

# **MODELING AN EFFECTIVE CORPORATE SOCIAL RESPONSIBILITY BASED ON SYSTEMS THEORY AND MANAGEMENT FUNCTIONS: A CASE STUDY IN INDONESIA**

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## **ABSTRACT**

Every investment activity aims to gain financial profit. It has been also generally accepted that business is oriented to economic aspects as key measures in assessing a company's performance. However, the paradigm has been shifting along with the dynamics of business world. Economical achievement is no longer the only determinant of the success of business. Instead of focusing only on economical aspect, a company also has other important responsibilities to be delivered to stakeholders, i.e. in social and environmental aspects. Corporate Social Responsibility (CSR) is a concept that accommodates those aspects within business activities. This study regards CSR as a system of management which consists of inputs, process, and outputs. The process includes management functions of planning, organizing, actuating, and controlling. Applying a qualitative approach with case study method, this study aims to formulate a model of effective CSR in a building construction company by integrating systems theory and management functions. The case study is conducted in WIKA, a state-owned enterprise which runs business in building constructions. Data are gathered by conducting in-depth interview with CSR manager of the company. The result of this study might be enhanced by further research through a quantitative measurement of the relationship between the variables within the model.

**Keywords:** corporate social responsibility, systems theory, management functions.

## **1. INTRODUCTION**

Although a company is a profit-motive entity, but every company in the world cannot avoid its responsibility to society and environment, because it coexists and is a part of the community. Countries are now conscious to regulate it, as well as Indonesia. Indonesian government has issued some regulations regarding Corporate Social Responsibility (CSR). The main regulation is Law No. 40/2007, Article 74. This law is applied for limited companies in Indonesia. According to this law, all limited companies those conduct business in the field or in the area in which directly related with natural resources are required to implement social and environmental resources. It is a general rule

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regarding CSR in Indonesia. In terms of investment, Indonesian government has stated in Law No. 25/2007 that all investors – either local or foreign – who invest for running business in Indonesia have an obligation to implement CSR initiative in their business practices. A state-owned enterprise (SOE) must comply with Regulation of Minister of State-Owned Enterprises No. PER-09/MBU/07/2015. According to this regulation, it is compulsory for all State-Owned Enterprises (SOE) to conduct partnership program with small businesses and community development program for society. The programs cover economic, social, and environmental aspects. This regulation focuses on CSR programs for surrounding society and environment.

The legal aspect of CSR in Indonesia is then explained in more detail in Government Regulation No. 47/2012 regarding Social and Environmental Responsibilities of Limited Liability Companies. Article #2 in this regulation mentions that every company, as a legal subject, has responsibilities to society and environment. It shows that the obligation to run CSR is not only for the companies that deal with natural resources, but also for all business sectors, including building construction industry. Building construction industry is a strategic sector that has proven its capability of contributing significantly (9.9%) to national GDP with growth rate of nearly 7% (6.88%) in 2014. Regarding that the construction sector is very strategic, the government then allocates investment Rp 5.452 trillion by the year 2019, and the infrastructure development should be prioritized in national development programs ([www.pu.go.id](http://www.pu.go.id), September 10, 2015). According to Directorate General of Construction in the Ministry of Public Works & Housing, The potential construction industry in Indonesia is tremendous. It is shown by the size of construction market in Indonesia which reaches about 1,000 billion per year. Within the year 2014 - 2019 the construction market in Indonesia is estimated to reach Rp 5,000 trillion. At the level of ASEAN, Indonesian construction market contributes 60-70%. While in Asia, Indonesia is in the 4th position after China, Japan, and India ([www.swa.co.id](http://www.swa.co.id), October 7, 2015). The good prospects of construction business in Indonesia can also provide a bright prospect for the welfare of community if the construction companies in Indonesia have the awareness to implement CSR.

This qualitative study will give a comprehensive picture of CSR implementation conducted by WIKA, one of the biggest Indonesian construction companies. CSR is a part of business activities, and company is a rational entity that operates the business. Thus, CSR should be regarded as a rational program and conducted systematically in managerial procedures. This study regards CSR as a system that consists of inputs, process, and outputs in which the process includes management functions of planning, organizing, actuating, and controlling.

## **2. LITERATURE REVIEW**

The heart of CSR is a concept of stakeholder management. Adopting Galbreath (2006) regarding stakeholder concept, stakeholders can be defined as the parties who are willing to take risks due to their ownerships in the form of capital, skill, or financial investment, or anything valuable, in a company. Clarkson (1995) divides stakeholders into two categories of primary and secondary stakeholders. The difference between them is the impacts of their presence and involvement on the sustainability of the company as a going concern. The primary stakeholders include shareholders, investors, employees, suppliers, customers, government, and community whose survival and continuity will be directly affected by the existence and activities of a company. The rest stakeholder, media for example, is categorized as a secondary stakeholder. The concept of CSR is about combining financial and non-financial aspects and integrating triple bottom line factors (Elkington, 1998), i.e

economy, social, and environment in dealing with business practices. CSR is currently regarded as an important factor and a strategic tool to encourage a corporate positioning in which a company can improve its positive image in the eye of customers through CSR programs that can finally generate increasing sales (Castalao-Lopes, Pina, and Branca, 2016). CSR initiative is commonly regarded as a part of corporate citizenship awareness and it should be integrated into the business strategy because the objective of every business should include two things at the same time, i.e. to earn financial profit and to deliver values to stakeholders (Stangis and Smith, 2017).

