations, NGOs and associations have engaged in corporate social responsibility. The big production groups (Shell, Nike, Adidas, The Body Shop...) and distribution groups (Carrefour, Auchan, C&A, Ikea...) have "their" codes, in some cases in a partnership with the NGOs (Fonteneau, 2003). The definition of CSR remains contested since it depends on the interest that attached to it. However, there is a reliable definition of CSR introduced by the UK's Department of Trade and Industry which states that CSR is about how businesses take account of its economic, social and environmental impacts in the way it operates while maximizing the benefits and minimizing the downsides (United kingdom Government, 2007). It means that corporations should embrace sustainable development dimensions as to maintain the continuity of their business activities.

Yet, the promotion of CSR in developing countries demands a multidimensional approach that reflects the social, economic, environmental and political issues that are relevant locally (Werna et.al, 2009). In practice, the development of CSR implementation in developing countries are growing and catching attention of the national governments. In Indonesia, the growing trend has been seen after the establishment of Indonesian Business Link (IBL) in 1999 (Indonesia Business Link, 2009). Many local and multinational companies have been doing charitable and philanthropic activities, which are also considered as a CSR behavior in Indonesia, in the field of community development, environmental activities and natural disaster recoveries.

It is becoming increasingly difficult to ignore the practice of CSR in business activities in Indonesia. There are some evidences of corporation tragedy, which brought negative impact to environment and society. The incidents,

such as Freeport disputes (Papua), Newmont case in 2004 (Sulawesi), Lapindo mudflow in 2006 (East Java) and other local disputes between domestic corporations and communities that arose because the less awareness of company to its environment. These tragedies show that even though there are growing interest on CSR since 2000s in Indonesia, there are no instruments, which support the sustainability of CSR implementation. Until in 2007, the Indonesia's House of Representative issued Law no. 40/2007 about Limited Liability Corporation that aimed to govern the CSR practice. By issuing this Law, the Government of Indonesia determines that CSR is mandatory for every company whose business activities are related to natural resources extractions. However, the existence of this Law calls for pros and cons from the businessmen and government. Regarding to this Law, the business community concerns with the impact of this Law's implementation to its corporate cost and competitive disadvantages (Waagstein, 2012). On the other hand, the government argued that in Indonesia context, mandatory nature in CSR is giving legal certainty to voluntary CSR. Since then, a long discussion about this issues remains happening in the country.

On the other hand, CSR is not merely voluntary initiative of corporation to its environment. To be voluntary does not imply no binding, since many such norms functions effectively reshape, implement, interpret, or even substitute for mandatory norms. (Chinckin, 2003 cited in Waagstein, 2012). Besides, corporations have other motives behind their 'voluntary' CSR strategy, which are very related to business's interest. As Milton Friedman (1970) argued, the only social responsibility in business activity is designed to increase the profit. Eventually, there is no pure voluntary action in CSR. Since, the decision to integrate the CSR idea into its business strategy is based on many other influences rather than 'doing good for the environment' aspect.

So far, however, there has been little discussion about the motives that trigger corporations to behave in a socially responsible way. Similar research in this matter has only ever been conducted in developed western countries, which have a different context of CSR. Moreover, previous research with Indonesian cases used different methods with my current research. This research uses single case study approach, where the data are collected not only by document analysis or website surfing but also interviewing the sources. The respondents

from Unilever Indonesia are the officers who responsible to the CSR practice of the company, while officers from the Surabaya local government support the information about the cooperation between company and the government. In addition, no research has been found that investigated the CSR cooperation between local government and private company. In the Indonesian context, the CSR development is essential to support urban development in local and national level. Through CSR cooperation scheme, both the government and private company can get the outcome, which is beneficial for their interests. The purpose of this study is to examine the motives that influence company's decision for engaging in CSR, which is divided into internal and external motives. Further, those motives lead to the explanation of CSR cooperation between local government and company, in which this situation is also interesting to be explored. In this case, the CSR motives relate to the expected outcome of the firm in the cooperation scheme. The outcome refers to the mutual benefit and cost of joining in the CSR cooperation.

## **1.2. Research Objectives**

This research is started with a concern about the growing interest on CSR in Indonesia, recently. It is triggered by tragedies caused by corporations' activities in their operation area, for example the accident of Sidoarjo Mud Flow as an impact of Lapindo Brantas gas exploration in 2006, at Sidoarjo, East Java. Since then, CSR, which represents the responsibility of a firm to the environment and community where the business operates, becomes important issues in Indonesia. However, there are various reasons that stimulate a corporation to act in a socially responsible way, so it is essential to figure out why a firm chooses to do CSR behaviors. Some internal issues related to company's interests can motivate the behavior and also external issues may influence the company's decision.

On the other hand, the development of CSR in Indonesia has been growing in some ways depending on the interest attached to it. Corporations create more innovative CSR activities based on company's interest and the local government is trying to call participation from sectors private in the urban development through CSR. As it is known, that urban development is not only the responsibility of the government but also community and business.

Therefore, the collaboration between government and corporation needs to be analyzed. In the business perspective, there are some circumstances that should be beneficial for the company if the company decides to join in the cooperation with government. Corporation lives with economic principles, which make mutual benefit, and cost considerations are imperative. Thus, the discussion on the mutual benefit and cost of the corporation will be essential in this research.

The result of this research is assumed to be useful for urban planners and (local) governments, which have to deal with the urban development issues. The government may consider the application of CSR to support urban development. In practice, it is also expected that planners and policy makers may get lessons learned on how cooperation between local government and private company can be arranged through CSR. Particularly, it will give recommendations to the local government on how to arrange the partnership with private company, in term of CSR, in an institutional context. Furthermore, the current cooperation between Surabaya local government and Unilever Indonesia, in procuring CSR as to improve the urban environment, can be a lesson learned for other cities in Indonesia to be replicated in those areas.

### **1.3. Research Questions**

Those objectives lead to the research questions as follows:

1. What are the motives that drive Unilever Indonesia (ULI) Surabaya for engaging in CSR practices, specifically in the environmental area?

By this question, I would like to understand the reasons of ULI to do CSR practice in Surabaya. To answer this question, I will manage factors that come from inside the company, such as the corporate managers or policy and principals and factors that affected by outside parties, for instance, institutional arrangement of the local government through local policy, law, and rules.

2. What are the mutual benefits and costs of the CSR cooperation between Surabaya local government and Unilever Indonesia to CSR Program?

This question is trying to analyze the benefits and cost for engaging in CSR cooperation. To answer this question, a game theoretical analysis is applied as

a model to map the benefits and costs of the participants in the cooperation. In the study of game theory, there are several terms and models that depict the particular situation of the game. In this case, CSR cooperation between local government and Unilever Indonesia is assumed as a 'game' that contains strategies and payoff situation of both actors.

#### **1.4. Conceptual Framework**

In this research, CSR is considered to be a specific form of a company's commitment to the environment where the company is located. CSR is potential model to support the enhancement of urban environment as well as to provide public needs. The CSR scheme in this case study is delivered through cooperation or partnership between the Surabaya local government and Unilever Indonesia.

To structure the research study, I have divided the study into two parts, the substantial theory and implementation theory. The substantial theory explores the terms of corporate social responsibility which include the factors that influence a company to behave in a socially responsible way. Although CSR is basically a voluntary activity of a firm, the way CSR is integrated into a company's strategy depends on some other circumstances. These circumstances are driving motives of the firms to conduct CSR implementation. The factors are classified into external and internal motives. The external motives are conditions in which under these circumstances, the company is affected by other parties to commit in CSR. Government usually plays central role in this situation, as a party who has the authority to impose formal institutions, such as rule, regulation or policy to make companies behave in a certain way. On the other hand, a company's behavior is also determined by internal choices of the company, such as corporate managers, corporate policies and other company's marketing related interests. The internal motives influence the way the company grows and chooses their strategy in dealing with its stakeholders.

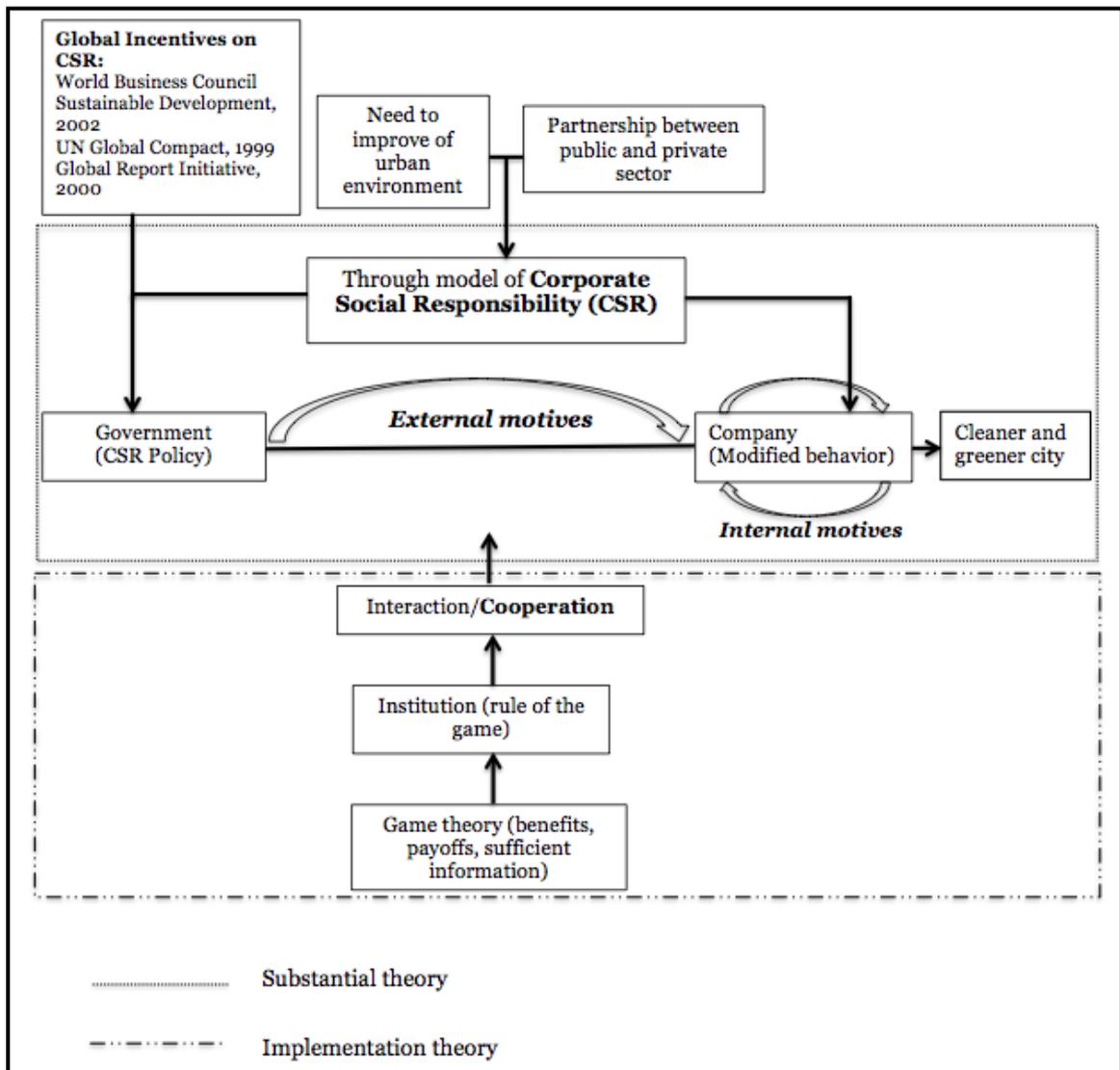
The implementation theory focuses on the application of CSR in current case study, which represents the cooperation between local government of Surabaya and Unilever Indonesia. Institutional literatures are useful because multinational companies will be interested in the institutions where they

operate. Moreover, institutionalists agreed that eventually, companies will pay attention to the institution beyond the market; it shows that company takes in to account the social actors beside themselves (Scott, 2003 cited in Campbell, 2007). The social actors refer to stakeholders that relate to the company existence, such as employee, consumer, community and government.

To deal with the cooperation issues, institutional studies explain which institutions are influencing parties to make a decision. For example, if the government gives enforcement to company, it may result in a s different decision made by the company as well as, if the government offers incentives/disincentives.

In this research, the game theory literatures are employed in order to explain the implementation of CSR cooperation. The game theory analysis is useful because the decision of the company whether to take part in the cooperation or not, are based on the benefits and cost, or in the game theory terms called as *payoffs*. In this situation, benefits and costs of each actor depend on the action of other actors in which game theory may well explain this collective action model.

To provide visual representation, this conceptual framework is drawn in this **figure 1.1** below. Further explanation of these theories are in Chapter 2.



**Figure 1.4**  
**Conceptual Framework Diagram**

### **1.5. Thesis Outline**

This thesis consists of five chapters. In the second chapter, I provide the theoretical studies where I introduce the origin of CSR and the development of its definition. As the relevancy of this research, the development of CSR implementation in Indonesia is also provided. The third chapter explains how the research has been implemented, the approaches and tools that was used and how the data were analyzed. Chapter four begins with the background profile of the city, where the case study was undertaken. Then, it provides the data, which gained from the interviews while the analyses of this data were conducted respectively. Finally, in the last chapter, I establish the conclusions of this research, which are the answers of the research questions. Besides this, the recommendation of the research are intended for the government, planners and other parties that pertained to CSR practices and it also explains the drawbacks of this research, which can be accommodated by the further research.

## **CHAPTER II. THEORETICAL STUDY**

This chapter is part of the main discussion in this thesis. The grounded theories that support this research are literatures about corporate social responsibilities, institutionalism and game theory. In Section 2.1 explains the origin of CSR in the earlier writing and practice of corporate social responsibilities. Section 2.2 elaborates the definition of corporate social responsibility (CSR) which is based on the debates of this notion between the proponents and opponents. Section 2.3 elaborates the development of CSR in Indonesia. Section 2.4 divides the motives behind CSR implementation. Section 2.5 explores literatures about the role of institution in the CSR discussion in this study. Section 2.6 elaborates about game theory model, which becomes the grounded theory in this research to support the explanation of CSR cooperation.

### **2.1.The Origin of CSR**

The notion about CSR is not a new discourse in western business communities and scholars; for instance, Wendell Willkie had started it in 1930s when he helped to educate businessman about social responsibility (Carrol, 1979). Nevertheless, this thesis will reveal the origin of CSR started in the modern era, 1950s. Bowen who was the first to write about CSR in 1953, states that the social responsibility is an obligation of businessmen to pursue those policies, to make decision or to follow those lines of action that are desirable in terms of the objectives and values of our society. It emphasizes the responsibility of businessmen for the impact of their action wider than that covered by profit-loss statement. Since then, CSR theories and practices became a proactive discourse.

The Committee for Economic Development acquaints the concept of CSR, in which social responsibility of business corporation should exercise the economic function with a sensitive awareness of changing social values and priorities, for example, with respect to environmental conservation, hiring and relations with the employees, etc (Carroll, 1999). It should be noted that the contribution of CED in constructing the idea of CSR, may have been in response to the period of late 1960s and 1970s, where there were many social

movements with respect to environment, worker safety, consumer and employees. Thus, during this period the form of responsibility of the company was emphasized on the social responsibility, which included the workers, markets and societies, and also embraced the social environment.

Whilst, the practice of CSR in modern era began in 1990s when there were boycotts of foodstuffs produced with slave labors in the German firm. At that moment I.G Farben, the director of the firm, felt guilty to those issues, which then called for interests from other entrepreneurs such as Cadbury, Rowntrees and Hersheys (Blowfield and Frynas, 2005). Their companies had been claimed as the earliest businesses committed to the philanthropy initiatives to improve employees' better living standards. British entrepreneurs saw a need for various social welfare schemes to alleviate the adverse living and working conditions of that time; German industrialist Robert Bosch introduced equivalent schemes for his workers and their communities; the establishment of foundation such as Rockefeller and Carnegie represent early example of CSR in the United States (Murphy and Ng'ombe, cited in Werna, Keivani and Murphy, 2009). It is shown that in 19<sup>th</sup> century, CSR was a part of philanthropy and self-interest of the companies to their employees and some of them started to consider communities where the business takes place.

During the 1980s and 1990s, international NGOs launched high profile campaigns against MNCs such as Nike, Nestle and Shell over their environmental and social impacts in developing countries. In response, MNCs embraced the notion of CSR, finding it useful in deflecting NGO criticism, restoring corporate reputations and reducing threats of government regulations (Rosser and Edwin, 2010).

## **2.2. The Definition of CSR**

The definition of CSR is dependent on institutions, interests, entities that attached to it. The long debate of defining CSR and conceptualizing the idea of CSR, revealed two parties that oppose the idea of CSR as responsibilities and voluntary activities of the firm, like Friedman, and researchers who proclaimed that the idea of social responsibility supposes that the corporations has not only economic and legal obligation but also certain

responsibilities to society which extend beyond these obligations (McGuire, 1963, cited in Carroll, 1999).

