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Integrating A Corporate Social Responsibility (CSR) Program Into The Business Process

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Abstract
This study aims at describing a best practice in the implementation of Corporate Social Responsibility (CSR), with a case of how a large mining company helps local contractors to be more effective and efficient in delivering their projects through a project called Integrated Contractor Strategy (ICS). The research employs descriptive approach. The result of the study shows that the use of project-based approach was effective in improving the internal processes of local contractor engagement as well as in improving the capability of local contractors to deliver their projects more efficiently and in a sustainable manner.

Keywords: Corporate Social Responsibility, Mining, Local Contractors, Project

Integrar Un Programa De Responsabilidad Social Corporativa (RSE) En El Proceso Comercial

Resumen

Este estudio tiene como objetivo describir una mejor práctica en la implementación de la Responsabilidad Social Corporativa (RSC), con un caso de cómo una gran empresa minera ayuda a los contratistas locales a ser más efectivos y eficientes en la entrega de sus proyectos a través de un proyecto llamado Estrategia integrada del contratista (ICS)) La investigación emplea un enfoque descriptivo. El resultado del estudio muestra que el uso del enfoque basado en proyectos fue eficaz para mejorar los procesos internos de la participación de contratistas locales, así como para mejorar la capacidad de los contratistas locales para entregar sus proyectos de manera más eficiente y sostenible.

Palabras clave: responsabilidad social corporativa, minería, contratistas locales, proyecto

1. INTRODUCTION

This paper intends to explicate the implementation of Corporate Social Responsibility (CSR) by integrating it into the business process. This topic is particularly critical as CSR has achieved an important place on the corporate agenda, bringing companies to be more conscious on their roles and contributions to the external stakeholders (KOTLER & LEE, 2005). Companies have also put in extra efforts through various programs and initiatives, and also provide resources to be seen as socially responsible in their business. By integrating the CSR efforts into the business, it is expected that greater impacts, both for the business bottom line and the society, are achieved (SCHERER, 2018).

The importance of the subject on how companies can integrate their CSR programs into business has particularly gained priority within extractive industries such as mining corporations, which, in many cases, operate in the world's less developed and more remote areas. In such a condition, mining companies have been expected to contribute more to the communities through CSR programs as a strategy to gain 'social license to operate' or community approval to operate that extends beyond formal legal

approvals. CSR is also used by companies as media relations and branding (KEMP & OWEN, 2013; OWEN & KEMP, 2014). Assistance from the company is also compensation for the impact resulting from the production process in the management of resources (SUKMANA, 2017).

One of the challenges in CSR implementation is how to integrate the program into the business and provide solutions to the business. Until recently, it has been widely known that CSR programs, particularly in mining companies, are mostly in the forms of giving, financial contributions or charity programs, such as donations, livelihood and health supports, small business development, and education assistance as well as physical/infrastructural development provided to the community (VINTRÓ, FORTUNY, SANMIQUEL, FREIJO, & EDO, 2012). As these types of CSR may well address the short-term requirements of local communities, such approach may not be sustainable, and, in many cases, create a community's dependencies on the company (MAON, LINDGREEN, & SWAEN, 2009).

This paper will particularly describe Integrated Contractor Strategy (ICS), a CSR program for local contractors which was run by a mining company in Indonesia. It was executed with a unique and new approach that gave an impetus on integrating the program in the corporate effectiveness and efficiency projects and, thus, provided positive impacts to the company bottom line, instead of providing in-cash donation or direct monetary provisions. This new approach of CSR was expected to bring sustainable benefits for both the company and the stakeholders, namely local contractors and the community.

Many CSR endeavors are also considered partial in their approach particularly in stakeholders' involvement and engagement. For example, many companies consider that CSR must be addressed only by a specific department (e.g. Community Development Department) without involving other employees or departments. This approach believes that CSR is a separated effort from the whole organization or merely tries to localize the issues. In fact, this approach is considered not effective. An effort by top leadership and all the relevant stakeholders inside and outside the company must be assessed and involved as required (OWEN & KEMP, 2014).

The failures of CSR projects also relate to how the programs are managed. As most CSR programs are charitable, many of them are usually managed

as an ad hoc event, without proper planning, execution and evaluation. As a result, many CSR programs do not meet their goals of empowering the community, rather, they foster community dependence on the company (MAON ET AL., 2009).

This paper will try to explain how an ICS Program as a CSR endeavor addresses the following challenges: 1) How did the company integrate their CSR program into the business process? 2) What steps in the program were made by the company to ensure the program (Integrated Contractor Strategy) became effective in giving impacts to empower the local contractors? And 3) How did the company measure the results of the program?

