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# CARROLL'S PYRAMID AND THE IMPLEMENTATION OF CORPORATE SOCIAL RESPONSIBILITY IN "PT PUPUK KALIMANTAN TIMUR"

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## ABSTRACT

*This study aims to analyze, evaluate and formulate the implementation model of Corporate Social Responsibility based Carroll's Pyramid in PT Pupuk Kalimantan Timur. The research was conducted at PT Pupuk Kalimantan Timur during 2012-2015 with data analysis using Carroll's pyramid. The results show that the implementation of Corporate Social Responsibility in PT Pupuk Kalimantan Timur has fulfilled the top stage of the pyramid, which is philanthropic responsibility and as the foundation in conducting its Corporate Social Responsibility activities, the company fulfills economic responsibility. The Company has also fulfilled legal responsibility and ethical responsibility in its Corporate Social Responsibility implementation.*

## KEYWORDS

Carroll's pyramid, corporate social responsibility.

## INTRODUCTION

### SUSTAINABILITY REPORT AS COMPANY'S MAIN OBLIGATIONS

In 2016, the Ministry of Environment issued Decree of the Minister of Environment and Forestry of the Republic of Indonesia No. SK.892 / Menlhk/Setjen/STD.0/12/2016 about the Corporate Performance Improvement Assessment Program (PROPER). The 2015-2016 Corporate Performance Rating Assessment Result in the Environmental Management explained that out of 1930 companies, 284 companies were classified as "red" category and 5 companies were classified as "black".

Red category is an assessment for companies that have undertaken environmental management efforts but have yet met the requirements stated by the law and regulation, s-while black category is assessment for company that in conducting their business activities, have caused pollution or damage to the environment, and therefore, violate the laws but do not carry out administrative sanctions given to them.

Based on the data, the government has successfully conducted assessment to describe the amount of pollution or environmental damage that occurs because of the industrial sector in Indonesia. However, the government has yet conducted such assessment for any kind of illegal industry or one which has not been officially registered on the Indonesian government website. Water, air, soil and the disposal of hazardous and toxic waste (B3) are going to cause problem particularly for people living around industrial areas.

The impacts of these environmental damages have ultimately led to a discourse on social responsibility of a company which then more widely discussed using the term Corporate Social Responsibility (CSR). Company is required to not only focusing on mere profit (profit-oriented), but also making their business sustainable by maintaining good relationships with the stakeholders. CSR is believed to be a strategic activity and have a contribution in achieving company's long-term goals by reducing and even eliminating the negative impacts the company caused to the environment.

In addition to the demands of society, pressure from the government also plays a role in encouraging companies to pay attention to their social responsibilities (Cahyandito and Ebinger, 2005). In Indonesia, many companies have applied CSR and at the same time, the government has started to pay attention to it. Therefore, Indonesian government has issued several regulations related to CSR. The first is Article 15 (b) of the 2007 Regulation number 25 about Capital Investment states that every investor shall be obliged to carry out corporate social responsibility. Next, the 2007 Regulation number 25 Section 34 provides detailed sanctions for business entity or an individual that neglects Corporate Social Responsibility. Finally, the 2007 Limited Liability Company Decree number 40 Article 74 states obligation to conduct programs related to social and environmental responsibility for companies whose business are related to natural resources.

One company that has written a sustainability report is "PT Pupuk Kalimantan Timur (Pupuk Kaltim)", a manufacturing company producing and selling fertilizer namely. Pupuk Kaltim first wrote and published their company's sustainability report in 2012 and posted it on the company website for the public, investors and customers to read.

The objectives of the study were to identify, analyze and evaluate the stages of CSR implementation in "PT Pupuk Kaltim." In addition, it also analyzed whether or not the implementation of CSR in "PT Pupuk Kaltim" has met Carroll's Pyramid description of social responsibility. Finally, the researcher would develop CSR implementation model in PT Pupuk Kaltim based on the Carroll's pyramid as the outcome of the study.

## REVIEW OF LITERATURE

### UNDERSTANDING CORPORATE SOCIAL RESPONSIBILITY AND CARROLL'S PYRAMID AS THEORETICAL BACKGROUND FOR THE RESEARCH

#### STAKEHOLDER THEORY

According to Daniri (2008), one of the reasons the concept of Corporate Social Responsibility is based on the Stakeholder Theory is that the existence of a company is not solely aimed at serving the interests of shareholders but also the interests of other parties (stakeholders) including the community. The use of this theory emphasizes that corporate social responsibility requires them to consider all the interests of the various parties affected by the implementation of Corporate Social Responsibility.

