History of Social Responsibility: The Indonesian Government Role in Economy Development

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The paper explores the history of Social Responsibility (SR) in Indonesia, highlighting the role of the Indonesian government as both a driver of SR as well as key player. The central role of the state in Indonesian SR, it is argued, reflects government enterprises were central to the economy, and the immediate post-independence period, when SOEs were used as a means of displacing Dutch interests. Continued government influence is found in Indonesian regulations that since 2007 have explicitly. An understanding of the Indonesian government's SR role helps fill the comparative void in the SR historical literature dealing with the Third World.

INTRODUCTION

Once of marginal interest, Social Responsibility (SR) is today a dynamic field, drawing interest from both academia and management. Initially, the literature associated with SR emerged from business ethics (Bowen, 1953). Subsequently, research associated with the concept of "social license" contributed (Davis, 1973; McGuire, 1963), as did study into the link between SR and financial performance (Cochran & Wood, 1984; Margolis & Walsh, 2003). The development of the "stakeholder model" of CSR (Rowley & Moldoveanu, 2003) and the role of SR in the development of business strategy (McWilliams, Siegel, & Wright, 2006; Porter & Kramer, 2006), added further to this emerging literature. In the development of this diverse literature, the United States of America (USA) and United Kingdom (UK) were clearly pioneers (Brammer, Jackson, & Matten, 2012). Significantly, both countries are liberal market economies. This raises the question as to whether or not SR practices developed in such economies are widely applicable.

Given that a major weakness of SR theory stems from its peculiar development from, and past orientation towards, liberal market economics, this paper will explore the role of government in implementing SR programs in the Third World through a consideration of circumstance in Indonesia. To outward appearances, Indonesia has had a mixed SR record. Typically, negative images dominate in both the popular press and in academic studies (Chapple & Moon, 2005; DeTienne & Lewis, 2005). In such narratives, western Multi-National Companies (MNC), responding to the concerns of "home"- based shareholders, are seen as the key drivers of SR. Are such images an accurate reflection of reality? Or, alternatively, are there powerful local traditions of SR that have escaped western attention?

In studying Indonesian circumstance, this study suggests that the real drivers of SR are found not in MNC but deep within Indonesia society and its post-independence national experience, playing a role as both a key actor and also a driver of SR through its control of SOEs, which have long occupied a central role in Indonesian society. In developing such findings, this paper is structured as follows. First, we briefly review the SR literature, paying particular attention to institutional perspectives and stakeholder theory. Secondly, the article discusses the history of SOEs in Indonesia during four broad periods: Dutch colonial (1500s-1945), a transition era (1945-1965), the "New Order" (1965-1998), and a more recent reform era (1998-present). Across these four periods, this article demonstrates the importance of SOEs in the economy and the role of the Indonesian government as: (a) a key actor that directly engages in SR through Partnership with Micro-Small Enterprises (MiSEs) and through Community Development, and (b) as a regulator who explicitly requires all companies in Indonesia, including SOEs, to implement SR policies.

CSR LITERATURE: INSTITUTIONAL THEORY AND STAKEHOLDER THEORY

Social Responsibility theory is characterized by a range of perspectives. In part, theoretical variety reflects the fact that many aspects of a company's behavior have a social dimension; behavior that reaches into wider communities of interest. Relationships between business undertakings and these communities of interest are central to Stakeholder theory, which explores how companies treat internal and external stakeholders. One obstacle confronting Stakeholder theory is the inherent difficulty in identifying who stakeholders are, and of providing "stakeholder mapping" that traces the typically complex relationship between various stakeholders. Whereas Campbell (2007) traced the ways in which stakeholders cause a company to act in a responsible way, Donaldson and Preston (1995) considered three different ways of understanding stakeholder relationship, these being (a) descriptive/empirical analysis that describes what the company does, (b) instrumental power that shapes management's behavioral outcomes, and (c) normative validity that identifies what a company should do. By contrast, Steurer (2006) argues that the primary focus of stakeholder theory needs to shift from a corporate focus to one in which the stakeholders, and the interconnected network upon which all firm activities are built, is given primacy. According to this perspective, SR can be perceived from a corporate perspective, a stakeholder perspective, or a wider conceptual perspective.

Most evidence indicates that companies engage in SR because pressure from stakeholders forces them to do so. Such pressures can come from groups as diverse as shareholders, communities, national and regional governments, Non-Government Organization (NGO), trade unions, and other institutions. Recognizing such diversity, Freeman, Harrison, Wicks, Parmar, and de Colle (2010) define a stakeholder as anyone or any group that is affected by an organization's activities. "Group" refers to those who can influence the survival of a company (Freeman, 2004). Moreover, Matten and Moon (2008) define institutions as "not only the formal organization of government and corporations but also norms, incentives, and rules". It is also recognized that many factors beyond market circumstance affect responses to stakeholder interests, Campbell (2007) suggesting that strong state regulation and collectively-negotiated industrial regulations are the main determinants that cause a company to act responsibly. Company behavior is also influenced by the presence of independent organizations that monitor a firm's operational activities. In addition, normative institutional environments support responsible behavior, as do industrial associations and stakeholders' dialogue. Similarly, Flammer (2013) found external pressure (i.e. consumers, media, shareholders) and environmental regulations are the major drivers behind environmentally responsible corporate behavior.