2. METHODOLOGY

The writer utilizes explanatory, descriptive, qualitative method in this research with the main resources consisting of project data, company documentations and the writer's direct observation during the project execution. The documentations include meeting notes, charts, project updates, and various reports related to the program. The data are then accumulated and interpreted to create a structured analysis. Meanwhile, observation was made by direct participation in the project. Both observation and documents research are expected to form adequate and complementary data for this research.

3. RESULT AND DISCUSSION

This section provides the descriptions and analysis on the ICS, from various aspects: the general description of the program, system and project management approaches that it employed, and the details of the steps and process it undertook.

3.1. General Description of the Program

Integrated Contractor Strategy (ICS) was a unique CSR program initiated by a large nickel Company in Sulawesi, Indonesia. The mission of the program was to build a contracting system to address various problems in managing the local contractors, including lack of work quality that results in rework or extension of work. The program is also aimed at ensuring

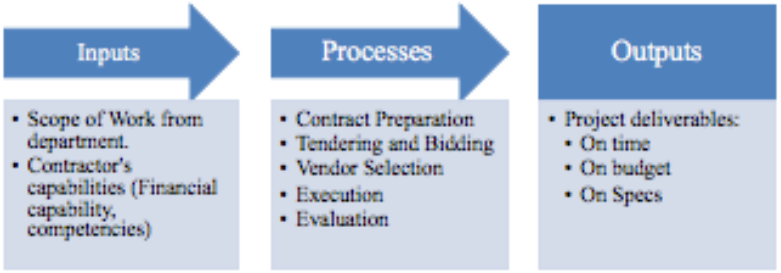
that more work can be provided to the local contractors. In addition to the project management side, ICS also addressed capability. It was intended to develop the skills of the local contractors so that they could deliver the work to meet the budget, specifications and schedule. By improving the internal process as well as the contractor capability, the company believed that more efficient use of budgets would be achieved and that more work would be done by local contractors. This approach was expected to bring maximum benefits to the company as well as the local contractors.

3.2. Project Team

To ensure the success of ICS, top management established a specific project team with capable personnel which directly reported to a panel of senior leadership. This special task force had clear authority to redefine the contacting system and required budget resource to develop local contractors. Some of the senior leadership, including the director of Supply Chain Management (SCM), were also involved directly in the team. Inclusion of other senior leaders from operational and support areas was also realized to ensure that all stakeholders supported the project. In fact, local contractors' management involved various internal and external stakeholders: area managers as sponsors who owned the project, area project managers having the responsibility to coordinate the execution of the projects, engineers to define the technical planning, contract administrators who managed the tender and contract processes, major contractors who could help and support local contractors, and external and communication officers who managed communications with local contractors.

3.3. System Approach

The ICS program was developed with a system approach, which believes that all efforts to improve a system must consider the whole parts, as they are related to each other. Considering this concept, Integrated Contracting Strategy took into account all critical factors and parties involved in the local contracting, which included critical processes (inputs, throughputs, and outputs), key activities as well as actors or parties involved by identifying roles and accountabilities.



Graph 1: Critical Elements of Inputs, Processes and Outputs in ICS

The system analysis was made to identify the critical factors needed to be addressed to improve the overall processes. From an input perspective, scope of work and contractor's capability were the main elements to be assessed and improved. Meanwhile, in the processes, contract preparation, tendering, execution and evaluation were the major elements to produce project deliverables.

3.4. Project Management for Process Improvement Approach

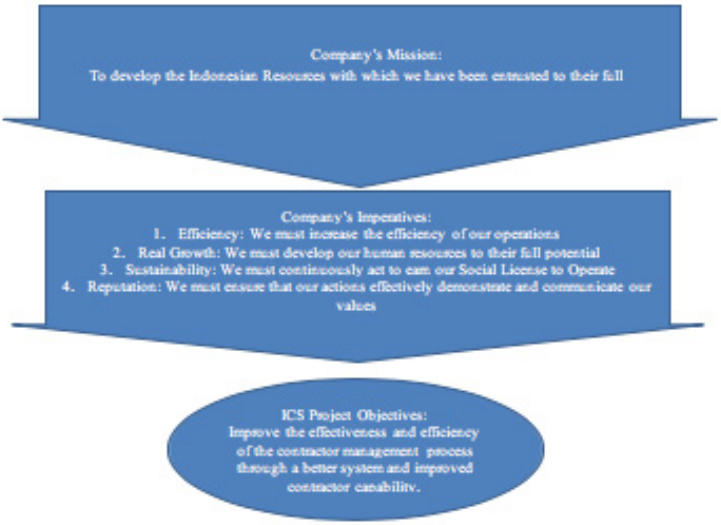
To ensure the achievement of the goals, the program was managed using a project management approach, with planning, initiating, executing and evaluating stages as the core activities. As this is a process improvement, the project identified extensive activities in planning, with focus on reviewing and improving the process, policies, procedures and tools for contracting so that it could help the empowerment of local contractors. Also, it put emphasis on capability improvement of local contractors so that they could understand the contacting methods and tools of the company, enabling them greater participation in the work offered by the company.