Davis (1960) asserted that some socially responsible business decisions can be justified by a long complicated process of reasoning, as having a good chance of bringing long-run economic gain to the firm, thus paying it back for its socially responsible outlook. It can even be assumed that applying social responsibilities are parts of the economic profit making. Yet, based on those circumstances, Davis confirmed that social power has influence to the company interest, particularly in the decision making process. The firm has power to influence the market through making innovative products that have competitive values economically and socially. It means that company has strong relation with the society, not only the business has power to them, but also the society can affect the business behavior.

The debate rose in 1962 as Friedman argued forcefully that the doctrine of social responsibilities is fundamentally subversive; he attested that few trends could so thoroughly undermine the very foundations of our free society, as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible (Carroll, 1979). This shows that Friedman was doubtful about the willingness of a firm to spend their fund for social interest without wishing bigger profit in return. As to oppose Friedman's argument, Johnson assumes that the prime motivation of the business firm is utility maximization; the enterprise seeks multiple goal rather than only maximum profits (Carroll, 1999). It concludes that the socially responsible manager is interested not only in his own well-being but also that of other members of the enterprise and that of his fellow citizens. Moreover, there are other goals rather than gaining much profit, those goal are also affected by the divers motives of company before engaging in CSR programs.

In the late 1990s, there were new discussions on CSR, when some global institutions recognized that in the CSR definition there are business development cases. It means the definition of CSR will not only consider about the economic or profit making of the business activities but also other dimensions, for instance social and environment. One of the definitions of CSR in 21<sup>st</sup> century, is by World Business Council for Sustainable Development (WBCSD) which stated that corporate social responsibility is the

continuing commitment by businesses to behave ethically and contribute to economic development, while improving the quality of life of the world force and their families as well as of the local community and society at large (WBCSD, 1999). Globalization and social change has influenced institutions in reaffirming their idea of CSR in the development world. The World Business Council for Sustainable Development (WBCSD) has changed its definition over time. But that definition was later changed (2002) to ‘the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life’. The definition of WBCSD emphasizes that CSR can support the social development and sustainability of the business itself.

The definition of CSR by the UK’s Department of Trade and Industry which states that CSR is about how business takes account of its economic, social and environmental impacts in the way it operates for maximizing the benefits and minimizing the downsides (United Kingdom Government, 2007). The shifting definition of WBCD and perspective of DTI shows that CSR could help to reduce poverty by contributing to pro-poor economic growth and environmental sustainability (Rosser and Edwin, 2010). Theoretically, CSR is related to the Triple Bottom Line (TBL) concept as argued by Elkington (1998), which considers economic prosperity, environmental quality and social justice. In addition, a company who applies the concept of sustainable development must embrace Triple P terms, Profit, Planet and People. Both concepts can be linked together, as companies will gain profit called economic prosperity if they are concerned about the sustainability of the planet (environmental entities) and also the existence of people or society that surrounds their business.

### **2.3. CSR in Indonesia**

The driving forces of CSR initiatives in Indonesia are influenced by internal and external factors. Factors that come from the local or national circumstances, such as institutional shifts, attention of Non-government organizations, influence of communities, are counted as internal factors. On the other hand, the development of CSR in Indonesia that is affected by global institution and organization is categorized as external factors.

CSR movement began in the late 1990s, when there was a shift in the political system and governance in Indonesia. The decentralization system and democratic government raised the awareness of society and NGOs to the business practices in the country. Externally, international global movement of business ethics also influenced the development of CSR in Indonesia. Multinational companies were operating in Indonesia have been fostering the adoption of CSR policies. It is derived from their headquarters after there are major reports in 1992 on Nike and Levi Strauss related to labor and human rights issues (Koestoer, 2007).

The internal influences stimulate fundamental changes in CSR institutionalization and government awareness to the business activities in Indonesia. In 1999, the establishment of Indonesian Business Link (IBL) marked the response of foreign and domestic business in considering social and environmental entities into business activities. This organization plays a crucial role in promoting the notion of CSR in Indonesia through conferences, workshops, the provision of corporate services and media commentary on CSR issues (Rosser and Edwin, 2010). Since, IBL is a private organization, the funding of this organization is supported by global companies operating in Indonesia and also major international sponsors, such as UNDP, Department of International Development of UK and Ford Foundation (Indonesian Business Link, 2009). Through the establishment of IBL, it motivates corporations to apply CSR in their business activities. In a conference held by IBL, the idea of corporate governance and business ethics are proposed to the businessmen, so that global corporations realize the importance of doing good business not only for their economic interest but also for the environment and community in the host country.

NGOs play an important role in spreading the CSR notion in Indonesia, by actively criticizing the social and environmental impacts of business activities. The critics in some way have been triggering companies to do good things to society and act more responsibly; otherwise companies will receive opposition from the NGOs as well as the civil society. Notwithstanding, from the report of IBL (2006) companies generally tend to work in partnership with NGOs or directly with the community, rather than with the government. Some of the

NGOs presume every companies acts in inappropriate way and lack attention to their basic responsibility to its surrounding. To bridge the gap between them, partnership is assumed to be a good access to deal with CSR issues, such as environmental protection, poverty eradication and other community development activities.

Paradigm shifts on CSR sequentially happened after government reforma in Indonesia. The more decentralized political system in Indonesia, in early 2000, has contributed to the rise of CSR (Koestoer, 2007). In this new system, local governments have more authority to their local resources. Hence, every leader should acknowledge the potential of their area and use those resources to gain local income and to increase social welfare.

Indonesia has abundance in natural resources, which spread all over the country. Many multinational companies have located their subsidiary factories or companies in Indonesia because they consider the potential resources. Knowing these reasons, in 2007, the Government of Indonesia has issued the Law 40/2007 arranges the mandatory requirements for Limited Liability Company (LLC) to implement CSR. It makes Indonesia become the first country that passed a legal regulation for CSR (Rosser and Edwin, 2010). According to this law, mandatory CSR requirements should apply to the LLC that are connected with natural resources. This mandatory approach is meant to create a relationship between companies and the environment, values, norms and culture of *local communities*. It implies that CSR is about local-level projects in community development and environmental rehabilitation. The passing of this regulation may encourage local government in Indonesia to give more local pressure to business activities in their areas, in terms of CSR practices. Companies who do not implement the obligation will be punished or incurred sanction in accordance with the legislative regulation.

Recently, CSR has been emerging to be one of the alternative resources to finance some urban development projects. For instance, Indonesian Ministry of Public Works has issued a partnership framework to accommodate CSR activities of private company (Ministry of Public Works, 2012). By this framework, the ministry provides several opportunities for the companies to spend their CSR fund to support projects in human settlement or drinking

water issues. These phenomena represent the recent CSR development in Indonesia, which it means CSR is very potential to support urban development.

#### **2.4. The Motives for Engaging in Corporate Social Responsibility**

Theoretically, CSR is a voluntary activity adopted by a firm to be part of their business strategy. The cost of these activities should be apart from the income made by the company. However, the motives of one company to another in addressing CSR are different and are dependent on the company's interests. In this section, I categorize the motives based on where the influences that forcing the company to behave in socially responsible way comes. The internal motives are factors that come from inside the company, which is related to the organizations, principles and values, sales and business case strategy of the company. The economic condition of corporation and its environment may influence the motives to behave in a socially responsible way. Corporations with strong financial performances will be more deliberately in engaging in CSR, than corporations whose financial performances are weak (Campbell, 2007). Since firms with good financial performances have better access to their resources to do social responsibility activities. Furthermore, the internal motives of the company imply a particular force from the organization to behave in more socially responsible ways. For instance, the principles and values of the company may, in some extent, force the company to do the "right thing" to the environment. It is in regard to the sustainability of its business.

On the other hand, firms with weak financial performances need encouragement from outside of the firm to make them contribute in CSR activities. The encouragement of behaving in socially responsible way may come from the global or international organizations or government in the host country. As for example, the government can provide incentives or disincentives through tax rates, policies, and laws to enforce firms. Those enforcements come from outside the company are categorized as external motives that driving CSR behavior of the company.

### **2.4.1. Internal Motives**

The literatures on CSR has been developing more than half century, yet the modification on definition, framework and its practice in business activities are still contested by researchers. Concept of CSR is still implemented differently in business practices. As in line with the objectives of this research, Matten and Moon (2007:3) argued that ‘in CSR, the motives of managers, shareholders and other key stakeholder shape the way corporation are governed’. The opponent of CSR concept usually argues that the only objective of business activity is to gain profit or at least getting financial returns of its activities. As an article in the Economist (cited in Doane, 2005) mentioned that the only socially responsibility of company is to make money, since the CSR concept is unclear to be implemented. Nevertheless, the development of CSR concept has shifted the profit-making idea to *business case* strategies through CSR. This view is supported by Porter and Kramer (2006) who write a strategic CSR can increase the competitive advantage of organization (company). Those arguments on CSR concern about the economic reason that influence company for committing to CSR behavior. To complement those arguments, Kotler and Lee (2005) identify six initiatives that relate to social responsibility. These six initiatives are combination of not only marketing reason but also social concerns, which are taken in to consideration. The six initiatives as follows:

1. Cause promotions; company provides funds/other corporate’s resources to support social awareness for a cause (for promotion of company’s products)
2. Cause related marketing; company contributes to specific cause for product sale, e.g. specific products or brands
3. Corporate social marketing; company supports the implementation of behavior change campaign that usually a partnership with public agency or NGO.
4. Corporate philanthropy; company gives direct contributions, through grants, donation, charity.
5. Community volunteering; company supports their shareholders as well as stakeholder to volunteer for social events.

6. Socially responsible business practices; company conducts discretionary activities to tackle social and environmental issues as well as improving the quality of life of social well-being.

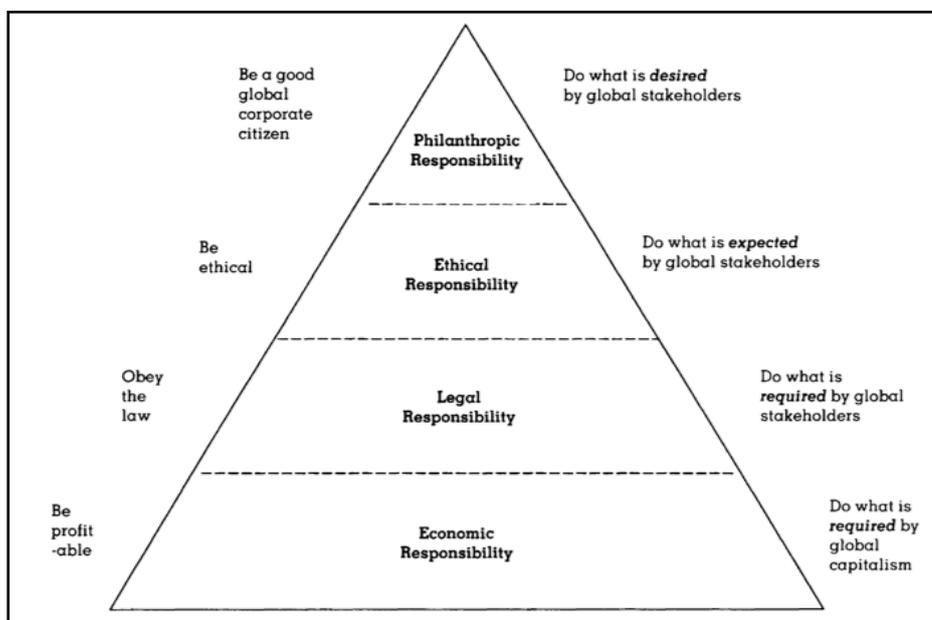
Those six initiatives comprise all the motives of the company whether voluntary actions or caused by external interventions. Addition for six initiatives, Fambrun and Shanley (1990) view that reputation building affect business strategy of a firm, the social responsibility as one of indicator while an institution is signaling to build reputation over public views. Since, community will value how companies respond to their non-economic agendas. The reputation building of a firm may cause people to become more respectful to the existence of the product and brands of the company. As a result, companies are being legitimated by society that they are already in the right track in doing their business. This corporate legitimacy becomes part of a reason why a company is willing to do activities that are socially acceptable.

Scherer, Palazzo and Seidl (2001) argue that minimizing legitimacy gap is what primarily motivates corporations to engage in corporate responsibility and sustainability. Corporations intensively attempt to convince reluctant constituencies of their right to exist and of the social acceptability of their behavior. The commitment to norms, rules and expectations of the social community where the company is operating, is fundamental factor for the legitimacy and business sustainability. Affirming from the business sustainability by Fisher and Lovell (2009), that for corporations to remain sustainable they have to operate within socially acceptable parameters, which include how corporations use and treat the environment and people. For the multinational companies (MNCs) in developing countries, they will face highly complex problems as the heterogeneity of the culture, society, environment and institutions. The rise of public pressure over a company's operations in developing countries in relation to human rights, pollutions and environments is a pragmatic strategy of the company to engage in CSR (Raynard and Forstater, cited in Ite, 2004).

Meanwhile, Porter and Kramer (2006) divide CSR into two categories. The first is *responsive* CSR that consists of two elements, acting as good corporate citizen, attuned to the evolving social concerns of stakeholders and mitigating

existing or anticipated adverse effects from business activities. The company tries to do good things in business by reducing their negative impacts and giving attention not only to the shareholders (investors or employees) but also the stakeholders (society, NGO, and governments). The second category is *strategic* CSR, Porter and Kramer (2006) argues that strategic CSR transforms the value-chained activities of the company into community benefits as well as enhancing company strategy. Strategic CSR involves inside-out and outside-in dimensions that work both ways, means that a company may influence the society through the values of the company while the society's condition can affect the company.

Even though, all the previous scholars have been trying to embrace other factors, than economic or marketing in to CSR initiatives, those approaches cannot explain various preferences or framework of CSR in the business activity. This research has opted to focus on the Carroll (2004) CSR framework which entitled as Global CSR Pyramid. Carroll (1979; 1991; 2004) presented a global CSR pyramid that informs four fundamental aspects of business firm. These four components may not exist in order, since the explanation of them can be overlapped one and others.



**Figure 2.1**  
**Pyramid of Global Corporate Social Responsibility**  
**(Carroll, 2004)**

The *economic responsibility* is placed as the backbone of company responsibilities. It is about the expectation of business firms in selling their

products or services at profit. The positive return or growth rate of the stakeholders is the major responsibility of the company. The *legal responsibility*, obeying the laws and regulations constituted in the host countries or where the companies operate is the responsibility of the company, as to maintain the relationship with its stakeholders, mainly the government and non-governmental organizations. If businesses adhered to the standards of performance in law and the existing public policy process, the business would be judged acceptably responsive in terms of social expectations (Garriga and Mele, 2004). The *ethical responsibility* relates to what a corporation should do to support its sustainability and reputation. The CEO or managers of global companies may be more concerned about this ethical responsibility even if it is never stated in the legal laws. Since there are diverse norms and rules in every country the company tends to rely on the universal right or principle to keep their business in the right path, e.g. the Global Sullivan Principles (1999), UN Global Compact (1999) or following the GRI guidelines (2000). The *philanthropy responsibility* is what the global stakeholders expected of business to do. It means the company should do CSR because the interest of the company, without pressure from law or regulation. The practice of philanthropy activities may vary depends on the current issues or events of the country.

#### **2.4.2. External Motives**

External motives mean motives for engaging in CSR that are influenced by other parties outside the firm. The party is referring to government that is issuing regulations or laws as a mandatory to behave in a socially responsible way. Literatures about mandatory approach focus on governmental interventions to promote CSR through modifying law, rule or policy and persuasive communication. As one of the layers in the pyramid of global corporate social responsibility (Carroll, 2004) shows, the legal responsibility will be one of the commitments of the company to integrate CSR into business. On the other hand, the discussion about mandatory approach in CSR concept remains debatable by some scholars. Few argue that business should not be legally accountable, but in certain situations a voluntary approach to regulating business behavior might be beneficial. For example, where there is strong system of governance, voluntary might be a way of

extending company accountability without the need for new legislation. In contrast, where the rule is weak (CSR cases in some developing countries), voluntary approach can encourage multinational companies to introduce higher levels of performance than those required for legal compliance (Blowfield and Frynas, 2005). Yet, effective CSR may require good government and some policy makers see CSR as a stepping-stone towards legal codification. Voluntary approaches alone are insufficient where there is a compelling priority but little or no business case to justify the additional expenditures needed to meet it (MMSD, 2002 cited in Hamman, 2004).

As an example of the pioneer of mandatory approach in CSR, the government of United Kingdom took couple decades to enforce the participation of private sector to the urban development, particularly community development. It started in 1980s, during the wave of urban riots, unemployment, and inner city decay. In addition to government policies, it stimulated businesses to share in responding to the problems (Moon, 2004). Secretary of State for the Environment stated that the government could not provide all the solutions to revitalize the society especially the inner city, because the government had insufficient funds and did not have expertise, so the private sector was needed to play a role. Since then, the government intensely stimulated the CSR organization. Practically, several conferences and discussion had been held to encourage business involvement in community development, in addition, a fundamental CSR umbrella group established, Business in the Community (BITC)<sup>1</sup>. In the year 2000, the UK Government appointed a Minister for Corporate Social Responsibility (European Commission Employment and Social Affairs, 2004). The government's roles were to raise awareness, provide guidance, promote consensus on UK international codes of practice, and promote a framework for social and environmental reporting and labelling. The new institutionalization on CSR in UK is not merely a regulatory approach, but it is a type of soft regulation to encourage CSR. As to underline, UK government has strong commitment to CSR issues, but it might be a case

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<sup>1</sup> BITC is Business in the Community initiated by the government as the umbrella of CSR group. The BITC has become the largest business association for CR with membership over 750 companies and a regional management and policy-making structures (Moon, 2004)

in other countries where the law enforcement is weak and the government does not put enough attention to CSR issues.