Economic circumstance also profoundly affects SR activities. Generally, a company is less likely to behave in a socially responsible manner when it is economically weak, operating in a depressed environment, or when the firm controls a monopoly market (Campbell, 2007). National Business System (NBS) also affect SR decisions (Jamali, 2008; Matten & Moon, 2008). Drawing from institutional theory, which emphasizes the importance of NBS, Matten and Moon (2008) observe that in the United States of America (USA), a company's SR strategy tends to be more explicitly elucidated than is the case in the

United Kingdom (UK), a variance that reflects differences in culture, political and financial systems, education and labor relations. Similarly, Jamali and Neville (2011), in their study of Lebanese circumstance, show that NBS in a company's home country effects the pursuance of SR activities elsewhere.

Historically, SR has largely been an artifact of advanced Western societies, most particularly the USA and Britain. When this theoretical framework is applied to business in developing countries, most accounts highlight the socially irresponsible narrative of economic activities, which are frequently linked to corrupt governance and inequitable wealth distribution. This gulf between Western SR aspiration and developing world circumstance is a challenge for firms wishing to synchronize codes of conduct mandated at home headquarters with the practices pursued by their Third World subsidiaries and suppliers. Problems are most evident in environmental protection and labor relations, the latter infamously demonstrated through the poor working conditions afflicted upon the Asian employees of Levi-Strauss and Nike (Doorey, 2011).

If the relationship between western firms and their developing world subsidiaries is, in the realm of SR, marked by dichotomies, other complexities are evident in the relationship between SR outcomes and the role of government. Empirical evidences (Chapple & Moon, 2005; Fox, Ward, & Howard, 2002; Jamali & Neville, 2011) indicates that in many jurisdictions the key public sector agencies have not yet undertaken explicit SR initiatives. Nevertheless, Fox et al. (2002) suggest that there are four strategies through which governments can boost SR initiatives: mandating, facilitating, partnering, and endorsing. To date, however, attention has focused on the SR record of large MNCs rather than on indigenous SOEs, or the relationship between government and SR practices in small-scale enterprises; a major oversight given that Small-Medium Enterprises (SMEs) predominate in developing countries (Berry, Rodriguez, & Sandee, 2001). Attempts to redress our poor understanding of the role of governments in fostering Third World SR, however, face peculiar obstacles. As Frederick (1960) suggests, the present business system in any particular country is a product of history and past cultural traditions, and cannot be understood apart from such traditions. In consequence, socially responsible behavior cannot be produced automatically. This, then, is the conundrum, which this paper addresses.

METHODOLOGY AND DATA SELECTION

Methodologically, this study, in tracing the role of the Indonesian government as both an SR actor and regulator, draws on a large body of publicly available Indonesian government statistics, publications, and regulations. All are published in Bahasa Indonesia, the official language of the Indonesian state. Among this body of information there are six principal sources. First, there are the Five Year Plans, or Rencana Pembangunan Lima Tahun (REPELITA). These are the key to understanding government policy and outcomes during the Soeharto or New Order era (1966-98). Each REPELITA provides not only a detailed picture of the Indonesian economy and society at that time, but also the formal policy objectives and planned budgetary expenditures over each five-year period. A second key source, related to the first, are the detailed Presidential Speeches, or Pidato Kenegaraan, made each year by the Indonesia President to report on the government's performance in meeting REPELITA objectives which made before the Indonesian People's Assemblies. A third key source of information for the Soeharto era is found in government financial statistics, published annually. A fourth key source of official information, useful for understanding circumstance in the Reformation era (1998) is located in the annual statistics on Indonesian SMEs, which published by the Ministry of Cooperatives and SMEs.

Also key to this study are the Constitutional Court's decision in the unsuccessful challenge against Indonesia's CSR law by business groups, the CSR and environmental laws issued by the Ministry of Law and Human Rights and Ministry of SOEs for CSR regulations relating to SOEs in the Reformation era. Apart from the Indonesian government regulations, the Institute of Indonesia Chartered Accountants or Ikatan Akuntan Indonesia (IAI) also support the implementation of SR activities by requiring all listed companies to disclose activities in their annual reports. To trace company implementation, this study examines data for listed companies available the Indonesia Stock Exchange (IDX) or Bursa Efek Jakarta.

THE JOURNEY OF INDONESIA SOES: DUTCH ENTERPRISES AND NATIONALIZATION

Located in South-east Asia between the Indian and Pacific Oceans, Indonesia is an archipelago country with thirty-four provinces that stretch from Sabang (an island province off the northern tip of Sumatera) in the west to Merauke (in Papua province) in the east. With a population of 252 million, Indonesia is the fourth most populous nation on the planet. Before its independence in 1945, four European countries, Portuguese, British, Spanish, and, most notably, Dutch imitators colonialized Indonesia. Under the Dutch, western forms of economic activity were rapidly developed in an environment lacking the infrastructure and personnel associated with such activities in Europe. According to Houben (1994), to overcome such problems the Dutch government established many SOEs and also Department of Government Enterprise in 1908 for the purpose of increasing the profitability of Dutch business, whether privately or State-Owned.

On 17 August 1945 an end of the long period of Dutch rule was heralded when Indonesia declared its independence with Sukarno as President. When, however, after a four-year independence war the Dutch finally recognized the new nation, the former colonial masters continued to exercise influence. To achieve greater economic sovereignty, the new government chose to develop state enterprises as a means of displacing Dutch interests (Dick, 2002). In October 1956, Sukarno introduced a new political order, deemed Guided Democracy (Demokrasi Terpimpin), which was buttressed by the associated Guided Economic System (Sistem Ekonomi Terpimpin). Under this system, already strong traditions of centralized control were reinforced with the President and the military becoming the center of power. Subsequently Sukarno became increasingly hostile to foreign investment as he sought to bolster indigenous enterprise. Moreover, the Indonesian government action against Dutch interests reached a new climax in late 1957 when Sukarno campaigned to restrict Dutch businesses due to a Dutch refusal to relinquish sovereignty over West Irian (Brown, 2003).