#### THEORY OF LEGITIMACY

O'Donovan (2002) argues that organizational legitimacy can be seen as something that society gives to the company and something the company wants or seeks from the society. Thus, legitimacy has benefits to support the survival of a company. Legitimacy is a corporate management system oriented to the alignment of

society, the government of individuals and community groups (Gray et al., 1996). Therefore, the company's business activities should be in line with the expectations of the community.

#### **CORPORATE SOCIAL RESPONSIBILITY**

Corporate social responsibility (CSR) is an idea that company's responsibility (corporate value) no longer stands on the single bottom line namely financial condition (financial). Corporate responsibility should be based on triple bottom lines, financial, social and environmental. Financial condition alone is not enough to guarantee the value of the company grow sustainably (sustainable). The sustainability of a company will only be ensured if the company takes into account the social and environmental dimensions. There have been reports that the surrounding communities would protest companies that they claimed neglecting the social, economic and environmental aspects (Daniri, 2008:4).

Mirza and Imbuh (1997) describe social responsibility as an organizational obligation that not only provides good goods and services to society, but also maintains the quality of the social and physical environment as well as contributes to the well-being of the communities to which they belong. It is also supported by the opinion of Kotler and Nancy (2005) that defines CSR as a company's commitment to improve the welfare of the community through good business practices and contribute some of the company's resources to the society in order to improve the company's image. If a company runs their business well and follow the rules set by the government, the government then will give the company some flexibility to run their business in their territory.

#### **CARROLL'S PYRAMID**

Carroll (1991) states that the pyramid covers the whole perspective of what society expects through a company, both economically and socially. The idea behind the Carroll's pyramid was first introduced in 1979 when Carroll and other researchers tried to create a functional theory that could explain how a company achieved their social legitimacy (Garriga and Mele, 2004). Carroll then came to the conclusion that economics, law, ethics and discretionary (now called philanthropic) are the categories of responsibility that companies should fulfill in their CSR performance to achieve community demands and acceptance among researchers. The four responsibilities are then formed in a CSR pyramid (Carroll, 1991). Over the next few years, Carroll reviewed his pyramid and provided a revision in 2004 which, according to Carroll, is more suitable to be applied in a global context.

Carroll (1979, 1991, 2004) states that the four responsibilities (economic, legal, ethical and philanthropic) are developed to cover all views of CSR and what stakeholders expect from firms, both economically and socially. The usefulness and implementation of each of the different responsibilities depend on the size of the company, the industry and its economic circumstances. Carroll then pointed out that ethical responsibility has a major role to the company, especially in developing countries, but it becomes difficult to identify. A company is supposed to be run in line with existing rules and ethics and assume that this has an impact on the equivalent company even more than legal responsibility.