The following is the overall project management processes of the ICS:

Graph 2: ICS Project Execution Phases

Step 1: Define the Project Objective

It is important that every project is linked to the strategic objective of the company (Porter, 2013). It is the task of Senior Leadership (CEO and the directors) to define the objective for major projects in the organization. The objective of the ICS project was derived from the company's vision and strategic imperatives as follows:



Graph 3: ICS Project Objective Setting Process

The above objectives were set by top leadership (directors, general managers) with inputs from the Project Team and other stakeholders through a series of Focus Group Discussions.

Step 2. Identify Concerns and Problems Faced by Internal Stakeholders and Local Contractors

Any improvement programs must be initiated with identifying various opportunities to improve. It is critical that, during the process, various stakeholders are involved in providing inputs and feedbacks of the current process. Involvement will also boost ownership and commitment during implementation.

The methodology chosen for ICS to identify area of improvements was

by conducting focus group discussions (FGD) with multiple stakeholders, including internal stakeholders and external stakeholders. The first FGD was attended by internal stakeholders, consisting of area leaders, project managers (owners of the project), as well as managers and specialists from the Contract and SCM departments as process owners. Meanwhile, the second FGD was attended by external stakeholders, which consisted of representatives (owners/managers) of local contractors, external relations officers, and local government officials.

The following concerns and feedback from both internal and external stakeholders arose from the focus group discussion (FGD): 1) List of tendered work packages and the requirements were not easily accessed by local contractors; 2) Tendering and contracting procedures were too complicated for local contractors; 3) Scope of work defined by project owners was complicated and could not be easily understood by local contractors; 4) Contract executions were not supervised properly (no tools for monitoring contract executions); and 5) There Marginal competencies of local contractors, both in managerial and technical areas, compared to national and international contractors.

Interestingly, the issues brought up by internal stakeholders were similar to those by external stakeholders. The above five issues were then identified as major areas to address in the project. It was then decided that the ICS would focus on the following areas as critical areas for improvements: 1) How to identify and plan contracted work that can be executed by local contractors; 2) How to develop simple tendering and contracting procedures that cater transparency and objectivity; 3). How to progressively monitor project execution to identify gaps and allow coaching for effective and efficient execution of work by local contractors; and 4) How to improve contractors' competencies, both technical and managerial.

Step 3. Assess the Current/As-Is Process

Upon the completion of the FGD, concerns and areas for improvement were identified; the next step was to map the current process and procedures of the contracting, to identify the areas for required improvement. The draft of an "As Is" map was established using various ways to ensure validity and completeness of the map to depict current conditions. Various parties were interviewed, data were gathered from various departments,

and field observations were conducted. Various stakeholders were also invited to provide contributions. There were several findings from the process:

Table 1: Problems Encountered during Local Contracting

Stage	Common Problems Encountered
Planning a contracted work	• Outsourcing decision form/checklist doesn't include items of assessment to identify any projects that can be categorized suitable for each type of contractors (local, national or international contractors).
Tender Process	• Information on tender opportunities not easily accessed by local contractors. The information on the board at the External Relations office is considered not effective.
Performing the contracted work.	• No standard process and procedure to monitor and evaluate the progress of contract execution performed by contractors.
Contractor's competencies	• Inadequate technical and managerial competencies of field workers, supervisors and project managers of local contractors resulting in delays and poor quality of work and close supervisions by company's project managers.

Step 4. Establish "To Be" Process and System

After the "As-Is" process was mapped and areas of improvements were identified, the next process was to establish the desired "To Be" process. A series of meetings, workshops, trial sessions, and technical discussions were conducted to produce new processes, policies, procedures, guidelines, check-lists and forms that could help improve the quality of contracting process (from planning execution and evaluation). This new process also addressed feedback and issues obtained during the assessment from internal and external stakeholders. Before finalization, the process and various tools were trialed to ensure stability and effectiveness.