The colonial legacy in Indonesia is apparent not only in systems of business and in government structure but also in a pervasive sense of nationalism that developed in response to Dutch rule, and which permeates all levels of society (Brown, 2003). To entrench political sovereignty, the Indonesian government quickly nationalized enterprises owned by the former Netherlands Indies government. By 1960, some 489 Dutch companies had been nationalized. The government also nationalized businesses indebted to the national bank (Pangestu & Habir, 1989). In addition to those SOEs that owed their existence to nationalization of foreign-owned companies, the Indonesian government also established several new SOEs under the Ministry of Industry. To compete with the Dutch commercial banks, the Indonesian government established the Bank Negara Indonesia (BNI) in 1946 (Abeng, 2001). The Indonesian government also established the Central Trading Company in 1948 so as to both circumvent Dutch economic control and facilitate agricultural exports. In 1956, the Indonesian government established Usindo to import variety of raw materials. Other SOEs established in this era include: Pantja Niaga in 1947, Gresik Cement in 1953, and Pertamina (Indonesia's oil company and the biggest SOE). Following a failed attempt to negotiate the nationalization of Dutch shipping, the government also established its own shipping company or Pelayaran Nasional (PELNI) (Dick, 2002).

The end result of the government's effort was found in an economy where SOEs dominated key economic sectors: agriculture, mining, manufacturing, telecommunication, public works and power, trade, health and finance. By the final years of the Sukarno era, Abeng (2001) estimates, Indonesia boasted 822 SOEs. Under Law No.19/1960, all Indonesian SOEs were declared to be "State Enterprises" and placed under the oversight of a related ministry. The number of SOEs was reduced to 223. The effects of this restructuring, however, should not be exaggerated. SOEs continued to be directed towards the achievement of social objectives associated with indigenous employment and national self-sufficiency, rather than profitability and commercial returns. Unfortunately for the Sukarno regime, its expansion of economically inefficient SOEs contributed to deteriorating economic circumstances. While real Gross Domestic Product (GDP) was almost stagnant between 1960 and 1965 at around 400 million rupiah, the rate of inflation (in nominal rupiah) rose from 20 percent in 1960 to 594 percent in 1965. Behind this disastrous turn of events was a rapidly expanding budget deficit, which grew from 8.5 million rupiah in

1960 to 1,565.5 million in 1965. To fund this deficit the government steadily increased money supply. Whereas in 1960 money supply was expanding at an annualized rate of 37 percent, by 1965 it was growing at an annualized rate of 302 percent (Woo, Glassburner, & Nasution, 1994).

ECONOMIC DEVELOPMENT AND PECULIARITIES OF THE INDONESIAN GOVERNMENT RESPONSIBILITY

Amid deteriorating economic conditions, Sukarno lost power in 1965 as the military gained control in the wake of a failed coup attempt by pro-communist junior officers on the night of 30 September. This power shift was formalized in March 1966 when Soeharto, an army general, assumed the Presidency after the issuance of the 11 March Presidential Decree, referred to in Indonesia as SUPERSEMAR (Surat Perintah Sebelas Maret). In launching a regime that endured until 1998, Soeharto seeking advice on how to redress economic problems from five economists in the Economic Faculty at University of Indonesia (FEUI), Widjojo Nitisastro, Ali Wardhana, Sadli, Emil Salim, and Subroto; advice that provided the cornerstone for a recovery plan under the Decree of the Provisional People's Assembly No. 23/1966. This emphasized balance government's budgets, rehabilitation of physical infrastructure, and the prioritizing of long-term development in agriculture, manufacturing and mining (Salim, 1997). To achieve these objectives, Soeharto launched a series of Five Year Plans or REPELITA.

In the course of the New Order era there were six REPELITA, each of which had different targets. However, the government consistently prioritized agriculture and small entrepreneurs. Central to Soeharto's New Order was reversal of Indonesia's previous hostility to foreign investment. Foreign investment, however, continued to be seen warily, as something that should be subsumed within national goals. Since the first REPELITA, the Indonesian government has funneled foreign investment into priority sectors that align with each REPELITA target. To achieve these goals, under the Foreign Investment Act 1967 and the Domestic Investment Act 1968 foreign investors were courted through tax holidays, import duty concessions, sales tax exemption for machinery and equipment, accelerated depreciation, guarantees on repatriation of capital and profits, and provisions to carry forward losses. Only in oil and gas, banking, insurance and the leasing of property remained off limit for foreign investors. In mining, other than oil and gas, foreign investment took place under Mining Law No.11/1967, which forced participating foreign companies to act as contractors (Pangestu & Habir, 1989). Despite such restrictions, foreign investors and non-pribumi entrepreneurs quickly assumed a dominant position in broad swathes of the Indonesian economy under the New Order. The Ministry of Finance in Nota Keuangan 1970/1971 reporting that in three years after Foreign Investment Act 1967 was issued there were 336 foreign investment projects approved by the Indonesian government with a total value of US$1,400.8 million. As the main target for the first REPELITA was one of developing agriculture, the Indonesian government funneled development into areas that would be of direct or indirect benefit to the farm sector. Almost half of foreign investments in the first REPELITA (1969-74) were in manufacturing, most notably chemicals and cement, textile, pulp and paper, pharmaceuticals, metal and machinery, and craftwork. While forestry and mining also experienced significant infusions of foreign investment the combined value of these was less than half of that which flowed into manufacturing.