#### **RESEARCH METHODOLOGY**

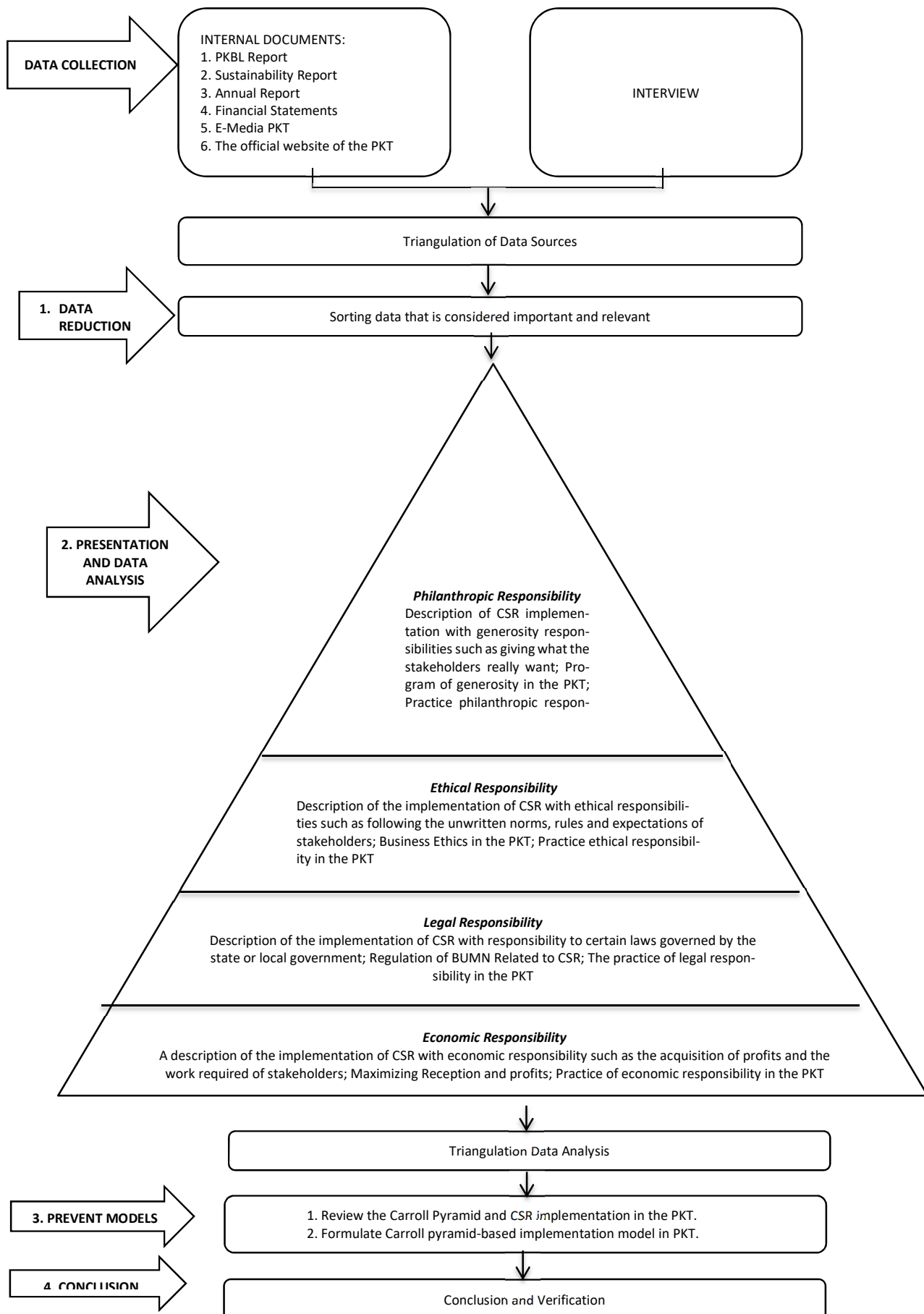
The research was a qualitative research that aimed to understand, explain and describe more deeply about the phenomenon in this research, namely the implementation of CSR based on the Carroll's pyramid. The paradigm used in this research was interpretivism. The paradigm of interpretivism is a perspective based on the purpose of understanding and explaining the social world from the spectacles of the actors involved. The method used in this research was case study. According Sukoharsono (2006), case study is a study to explore a (or some) system structure or case in detail.

The reason for choosing "PT Pupuk Kalimantan Timur (PKT)" as research location is because PKT is the biggest national fertilizer company in Indonesia and is the branch of "PT Pupuk Indonesia (Persero) Tbk." In addition, their business activities are directly related to exploitation of natural resources making implementation of CSR in PKT is highly recommended. The following reason is because PKT has received various awards related to the company's concern for the environment through the company's sustainability report.

The secondary data used in this study are written documents related to the CSR program, conducted by PKT, such as sustainability reports, PKBL reports, financial reports, annual reports, PKTe-media and information on their official website on the implementation of CSR between 2012 and 2015. The primary data are the interview transcription. The researcher confirmed the validity of the data to the parties related to the implementation of CSR in PKT. Furthermore, researchers conducted triangulation.

The data analysis method is Carroll's pyramid pattern. The type of social responsibility stated in Carroll's pyramid is used as a tool for identifying, analyzing and evaluating the implementation of CSR in PKT and develop a Carroll's pyramid-based implementation model in PKT.