From the case of the UK, it was admitted that government's role through its policy in CSR worked well to affect the business participation in the project. Campbell (2006) argues that corporations are more likely to behave in a socially responsible way, the more they encounter strong state regulation, collective industrial self-regulation, NGOs, and other independent organizations that monitor them and a normative institutional environment that encourage socially responsible behavior. The most powerful drive must be the State's mandate and its implementation; in fact the cross-sectoral collaboration will increase the commitment of the companies. In this case, local government policy has a role as local pressure (Hamman, 2004).

### **2.5. The Role of Institutions**

The institutional literatures are needed in the CSR discussions because institutional structure and political legacy of one country will influence the CSR behavior of firm (Doh and Guay, 2006). Doh and Guay also argued that in neo-institutional theory, organizations and their strategies are substantially influenced by the broader institutional settings in which they operate, and shaped by the institutional legacies that reflect the culture, history and policy of a particular country or region. Hence, institutions are imperative to give motives for corporations to do socially responsible behavior. Multinational companies are always interested in the institutional existence in a country where they run their business. According to institutional theory, organizations may seek legitimacy within their given environment and attempt to become isomorphic with these environments (Dimaggio and Powel, 1991, cited in Doah and Guay, 2006). Regarding to CSR behavior, the outside party, i.e. government who issues formal institution can give mandatory effect to corporation. On the other hand, firms will act in a socially responsible way if normative or cultural institutions are in place that creates the proper set of incentives for such behavior (Galaskiewicz, 1991 cited in Campbell, 2007). Since the membership in such organizations instilled in members an ethic of enlightened self-interest to behave in socially responsible way. For example, the involvement of corporation in the UN Global Compact or Global Report

Initiatives member made the corporation pay attention to the principles of the organization and report the business activities periodically. These incentives can be one of internal motives of firms to adopt CSR because the firms must apply value of the organization in firm's business activities.

North (1990) defines institutions as the rules of the game in society or, more formally, as the humanly devised constraints that shape human interaction. In this sense, institutions will guide people's interaction in order to avoid interest clash amongst actors. The type of institutional constraints can be formal or informal. Formal constraints are constituted in judicial rule, law or contracts between people involve. While informal constraints are derived from culture, custom or traditions.

Hall and Taylor (1996) label three institutional thoughts, historical institutionalism, rational choice institutionalism and sociological institutionalism. *Historical institutionalism* defines institution as the formal and informal procedures, routines, norms and conventions embedded in the organizational structure of the polity or political economy. From this point of view, rules and conventions are constituted by formal organization. *Rational choice institutionalism* defines institutions as formal and informal rules and associated monitoring and sanctioning mechanism, and assumes that actors are motivated by logic of instrumentality but that their actions are institutionally constrained (Campbell, 2006). The *sociological institutionalism*, defines institution as not only formal rule but also more about rules originating from cultural-specific practices. It means that institution as an informal rule involve symbol systems, cognitive, and moral templates that diffuse in organizational field, to provide the 'frame of meaning' guiding human action (Hall and Taylor, 1996).

Chen and Bouvain (2008) state that in 'new institutionalism,' international institutions are typically viewed as part of the given 'institutional environment' that influences and constraints organization. Exemplifying the global institutions on CSR, which may affect the behavior of companies to be more socially responsible are Global Report Initiative and UN Global Compact. Global Reporting Initiative (GRI) was launched in 1997 by a number of companies and organizations belonging to the Coalition for Environmentally Responsible Economies (CERES), the mission is to develop

globally applicable guidelines for reporting on economic, environmental and social performance, initially for corporations and eventually for any business or governmental and non-governmental organizations (Hedberg and Malmborg, 2003). It is expected that corporations may report their voluntary activities in the areas of economic, social and environmental dimensions. The UN Global Compact launched in 2000, concerns with the businesses activities that are committed to aligning their operations and strategies with the ten universally principles in the areas of human rights, labor, environment and anti-corruption (UN Global Compact, 2011). Yet, it is not a regulatory nor legally binding instrument. Currently, 2,356 companies have signed in Global Compact (World bank, 2006).

In respect to this research study, I provide the interrelation between CSR and institutional literatures. I intersect between the pyramid of global CSR by Carroll (figure 2.1) with the institutional literatures, I mentioned previously. Eventually, institutions influence all aspects in the pyramid, philanthropic, ethical, legal and economic responsibility. Philanthropic responsibility defines CSR activities of company are without law bindings (Carroll, 2004). Yet, corporate philanthropy investigates whether tax law affect the charitable contribution of firm (Campbell, 2007). In other words, the philanthropic giving of a company is affected by the amount of money that a corporation spends for tax. The essential thing is that tax law is an important property rights institution that may affect corporate behavior (Campbell, 2004). Thus, this situation shows that government regulation implicitly influences the philanthropic behavior of a company. Internal institutions that are regulated by the company in the code of conduct also affect the philanthropic contribution. The institution of the firm also supports the company to enable its CSR practices. In addition, the code of conduct has created a situation, where under this circumstance the firm is motivated to do “good things” for its stakeholders and environment.

In the ethical responsibility, the behavior of the company is determined by the willingness of corporate managers to act in ethical way beyond the legal laws. This explains why multinational companies choose to rely on the global institution such as Global Sullivan Principles (1999), UN Global Compact

(1999) and GRI (2000). Those institutions deduct the ethical behavior of companies who joined in the organization.

Legal responsibility is explicitly related to the formal institution formed by the government. Firms choose to behave in a socially responsible way if there are strong and well-enforced government regulations in place to ensure the behavior (Campbell, 2007). The processes of which regulation and enforcement are developed through negotiation, communication and discussion with firms, government and other stakeholders increase the motives of firm to obey the laws.

The economic responsibility of a company to commit to CSR is mostly affected by the market gain or product selling, in the other words, the business case strategy is well reflected. However, institutional factor is also influential when firms want to gain legitimacy in the area where they operate. The firms should comply with the norms, culture and formal institution in doing the business. In the other words, either formal or informal institutions have allowed the firms to practice and maintain their business activities.

## **2.6. Game Theory**

The objective of this research is to understand the mutual benefits and costs of parties to engage in CSR cooperation. In this regard, game theory is useful to examine how a party may get the optimal outcome by complying with his or her strategy. Besides this, the benefits and costs for joining in the cooperation are the results of the agreement among parties who involve in the game. In the other words, the forming and managing the agreement are the results of collective actions (Samsura and Krabben, 2012).

The main concern of this section is to provide theoretical review of game theory application to analyze the CSR cooperation between public sector and private sector, assuming that both parties act on their self-interest. In this case, each party makes decision independently, yet the decision of other party also determines the outcome of all actions. So, this game is about the collective of action of parties involved in the game and each party concerns with preferences of other party.

In 1944, Von Neumann and Organ Morgenstern introduced the game theory model. This theory was established in the basis of economic and mathematic,

yet, Neumann and Morgenstern created the field that economic and social question can be described as mathematical models in the game of strategy (Geckil and Anderson, 2010). In recent decades, game theory has developed more realistic decision-making models, including bounded rationality models, model taking account of emotions and intuitive decision-making, models with incomplete information and models with asymmetric information positions. In this case, game theory is leaving its mathematical' heritage and is becoming a more behavioral theory of decision-making and has led to much experimentation in game theory (Samsura, et al, 2010)

Game theory is concerned with the actions of decision makers who are conscious that their actions affect each other (Rasmussen, 1995). In this sort of interaction, what one actor decides will influence the decision of other actors involves in the arena. The interdependence of the players' decision is the foundation of game theory. Osborne (2004) compiles a list of circumstance which game theory can be applied, there are firms competing in business, political candidates competing for votes, jury members deciding on a verdict, competing expert's incentives to correctly diagnose a problem, legislator's voting behavior under pressure from interest groups, and the role of threats and punishment in long-term relationship.

The relevance of using a game theoretical model to analyze CSR cooperation is in the cooperation, there are interaction between two actors, which the decision of each actor influencing the decision (strategy) of other's. Those strategies also determine the benefits of each actor, in the game theory it is called payoff. In the implementation of CSR cooperation, a company may consider about how the outcome will be beneficial for the company or it would cost the company. The company will take those preferences as consideration to make a decision in joining in the cooperation. In wider aspect, application of game theory may describe the structure of interaction among business activities or companies, in term of CSR behavior. Since, the decision of one company to practice CSR behavior may influence the business strategy of other companies. For instance, if the firm A decides to comply with CSR behavior, it might be reduce the profit of the firm. On the other hand, the firm B, which does not decide to practice CSR, assumes its behavior is more

profitable for the business. Yet, it could be a downside for the firm in the future, when firm's reputation is damaged. Considering, the cost of the firm, it probably motivates the firm to choose another strategy, which is contribute in CSR activities. However, in respect to this research, the discussion about this issue will not be a focus, so that further research and analysis are needed.

### **2.6.1 Terms in Game Theory**

There are some essential terms in game theory that has been introduced in the literatures (Osborne, 2004; Rasmussen, 1995; Geckil and Anderson, 2010), namely *players*, *strategies*, and *payoffs*. The decision makers in the game are called *players*; the strategies that decided by actors are *actions*. It is important if each player has preferences about the action that may be taken as well as information of other player's action. *Payoffs* are what players receive at the end of the game. The *outcome* of a game is a set of interesting elements that the modeller picks from the values of actions, payoffs and other variables after the game is played out. Equilibrium is a strategy profile consisting of a *best strategy* for each of the N player in the game. As to emphasize, equilibrium strategy is a strategy a player picks in trying to maximize individual payoffs, as distinct from the many possible strategy profiles (Rasmussen, 2005). In the game theoretical model, *players*, *actions and outcomes* are called as rules of the game (Osborne, 2004; Rasmussen, 1995; Geckil and Anderson, 2010), whereas the modellers' objective is to use the rules of the game to determine the equilibrium.

The model of game theory is distinct in two forms, strategic games and extensive game. The *strategic games* is a basic concept of the game theory, in terminology of Von Neumann and Morgenstern, it is called 'a game in normal form' (Osborne and Rubinstein, 1994). The strategic form concerns about the Nash equilibrium, that no player has the incentive to deviate from his strategy given that the other players do not deviate. *Nash equilibrium* is a situation of best responses toward each other, one strategy of each player. The examples of strategic games are Bach or Stravinsky (BoS), Prisoner's Dilemma, and Coordination Game (Stag Hunt). However, the Nash Equilibrium is not always well suited with the real practice because the best response strategy that are achieved may not the socially optimal outcome (Dixit and Skeath, 2004). In

order to make Nash Equilibrium more relevant into practice, we can modify the game to make optimal outcome or minimize the unsatisfactory Nash Equilibrium. Before hand, we should know the nature of such game.

To make a clear elaboration of this game, I provide the illustration of the collective action game with two players. Dixit and Skeath (2004) illustrated such game by taking example of two farmers who should or should not contribute in building irrigation. Both farmers can benefit by constructing the irrigation. Namely, farmer A and B can join together to build the project, or only farmer A/B will undertake the project on his own. However, after the project has been accomplished, the other automatically gets the benefits of the construction. Thus, each of them attempts to not contribute in the project, since the other will contribute. That is the essence of the strategic interaction, and the difficulty to ensure in collective action games.

From the illustration above, we may see the nature of the project that concerns both players (farmers). Irrigation project is categorized as *pure public goods*, which is non-excludable and non-rival in nature. Non-excludable means we cannot prohibit a person who does not contribute in the project in not getting the benefits of it, while irrigation is also non-rival because no one's benefits are decreasing even by the fact that others are also enjoying the benefits. Hence, the public goods projects reveal difficulties of securing collective action. Although, we can play game theoretical models to analyze how the benefits are. In relation to this research, the project of the CSR is of waste problem management, which is classified as public goods. So, both the firm and government will eventually get benefits regardless of their decision to participate or not in the cooperation. But the point is what are benefits for the firm if the firm decides to do so and whether the benefit is significant for the firm or not.

## **2.7. Conclusion**

Based on the literature reviews above, CSR remains a contested concept similar to the notion of sustainable development, which in recent years also embraced in the definition form of CSR. It is known that the origin of CSR came from business field which are focused on the philanthropic activities, employee's welfare and shareholders' interests. But, in the following years,

global institutions are more concern about the concept of CSR so they include the dimensions of sustainable development to define practices and theories on CSR. It makes the scope of CSR wider, in terms of whom this activity is dedicated to and what dimensions should be embedded. In terms of carrying out the CSR activities, the collaboration between firm and stakeholder may strengthen the effectiveness of CSR.

In the earliest years, CSR was assumed as voluntary activities but also considers the wider parties who are involved in its practice, more elements has been attached to the concept. Hence in this study, voluntary terms are not used to define the CSR behavior of the firm, instead, the internal motives of a firm will define those particular behaviors. While, mandatory factors which influencing company to do CSR practice can be categorized as external motives of the company. The enforcement instruments from the government can be one example of this motive. In the table below, I provide a parameter to define the CSR arrangement based on theoretical study. The parameters are representative of CSR model in figure 2.1, which modified with the motives of firm. The column assigns four responsibilities to the concept of CSR, economic, legal, ethical and philanthropic responsibilities. While, the row describes whether it is internal or external motives that drive those responsibilities.

The table will be used for structuring the CSR behaviors of Unilever, whether the internal or external motives that drive those behaviors. As seen in the table below, institutional reason is explicitly attached in the CSR external motives of firm.

Agency Preference		Motives	
		Internal	External
	Philanthropic	<ul style="list-style-type: none"> <li>• Self-interest of the business management</li> <li>• Charitable activities (depends on current issues in a country)</li> <li>• Without law bindings</li> </ul>	<ul style="list-style-type: none"> <li>• Tax (Tax regulation may influence the amount of charitable contribution (Campbell, 2007))</li> </ul>
	Ethical	<ul style="list-style-type: none"> <li>• Be ethical</li> <li>• Consider impact of business to environment and society/ Responsive strategy</li> </ul>	<ul style="list-style-type: none"> <li>• Global institution principles (e.g. UN Global Compact, Global Report Initiative, and Sullivan Principles)</li> </ul>

		<ul style="list-style-type: none"> <li>• Expecting social legitimacy/ reputation building</li> <li>• Beyond what is required by law</li> </ul>	
	Legal	-	<ul style="list-style-type: none"> <li>• Strong state regulation (e.g. giving sanction/fine/punishment)</li> <li>• Local pressure</li> </ul>
	Economic	<ul style="list-style-type: none"> <li>• Business case and marketing reasons (Kotler and Lee, 2005)</li> <li>• CSR activities as <i>a long term investment</i></li> <li>• Strategic CSR (value-chain based)</li> </ul>	<ul style="list-style-type: none"> <li>• By committing to formal (government rules) and informal institutions (e.g. customs, norm and culture of local people), the companies may get the profit for their business sustainability in the host country</li> </ul>

**Table 2.2**

**CSR Arrangement Based On Theoretical Study**

By applying this table, we will figure out the motives of the firm for committing in CSR. As mentioned before, these motives are very related to the expected benefits or outcome of the firm in joining CSR cooperation with the government. In respect to this objective, the game theory will explain the structure of relation between the government and company in CSR cooperation. We can use the game theory to predict the strategies that will take place and the outcome (benefits) that will result (Dixit and Skeath, 2004). In the end, we will know the mutual benefits of this kind of cooperation for both actors and it can be utilized to improve the partnership between public and private sector through CSR model in the future.

### **CHAPTER III. METHODOLOGY**

This chapter comprises of explanation, used approach and methods or techniques that are used to answer the research questions. There are various approaches that have been used to conduct researches in the field of CSR practices. The case study is picked as a research approach, because it helps to get the in-depth explanation of the current phenomena and other interests involved in the CSR development in Indonesia. CSR practices are very context dependent, where the development in one place are different to others, because of this the case study approach is the most suited to see this contemporary phenomena. For example, the CSR cooperation issue as mentioned in the research questions is very contextual since it happens in specific local governments and multinational companies in Indonesia.

After choosing the case study for this research, the next step is to determine suitable research tools to increase validity of this research. A variety of methods are used to collect data in CSR research. Each has its advantages and drawbacks. The varieties of methods that can be employed are observations, focus group discussion (FGD), document analysis, in-depth interviews, and questionnaires. Observation is a very purposeful method to collect the where the phenomena takes place. We as observer may be involved in the observation as active participant or we can just act as passive observer. Observers may be involved in the interaction where the members are being observed and experience the same situation of each member. On the other hand, observers may only watch the activities and write the conclusion of those activities. Yet, the disadvantages of this method are when the members of observation become aware if they are being observed, the behavior of the members will change which influence the validity of the research. Besides this, the observation must need the presence of the observer in the field, while the distance is a limitation of this research. This makes the observation method less relevant.