The areas of change that address the above concerns include:

1. Introduction of online information on bid projects or work so that all local contractors can get up to date information on bidding opportunities.
2. Additional process and tools called Scope of Work Assessment (SoWA checklist), to define/categorize whether a work package could be performed by local contractors, or it would go to national contractors.
3. Introduction of Contractor Performance Review (CPR), which is used to evaluate and monitor the progress of a contracted work. This performance review was conducted weekly, biweekly or monthly, depending on the nature of the work.
4. Contractor Capability Audit. This process used a simple checklist to measure effectiveness of project managers or supervisors.

Besides the new tools mentioned above, there were other improvements internally, such as regular meetings between SCM and project managers to evaluate the overall effectiveness of contractors and how to solve the problems.

Step 5. ICS Installation

After the 'To Be' or ideal system and process was established to satisfy the objectives and requirements of business and stakeholders, the next step was installing the new process to real or operational business. The installation was started with training for all internal stakeholders and external stakeholders. It was critical for internal stakeholders, such as managers, project managers, contract and procurement personnel, as well as External Relations staff, to master the new system as they had the accountability to become the champion of the system. The leaders of local and national contractors were also trained to follow and utilize the new system. By making sure that all parties were familiar with the new system, the implementation could proceed efficiently.

It was decided that the implementation of the system would be done in stages. The first stage was implemented as pilot projects to further refine the system through observation and feedback sessions. Three pilot projects which involved local contractors were deployed using new process and tools. Revisions were made based on feedback by project leaders, con-

tractors involved and other stakeholders (such as contract admin officers).

After the system and tools were refined based on the feedback from pilot projects, ICS was then implemented to all critical departments such as Mining, Supply Change Management (SCM) and Engineering Services Departments. The installation involved departmental team leaders and project managers who were also responsible to assess and coach local contractors.

3.5. Measuring the Success of ICS

One of the critical factors in any CSR program is how to measure their success. There is some debate around whether the benefits of CSR programs can be measured quantitatively, particularly in financial terms such as Return on Investment (ROI) (TURKER, 2009). The concerns arise particularly due to difficulty in identifying immediate outcomes and complexity of external factors that can influence CSR programs (socio-political, etc.). Despite these difficulties, the ICS program has proven that a CSR endeavor could yield not only better social engagement and license, but also result in more efficiencies and effectiveness, which means impacting the corporate bottom line.

The following are the measurements imposed to ICS and regularly tracked during the implementation and sustainability.

Table 2: ICS Key Performance Indicators

Purpose	Tools	Measures	Target
Measure the Supervisors' Competency	*Eight Behaviors of Effective Supervisors Audit*	Average scores of supervisors on 8 Behaviors	Supervisors have an average of 3 ('fully competent' level) in each behavior.
Monitor the compliance of contract execution	*Contractor Performance Review (CPR)*	The contractors are evaluated based on plan vs actual on the predetermined KPIs, such as: 1. Schedule 2. Budget 3. Features 4. Quality	100% compliance to schedule, budget, features, quality.
Measure the return on investment of the program.	Calculation on Benefit Realization	Elements of Benefit Relations: 1. Cost avoidance due to rework 2. Cost avoidance due to delay in project completion. 3. Potential benefit from cost saving by engaging local contractors rather than national/ international contractors. 4. Cost avoidance due to shorter lead time in contract process.	US$ (target) % of ROI

3.6. Local Contractor Capability

One of the programs critical to the success of the ICS is local contractor technical and managerial competencies. Without proper skills in managing contracts and leading people, all efforts in developing a new system will be not very effective. To address the issue, the company ran various training programs for owners, project managers, and field supervisors of local contractors. The training, provided for free to local contractors, included: project management, finance for non-finance, leadership, training skills, eight behaviors of effective supervisors and coaching.

Meanwhile, improvement in technical skills for field workers, such as carpenters, technicians, electricians, masons, etc., was provided through partnership with technical training institutions.

3.7. Sustainability

One of the challenges of any CSR project is how to make the program sustainable. The ICS Program addressed the sustainability issue by making sure that the system, procedures, and tools installed were continuously used by internal and external stakeholders by embedding them into the business process. Regular audits (quarterly then semesterly) were conducted to ensure the compliance to the system.

4. CONCLUSION

This research describes how Integrated Contractor Strategy (ICS) has proven that a CSR program can be integrated into business process. In this case, the company has successfully redefined the contracting strategy by restructuring the contracting procedures to help and prioritize local contractors, while, at the same time, improving the quality of their contract deliveries. Regular audits also show that improvements both in project delivery and also local workers and local leaders can be maintained. Financially, ICS has also helped the bottom line of the company as cost savings have been achieved through reduction in number of delayed projects and contract variations by better planning, and on-time delivery by better on-the-job coaching to local contractors by the company's project managers or supervisors. To confirm this approach, it is recommended that another

study on a similar project on CSR integrated into the business process is conducted.

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