FIGURE 1: FLOW OF RESEARCH METHODOLOGY



**BACKGROUND PT PUPUK KALIMANTAN TIMUR**

PT Pupuk Kalimantan Timur (PKT) was established on December 7, 1977 by the Minister of Justice and Human Rights of the Republic of Indonesia through Decree No. AHU-80094.AH.01.02. On October 31, 2008, the Company's Articles of Association was changed into a limited liability company through the 2007 Decree number 40. PKT's headquarters and production center is located in Bontang, East Kalimantan and the representative offices are located in Balikpapan, East Kalimantan and Central Jakarta (SR PKT, 2015).

The Company's main business is to produce and sell Ammonia, Urea, NPK fertilizer in domestic and foreign markets. For the domestic distribution, Pupuk Kaltim distributed their products to two-third areas of Indonesia, namely the eastern part of Indonesia to Papua, and most areas in East Java and Kalimantan, except West Kalimantan. For the global market segment, PKT exports their products to countries in the Asia Pacific region, the United States, South America and others (AR PKT, 2015).

The purpose of the establishment of the company is run business including providing service in the fields of industry, trade, fertilizer, petrochemicals, agrochemicals, agro-industries and other chemicals as well as to use resources the company has to produce qualified goods and services. The company also aims to develop win the business competition and gain profit to increase the value of the company by applying the principles of limited liability company (SR PKT, 2015).

**THE IMPLEMENTATION MODEL OF CORPORATE SOCIAL RESPONSIBILITY BASED ON CARROLL'S PYRAMID IN PT PUPUK KALIMANTAN TIMUR**

PKT is one of the state-owned enterprises whose operational implementation prioritizes the incorporation of environmentally friendly products with environmental sustainability in the area around the company which is then realized through corporate CSR programs. In its CSR implementation, PKT has fulfilled all categories of responsibilities that companies should meet in CSR performance to achieve community demands.

The categories of responsibility are economic responsibility, legal responsibility, ethical responsibility and philanthropic responsibility. The four categories of responsibility are then involved in a CSR pyramid (Carroll, 1991). The idea behind the Carroll's pyramid was first introduced in 1979 when Carroll and other researchers tried to create a functional theory that could explain a company to achieve social legitimacy (Garriga and Mele, 2004).

Social legitimacy in this case is related to the theory of legitimacy which states that the operations of the company must be in line with the expectations of society because the legitimacy of the organization can be seen as something that society gives to the company and something the company wants or seeks from society (O'Donovan, 2002).

The organization or company will continue its existence if the public realizes that the organization operates for a value system commensurate with the community's own value system. Therefore, organizations continuously try to ensure that they do activities in accordance with the boundaries and norms of the communities in which they are located (Gray et al., 1996). According to the theory of legitimacy, a company operates with the consent of a society in which this permit may be withdrawn if the public judges that the company is not doing the things that are required of it.

In the Carroll's pyramid, there is a limit on a company and its various responsibilities to stakeholders. Therefore, the pyramid chart proposed by Carroll (2004) can be viewed as a model that can be applied on a global scale. The form of a pyramid is assessed to cover all views on what society expects from a company, both economically and socially. So the corporate social responsibility based on the Carroll's pyramid is no longer faced with responsibility on the single bottom line but on the responsibility of the triple bottom lines.

It can be interpreted that the Carroll's pyramid is not only concerned with the value of the company that is reflected in the financial condition but has grown to take into account also the social and environmental issues. The current financial condition has been assessed is not enough to guarantee the value of the company grow sustainably. There are reports that many times surrounding community in various places went after companies that are considered not paying attention to social, economic and environmental aspects (Daniri, 2008: 4).

Each part or level in the Carroll's pyramid also shows the category of responsibility that companies must fulfill in CSR performance to achieve community demands. McWilliams and Siegel (2001) argue that a company through its various policies and operating activities has an impact on various stakeholder groups, so that the company may meet the demands of these groups to fulfill its responsibilities.

Carroll's Pyramid also shows that there is a relationship between CSR and stakeholders in a company (Carroll, 2004). This is related to one of the reasons the concept of Corporate Social Responsibility is based on Stakeholder Theory. According to Daniri (2008), the objective of a company is not solely serving the interests of shareholders but also the interests of other parties (stakeholders) including the community. The use of this theory emphasizes that corporate social responsibility requires companies to consider all interests of various parties affected by the implementation of Corporate Social Responsibility.