In embracing foreign investment the Soeharto regime was forced to balance its economic reorientation against the fundamental principles outlined in Indonesia's Basic Constitution. Article 33 of Indonesia's Basic Constitution Year 1945 states that: (i) the Indonesian economy should be organized as a collective effort, (ii) branches of production essential to the state and which affect the lives of most people should be controlled by the state, and (iii) natural resources including land and water should be controlled by the state and used for the greatest benefit of the people. Having fought in Indonesia's war of independence in favor of the principles outlined in the Basic Constitution, Soeharto was loath to see them sacrificed during the New Order Era. Instead, Article 33 became the legal basis upon which the government continued to exert control over much of the economy, both directly and indirectly.

The new mechanisms for control that characterized the New Order era were first outlined under Presidential Instruction No 17/1967 which grouped SOEs into three broad functional categories, these being (a) Perjan, SOEs that delivered public services and which were financed through the government's budget, (b) Perum, SOEs that were fully owned by the Indonesian government and which managed resources considered vital to the population's welfare, and (c) Persero, SOEs that operated on commercial basis and which were consequently treated the same as private sector companies. In addition to these three groupings there were a number of SOEs that were regulated through special laws. Foremost among these were the National Logistics Agency or Badan Urusan Logistik (BULOG), which under Presidential Decree No. 39/1978, was required to maintain food price stability, and PERTAMINA, the Indonesian oil monopoly that came to be regulated under Act No. 8/1971. Legally, Indonesian SOEs, as stated in the first REPELITA, had two main functions: (i) a social function to serve people and provide public services, and (ii) an economic function.

As world oil prices spiked during the early 1970s, PERTAMINA, the state oil company, was central to the revival in budget fortunes that characterized the initial years of the New Order. Unfortunately for the government, the "oil boom" proved short-lived as oil price began a long secular decline. PERTAMINA was also engulfed in a financial scandal that reflected badly on government policies, which from 1972 had allowed state enterprises to obtain short-term borrowings from overseas. The PERTAMINA scandal was followed by a reassertion of state economic control through the issuance of Government Regulation No. 36/1977, which terminated foreign investment in commercial trade and had to exit the sector by 31 December 1977. Much of the nation's commercial trade passed into the hands of the 862 local SMEs appointed as distributors under the Regulation (Pidato Kenegaraan, 1978).

A major effect of this was to reinforce the growing ties between SOEs and small domestic enterprises; a trend that became even more apparent under REPELITA II. Following the issuance of Presidential Decree No. 14A/1980, the Indonesian government required all SOEs to partner with small enterprises, and to prioritize relationships with them in every project. All the Ministries, Government agencies (including state-banks), and SOEs were also obliged to give small local enterprises and cooperatives preference in the supply of goods and services. Similar obligations were imposed on local government. When the Decree was greeted by an insufficient response, the government issued Government Regulation No. 3/1983, creating a program entitled "Small Enterprises Development". This program not only encouraged SOEs to utilize the services of small enterprises, it also required them to act as a "foster father" and providing them with assistance in managerial and distributive functions. The government also established special economic zones in the form of "Small Industrial Environments", "Small Industrial Villages", and "Medium Small Industrial Enterprises". Within these zones, 35 SOEs became "foster fathers" for SMEs. Such programs proved modestly successful. Between 1983 and 1987, the number of Indonesian small enterprises rose from 1.6 million to 1.8 million. Exports by small enterprises also grew by 31.23 percent to US$672,879 (Pidato Kenegaraan, 1983; Nota Keuangan, 1987/88). Another key indicator of government's success in providing support to SMEs can be seen in developing agriculture sector. Historically a major rice importer, Indonesia grew 126,560 million tons in the first REPELITA (1969-73) and imported 4,543 million tons. By 1985, however, for the first time, the nation attained self-sufficiency in rice, a status it has maintained ever since.

To build on its earlier success on 11 November 1989 the Indonesian government issued Ministerial Decree No. 1232/KMK.013/1989, which rebadged its program of supported small enterprises and cooperatives as "Small Entrepreneurs and Cooperatives Development". The new regulations required all SOEs to set aside 1 to 5 percent of their net profit, which was then used to improve the managerial skills in small enterprise and cooperatives through training and workshop programs. The positive effects of this was seen in a marked improvement in the export performance of small enterprises between 1988 and 1991, which saw exports by SMEs rise by 235 per cent to US$853,055. Overall, exports by SMEs expanded by 74 per cent to US$1,668,045 (Nota Keuangan, 1993/94). A further expansion of government support for SMEs and cooperatives occurred on 14 February 1991 with the launch of a new program, namely "Foster Father and Business Partnership Movement". This program encouraged large private-sector large companies to also act as "foster fathers". Simultaneously, SOEs were instructed to act as mediators between SMEs, cooperatives and large private-sector companies so as to encourage networking opportunities. By October 1992, the Indonesian President reported in his official speech some 10,661 large enterprises had become “foster fathers for 78,560 small enterprises. A separate governmental financial support program gave assistance to cooperatives engaged in craft manufacture. Under this initiative, three government departments, the Ministry of Trade, the Ministry of Industry, and the Ministry of Labor – all provided assistance, the government reporting that 2,833 village cooperatives were benefited, receiving a total of 51.4 billion rupiah (Pidato Kenegaraan, 1993).

On 27 June 1994, through Ministerial Decree No. 316/KMK.016/1994, the Indonesian government changed the name of its assistance program to “Small Enterprises and Cooperatives Development”. Under this policy, SOEs not only had to provide managerial and marketing assistance, they also needed to provide technological assistance so that product quality from SMEs and cooperatives would meet export requirements. Support for SMEs and cooperatives was also reflected in training and workshops provided through the state research and development agency; training directed towards increased SMEs familiarity with improved technology. Between 1992 and 1997, some 113,700 SMEs and 27,100 cooperatives benefited from this latter program, which the government supported with an expenditure of 930.7 billion Rupiah (Pidato Kenegaraan, 1998). In 1998, the Suharto regime carried out what was to prove to be the final changes to the administration of SOEs under the New Order. Under Presidential Decree No. 101/1998 a special Ministry of SOEs was established to oversee all of the nation’s 163 SOEs, including those in banking and finance. However, almost immediately, SOEs in banking were transferred back to the Ministry of Finance under Government Regulation No. 98/1998. In September 1998, the small-business partnership program was also renamed the “Partnership and Community Development Program”.