Focus group discussion (FGD) is another option for the data collection method. This method is a valuable research technique in social research, these days. The data are generated through interaction among participants in the discussion, where each participant may hear opinion from others participants

within the group. So that, in the FGD, interactive situation may prevail that enriching the validity of the result. FGD may result information or data about what people think and do and also why people and behave as they do (Hay, 2010). So, FGD may get more valuable and valid data rather than using observation or interview (single) method.

Document analysis is also possible as a tool to collect the data. Actually, most of projects or researches are common to use document analysis as method to gain data. These documents have already collected by someone else and are available for researcher to use. Some popular documents are government documents, such as population data, administrative records, etc., besides, publications are also categorized as document that can be analyzed. The advantages of using this document analysis method are it is quite cheaper and relatively quicker than doing observation or focus group discussion, since the data is already available (exist). In the other hand, focus group discussion and observation method may take longer time and sequential meeting with the object research or participants. Moreover, the document provides the researcher with contextual material for primary research (Flowerdew and Martin, 2005).

The in-depth interview method is other common method to collect information which requiring deep understanding about the research or case. In an in-depth interview session, the researcher may experience wide-range conversation with the interviewee (sources). Since, in this situation the interviewees may answer and describe the questions using their own words, which may not find if we use other methods like observation or questionnaire. In the questionnaire method, the researcher provides some list of questions to the designated sample. As using questionnaire, the result or answers from the respondents cannot be as deep as we use in-depth interview. Since, the researcher does not have opportunity to explain the intended questions to respondents.

However, there are some limitations in this research that become the hindrances for pursuing such data collection methods. The time limitation for this research is one of the hindrances to collect data by using focus group discussion. Since, it will require a lot of time (not only one-ended session meeting). Financial and distance limitation are also some reasons why this

research didn't use observation and focus group discussion methods. By taking those reasons into consideration, this research will use other available data collection methods, namely document analysis and in-depth interviews. Since, those two methods are more relevant to be applied for this research. The required document can be accessed through internet and in-depth interview can be conducted through email or Skype. Therefore, the researcher does not need to travel to case study area, to interview or collect the data.

### **3.1 Document Analysis**

The document analysis is used for exploring the general CSR development in Indonesia and narrowing down to the CSR practiced by Unilever Indonesia in Surabaya. As the limitation of this research, most of the documents are accessed through internet sources or websites surfing, yet the author assures the validity of documents. The documents are referring to the government publications that are gained from official websites of Surabaya local government, Unilever Indonesia CSR publications, newspaper and articles.

The documents of Unilever Indonesia publication on CSR are expected to be useful to answer the first research question. This tool was employed to explore the priority area, identify the drives or motives underpinning certain CSR behavior of Unilever Indonesia. Even though, data in those documents do not directly answer the research questions, the analysis on the documents are parts of the process to find the answer. The purpose of these documents analysis is to determine preliminary themes, which are to be examined through in-depth interviews. The list of the documents are represented in the table below:

<b>Document Titles</b>	<b>(Expected) Data</b>
Unilever Global Company Profile	The global company value and principles in business
Unilever Indonesia Company Profile	The profile of the company: mission of the company
Unilever Indonesia CSR Report	The CSR activities of the company
Unilever Indonesia Sustainability Report	CSR report and its relevancy with global institutions

Unilever Indonesia Sustainability Living Plan	The information of which priority areas the company will contribute for CSR
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**Table 3.1**

**List of Unilever Indonesia documents**

The documents are analyzed by categorizing the keywords found in the documents, as to determine the motives of CSR practices. In Chapter 2, I already provided the CSR arrangement based on theoretical study (Table 2.2), the next step is to map what I found in the document and intersect with the classification on Table 2.2. The result of this step has not provided the final result yet, because to prove the validity of the written data (documents) we need to conduct the in-depth interviews.

Furthermore, government documents and publications are also part of the document analysis. These documents analysis are needed to give information of the current urban development issues or environmental problem of the city. On the other hand, through this method, we can get information about the cooperation between Surabaya local government and Unilever Indonesia.

**3.2 In-depth Interview**

The empirical data of this research is obtained by implementing in-depth interview method. Based on the focus of this study, in-depth interview will be very suitable because it provides the opportunity for acquiring detailed investigation from the sources. Compared to questionnaires, in-depth interview allows the interviewer to explain the questions so that misunderstanding about the questions will less likely to happen.

In this research, in-depth interview is expected to be one of valuable data collection methods. Since, according to the research objectives, several (expected) data may not be available in the documents or newspapers so that interviewing with potential respondents are encouraged. I developed some strategy to conduct the interview, particularly pertain to find the respondents. At the first stage, I already had an access to the Surabaya local government and Unilever Indonesia contacts. Yet, these first contacts did not suit to contribute in this research, since they did not involve in the CSR practices in Surabaya. From these contacts, I finally found the potential respondents

which participating in the CSR cooperation, between Surabaya local government and Unilever Indonesia.

In-depth interviews were conducted with one source from Surabaya Local Government (Cleaning and Landscaping Agency), one source represented Unilever Indonesia (Rungkut, Surabaya) and one source represented both Surabaya Local Government and Unilever Indonesia (as she had ever worked in Unilever Indonesia from 2000-2005, so She could provide expected information). Since the researcher could not interview the sources in face-to-face way, these interviews were conducted through internet services (email, Skype and Yahoo Messenger). Respondents from Unilever Indonesia answered questions relating to the motives of the company for applying CSR in to business and its involvement in CSR environmental program (green and Clean Program) in cooperation with Surabaya local government. While, interviewees from the local government answered questions about government's response to the CSR program of Unilever Indonesia and the cooperation between both parties in the CSR program. Each interview with the respondent was directed to the main question of the research: 'why does the company commit to CSR practices?' which then lead to further and more in-depth questions about motives from outside company that influence the company to do so.

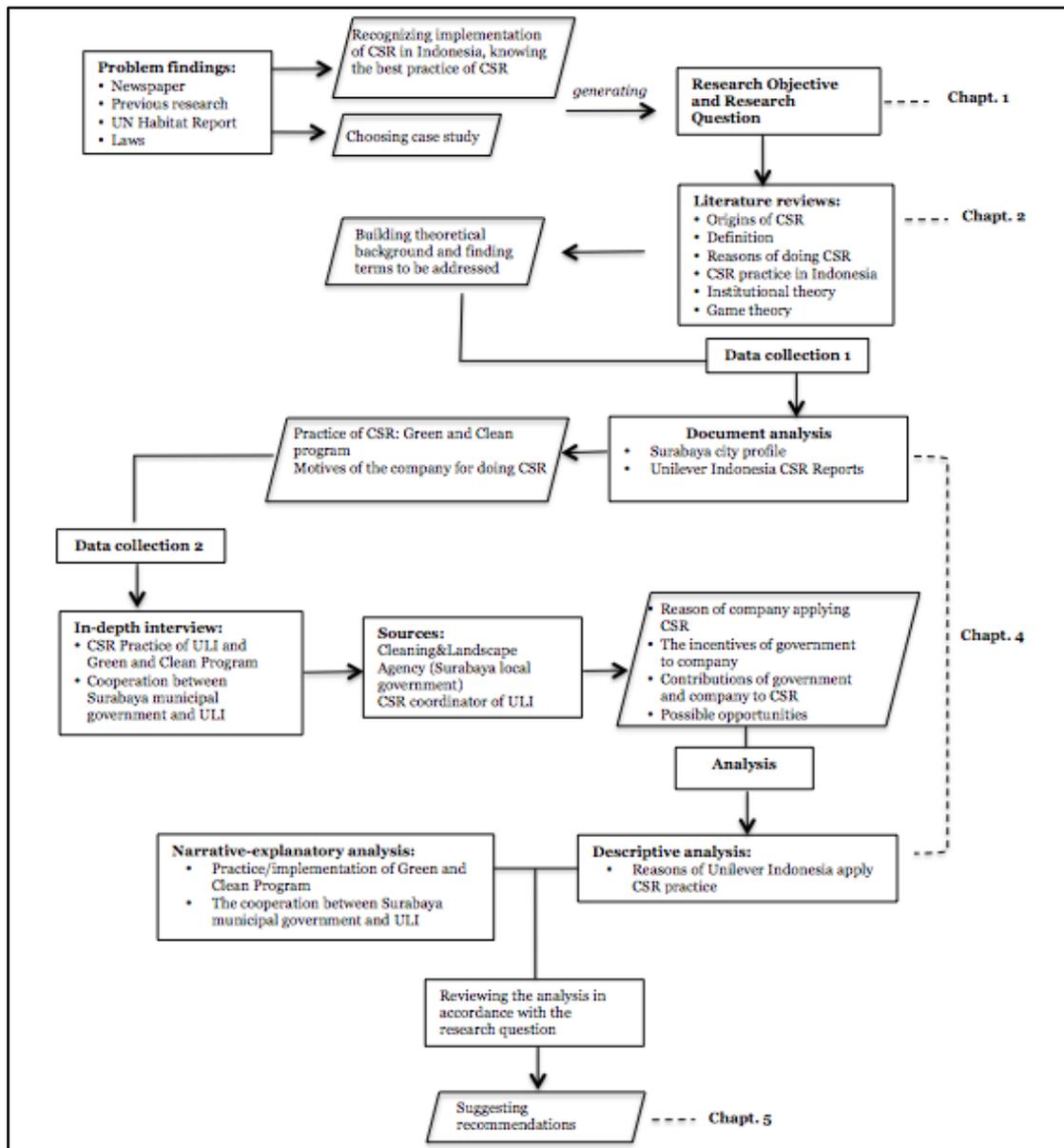
<b>Respondents</b>	<b>Institutions/Positions</b>
Officer of Surabaya Cleansing and Landscaping Agency	Surabaya Local Government
Officer of Surabaya Local Government	CSR Coordinator of Unilever Indonesia (working period 2005-2010)
	Surabaya Local Government (2010 – present)
CSR coordinator	Unilever Indonesia

**Table 3.2**  
**Interview Respondents**

Moreover, the participants were also asked about the expectations of doing those activities for the company in which it was explicitly figured as the motives. Both respondents, from the government as well as company, are encouraged to elaborate their contributions in the cooperation and what they got from that cooperation.

After all the data is available, the next phase is to analyze the findings. Descriptive analysis is applied to analyze the driving forces that influence Unilever Indonesia Surabaya in doing CSR. First, it will reassert the literatures that contain factors of a company that commit to CSR (table 2.2), and then it will be simultaneously analyzed with the findings from the interview.

In order to address the question about mutual benefits and cooperation issues between both parties, narrative-explanatory analysis will be conducted. The information of Green and Clean program will be analyzed in sequence, since the program was firstly launched, in 2000, in Surabaya, the activities and contributions of parties that are involved in the program. Narrative analysis includes the development of Green and Clean program as well as the cooperation between Surabaya local government and Unilever Indonesia. While explanatory analysis is used for accommodating the discussion about cooperation between both parties, which involved the benefits and cost from the cooperation. Moreover, the analysis about cooperation between local government and company uses, game theory model. Further explanations about game theory model literatures have been discussed in the previous chapter - (chapter 2)



**Figure 3.3**  
**Research Methodology Diagram**

## **CHAPTER IV. THE MOTIVES FOR ENGAGING IN CORPORATE SOCIAL RESPONSIBILITY (CSR)**

This chapter begins with the description of Surabaya as the city where the research is conducted. In section 4.2 the current development of the city and improvement on environment quality will be explored. Section 4.3 conveys description of Unilever Global Company. Section 4.4 elaborates Unilever Indonesia's overview in order to portray the development of ULI, company profile and a brief explanation of its factories in Surabaya. Section 4.3 elaborates the main case of the CSR activities of ULI Surabaya that focus on environmental issues.

### **4.1 Description of The Case**

#### **4.1.1 Physical Description**

Surabaya is located in East Java Province, which is also the capital city of the province. Geographically, Surabaya is situated in 0721' South Latitude and 11236'-1125 East Longitude. Almost all of the area lies in the lowland, about 3-6 meter above sea level, while the southern part is a highland, situated at 25-50 meter above the sea level. The administrative borders are the northern bordered on Madura Strait, Southern bordered on Sidoarjo regency, Eastern bordered on Madura Strait and the Western bordered on Gresik regency. Surabaya is administratively divided into 31 Districts and 163 Sub-districts.

#### **4.1.2 Population**

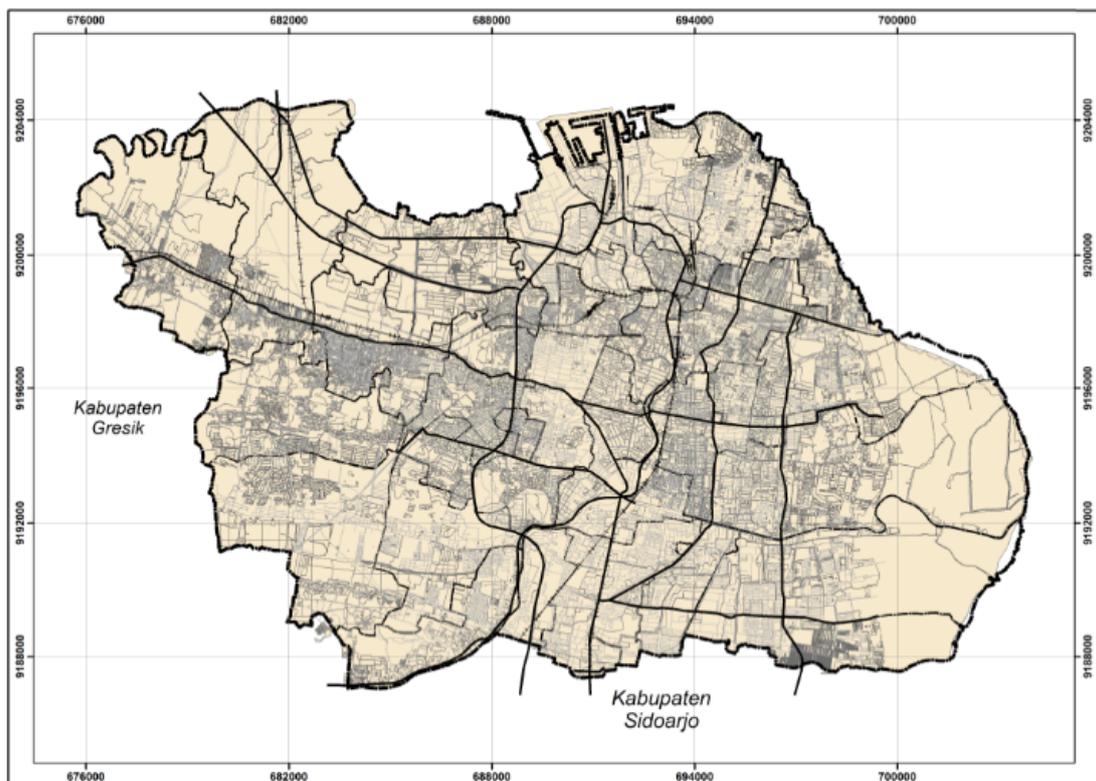
The area is about 374, 36 km<sup>2</sup> which is occupied by 3.282.156 people, it means that the population density of the area is about 8.776 people per km<sup>2</sup>. Accordingly, the city of Surabaya is categorized as one of metropolitan city in Indonesia, the second place after Jakarta.

#### **4.1.3 Economy**

Surabaya has been known as the busiest port and largest city in the Dutch East Indies colony area. Surabaya is categorized as one of important trading port city in Asia, equal with Shanghai, Bangkok and Singapore. As metropolitan city, Surabaya is known as a growing industrial and commercial city. The

number of its population, which is seen as potential market for commercial activities, encourages businessmen to invest in the city.

Moreover, the abundance of the production of sugar and tobacco from the Brantas Valley has generated modern economic activities to the city.<sup>1</sup> The dynamic economic activity of Surabaya encourages international and local companies to invest and build business in the city, such as PT. Sampoerna, Tbk., Maspion, Wing's Group, Unilever and PT. PAL Indonesia<sup>2</sup>. The existence of those companies triggers the acceleration of the city's economic development. On the other hand, it also possible gives negative impacts to society and environmental condition of the city.