In addition, there is a relationship between stakeholders and CSR performance in the company. Other things that can be seen from the Carroll's pyramid are commitment and understanding of the company's where CSR is implemented. Based on the Carroll's pyramid, the CSR program implemented by PKT is described as follows:

1. At the stage of economic responsibility, the company developed their economic responsibility in the form of gaining profit as their top priority and doing what was required by stakeholders in terms of getting profit. Economic responsibility is the foundation of the Carroll's pyramid because it represents the reason why a company is established, making a profit. When company has made some profit, the company starts to follow the laws and regulations in the area where it is located as an indication that the company slowly begins to meet the demands of the society. If the company follows the laws and regulations before concentrating on their economic responsibility, the initial goal of the company to generate profits will be slightly neglected. Having achieved their economic responsibility, will then lead company to perform the legal responsibility stage.
2. At the stage of legal responsibility, the company began to show that generating profit is not enough for the survival of the company and therefore, the company then starts following the regulations in the area. At this stage, the CSR program keeps following what is required by stakeholders which is obeying the rules established by the state and local government so that the company can still grow in the region. After the economic responsibility and legal responsibility can be met, then the company performs in a better and broader stage with ethical responsibility.
3. At the stage of ethical responsibility, the company develops ethics where the company provides not only what the stakeholders need but also what they expect. At this stage what companies can do are follow unwritten norms, rules and pay attention to what stakeholders really expect. This can be reflected in PKT's CSR activities that can benefit the communities around the company. Having met their ethical responsibility as demanded by the society, then the company can move to the top of the pyramid that is philanthropic responsibility stage.
4. At the stage of philanthropic responsibility, the company has really paid attention to what the stakeholders really want. The company is no longer profit-oriented, demonstrating obedience to the prevailing rules or just following the invisible norms; instead it provides ample contribution to the community. PKT carried out their philanthropic responsibility by distributing packages of basic need to their cleaning staffs. Once company has achieved the peak of the pyramid through their CSR, it is going to earn reputable position on global scale.

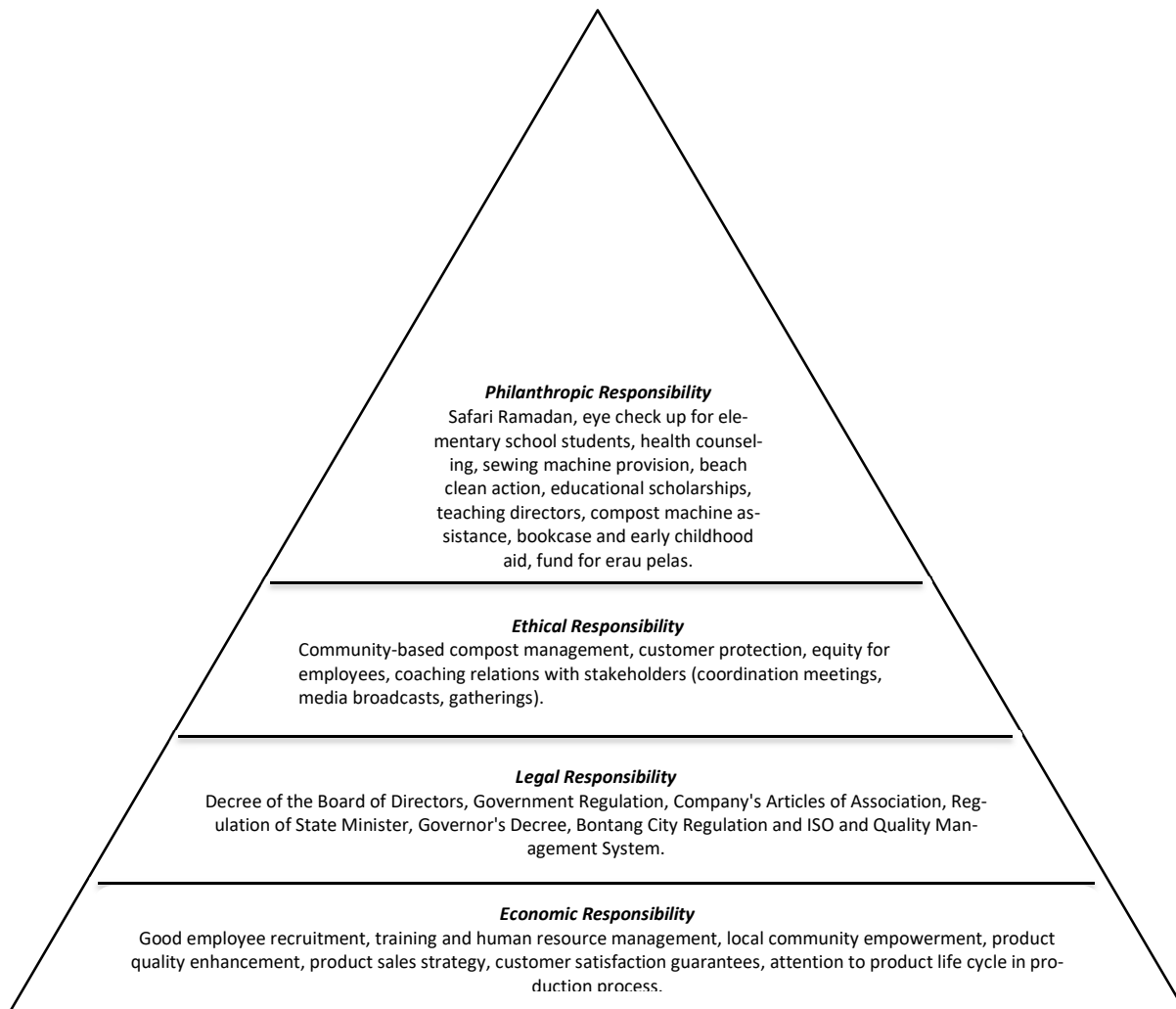
It is expected that CSR categorization help managers to see that different types of responsibility are not constant but dynamic with each other. Carroll (1991) argues that the pyramid he developed is intended to describe entire concepts of CSR involving different business that were combined into one unified concept. Although each component is different, but these components will work together to help managers to see various policies impacting one another simultaneously. It can be concluded that this CSR concept is a company's attempt to fulfill their social responsibilities in economic, legal, ethical and philanthropic aspects. Similarly, pragmatically, companies should strive to make a profit, obey the law, be ethical and be a good corporate citizen (Carroll 1991).