The sudden and erratic policy changes affecting SOEs in the Suharto regime’s final months were indicators of growing failings within SOEs, as well as growing political divisions within the government and the wider society. While, as this study has indicated, SOEs were the key for the government’s programs in economic and community development, they also came to be associated – as they had during the earlier Sukarno regime – with most endemic corruption, nepotism and managerial inefficiency. As a range of studies (Hamilton-Hart, 2001; Liddle, 1985; McLeod, 2005; Robertson-Snape, 1999) have indicated, many of these problems emanated from Soeharto’s family and inner circle, which by the closing years of the New Order had amassed great personal wealth in ways contrary to the express purpose of Indonesia’s Basic Constitution. Corruption involving SOEs was demonstrated in a growing number of scandals. One notable incident was the Bapindo scandal of early 1990. Edy Tanzil, a leading Indonesia business identity, received 800 million rupiah from Bapindo, one of Indonesia state-banks, for his textile enterprises. This debt was, however, improperly recorded, allowing Tanzil to avoid repayment (Mardjana, 1999). Such behavior not only undercut public confidence in the regime, it also left it poorly placed to deal with the “Asian Economic Crisis” of 1997-98, when a sudden collapse in the value of South-east Asian currencies caused foreign capital to temporarily flee the region. Private capital movements, which in 1996/97 added 13.4 billion dollar to the nation’s balance of payments, turned sharply negative with net outflows of 11.1 billion dollar in 1997/98 and 10.3 billion in 1998/99 (Bank Indonesia, 1999).

As the economic situation deteriorated so too did the stability of the regime with mass riots occurring after the shooting deaths of students at Jakarta’s Trisakti University on 12 May 1998. With the army withdrawing its support, Soeharto was forced to resign on 21 May 1998, being initially replaced by his Vice-President, B. J. Habibie. With Suharto removed from power, evidence of previous corruption mounted. On March 1999, Habibie advised the national parliament of maladministration in seven foundations chaired by Soeharto (Dharmais, DAKAB, Supersemar, Dana Sejahtera Mandiri, Amal Bhakti Muslim Pancasila, Dana Gotong Royong, and Trikora), each of which improperly acquired funds from SOEs, other state agencies and profits of the main state bank profit (Pidato Kenegaraan, 1999). The exposure of such failings highlighted the fact that, while SOEs and various small business support programs had done much for the plight of Indonesia’s people, most particularly those living in rural areas, their poor corporate governance had nevertheless much to fall of both the Sukarno and Soeharto regimes.

INDONESIA TODAY: THE REFORMATION ERA

When the New Order ended in 1998, the long-term effects of its policies were found not so much in terms of official corruption as in an economy dominated by small enterprises. In 1998, small enterprises made up 99.85 percent of all Indonesian businesses and providing jobs for 88.66 per cent of the workforce. However, the contribution of these enterprises to GDP was more modest (41.15 per cent), and their additions to national exports negligible (4.61 percent). By comparison, large enterprises (including SOEs) made up a tiny share of the business total (0.01 percent), but contributed significantly to both GDP (41.77 percent) and exports (78.7 percent). Without the supportive hand of the New Order regime, the bifurcated structure of the Indonesian economy became more pronounced in the three years after Soeharto's fall. By 2001, small enterprises provided jobs for an even bigger share of the workforce (91.29 percent), but diminished contributions to GDP (39.06 percent) (Ministry of Cooperatives and SMEs, 2001).

Given the long-term orientation of Indonesian policy towards small enterprises and cooperatives, the falling share of national wealth generated by such firms in the years that immediately followed the New Order's collapse threatened many of the underpinnings of Indonesian society, much of which had never operated on a strictly commercial basis. Any possibility of remediation was, however, curtailed by political instability. Following the holding of democratic elections in mid-1999, a dismantling of many of the structures and practices of Soeharto's New Order began under the Presidencies of first Abdurrahman Wahid (1999-2001) and the Megawati Sukarnoputri (2001-2004), the daughter of the Sukarno. Organizationally, oversight of the SOEs was shifted first one way, then another. Following the passage of Government Regulation No. 89/2000, the Ministry of SOEs that had been established in the final period of the Soeharto regime was dissolved. All SOEs – other than the railways, which were placed under Ministry of Transport supervision – were then placed under the control of the Ministry of Finance. When Megawati replaced Wahid in 2001, this reform was promptly reversed with Government Regulation No. 64/2001 placing all SOEs back under the control of a reconstituted Ministry of SOEs (Abeng, 2001).

Despite the political and legislative instability noted above, there has nevertheless been, in terms of the SR focus of Indonesian SOEs, far more continuity than discontinuity. Although the Basic Constitution 1945 has been amended four times since 1998, including changes to article No. 33, SOEs not only retain their commanding position in the economy, they also remain legally obligated to carry out their functions in ways that foster social objectives. Far from retreating from its social orientation in economic policy, the Indonesia government has extended and deepened its commitments in a number of key areas. This trend was particularly pronounced under the ten-year Presidency of Susilo Bambang Yudhoyono (2004-14). Prior to his Presidency, the Indonesian government had long provided a range of SMEs and cooperatives with low interest loans through the various State Banks. One of the deficiencies of such deficiencies of such programs was that they failed to provide for the needs of SMEs or cooperatives that did not have legal status which means no access to get those credits. The Indonesian Bureau of Statistics (BPS: 2013) recording that in 2013 some 15.8 million small enterprises fell into this category.