**Figure 4.1: Map of The City of Surabaya**  
**Source: Planning and Development Agency of Surabaya, 2012**

#### **4.1.4 Commercial City**

The contribution of commerce sector to Surabaya economic growth has been growing since 1991, from 29, 50% to 33, 86 % in 2001. As commercial city, the interaction between businessmen and consumers is continuously happening

<sup>1</sup> Profile of Surabaya, official local government website [see <http://www.surabaya.go.id/profilkota/index.php?id=81> ]

<sup>2</sup> PT. PAL Indonesia is a primary force for national maritime-industry development [see, <http://www.pal.co.id/> ]

in the city. The development of commercial building in Surabaya had been started since the Dutch colonization, in 1940. Since then, the trend of commercial development has been heading to southern of the area. In 2000, the local government began to plan and establish Central Business District (CBD).<sup>1</sup>

#### **4.1.5 Industrial City**

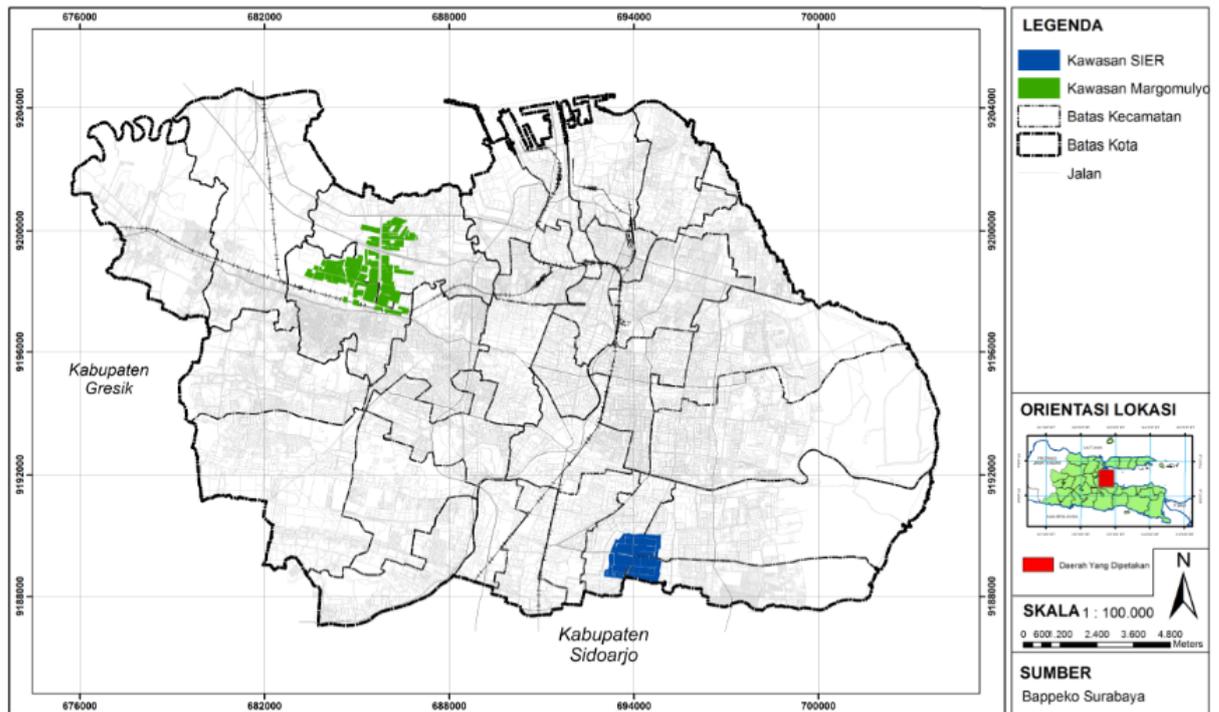
Since the 19<sup>th</sup> century, Surabaya has been the city of industry with many factories. Recently, the numbers of industries in Surabaya are significantly growing which effect the economic development of the city. The number of industrial activities in Surabaya is about 818 industries.<sup>2</sup> These industries are shipping, electronics, home appliances, cosmetics, handicrafts, flours and food products. Nowadays, there are some industrial sites with some factories built surrounds the city center, they are Tanjung Perak, Ngagel – was built since Dutch Colony, and one of the largest one is Surabaya Industrial Estate Rungkut (SIER)<sup>3</sup>. Rungkut takes place at the southern part of Surabaya and grows dynamically as center of industry in this city. Some large industries such as Sampoerna (cigarettes industry), Bogasari, (flour) and Unilever (food and ice cream products) establish their factories in this area.

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<sup>1</sup> see, <http://ciptakarya.pu.go.id/profil/profil/barat/jatim/surabaya.pdf>

<sup>2</sup> Agency of Commerce and Industry, the City of Surabaya, 2010

<sup>3</sup> SIER location is marked with blue color in the Figure 4.2



**Figure 4.2: Map of Industrial Area in Surabaya**  
**Source: Planning and Development Agency of Surabaya 2012**

#### 4.1.6 Urban Problems

Currently, the problems faced by the city of Surabaya are population and building density, waste, sanitation, and water quality. The urban density is seen as the dominant problem because the population growth that gradually increased through time. The increasing population is potentially threatening existence environment. It is a common problem in big cities in developing countries. In a survey, the population growth of the city has surpassed the environmental carrying capacity of the area, thus affecting the decreasing quality of life of the citizens.

Another problem is urban sanitation. It focuses on the awareness of the citizen to live clean and healthy. The community, who lives at the riverbanks area, usually throws the domestic waste to the river. These behaviors may cause degeneration of water quality, floods and health problems for the community itself. Thus, technical solution for the water/sanitation problems are needed, besides this, the education about sanitation, as well as clean and healthy living, is important for the people of the city.

#### **4.1.7 Unilever Global Company Overview**

Unilever is one of the world's largest consumer goods companies, which owns many of the world's consumer products brands in foods, home and personal care products. The company consists of two headquarters since the merger in 1929, between Margerine Unie (Rotterdam) and Lever Brothers (London). These two headquarters are Unilever N.V (UN) in Rotterdam and Unilever PLC (UL) in London. The PLC (UL) headquarters in London serves as the offices of global division of the Home and Personal Care group. While, the Unilever N.V headquarters in Rotterdam are the offices of global division of Unilever Best-foods and Ice Cream/Frozen Foods. Generally, Unilever PLC serves as the shareholders of all subsidiaries located in British Commonwealth. In most of Latin American Countries, Indonesia and China, Unilever NV is the shareholding company<sup>1</sup>.

#### **4.1.8 PT. Unilever Indonesia, Tbk.**

Unilever Indonesia was established in 1933, as Lever's Zeepfabrieken N.V in Batavia (now, Jakarta). In 1997, the company was changed its name to PT. Unilever Indonesia, Tbk. The company engaged in manufacturing of Home and Personal care as well as Food and Ice Cream products in Indonesia. At Unilever Indonesia, business is managed in a responsible and sustainable manner. The expected values and standards are set out in the Code of Business Principles (CoBP), and are shared with their suppliers and distributors.

The visions of the company are working to create a better future every day, helping people feel good and look good and get more out of life with brand and services that are good for them and good for others, inspiring people to take small everyday actions that can add up to make a big difference for the world, and developing new ways of doing business that will allow the company to grow while reducing the environmental impacts<sup>2</sup>. Unilever Indonesia has been expanding their business throughout Indonesia, at present the company owns six factories in Jababeka Industrial Estates, Cikarang, Bekasi, West Java

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<sup>1</sup> Elshof. 2005. Unilever Company Profile. Written for FNV Mondiaal by Food World Research & consultancy as part of the FNV Company Monitor Project

<sup>2</sup> Unilever Indonesia Annual Report, 2009

and two factories in Rungkut Industrial Estates, Surabaya, East java, meanwhile the head office is located in Jakarta.

### *Unilever Indonesia in Rungkut, Surabaya*

As this research focuses on the CSR program of Unilever Indonesia in Surabaya, I provide a brief ULI-Rungkut Factory overview. ULI-Rungkut was officially established on 20 Januari, 1983, called Elida Gibbs. Nowadays, this factory changed the name to be PT. Unilever Indonesia, Tbk Rungkut Factory<sup>1</sup>. In 1988, Toilet Soap product was transferred to Rungkut Factory. In 1990, Unilever Indonesia established Personal Care factory in Rungkut, Surabaya and entered the tea business<sup>2</sup>. Unilever Indonesia (ULI) occupies 8.5 hectares of land for its factories in Rungkut.

### *Purposes and Principles*

These principles determine the corporate behavior to do the right things for community and environment<sup>3</sup>. It consists of:

- Working with integrity  
Unilever Indonesia conducts the business operations with integrity and with respect for the many people, organizations and environments; it has always been at the heart of the corporate responsibility.
- Positive impact  
Unilever Indonesia always aims to make positive impact in many ways; through its brands, commercial operations and relationships, through voluntary contributions and through various other ways in which the company engages with society.
- Continuous commitment  
Unilever Indonesia commits to continuously improving the way the company manages its environmental impacts and are working towards long-term goal of developing a sustainable business.
- Setting out aspirations

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<sup>1</sup> see <http://www.lontar.ui.ac.id/file?file=digital/124498-SK%20001%2008%20Pri%20p%20-%20Pengaruh%20persepsi-Analisis.pdf> , this source is only available at Bahasa Indonesia

<sup>2</sup> Unilever Indonesia History [see, <http://www.unilever.co.id/aboutus/ourhistory/> ]

<sup>3</sup> Unilever Indonesia, Purpose and Principles [see, <http://unilever.co.id/aboutus/purposeandprinciples/> ]

The Code of Business Principles underpins the aspirations of the company. This code supports its governance and corporate responsibility approach.

- Working with others
- The company will work with partners who have similar values and standard.

The *principles and values* of the company underlie the form of *sustainability strategy* of the company, in which the is company concerned about the existence of society and environment as well as the sustainability of the business itself. In accordance with the sustainability strategy, the Unilever Indonesia launched a new vision of the company, which is *to double size the company while reducing negative impact on environment and increasing benefits created for community*.

#### *Business Case For Action*

Reasons of business case underpin the sustainability strategy of the company<sup>1</sup>. It is very clear and pervasive that:

1. Unilever Indonesia wants to *drive customer preferences* to company's brands. Products, which ethically sourced and protect the earth natural resources, are more desirable brands.
2. Unilever Indonesia aims to *win with customers*. As a supplier, Unilever Indonesia, tries to maintain the relationship with retailers by collaborating and supporting them to sustain their businesses.
3. Sustainability is a fertile area for product and packaging innovation. Hence, the company attempts to *fuel sustainable innovation* to deliver new products and bring new customer benefits.
4. Indonesia as a developing country faces several sustainability challenges, such as deforestation, water scarcity, poor sanitation, etc. Noticeably, Indonesia is a growing market for the company's brands, so if the company can develop products that help people adapt to changing environment, *it will help the company grow faster* in the future.

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<sup>1</sup> Unilever Sustainability Living Plan: Small Actions, Big Difference [available at, <http://www.unilever.com/sustainable-living/> ]

5. By managing the business in sustainable way, Unilever Indonesia reduces energy use, minimizes packaging and drives out waste. It will not only generate cost saving but also save the consumer money. In the other words, the company will *generate cost benefit* by acting in a sustainable manner.

In 2010, Unilever Global Company released its *Sustainability Living Plan*, which then applied to most of subsidiaries including in Indonesia. The sustainability living plan comprises three objectives, *improving wealth and well-being, reducing environmental impact and enhancing livelihoods*<sup>1</sup>. Each objective is actualized into several practical programs. The practical programs are adapted to current situation of the host country, where the subsidiaries companies are situated. The programs are described as follows:

1. Improving health and well-being concerns about nutrition and healthy life of people. Health and well-being is the starting point because these are the benefits which the brands provide.
2. Reducing environmental impact focuses the programs on Climate Change/Green House Gases, Water, Waste and sustainable agricultural sourcing. There are some reasons which underlie why the company commits to those particular field to reduce its environmental impact. First, the company commits to greenhouse gases (GHG) because many of the products are used with heated and are thus energy intensive. Second is about water issue, it is because Unilever Indonesia requires in large quantities of water in its agricultural supply chains. In addition, people need water when using almost all of its products. Third, since the company purchases over 2 million tons of packaging a year, then it contributes to amount of waste. Fourth, sustainable agricultural sourcing, it is because half of its raw materials come from agricultural and forestry.
3. Enhancing livelihoods will support the economic development to create better living of the community. Livelihoods focus on the activities of smallholder farmers and small-scale distributors.

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<sup>1</sup> Unilever Sustainability Living Plan Report, 2010 [available at [http://unilever.co.id/Images/UnileverSustainableLivingPlan\\_tcm110-239379.pdf](http://unilever.co.id/Images/UnileverSustainableLivingPlan_tcm110-239379.pdf)]

Unilever Indonesia actualizes those four main programs into CSR practices of the company. In regards to this research, activities of the Unilever Indonesia pertain to reduce environmental impact programs will be investigated.

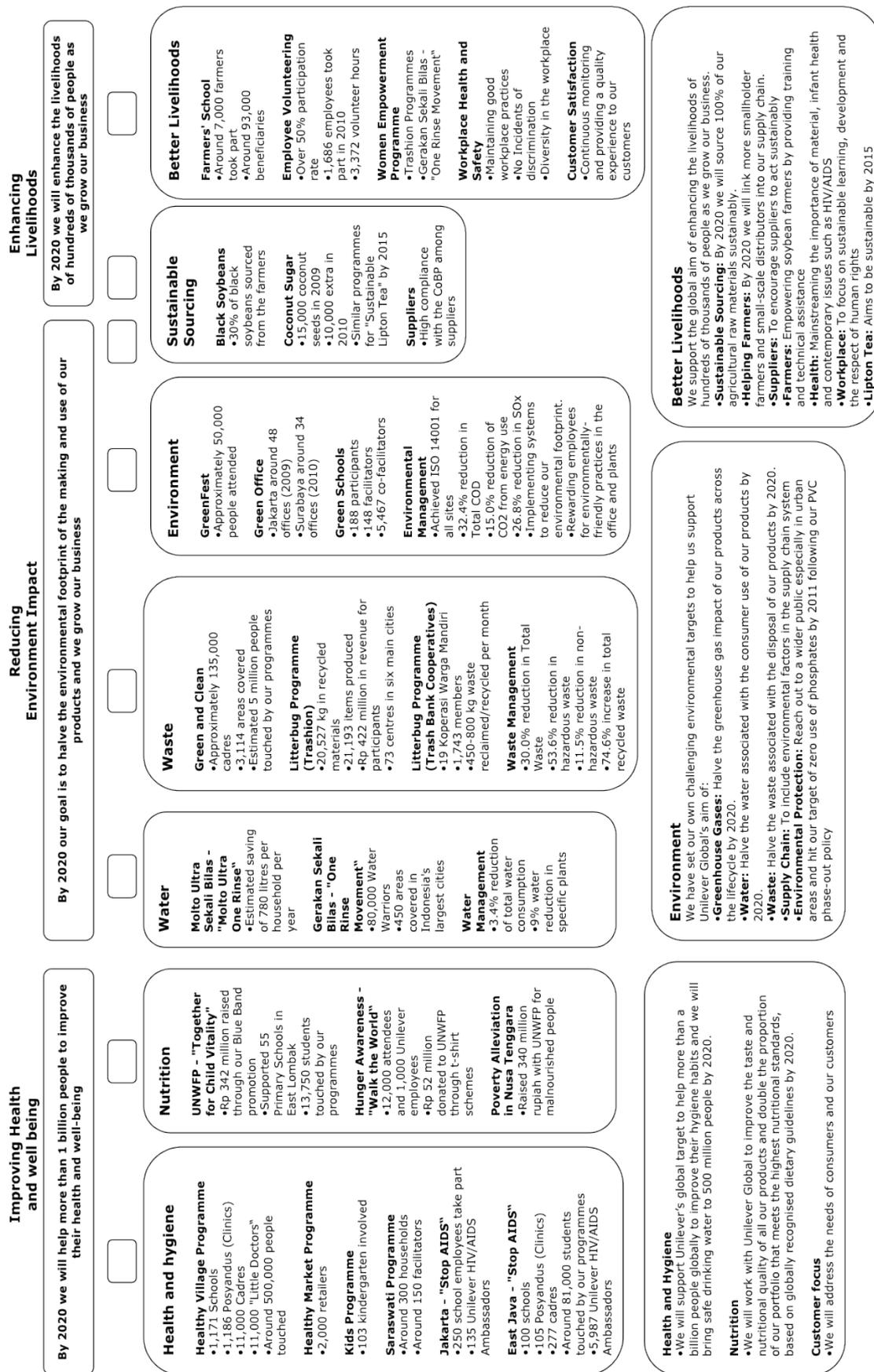
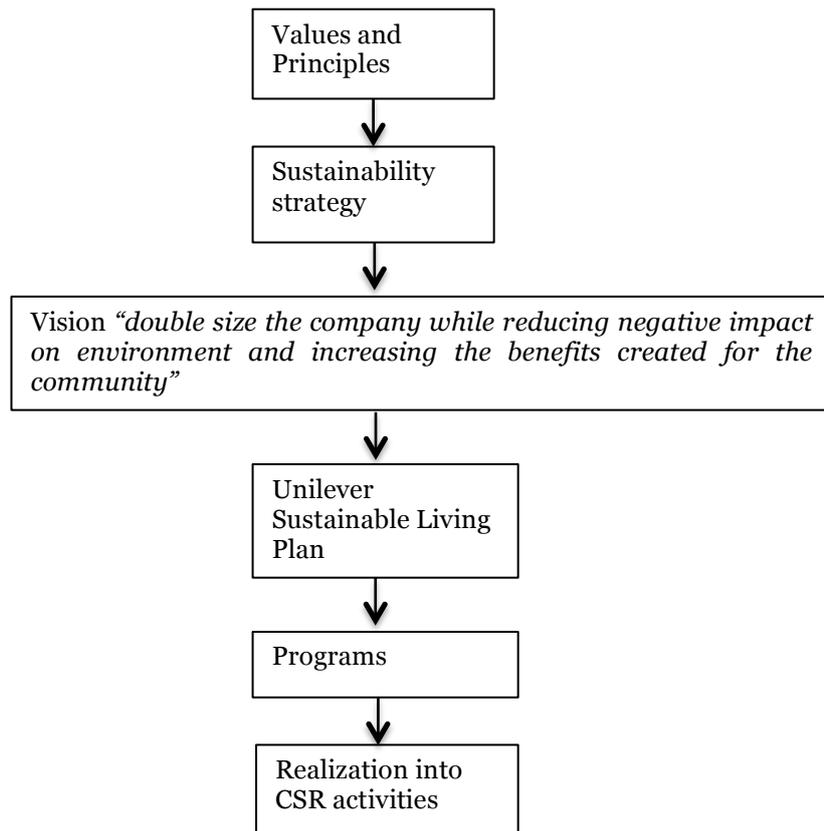


Figure 4.3 Sustainability Living Plan of Unilever Indonesia



**Figure 4.4**  
**Unilever Indonesia embraces sustainability**  
**Source: modified by author**

## **4.2 Explaining Corporate Social Responsibility of Unilever Indonesia**

The Unilever Global Company has set out global CSR strategy and issued global report. For instance, Unilever commits to United Nation Global Compact (UNGC) principles and the company has launched UNGC index, to cross-reference to the Global Compact’s ten principles integrated into Unilever business activities. Furthermore, Unilever also compiles index that provide an overview reporting in regard to Global Reporting Initiative (GRI) as relevance to company’s Sustainability Living Plan.