Sule and Kurniawan (2005) summarized the benefits of social responsibility; they were as follows:

1. Benefits for the company: companies would be able to develop positive image before the society and the government.
2. Benefits for the community: there is stronger bond between companies and the society as the companies make an effort to accommodate the public interests
3. Benefits for government: companies provide assistance for the government in carrying out the social mission in the form of corporate social responsibility program.

Based on the previous explanation, the Carroll's Pyramid-based Corporate Social Responsibility model in "PT Pupuk Kalimantan Timur" is described as follows:

FIGURE 2: THE IMPLEMENTATION MODEL OF CORPORATE SOCIAL RESPONSIBILITY BASED ON CARROLL'S PYRAMID IN PT PUPUK KALIMANTAN TIMUR



## CONCLUSIONS AND RECOMMENDATIONS

Based on the analysis and evaluation of CSR implementation in PKT, it is found that the implementation model of CSR in PKT has met the description of CSR stated in Carroll's pyramid. At the stage of economic responsibility, the company conducted CSR of which purpose is obtaining profits since as the company in general, PKT has economic responsibility as foundation for the establishment of the company.

Based on Carroll's pyramid, PKT should meet the demands of the society before arriving at the next stage, legal responsibility. At this stage, PKT can show that generating profit alone is not enough for the company's survival. The company is also required to obey the laws and regulations that exist in the region so that it can continue to grow in the region. At the ethical responsibility stage, the company develops ethics to a better stage where the company not only delivers what the stakeholders need but has taken steps to meet what is expected by stakeholders. At this stage, PKT has succeeded in doing and providing something beneficial to the community and other stakeholders. Philanthropic responsibility is the peak stage of the Carroll's pyramid; very few companies can achieve the stage because at this stage company should exceed stakeholder requirement and expectation instead of no longer focusing on profit only, obeying the law and regulations and following the social ethics.

## SUGGESTION

The researchers can describe the benefits of Carroll's pyramid-based CSR implementation model. As the effect, both the company and the stakeholders understand the benefit of Carroll's pyramid-based implementation. The benefits of applying the model can be seen through the evaluation process and evaluation results of CSR programs conducted by PKT.

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