To assist "micro-enterprises", in 2008 the Susilo Bambang Yudhoyono (SBY) government issued Law No. 20/2008. Broadly, this law did two things. First, in categorized all enterprises into four categories based on net assets and annual sales: for "micro" enterprises the maximum net assets should be 50 million rupiah with total annual sales maximum 300 million rupiah, "small" enterprises should have net assets between 50 million rupiah and 500 million rupiah with total sales between 300 million rupiah and 2.5 billion rupiah per year, and "medium" enterprises have net assets between 500 million rupiah and 10 billion rupiah with total sales between 2.5 billion rupiah and 50 billion rupiah annually. Meanwhile, all companies that have net assets above 10 billion rupiah with total sales above 50 billion rupiah per year are categorized as "large" enterprises. As Table 1 indicates, which traces the economic performance of all four categories between 2009 and 2012, in the first year of the new law's operations "micro"-enterprises made up 99.8 percent of all Indonesian enterprises (excluding the oil and gas sector) and provided jobs for 90.97 per cent of the workforce. Second, it decreed that all SOEs had to conduct their affairs in accordance with the dictates of a new Partnership and Community Development Program. As the

Program's title suggests, PKBL involved SOEs entering into both "partnerships" with most small enterprises, most particularly micro-enterprises, and new community-development programs. SOE "partnership" programs were specifically directed towards firms lacking in legal status, who were given the option of becoming "trained partners" or "mitra binaan", of SOEs. As stated in the PKBL regulation, this allowed the "trained partner" to utilize financial support from the SOE as working capital, or for the purchase of equipment that would either increase productivity or assist in meeting orders.

TABLE 1
ECONOMIC PERFORMANCE OF THE INDONESIAN ENTERPRISES, 2009-2012

Category	Year			
	2009	2010	2011	2012
Units	52,769,426	54,119,971	55,211,396	56,539,559
Micro Enterprises	52,176,771	53,504,416	54,559,969	55,856,176
Small Enterprises	546,643	568,397	602,195	629,418
Medium Enterprises	41,336	42,008	44,280	48,997
Large Enterprises	4,676	5,150	4,952	4,968
Labor Force	98,885,997	100,991,962	104,613,682	110,808,155
Micro Enterprises	89,960,695	91,729,384	94,957,797	99,859,517
Small Enterprises	3,520,497	3,768,885	3,919,992	4,535,970
Medium Enterprises	2,712,431	2,740,644	2,844,669	3,262,023
Large Enterprises	2,692,374	2,753,049	2,891,224	3,150,645
GDP (at constant 2000 prices in billion Rupiah)	2,089,058	2,217,947.0	2,377,110.0	2,525,120.3
Micro Enterprises	682,259	719,070.2	761,228.8	790,825.6
Small Enterprises	224,311	239,111.4	261,315.8	294,260.7
Medium Enterprises	306,028	324,390.2	346,781.4	366,373.9
Large Enterprises	876,459	935,375.2	1,007,784.0	1,073,660.1
Total Export (in billion Rupiah)	953,089	1,112,719.9	1,140,451.1	1,185,390.9
Micro Enterprises	14,375	16,687.5	17,249.3	15,235.2
Small Enterprises	36,839	38,001.0	39,311.7	32,508.8
Medium Enterprises	111,039.6	121,206.4	130,880.8	118,882.4
Large Enterprises	790,835.3	936,825.0	953,009.3	1,018,764.5

Source: The Indonesian Ministry of Co-operatives and SMEs (2015)

A major difference between the PKBL Program implemented in 2008 in comparison with earlier initiatives is that it was systematically evaluated; evaluations that led to several amendments to legislative regulation. Unlike earlier programs, where deficiencies only tended to come to light following systematic financial problems, the results of these evaluations were made publicly available. Such published results provided mixed results. As is indicated in Table 2, which records the most recent results of this program (December 2013), only 49.43 percent of the 592,176 "trained partners" who received assistance were found to be in a "good" financial position. Of the funds invested, 42.5 percent were found to be in an impaired state, being categorized as either "bad" or "troubled" (Ministry of State Owned Enterprises, 2015). To the extent that such results are surprising, they are remarkable not for the fact that half the recipients were impaired to some degree but rather that half were not. Recipients were, after all, not only micro-enterprises previously beyond the skein of financial assistance, other than rural moneylenders, they also enjoyed no formal legal status. That SOEs were obliged to partner such firms speaks to the continued emphasis within the Indonesian body politic of social objectives over commercial gain.

TABLE 2
PERFORMANCE OF PARTNERSHIP PROGRAM (PER 31 DECEMBER 2013)

Credit Category	Total Funds (in million rupiah)	Trained Partners
Good	2,871	292,708
Less Good	483	36,865
Doubtful	222	14,037
Bad	1,690	151,503
Troubled	952	97,063
Total	6,219	592,176

Source: Ministry of State Owned Enterprises (2015)

Whereas the "Partnership" component is designed for SME, Community Development is an empowerment program to help local communities in areas where SOEs operated. Typically, such local programs involved what can be described as philanthropy activities: assistance in the case of natural disaster, education and health assistance, infrastructure provision, building places of worship, nature conservation, and social assistance in alleviating poverty. Under the PKBL scheme, each SOEs community development initiatives need to properly budgeted and fully authorized by its Board of Directors at its Annual General Meeting. In 2014, the Ministry of SOEs reported that 110 SOEs committed a total of 808 billion rupiah to the Community Development Program, a figure that represented 0.53 percent of SOEs' net profit (Ministry of State Owned Enterprises, 2015). The election of Joko Widodo as President (2014 -) brought about a major expansion of the PKBL scheme. Following the issuance of Ministerial Decree PER-07/MBU/05/2015 in May 2015, in conjunction with Ministerial Decree PER-09/MBU/07/2015 of July 2015, three major changes were implemented. First, SOEs were required to increase their budgetary commitment to the Partnership and Community Development program to four percent of their net profits. Second, training and workshops for "trained partners", previously under Partnership Program, now came under Community Development program. Finally, assistance was restricted to micro or small-enterprises as categorized in Law No. 20/2008, a reform clearly designed to reduce the level of impaired loans.