Notwithstanding, as a consumer goods company with a growing presence in developing countries, Unilever Indonesia has localized its CSR approach, taking into account its local economic and social impact and local socio-

economic conditions<sup>1</sup>. In accordance, Unilever Indonesia follows only the basic approach set out by the parents company, in implementing CSR, while the rest is accustomed with the national socio-cultural condition.

#### **4.2.1 Unilever Indonesia Peduli Foundation (UPF)**

Unilever Indonesia established Unilever Indonesia Peduli foundation (UPF), on November 2000. This foundation represents the commitment of Unilever Indonesia to conduct corporate social responsibility. The establishment of the foundation is a significant step towards the company's aim to grow with society and the environment in a sustainable manner. UPF focuses on four main programs, which have been set out by the company, namely:

1. Small-Medium Enterprise (SME) Development Programs, as Economic Development Programs
2. Water Resource Preservation Programs & Recycling Programs, as Environmental Programs
3. Public Health Education Programs

Those programs should follow four guiding principles<sup>2</sup>, as stated below:

1. Relevancy refers to develop programs that are related to business interest
2. Model refers to formulates action model or pilot programs that can be replicated in other areas
3. Partnership refers to work together with NGOs, governmental agencies, academic institutions, business entities, community, etc.
4. Replication refers to replicate successful activities and implement them in other places.

#### *Beyond Philanthropic Activities*

The perspective on CSR permeates in the whole business operation of Unilever Indonesia. A responsible business should make significant contributions to social welfare, national economic and the knowledge base of society and environment. Unilever Indonesia aims to reach beyond philanthropy; hence ULI shares its expertise and networks, in the form of

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<sup>1</sup> Beyond Corporate Social Responsibility [available at, [http://siteresources.worldbank.org/EXTSOCIALDEVELOPMENT/Resources/244362-1164107274725/3182370-1164201144397/Beyond\\_CSR\\_CDD\\_2006.pdf](http://siteresources.worldbank.org/EXTSOCIALDEVELOPMENT/Resources/244362-1164107274725/3182370-1164201144397/Beyond_CSR_CDD_2006.pdf) ]

<sup>2</sup> Unilever Indonesia Foundation [available at <http://unilevergreenandclean.co.id/en.php/aboutus/yayasan> ]

voluntary contributions. By this manner, ULI embraces its markets. The company is trying to influence its value chain- see things not only from a business but also from a social point of view. ULI defines social responsibility as the impact of interaction between the company and society in three distinct areas<sup>1</sup>:

a. Impact of operations

The most important impact on society is through direct business operation. ULI ensures that CSR is part of business activities and the company always embraces a willingness to learn from action and experience of others. The business operation is more than creating job opportunities; the company develops human capital for the benefit of both company and society.

b. Impact through the value chain.

The indirect impact along the value chain is created from suppliers through trade customers to consumers.

c. Answering community calls (Voluntary Contributions)

Voluntary contributions are made to the community and wider society, through partnership with NGOs, government agencies, academics and communities. These include sustainable programs that are implemented professionally under UPF. Besides, the company also encourages its employees to share their heart, experience and mind with wide range of volunteer activities.

Based on the distinction areas on social responsibility, which is defined by Unilever Indonesia, the company performs CSR as voluntary activities. In this case, the company resists to be called as philanthropic practice of CSR. Since, Unilever Indonesia does not only give grant, donation or charity (Kotler and Lee, 2005) but also contribute to wider effects to economic, social and environment.

### **4.3 Interview Results and Discussion**

In order to answer the first research question, the in-depth interviews were conducted. This method supports the current data that is derived from the

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<sup>1</sup> Corporate Social Responsibility, PT. Unilever Indonesia, Tbk 'Engaging with Community and Environment', 2005

document analysis, as presented in the previous sections. The overview of the interview is presented in table below:

<b>Respondent</b>	<b>Code of Respondent</b>	<b>Institution</b>	<b>Input (overview)</b>	<b>Detail</b>
Officer of Cleansing and Landscaping Agency	1	Surabaya local government	<ul style="list-style-type: none"> <li>• CSR from the company (Unilever Indonesia) is potential because it supports the government to run their urban development program, both financially and technically.</li> <li>• Government did not provide any incentives for the company to do CSR, the partnership with Unilever was grounded by same willingness/mission to enhance the environment quality</li> </ul>	Interview was conducted on 12 June 2012, via Skype
Officer of Surabaya local government and CSR coordinator of Unilever Indonesia (working period 2005-2010)	1	Unilever Indonesia	<ul style="list-style-type: none"> <li>• <u>CSR is a voluntary initiative of the company, in which it is not influenced by Law No. 40/2007. There is no incentive or agreement deployed in any cooperation with the government</u></li> <li>• <u>For the company, CSR is a long term investment to build good corporate image, which also considers the environmental impact of the company to its operating areas</u></li> </ul>	Interview was conducted on 18 June, 2012 via Yahoo Messenger
	2	Surabaya local government	<ul style="list-style-type: none"> <li>• <u>The government is very open to any relationship with the company in order to run the Green and Clean program successfully.</u></li> </ul>	
CSR Coordinator	2	Unilever Indonesia Rungkut Surabaya	<ul style="list-style-type: none"> <li>• Principles and values of the Unilever Global Company are localized to the ULI Rungkut Surabaya.</li> <li>• CSR programs of ULI Rungkut are based on the</li> </ul>	Interview was conducted on 1 July, 2012 via Skype

			Sustainability Living Plan which is localized to the current issues in Surabaya (figure 4.3)	
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**Table 4.1**  
**Overview of the Interview Respondents**

**4.3.1 Internal Motives**

From the interview with the CSR coordinators of Unilever Indonesia, they stated that the decision to commit in CSR is a company’s interest. CSR in Unilever Indonesia is a voluntary and philanthropic action of company with the ethical and economic considerations as interrelated to each motive. The result also implied that there is no legal enforcement from inside the company that drives the company to behave in more socially responsible way.

**4.3.1.1 Philanthropic to voluntary Preferences**

In the CSR report of PT. Unilever Indonesia (2005) stated that Unilever Indonesia defines social responsibility as the interaction between company and society in particular areas. Voluntary contribution is one of the areas mentioned in the report. It explains that voluntary contributions of Unilever Indonesia are made to the community through partnership with NGO, government, community itself and other stakeholders. Nevertheless, one of the CSR coordinator also implied that Unilever Indonesia has been doing philanthropic CSR by giving funds, grants and donation to support community program or cities development program. As quoted in the interview *“ULI voluntarily did CSR and supported funds to the community. For Surabaya Green and Clean (the name of Unilever Indonesia CSR program in Surabaya), the company spends about \$45,000/year. It does not include the fund for community development yet, while the government also contributes about \$45000”* (CSR coordinator, 1). It is indicated that the company has philanthropic motive, which only gives grants or fund to the community and particular government program. Besides, from the interview, it is implied that the Unilever Indonesia behaves more than giving grants, donations or charity. Since the company was also involved in the CSR program-Green and Clean, as

technical supporters, it is assumed that Unilever Indonesia is willingly behaving in socially responsible way. In the other words, the contribution of the company in the program is more real rather than giving 'check' to the people (Porter and Kramer, 2006). Furthermore, the company established Unilever Peduli Foundation (UPF) as the commitment of the company to realize its CSR activities. Kotler and Lee (2005) has explained some CSR initiatives of firm in which a company who only gives grant, charity and donations may be called corporate philanthropic. But, in this case Unilever Indonesia has been doing activities beyond that so it may not be called as philanthropic.

The results of interview also support the findings in the document (CSR report), where CSR is voluntary initiatives of the company to the community in the vicinity, in this case the Surabaya city. As articulated by the CSR coordinator "*CSR is self-interest of the company considering the big impact of its business in Surabaya. Since, one of our factories is located in Rungkut Surabaya, we realize that we should contribute to the city*" (CSR coordinator, 1). As it is called a philanthropic activity, Unilever Indonesia applied CSR program, named as Green and Clean Program, without enforcement of law or government policies. It is initiated by the business management, which is deliberately involved in environment and social issue in Surabaya. The self-interest and commitment of the business management that is rooted from Unilever global company, assures that the Unilever Indonesia-Surabaya is a philanthropic 'voluntary' CSR company.

In the voluntary preference, it is implicitly implied that the CSR behavior of the company contained internal interest, which under those circumstances forced the company to behave in more socially responsible way. For instance, the Unilever Indonesia has realized that the company brings some environmental impact to the community. Accordingly, it indirectly forced the company to do CSR practices. In some extent, this behavior will give beneficial feedbacks for the company in the future. In the other words, voluntary preference is not merely free choices to do certain activities, but it is also purposeful behavior of the company to act to its business advantages.

#### 4.3.1.2 Ethical Preferences

Even though, in the interview, the coordinator had implicitly mentioned voluntary responsibility, another preferences which underlie the CSR behavior of the company is ethical preference. In the interview session, the interviewee did not directly mention that the company does CSR as ethical responsibility, yet the answers indicated that Unilever Indonesia shows its awareness to company's impact to the environment. It proves CSR is a moral responsibility of the company rather than pragmatic motive. Unilever Indonesia has occupied lands in Rungkut, Surabaya where the factories are situated. It urges the company to give more attention to the pollutions and other negative environment impacts near the surroundings area. As one of the CSR coordinator admitted, *"Another reason is, one of our factories is located in Rungkut. And the company considers the big impact of its business in Surabaya, especially because the company has contributed large waste to the city so that CSR is part of our responsibility"* (CSR coordinator, 1).

Unilever Indonesia does not only contribute to the city is by selling products but also the waste of the products. It shows the interrelationship of company and community interests. In a particular case, the sustainability of business activities depends on the acceptance of society in the operated area, i.e Nike boycotts in 1990, Newmont case, Minahasa, Indonesia, and Freeport case, Papua, Indonesia. Thus, the company behaves in more socially responsible way in order to build a good reputation. It is similar to the CSR coordinator who implicitly expressed in answering the question *"Main consideration is building corporate image, since Unilever contributes large waste to the city"* (CSR coordinator, 1). By representing ethical responsibilities, Unilever Indonesia expects to catch people's attention, in the other words, Unilever Indonesia expects social legitimacy to build a good reputation in the area where the company operates. For the company, social legitimation is required to maintain the existence of the business in Surabaya. Besides this, good reputation will improve product sales, as Surabaya is a potential business market, due to its large population.

These ethical activities are pertained to economic reason of the company for engaging in CSR practice in Surabaya.

#### **4.3.1.3 Economic Preferences**

From the results of interview, voluntary and ethical responsibilities are the basis motives of Unilever Indonesia in practicing CSR activities. However as a corporation, CSR is also driven beyond philanthropic or voluntary action.

Business case reasons are inevitable since Surabaya is potential market for Unilever products. The business case reasons includes all the marketing factors that affect the economic profit of the company. From the interview, the CSR coordination admitted, *“Besides, we have marketing reason in Surabaya. Unilever Indonesia will only deliver CSR where the companies or factories are situated. So, CSR can’t be implement in any cities if they do not have direct interaction with our business”* (CSR coordinator,1). From this point of view, marketing reason underlies the motivation of the company for engaging in CSR in Surabaya. Moreover, Surabaya is one of the most populous metropolitan city in Indonesia after Jakarta, thus the market is very potential for any business activities, especially Unilever Indonesia. In the interview, it is found out that Unilever Indonesia deliberates the investment interest by acting in a socially responsible way. As mentioned by one of the CSR coordinator, *“CSR is a long-term investment for the company because it helps to build good corporate image and brand images to the society, accordingly it will increase the product selling”* (CSR coordinator, 1). This statement implied how long-term investment becomes a consideration of the company for doing CSR. The long-term investment may refer to economic sustainability of the business itself, which the profit of the product selling will rise higher after the company applied CSR activities for community in Surabaya. Besides, social profit is achieved as the markets accept the products of Unilever Indonesia. These two components are interchangeable, since the social legitimacy, which is one of the indications of ethical responsibilities, are proven to influence

economic motives of CSR. On the other hand, the economic preferences of the company underlie the ethical actions.

Moreover, Unilever Indonesia also takes into account CSR as a competitive advantage for its business as it is reported in the Unilever Indonesia Sustainability Report (2008). As the company considers CSR as one of the company's business strategies to strengthen the business, it shows how economic reason of doing CSR is embedded in the company.

<b>Motives</b>	<b>Preferences</b>	<b>Sample Quotation</b>	<b>Content</b>
<b>Internal</b>	Voluntary	<ul style="list-style-type: none"> <li>- Company is voluntarily doing CSR by supporting funds (CSR coordinator, 1)</li> <li>- CSR is self-interest of the company considering the negative impact of the company's production (CSR coordinator, 1)</li> </ul>	<ul style="list-style-type: none"> <li>- CSR in some part is charitable activities</li> <li>- Company's interest</li> </ul>
	Ethical	<ul style="list-style-type: none"> <li>- The company considering the big impact of its business in Surabaya, especially we have contributed large waste to the city so that CSR is part of our responsibility (CSR coordinator, 1)</li> <li>- Main consideration is building corporate image, since Unilever contributes large waste to the city (CSR coordinator, 1)</li> <li>- The principles and values of the Unilever Global company are widely applied to the subsidiary companies around the world, which considering the context and issues of the host country (CSR coordinator, 2)</li> </ul>	<ul style="list-style-type: none"> <li>- Business impact to the environment</li> <li>- Good corporate image</li> <li>- Applying the internal value of the Global Company</li> </ul>
	Legal	-	-
	Economic	<ul style="list-style-type: none"> <li>- We have marketing reason in Surabaya. ULI will only deliver CSR where the companies or factories are situated (CSR coordinator, 1)</li> <li>- CSR is a long-term investment for the company (CSR coordinator, 1)</li> </ul>	<ul style="list-style-type: none"> <li>- Marketing-related reasons</li> <li>- Investments</li> </ul>
<b>External</b>	Voluntary	-	-

	Ethical	<ul style="list-style-type: none"> <li>- As a signatory of the UN Global Company, Unilever is committed to living out the Compact's principles in our everyday business operations (&lt;<a href="http://www.unilever.co.id/sustainable-living/ourapproach/oursustainabilitystrategy/">http://www.unilever.co.id/sustainable-living/ourapproach/oursustainabilitystrategy/</a>&gt; [accessed 4May 2012])</li> </ul>	<ul style="list-style-type: none"> <li>- International/global institutions play role in form social responsibility</li> </ul>
	Legal	<ul style="list-style-type: none"> <li>- Unilever has started its CSR before the government issued the Law in 2007, so it is a self-commitment of the company (CSR coordinator, 1)</li> <li>- There are no special agreement between local government and Unilever Indonesia. The relationship was only about being partner or supporter in the program" (Officer of Surabaya Cleansing and Landscaping Agency, 1)</li> </ul>	<ul style="list-style-type: none"> <li>- Regulation is ineffective (no impact)</li> <li>- Lack of formal agreement/institution framework</li> </ul>
	Economic	<ul style="list-style-type: none"> <li>- Institution and government agencies, particularly who have authority to arrange regulation, policy or permission related to our business activities, are our main external stakeholders. Thus we engage in some partnerships and group discussion about particular programs (Sustainability Report, 2008, p.60)</li> </ul>	<ul style="list-style-type: none"> <li>- Building partnership to gain profit</li> </ul>

**Table 4.2**  
**The Motives for Engaging in CSR Practice (Unilever Indonesia, in Surabaya case)**

### **4.3.2 External Motives**

The findings of the external motives are collected from document analysis method and few in-depth interviews. The documents analyzed of Unilever Indonesia are CSR report (2005 and 2010), company profile, Unilever Global Company Profile, Unilever Sustainability Living Plan (2011), and Sustainability report (2008). From those research methods, it is found that Unilever Indonesia is committed with the global institution to run its business activities, as ethical responsibility. Besides, in Surabaya context, the legal preference is not the main consideration of the firm to commit with CSR behavior.