GOVERNMENT REGULATION AND PRIVATE SECTOR CSR

As we have noted, historically SR programs in Indonesia have primarily been an artifact of the state apparatus and SOEs, rather than the private sector. In other words, SR responsibility objectives have been mainly achieved through the role of the government as both a regulator and an actor. The drivers behind SR programs were found not in western business concepts but from forces deep within Indonesian society. Prior to 2007 perhaps the most significant CSR-related requirement imposed on large private-sector firms occurred through the operation of the Indonesian Environmental Impact Management Agency (BAPEDAL), which operated under Presidential Decree number 23/1990. Compliance with mandated environmental standards was typically watched not only by BAPEDAL, but also by foreign Non-Government Organizations (NGOs), most particularly in mining, forestry and paper milling and production (Siregar & Bachtiar, 2010; Waagstein, 2011).

If until recently SR in Indonesia was not framed in western-style SR discourse, a notable shift was heralded when in 2007 the Indonesia government issued Law No. 40 /2007, revising Company Act No. 1/1995. This legislative shift corresponded to a marked increase in interest of SR ideas and programs among Indonesian academics, shareholders, and community members. An accounting study (Siregar & Bachtiar, 2010), linked SR reporting with stock values on the Indonesia stock exchange. A similar work (Shauki, 2011) found that a company's SR initiatives had a positive impact on stakeholders' perception and expectations in particular consumers. Rosser and Edwin (2010) studied how political interests influenced the design of SR regulations in Indonesia. Waagstein (2011) examined the legal process that mandate SR programs. The establishment of Master's program in CSR and Community Entrepreneurship in Trisakti University, one of the biggest private Universities in Indonesia, added to interest.

TABLE 3
INDONESIA SOCIAL RESPONSIBILITY (SR) REGULATION FRAMEWORK

CSR
Law No. 40/2007 Law No. 25/2007 GR No. 47/2012

CSR Core Issues (ISO 26000)								
Law	Description	I	II	III	IV	V	VI	VII
No. 8/1999	Consumer protection						V	
No. 39/1999	Human Rights		V					
No. 20/2001	Anti-corruption	V				V		
No. 7/2006		V				V		
No. 13/2003	Labor			V				
No. 4/2009	For mining sector				V			V
No. 32/2009	Environment protection				V			
No. 24/2011	Employment social security			V				
No. 19/2009	Waste management				V			
No. 10/2013					V			
No. 18/2013	Forest protection				V	V		
No. 21/2003	Labor in trading and manufacturing			V				

Source: Ministry of Law and Human Rights (n.d)

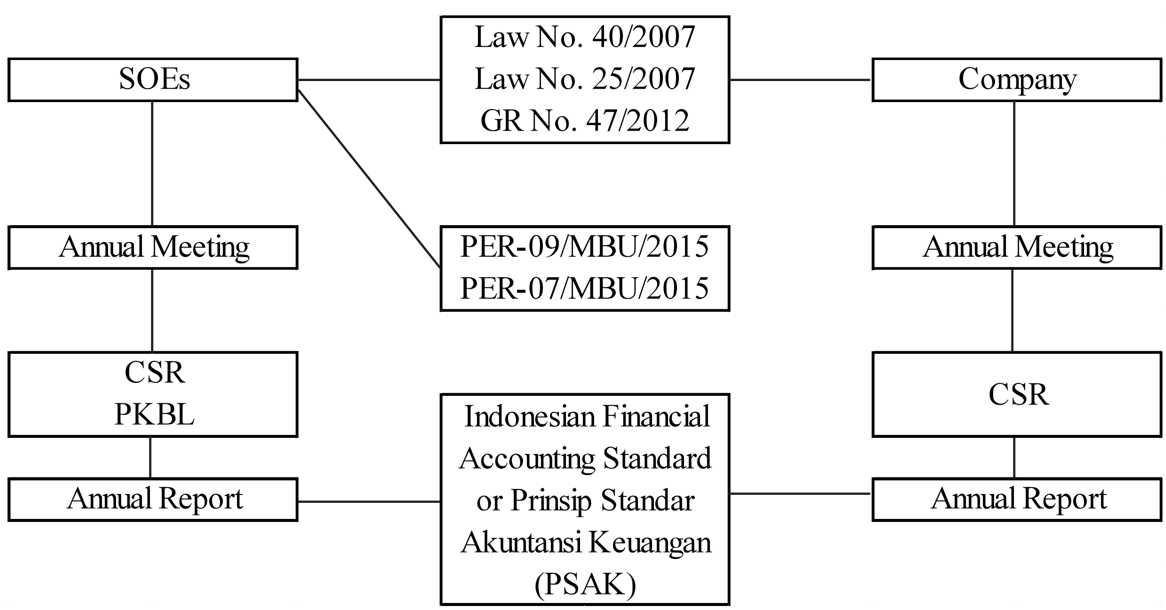
Notes:

I : Organization Governance
II : Human Rights
III : Labor
IV : Environment
V : Fair Operating Practices
VI : Consumer Issues
VII : Community Development

Significantly, although in most countries SR remains a voluntary matter, since the issuance of the 2007 amendment to the Company Act No. 40/2007 the carriage of SR programs has been compulsory. Under the amendment, Article 1 states that "company having its business activities in the field of and/or related to natural resources, shall be obliged to perform social and environmental responsibility while participating in sustainable economic development". Article 74 also states, "to improve the quality of life and be environmentally beneficial for companies and the communities, the commitment of SR engagement needs to be planned carefully". Legal sanctions apply when companies fail to comply with such regulations. To reinforce private-sector commitment to SR, in 2007 the Indonesian government also issued Capital Investment Act No. 25/2007, which stated: "Each investor is obliged to carry out SR". Following the failure of the legal challenges in the Constitutional Court, in 2012 the Indonesian government issued GR No. 47/2012, which provided companies with guidance on SR implementation. According to ISO 26000, guidance for SR, companies were required to demonstrate compliance in seven core objectives: organizational governance, human rights, labor standards, environment, fair operating practices, consumer issues and community development as shown on Table 3. Performance in each field was linked to a specific legislative provision, thereby highlighting SR's compulsory nature. In the mining and energy sector, additional standards were applicable after the Ministry of Energy and Mineral Resources issued Law No. 4/2009 about Mineral and Coal Mining. This required each mining company to implement its SR through an approved community development program, developed in consultation with the local community and paying special attention to the environmental effects of its operations.

While the major assessment criteria for gauging SR compliance are outlined in Table 3, the Ministry of Environment also runs a separate "Environmental Performance Assessment" program under Ministerial Regulation No. 7/2008. This program assesses water pollution control, air pollution control, management of hazardous and toxic waste (B3), and any other aspect of a firm's operations that can negatively affect their Environmental. Based on such assessments, the Indonesia Ministry of Environment provides every company in Indonesia with a rating, referred to as a PROPER (Performance Rating in Environmental Management). The PROPER are rank from Black PROPER, which is the worst performance rating, Red PROPER, Blue PROPER, Green PROPER, until the Gold PROPER that is the most prestigious assessment (Ministry of Environment, 2011).

FIGURE 1
CSR IMPLEMENTATION IN INDONESIA



The growing achievements of Indonesia's SR programs are also indicated in company reporting, where the Institute of Indonesia Chartered Accountants or "Ikatan Akuntan Indonesia (IAI)" requires all listed companies to perform and disclose their SR activities; a requirement outlined in the Indonesia Financial Accounting Standards (PSAK), Number 1 (Line nine). As Figure 1 indicates, such reports still impose somewhat higher requirements on SOEs than private-sector companies. Whereas the latter only have to report on their SR activities, the former also have to advise of progress in relation to their PKBL initiatives. In both instances, however, the driver for reporting is found not only in PSAK but also in the underpinning legislation, namely Law No. 40/2007, Law No. 25/2007 and Government Regulation No. 47/2013. The broad acceptance of such provisions is indicated by the fact that in November 2015 all the Annual Reports from the 532 companies listed on the Indonesian Stock Exchange (IDX) included details of their SR activities, provided in accordance with PSAK requirements. A further 41 companies provided, in addition to such SR information, a separate Sustainability Report. Such outcomes indicate, in short, that SR has become an accepted part of Indonesian economic life.

CONCLUSION

In adding to the body of the literature that emphasized the importance of "stakeholders" in the development of socially responsible management, Gond, Kang, and Moon (2011) indicated that government typically plays a role both as a regulator and also as the key actor. Separately, Matten and Moon (2008) in analyzing the ways in which institutions shape SR in managerial practice, emphasized that institutions are "not only the formal organization of government and corporations but also the norms, incentives, and rules". In addition, Fox et al. (2002) argue that governments can boost SR initiatives by facilitating, partnering, and endorsing socially responsible behavior. This studied lends supports such insights.

In Indonesia, unlike the western societies that have until now been the main focus on SR research, government has been central to developments with the concept of socially responsible behavior by SOEs a central plank of Indonesian Basic Constitution 1945. Under successive Indonesian political regimes – the Sukarno era (1945-65), the Soeharto or New Order era (1966-98) and the Reformation era (1998 -) – SOEs have continually given preference to social objectives over profits and short-term commercial success. This is evidenced in three principal ways. First, since the inaugural REPELITA (five-year plan) in 1969, SOEs have been required to assist economic development in the agricultural sector. In like fashion, they have also been required to assist in various ways – by acting as "foster fathers", providing financial assistance, provision of training and assistance in introducing new technology – the development of producer collectives, SMEs, the overwhelming majority of which were found in agriculture and fishing. Second, the Indonesian government has used its regulatory powers to create a legal and economic environment that has continually emphasized local and community interests. This has involved not only laws that restrict foreign Multi-National Companies to certain sectors of the economy, but also the passage of laws that have continually emphasized the need for companies – most particularly SOEs – to meet stated social objectives. Third, in 2007, changes to Company Act made the carriage of SR programs compulsory for all privately incorporated companies.

It would be fair to say that until recently the principal success of Indonesia's SR programs have been found at the local and community level, in the relationship between SOEs and SMEs, small enterprises and collectives. By contrast, failures have been most obvious in the private sector, where the annual burning of Sumatra's peat forests has attracted more attention that positive local outcomes. Among SOEs as well, the record has been mixed, with official corruption often marring social and economic performance. Nevertheless, it evident SR in Indonesia is not simply some recent foreign implant, but rather a concept that is deeply embedded in societal norms and rules.

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