#### **4.3.2.1 Voluntary Preferences**

There were no external incentives from the local government, as the authority in Surabaya city, to stimulate Unilever Indonesia for doing philanthropic (voluntary) CSR. The current tax is the regular tax which charged to the every business activities or companies in Surabaya. Yet, the amount of the business or trade tax was not investigated in this research and how the tax responsibility influenced CSR practice needs further investigation.

#### **4.3.2.2 Ethical Preferences**

By analyzing the document of CSR Report, Company Profile and investigating the website of Unilever Indonesia<sup>1</sup>, it is apparent that Unilever Indonesia, as subsidiary of the Unilever Global Company, complies with global institutions, which are followed by the global company. The Unilever Global Company signed in the UN Global Compact and Global Report Initiative (GRI). Therefore, the socially responsibility behaviors of Unilever Indonesia are also motivated by the principles of United Nations Global Compact and Global Report Initiatives.

In order to analyze the external ethical preference of Unilever Indonesia more thoroughly, the further investigation was analyzing the Sustainability Strategy<sup>2</sup> of the company. The main point is to know about the participation of Unilever Indonesia in UN Global Compact. According to this institution, every member should implement the principles, such as human-right, labour, environment and anti-corruption. Thus, the company runs the business strategy by following the global institution made by the UN Global Compact. CSR, which was mentioned as a business strategy (Sustainability Report, 2008), is also aligned by the principles. It indicates how global institution is well performed in the body of the organization and to influence the socially responsible behavior of Unilever Indonesia. Moreover, this result is in agreement with Campbell's (2007) previous research, which suggested

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<sup>1</sup> Website of Unilever Indonesia, see [www.unilever.co.id](http://www.unilever.co.id)

<sup>2</sup> Sustainable Strategy of Unilever Indonesia, see <http://www.unilever.co.id/sustainable-living/ourapproach/oursustainabilitystrategy/>

that firms that belong to trade associations and interact systematically and frequently with other members or colleagues may develop a more sophisticated understanding of how government interventions for these policies could improve the corporation performances. In this discussion, the word 'government' refers to the organization that formed the institutions or policies. UN Global Compact as a business policy initiative has been influential in encouraging social responsibility behavior of Unilever Indonesia. Although, not all of the CSR behaviors are merely driven by the principles of UN Global Compact, the engagement of the company to this organization cultivated the social responsibility actions, particularly, in this case study, in the field of environment. It is important to note, this action is not evenly replicated into any other organizations or company. As the research by Doane in 2005, which argued that some companies are using United Nation to their public relation advantage, yet they are hiding their socially irresponsible behavior.

#### **4.3.2.3 Legal Preferences**

In the context of this research, legal preferences are external enforcement, which stimulate company to behave in socially responsible ways. Particularly, these motives are affected by regulation issued by the government. The data about the legal responsibility are collected through in-depth interview with local government officer and Unilever Indonesia CSR coordinator. According to Carroll's CSR framework (2004), besides philanthropic (voluntary), ethical and economic preferences, there is legal responsibility that should be obeyed by the company to behave in more socially responsible way. While, in the Surabaya context, particularly the implementation CSR of Unilever Indonesia, the provision of legal regulation does not have an impact on the social responsibility practice of the company. The company has already implemented CSR, years before the Government of Indonesia issued the CSR Law, called Limited Liability Company (LLC) Law, No. 40/2007. As the CSR coordinator said in the interview *"Unilever has started its CSR before the government issued the Law in 2007, so it is a self-commitment of the company"* (CSR coordinator, 1).

The provision of Law related to CSR was only issued in 2007, when the company has implemented CSR. It is obviously seen that without law binding, the Unilever Indonesia has willingly practiced CSR in Surabaya. In this case, national government has passed the CSR Law, but this law does not give effect to the CSR practice of the company. In the local level, there is absence of legal provision for the CSR interest. From the interviews which were asked to CSR coordinator and local officer, both of them admitted that there is no government enforcement through law that insist the company. This finding is actually surprising because in developing countries, the implementation of successful CSR usually is supported by strict legal law from the government. As previously researched by Gonzalez and Martinez (2004), mandatory approach is required to improve the corporate accountability. In other words, regulation enforcement is needed to push the corporation to act in a good way, for example by doing CSR. Another contradictory perspective came from Leighton (2002) who wrote that voluntary standards are not effective enough to ensure CSR in developing countries. However, the result suggests in Surabaya, the local government did not provide special regulations to impose local business to behave in socially responsible way. Instead, the Unilever Indonesia thoroughly implements CSR practices in the city.

Moreover, in this case study research, the CSR program is a collaborative action between Unilever Indonesia and Surabaya Local government. It was assumed that the CSR cooperation between local government and company is framed with formal institution that would bind both actors in the cooperation. But, from the interview, it is found that the government did not support any regulation or agreement to assist the CSR cooperation. As articulated by a local government officer, *“There are no special agreements between the local government and Unilever Indonesia. The relationship was only about being partner or supporter in the program” (Officer of Surabaya Cleansing and Landscaping Agency, 1)*. It is seen that in this case, there is lack of formal binding in the cooperation. The local government as formal authority did not act to enforce the company in any way, yet, the

government always open an opportunity to cooperate with any stakeholders, include the private sectors (company). The CSR coordinator of Unilever Indonesia also mentioned the same answer *“There is no agreement, it was only financial contribution from Unilever Indonesia to the government’s program”* (CSR coordinator, 2).

From the interview about legal responsibilities issues, it is clearly indicated that there is no legal preferences from the company to join in CSR practice. The law enforcement from the government did not play an important role to motivate Unilever Indonesia to consider social issue into business, yet the company is driven by other preferences.

#### **4.3.2.4 Economic Preferences**

The data and information about the external economic preferences of Unilever Indonesia for engaging in CSR is collected through document analysis without an in-depth interview with sources. It was assumed that Surabaya local government had provided local CSR regulations, policies or laws to support the CSR practices in Surabaya which in return, the company would take it for granted such as commit with the laws to get profit. In fact, there is no significant data, which implies the existence of external incentives (government policy) that stimulates economic motives of the company for doing CSR. Nevertheless, from analyzing the Sustainability Report (2008), it is found that Unilever Indonesia attempts to maintain relationship with other stakeholders, especially government who has authority for policy and business permission. Based on the result, building partnership with the government is a strategy to maintain the business sustainability. In other words, by working together with the government, Unilever Indonesia expects more economic profit for its future business existence. In Surabaya case, Unilever Indonesia and Surabaya local government made CSR cooperation to deliver the program. Even though, the cooperation and CSR program were running well, the purpose of the company in the cooperation is not explicitly known.

## **CHAPTER 5. GAME THEORETICAL ANALYSIS OF CSR COOPERATION**

The second question of this research was what the mutual benefits and costs for joining in CSR cooperation. Since, the implementation of CSR in Surabaya was done under cooperation between Unilever Indonesia and local government, the discussion about the benefits, which might be gained by both actors become interesting. As it has been mentioned that corporation, as a business entity, always considers profit before making strategy, the discussion about the benefits of the company for participating CSR cooperation is an essential issue.

### **5.1 CSR Cooperation: Surabaya Local Government and Unilever Indonesia**

From analyzing the document and the Sustainability Strategy of Unilever Indonesia, it is known that Unilever Indonesia has a priority to maintain its relationship with the stakeholder in the host country. Moreover, Unilever Indonesia has a mission to embrace sustainability development dimensions in its business strategy, this means that the company also realizes that collaboration with other stakeholders is the only way to achieve the goal. The main stakeholder that will be potential for business development is the local authority. Building a partnership with the government is an attempt to realize its business goal.

The cooperation between Surabaya local government and Unilever Indonesia has been started since 2000, when the first CSR Unilever Indonesia had been implemented in Jambangan sub-district, Rungkut, Surabaya. It was a community development program, where the aim of this program was to educate people who lived in the Brantas riverbanks (the greatest river in East Java) to live healthy and clean. Unilever Indonesia contributed sanitation facilities for the community. As articulated by CSR coordinator *“The company built sanitation facilities for the community since most of the households could not effort the facilities themselves. In that time, the company collaborated with Surabaya local government to run the waste management program”*. In the cooperation, the government supported on the project

permission and policy issues. As the formal institution that has authority to issue law and policy, the local government supported the bureaucratic needs of the program.

Further cooperation between Unilever Indonesia and the local government was when the company started to launch its CSR program, titled Green and Clean Program in 2005. The reason of launching this program was because Surabaya faced major problem on waste management. Therefore, Unilever Indonesia decided to propose Green and Clean program which focused on a waste management that is based on community development program. From this point of view, there was a same mission between local government and the company, which was to make a greener city. Accordingly, they decided to collaborate to deal with those problems. As a result of this collaboration, Surabaya is awarded as the Cleanest City of 2011, in the Metropolitan city category. Besides, the Green and Clean program was also awarded as the best practice program by UN Habitat in the field of Improving the Living Environment in 2008. It can be presumed that the CSR cooperation between local government and Unilever Indonesia has been successfully implemented. Furthermore, the impact of this CSR cooperation may be beneficial for both actors. The advantages for the Surabaya city are already known, as the city is cleaner and the community lives healthier and in a better environment quality. However, the benefits for the Unilever Indonesia as the initiator and contributor to this program need to be examined. Since in the cooperation, both actors must gain the benefits to prove the cooperation is worked well for any actors.

From this case, it was proved that the CSR cooperation between local government and private sector might give advantages for the enhancement of urban environment and city development. On the other hand, CSR cooperation can be useful to support financial mechanism of urban development in the local regions (in the Surabaya context). Although, PPP was recognized as the common model of public goods financing by involving private sectors, CSR cooperation offers another model of private participation to deliver public facilities. Thus, the analysis of this CSR cooperation needs more investigation as to be replicated in other cities. The examination of the benefits, which can be gained by the company from the cooperation has never

been explored. Thus, in the following section, I analyze the CSR cooperation using game theoretical model to explain the benefits gained by the company and local government,

## **5.2 The Mutual Benefits of Engaging in CSR Cooperation: Game Theory Analysis**

From the case study, it is known that CSR cooperation between Unilever Indonesia and Surabaya local government brought a lot of advantages. Nevertheless, there are insufficient instruments to encourage such cooperation in either local or national government. These issues may be one of the reasons why some other corporations are still hesitant to be involved in CSR cooperation with (local) government. Game theoretical models provide theoretical perspectives about the possibility of utilizing CSR cooperation as an alternative to deliver public facilities.

### **5.2.1 The Game**

To analyze the outcome or the benefits of CSR cooperation, first I consider hypothetical situation of the current cooperation, which consists of two actors/players- the Surabaya local government and Unilever Indonesia. Since this research is based on qualitative analysis, the valuation of the payoffs in the game was also analyzed qualitatively. As the illustration of the benefit and cost values gained by each player, I employ the number 0-3 in the payoff matrix. Value “0” means that the player gains nothing from the chosen strategy; value “1” defines the player may benefit from the chosen strategy, but he/she still incur more cost than what he/she got; value “2” means that the benefit is higher than the cost that has been spent, yet he/she still has the cost; value “3” means that the chosen strategy gave the player the optimal benefits. There are two strategies available to both local government and the company, which are to cooperate (partnership) and not cooperate (individual action).

The local government strategy is defined in Column matrixes and the company is defined in Row matrixes. The strategy for both actors is (partnership) and (individual action). The payoff matrix is provided below:

		Local Government	
		Partnership	Individual action
Company	Partnership	<b>3,3</b>	0,1
	Individual Action	1,0	<b>1,1</b>

**Figure 5.1**  
**Payoff Matrix**

When both players choose (partnership, partnership) strategy, the outcome is that the CSR program is successfully implemented, greener city and better environment condition. In other words, both actors get the advantages from those strategies. For the company, the benefits are the goal CSR program is well implemented as it had been planned; this is also correlated to the good image of the company since the CSR is successfully delivered to community, which means more economic profit to the business. Besides, the company also got good image from the local government due to the ability of the company to maintain a good relationship with government. The good relationship with stakeholders is essential for business sustainability, so choosing partnership strategy gave optimal payoff for the company. By choosing this strategy, the payoff value of the company is “3”. Moreover, the (partnership, partnership) strategy helps the company to reduce the cost of doing CSR, for instance, by collaborating with the local government they made short cut for the project permissions and bureaucracy issues. This means that the project takes shorter time and also spends less cost. From this point, the company has a lot of benefits for choosing (partnership, partnership) strategy. On the other hand, for the local government, the (partnership, partnership) strategy also gives many advantages. The payoff gained by the local government is similar to company, which is “3”. It means the benefit of local government is also optimal, through partnership the local government can achieve the city’s mission to create a greener and cleaner city, healthy community and to have better urban environment. Moreover, the financial arrangement for implementing those programs is shared with the company, it can support the government to save project fund. Besides, this partnership

strategy made the program more effective and efficient, in terms of time and financial cost.

In the Payoff Matrix (Figure 5.1), the (individual action, partnership) strategy is removed because it is most unlikely for the local government to reveal the partnership if the company decided to apply CSR by themselves. It is also applied for the (partnership, individual action) strategy, since the government does not want to collaborate with the company in the project.

If the company chooses the individual action, which it means the company must carry out the project preparation without support from the government. In this case, the company does not have the privilege to short cut the project permission and bureaucracy, which in Indonesia's case will make the process longer. Besides, the strategy of not building partnership with the local government will hamper the good image of the company. Even though, the company is able to run the program by themselves and get the good image from the local community because the company still makes direct contribution to the society, these benefits do not compensate for the cost of the company for doing the program alone. For this situation, the payoff for the company is "1". The (individual action, individual action) strategy also brings drawbacks for the local government. It might be the local government still achieves its goals, like better environment quality and healthy citizen. Yet, it may require longer time and the cost for the program must be performed from the local government's fund. In recent era, where decentralization is an issue in the country, each local authority should manage their financial needs and enterprise their local programs by their available resources. Looking at those issues, practicing the public goods programs without collaboration with the company (private sector) will bring more disadvantages for the local government interests. Considering the number of disadvantages of the local government, the payoff for the local government is also '1'.

### **5.2.2 Nash Equilibrium**

As mentioned in the literature review, the Nash Equilibrium is defined as the best response of each player's strategy. From the Figure 5.1, it shows there are two Nash Equilibriums in the game: (partnership, partnership) strategy and (individual action, individual action) strategy. The CSR cooperation is only feasible in the (partnership, partnership) strategy, as both actors are willing to

participate in the programs. While, the (individual action, individual action) strategy is not possible to accommodate the CSR cooperation. From this result, it is apparent that the socially optimal outcome is not automatically achievable as the NE of the game (Dixit and Skeath, 2004) and the CSR cooperation is not only the best option for both actors. But, in the real world, it is assumed that actors think rationally, either local government or the company will choose strategy which maximizing their payoffs (or outcomes).

### **5.3 Additional Incentives and Disincentives Mechanism in the CSR Cooperation**

The result of game theoretical analysis based on the current situation in Surabaya, is not very convincing for the application of CSR cooperation. Theoretically, there are two Nash Equilibriums in the payoff matrix, which means (partnership, partnership) strategy is not the only best strategy for local government and company, since there is a possibility for each actor to choose the (individual action, individual action) strategy. To determine the only one best strategy response (NE), we should shift the payoff to the desired Nash Equilibrium (Samsura and Krabben, 2012). The payoff may shift if there are the more benefits, which stimulates the actors to change their strategy.

It is of importance to give other instruments to impose the company to participate in the CSR cooperation. Giving incentives to the company for participating in the program can be one of the options. Suppose the additional incentives to the company should be higher than the current benefits. The incentives can be applied, by reducing the tax requirements or giving the opportunity to the company to enlarge its factories area. In another way, the company may receive disincentives if the company does not participate in the cooperation. The disincentives can be a fine, which in return, it will be the additional income for the local government. To make visualization in the Payoff Matrix, I illustrate, if the additional incentive will increase 1 point extra for the payoff of the company. Otherwise, the disincentive will decrease 2 point if the company refuses to join in the partnership. The decreasing point is higher than the incentive's because if the payoff value for the company is "0", it means the company does not get any benefit but the company still not loses anything. While, if the payoff has value "-1" (after the disincentive is applied),

it means the company experiences lost since the company must spend some money to pay the fine. In this circumstance, the disincentive enforcement gives more impact to the cost of the company.

		<b>Local Government</b>	
		Partnership	Individual action
<b>Company</b>	Partnership	<b>4,3</b>	0,1
	Individual Action	1,0	-1,3

**Figure 5.2**  
**Payoff Matrix with Incentives and Disincentives**

After the incentives and disincentives mechanism are applied, the Nash Equilibrium shifts to (partnership, partnership) strategy. In this new situation, the company gets incentives from the local government by choosing partnership strategy. The new payoff for the company is “4” (in the Figure 5.1, it was “3”). On the other hand, if the company chooses individual action in doing CSR, the company must pay a fine, which reduce its benefits. Before disincentives were applied, the payoff of company for individual action strategy was “1” while after the mechanism is in place, it becomes “-1”. It means that they not only receive no benefits but also incurred cost due to the need to pay the fine. From this point of view, the payoff shift of the company is the most affected by the disincentive instrument enforced by the government. Then, it is obviously a disadvantage for the company if the company does not participate in the cooperation. Thus, the company’s best choice is choosing partnership strategy where the company gets more benefits from it. As to make other preferences, if the local government does not offer any incentives to the company, it is actually possible to enforce the company to join in the partnership after all. Yet, the disincentives mechanism must be put in place. Another scenario could be, if the only additional mechanism is disincentives (without incentives mechanism). The benefits for partnership strategy is still “3” for each, because there are no reasons for adding the payoff. However, the fine is still implemented as previous scenario. In this situation, the company still wants to change its strategy to partnership strategy to avoid fine that costs

the company, although the benefit remains the same (does not change). For the local government's side, the absence of the company in the cooperation will increase the benefit. Because, the fine paid by the company will give additional income for the local government. So the payoff for the local government is "3".

Theoretically, this game theory model is ideal for imposing the private company to cooperate with local government in delivering CSR. However, the real world seems harder than what we draw on the paper. In the present situation, the local government does not have sufficient instruments as incentives to encourage private sector for engaging in cooperation with local government. The process of incentives arrangement will take time, for discussion and socialization which involving stakeholders like company, NGO and other government agencies. For instance, if the government aims to reduce the tax responsibilities of the company who join in the CSR cooperation, the local government should consider other interests before deciding particular number. Furthermore, the implementation of disincentives instrument may also face some hindrances. The idea of incurring fine to the company that does not join in the CSR cooperation will take pros and cons in the business society as well as in the local government stage. Thus, the decision making process for forming the disincentives mechanism will require longer time. Considering the complex situation of applying these instruments, the government must work collaboratively with other interests involved in this situation. Although, it takes time to reveal the mechanism, such binding agreements are required to establish CSR cooperation scheme in either local or national scope. The growth of business activities in Indonesia should give direct impact to the urban development and environment enhancement in the country. The establishment of incentives and disincentives may complement the current CSR Law, Limited Liability Company (LLC) Law, No. 40/2007. It aims to strengthen the implementation of CSR and private corporation involvement in government program, in Indonesia.

## **CHAPTER VI. CONCLUSIOS AND RECOMMENDATIONS**

### **6.1 Conclusions:**

This research has investigated CSR practices in Indonesia and the CSR cooperation scheme between a local government and a multinational company. The concern on CSR has been growing since the 1990s, when Indonesia was experiencing reformation on the political and governmental system, from centralization to decentralization system. Moreover, global movement on CSR issues also influenced the growing trends in Indonesia. From this point of view, CSR notion is not a new concept in the business activities. Yet, the practices of CSR are not widely implemented by corporations in Indonesia. It is assumed that there are some factors, which affect a company to behave in more socially responsible way. These factors may underlie the CSR behavior of any companies situated in Indonesia, whether it is multinational companies or local companies. CSR is a responsibility of the company to the environment where the company is operating, due to the impact of its business activities. In the other words, CSR is philanthropic activities by nature. However, there are claims that CSR is driven by marketing reasons and used as window dressing by the company. Thus, a company commits to CSR because the company aims to make higher profit and raise its product selling, which in fact means that those companies are doing irresponsible business activities. Furthermore, the window dressing motive is the more 'dirty' motive in CSR practice, since the company engages in CSR to get good image or attention from the community, yet actually the negative impact of the business is worse than the CSR practices. In Indonesia context, the mandatory nature of CSR has emerged after the Government issues Law no.40/2007. The government expects to give legal binding to the business activities in Indonesia, especially it is related to CSR implementation. Therefore, CSR practice is not merely a voluntary or mandatory in nature, yet it could be the combination of both of them. For these reasons, the current CSR implementation in Indonesia needs to be analyzed.

Surabaya is one of the metropolitan cities in Indonesia, which have industrial activities as their main economic generator. Many global companies have

located their subsidiary companies in Surabaya; one of them is Unilever Indonesia. Unilever Indonesia is recognized as a CSR company in Indonesia, since the company always practices CSR in every city where the company is located. As Unilever Indonesia does successful CSR practice in Surabaya, this research's aim was to understand the motives that underlie the CSR behavior of the company in the city. To know the motives of the company for doing CSR practices, some respondents were interviewed to gain the data. Besides, to support the data collected from the in-depth interview, the author investigated some documents related to CSR behavior of the company.

There are a lot of CSR programs that had been delivered by the company since 2000. Most of the CSR implementations of the company are conducted under the cooperation with the Surabaya local government. Thus, the discussion about CSR cooperation in this case study becomes very interesting. It leads to the objective of this research, which was to analyze the mutual benefits and cost of joining in the CSR cooperation for both actors. Rationally, an actor has the willingness to participate in particular cooperation if the cooperation generates advantages for the actor in return. In this case, Unilever Indonesia, as organization and business entity, also considers benefits and costs if the company decided to join in partnership with the government to deliver CSR programs. Hence, to explain the (expected) benefits and possible costs of the company and local government, the game theoretical models are employed. By applying game theory, we can analyze the structure of the interaction between two actors, how the decision of one actor may influence other actors' decision, which will affect the payoff situation.

### **The Motives for Engaging in CSR Practices**

The results of this investigation show that the internal motives, which underlying CSR behavior of Unilever Indonesia are voluntary, ethical and economic preferences. While, ethical and economic preferences are found as the most influential external motives. From the interview with all the respondents, it was known that national legal regulation does not affect the CSR behavior of the company.

**Internal motives:**

Theoretically, CSR is a philanthropic or voluntary activity of companies to its environment (McGuire 1963, Carroll, 1979, Kotler and Lee, 2005, European Commission 2010). Yet, the results of the interview with CSR coordinators of Unilever Indonesia show that voluntary motive is not the only reason why company acts in socially responsible way.

*Voluntary preferences:* The Unilever Indonesia has been found to implement CSR as voluntary rather than philanthropic. Since, the company acts more than giving grants or charity to society and governments- stakeholders that affected by the business activities. The establishment of Unilever Peduli Foundation (UPF) as coordinator of CSR program of Unilever Indonesia has shown that the company behaves more than giving check.

*Ethical preferences:* Deeper investigation through interview with the respondent shows there are other motives than self-interest. The company certainly considers the impact of the business to its environment, so it encourages the company to behave more ethically in business. Moreover, social legitimacy, both from the society and local government in Surabaya, is taken into account as the company is practicing CSR activities. This legitimation can be gained, if the company represents good image while doing business. Hence, having good corporate image is also admitted as the main consideration of Unilever Indonesia for engaging in CSR practices. The respondent also articulated that the good image of the company is the reason of increasing the product selling.

*Economic preferences:* After all, economic motives prevail. Economic motives, which were found from the data collection, are marketing-related reasons and CSR is considered as long-term investment for the company.

**External motives:**

The ethical and economic preferences also affect the motives of company for engaging in CSR, externally. From the data collection, particularly document analysis, it shows the engagement of Unilever Global Company in a global institution such as UN Global Compact and Global report Initiative (GRI) has affected the commitment of its subsidiary companies to CSR practices. In this case, Unilever Indonesia is also experiencing the same reason.

*Ethical and economic preferences:* As admitted by the CSR coordinator, all the values and principles of the Global Company are implemented in the subsidiary company by taking into account current issues in the host country. Furthermore, in this case study, Unilever Indonesia has been building a good relationship with the local government to deliver its CSR program. For the company, building partnership with main external stakeholder, e.g. local government, who has authority in the operating areas are very important for the business sustainability. Therefore, through this CSR partnership, Unilever Indonesia also intends to gain more profits for the business. On the other hand, it was assumed that there was an impact from national legal regulation to the CSR practice of Unilever Indonesia. Yet, the results found that the legal preferences have never been consideration of the company to behave in socially responsible way. Since the CSR practices were actually implemented years before the national government issued CSR Law and the local government does not provide any formal institution to support CSR practices. From this point of view, it is apparent that ethical and economic motives are the only external reasons why Unilever Indonesia is behaving in socially responsible way.

### **Game Theoretical Analysis of CSR Cooperation**

The second research question reveals the discussion about the mutual benefit and cost of the company in the CSR cooperation. By applying, the game theoretical models to explain the interaction between actors in the cooperation, it is found that there are two possible strategies which can be opted by company and local government in order to deliver CSR programs, namely partnership strategy and individual action strategy. In the Assurance game model (Dixit and Skeath, 2004) there are two Nash Equilibriums (NE), which means there is no best strategy to each actor in the game. Even though, the payoffs of the two NE are quite different, yet it is still possible for each player to choose A strategy than B. From the case study, the company may possibly choose to do individual action strategy rather than partnership strategy, although the payoff of individual action strategy is lower than partnership strategy. Hence, we need to move the actual payoff of the company to achieve (desired) single Nash Equilibrium. To move the payoff, the incentives and disincentives mechanism should be applied which can

influence the strategy of actors. As a result, the single NE is achieved, which is (partnership, partnership) strategy. In this situation, the company experiences new payoff because the incentives, offered by the government, such as reducing tax, privilege to enlarge the factories area or short cutting the bureaucracy requirements, may influence the consideration of the company. Besides, the disincentives mechanism for enforcing fine to the company, who does not participate in the cooperation, is also most essential part that affects a company's strategy. In this new situation, it indicates that the reasons why the payoffs shift from the individual action strategy to partnership strategy is that the company does not want to pay fine for refusing to cooperate with local government. Hence, the company rationally thinks to join in the partnership rather than doing the individual action, which costs the company. It is concluded that the instrument that may effectively affect the company's decision is the disincentives mechanism rather than incentives.

As an addition, in regard to interaction among companies, the game theoretical analysis may describe how a company decides to choose to commit with CSR behaviors, while others do not choose to do those certain behaviors. When the company decided to behave in socially responsible way, it will cost some money to the company; it means the company may get less profit, eventually. Otherwise, the companies, which do not contribute in CSR practices, assume that they may save money and get economic profit from those behavior. Yet, these behaviors can cost them in the future, since the companies will not get good image or reputation from the society and government. Less legitimacy and reputation from society will influence the marketing and other economic interest of the company itself. Thus, the decision of not engaging in CSR practices will bring disadvantages for the companies in the long term. The analysis of this interaction may require further research to understand the structure of the interaction among companies.

The present study, however, makes noteworthy contributions to the understanding of the motives of multinational company for engaging in CSR and the application of game theoretical model to analyze the interaction behavior between two actors in CSR cooperation scheme. This research found that the internal motive of the company is not purely voluntary, after all. In

the voluntary preference, there are motives, which force the company to behave in socially responsible way. It is possible for the company to deviate from CSR behavior and the company can neglect the economic interest and public image. However, the company still commits with the behavior for the sake of the sustainability of the company itself. Besides, this research also found ethical and economic motives as what underlies the company to behave in socially responsible way. The self-interest motives is the basis of the company to firstly decided to practice CSR, yet it grows to be the ethical responsibility of the company to its environment and profit making interest of the business activities. It is inevitable that the company also considers the economic opportunity of doing CSR to the stakeholders. Moreover, the ethical and economic preferences actually overlap each other, since both motives are interchangeable. While, this research affirms that the national CSR regulation does not effectively enforce the company to comply with CSR. Besides, the local government also does not provide significant institutions to frame CSR activities of business.

Furthermore, this research enhances our understanding about the need of a cooperation scheme to deliver CSR programs. The CSR activities are possible to do without collaborating. Yet, the outcome for the company and government would not be as optimal as both actors are cooperating. Through game theoretical analysis, it is already presented. The CSR cooperation is the best strategy if the company and local government want to achieve the outcomes, which are greener city, healthier citizen, and better urban environment quality. As to convince the best strategy (cooperation/partnership), additional incentives and disincentives instruments are required.

The most important limitation of this research lies in the fact that the research only used one company to represent the CSR behavior, besides this, the company in this research is a big multinational company which have CSR awareness that is higher than other companies in the country, especial domestic corporations. The number of respondents who were interviewed in this research was very limited, because of the limitation of time and location, which made the author, did not have enough access to the respondents.

## **6.2 Recommendations:**

### *Further research:*

Further research needs to be done to establish whether the current finding on CSR motives of the multinational company are also applicable for local companies, who has different preferences and background. For the next research, the number of samples may be varied and applied in a wider scope. It means that the number of company that will be investigated can vary from its type, like, oil-mining company, energy company, household company, etc. In the CSR cooperation research, I suggest that the research can be conducted by verifying the result from the theoretical model to the reality. For example, the respondents can be asked about the available strategies and the expected payoffs, which at the end we will know what the very best strategy based on real work.

These findings suggest several courses of action for urban planners and the policy makers.

### *For Urban Planner:*

#### Socialization of Current Urban Development Programs

The companies need to know the current problem or program on the urban development to synergize between CSR programs and current issues in the city. It is possible to socialize the urban development programs and the goal of the city, so that the CSR program of the company may help to address the current issues. It will make the CSR program more effective and efficient.

### *For policy maker:*

#### 1. Law Enforcement

CSR is a voluntary action in nature. Multinational Company (MNC) is a settled company, which already has global preference on the concept of CSR and the importance of implementing CSR into business strategy. So, MNC usually has strong commitment to do “the right the thing” while doing their business. But, in some cases in Indonesia, local companies pay lesser attention to embed CSR concept into their business strategy. In fact, local companies also give social and environmental impacts to the operating areas. Thus, instead of being

dependent on to national CSR regulation, local governments may propose its own formal institution to frame the business practices, which contains CSR requirements. The local government may establish formal institutions, which coordinate the CSR cooperation between local government and companies. Local legal law should be provided to support the establishment of this institution.

## 2. Incentives

Thus, local government must impose certain rule and instruments as incentives to encourage companies in involving CSR into their business. Incentives can stimulate companies to embrace CSR, such as offering less tax, minimizing bureaucratic cycle and giving permission to widening its factory location.

## 3. Disincentives

The disincentives in CSR can be applied for the CSR cooperation model as well as the CSR behavior of the company. These disincentives such as sanction and fine can be applied to put extra enforcement.

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## APPENDIX

### QUESTIONS AND ANSWERS DURING THE INTERVIEW

No.	Questions/ Answers
<i>List of Questions to CSR coordinator (working period 2005-2010) of Unilever Indonesia Surabaya</i>	
1.	<p>When did Unilever Indonesia Rungkut Surabaya start to implement CSR?</p> <p>Answer: <i>CSR Unilever began in 2000, with the Program Clean Brantas River Project, in Jambangan Sub-district. It aims to stimulate community development at Brantas River banks. Brantas River is the drinking water source of the people. By educating and informing people to live healthy and clean. We aimed to change the behavior of people living at the riverbank.</i></p>
2.	<p>Why does the company decide to engage in CSR?</p> <p>Answer: <i>CSR is self-interest of the company considering the big impact of its business in Surabaya. Since, one of our factories is located in Rungkut Surabaya, we realize that we should contribute to the city. Besides, we have marketing reason in Surabaya</i></p>
3.	<p>Why does the company choose Surabaya to do the first pilot project of Green and Clean program? Or does the company have main consideration to choose the city/location of its CSR project?</p> <p>Answer: <i>ULI will only deliver CSR where the companies or factories are situated. So, CSR can't be implement in any cities if they don't have direct interaction to our business.</i></p>
4.	<p>About the partnership between ULI and Surabaya municipal government in the implementation of Green and Clean Program, does both parties make particular agreement to support the partnership?</p> <p>Answer: <i>There was no formal agreement between local government and Unilever to do Green and Clean program. It was a reluctant contribution of Unilever Indonesia by giving fund to community development program.</i></p>
5.	<p>Does the CSR commitment of ULI consider the establishment of government regulation (Law) about Limited Liability Corporation no.40/2007?</p>

	<p>Answer:  <i>Unilever has started its CSR before the government issued the Law in 2007, so it is a self-commitment of the company.</i></p>
<p><i>List of questions to the officer of Surabaya Cleansing and Landscaping Agency</i></p>	
1.	<p>When did the cooperation between local government and Unilever Indonesia begin?</p> <p>Answer:  <i>The cooperation started in 2000, especially in infrastructure program of Cleansing and Landscaping Agency.</i></p>
2.	<p>Is there particular agreement made to bind both parties?</p> <p>Answer:  <i>There was no legal agreement. Surabaya local government had set a goal to build community awareness to their environment, in the mean time Unilever also has similar willingness about its CSR program so that we begun the cooperation.</i></p>
3.	<p>Did the local government give incentives to the company so that the company decides to involve to CSR?</p> <p>Answer:  <i>Basically, Surabaya local government gives opportunity to any partners to run community development program with us. We offer kind of partnership to any parties, included Unilever. Those times, Unilever attracted to our program then we did the cooperation.</i></p>
4.	<p>What is the contribution of the local government to the program?</p> <p>Answer:  <i>As part of Green and Clean program, local government also initiated Green and Clean Competition. During the project, Unilever educated the community that helped by Unilver's environmental cadres. Besides, Unilever gave prizes to the winners.</i></p>