CSR is a solution to resolve the contrary between economic efficiency and social capital (Arthur, Cato, Keenoy, Smith, 2007). Among the various definitions, CSR is also defined as integration between environmental and social in business activities and the interaction with stakeholders (Ditlev-Simonsen, 2010). This definition of CSR is strengthened by Cronje and Wyk (2013) who state that CSR conducted by a company is about to involve the stakeholders in active engagement of business operations and activities. To be successful in managing relationship with stakeholders, a company must build trust in the eye of stakeholders by complying with good corporate governance (Stuebs and Sun, 2015). To support community engagement, a company should get understanding of the roles within the interactions with stakeholders through CSR program which includes five strategic activities, i.e. donations, employee voluntarism, projects, partnerships, and the welfare of employees (Deigh, Farquhar, Palazzo, Siano, 2016).

Rakotomavo (2012) states that there is a possible relationship between CSR performance and financial performance. Implementing CSR cannot be separated from management system and management functions. As a rational entity, a company should run all business activities, including CSR, in systematic ways. According to general system theory invented by Bertalanffy (1968), a system is defined as a number of interconnecting parts that can function together to achieve certain goals. Systems are classified into open systems and closed systems. According to the systems approach, the components of an open system are inputs, process, outputs, and feedback. General system theory is an important perspective to view some problems in the fields of management. Management functions can be applied into the system in terms of process, as management itself is defined as a process. According to Terry (1972), management is a process that includes four functions of planning, organizing, actuating, and controlling to achieve the stated goals by empowering humans and other existing resources. Planning is the key point of management, it is about setting the goals and determining the directions to achieve the objectives. Organizing is the function of structuring resources and dividing tasks in the efforts of achieving the goals. Actuating is the following step of organizing function, it is the function of motivating, mobilizing and synergizing the contributions of resources to achieve the goals. Controlling is the function of measuring performance and evaluating in what extent the organization has achieved the stated goals. The outputs of a respective period will be evaluated to become feedbacks for inputs and process in the next program. Thus, CSR can be regarded as a cyclical system.

### **3. METHODOLOGY**

This study is a qualitative research that applies a case study method. It requires both deductive and inductive reasonings in the stage of model building. Deductive reasoning is applied in finding constructs through literature review of previous studies, i.e. systems theory and management functions. While inductive reasoning prevails in finding constructs through contextual matters in real situations of CSR implementation in WIKA, an Indonesian SOE that runs business in building

construction. This study uses a purposive sampling technique. Zikmund, Babin, Carr, Griffin (2010) define purposive (judgment) sampling as a nonprobability sampling technique that the researcher selects the sample based on his or her judgment of some appropriate characteristics which are required in the criteria to meet the specific purposes of the research. Purposive sampling is used in a situation that a researcher purposes to identify particular cases for in-depth investigation (Neuman, 2006). Since the purpose of this research is to build an effective CSR model for Indonesian building construction business, thus WIKA is selected as the sample because it is one of Indonesian biggest building construction companies. This research requires both primary and secondary data. Primary data is data collected directly and firstly by researcher. In this study, the primary data is gathered by conducting in-depth interview through structured interviews with Manager of Corporate Social Responsibility & Good Corporate Governance (CSR & GCG) and Sustainability Specialist of WIKA. This study also needs to confirm the information collected through in-depth interview by cross-checking with the secondary data, such as sustainability reports, annual reports, corporate bulletin, regulations, and official websites of the companies. This effort is taken as a triangulation to confirm the data.

## 4. ANALYSIS

### 4.1. Company Profile

PT. Wijaya Karya (Persero), Tbk., or better known by the name of WIKA, is a state-owned enterprise (SOE) which engages in business fields of infrastructure and buildings, energy and industrial plants, industry, realty and property. The share ownership of WIKA consists of 65.05% which belongs to government of Indonesia and the rest which belongs to public. The public share consists of 15.59% which belongs to domestic investors, 18.13% which belongs to foreign investors, and 1.23% which belongs to WIKA employees. Currently, the number of workforce of WIKA encompasses 1.912 people in all over Indonesia and five other countries, including 13 employees in Algeria (WIKa Sustainability Report 2014).

According to the Sustainability Report 2014, WIKa has determined its vision for the year of 2020, "to be the one of the best integrated Engineering, Procurement, and Construction (EPC) and investment companies in Southeast Asia. WIKa runs business to achieve its missions: (1) providing excellent and integrated products and services in EPC and investment; (2) fulfill key stakeholder expectation, implementing business ethics to promote Good Corporate Citizen and Company Sustainability; (4) strategic overseas expansion; (5) implementing "Best Practices" integrated management system. To be in alignment with its vision and missions, WIKa applies its corporate values and principles, i.e. commitment, innovation, balance, excellence, relationship, team work, and integrity.

### 4.2. Inputs

The awareness of WIKa in promoting CSR initiative had been conducted since 1992, a long time ago before the legal regulations of CSR were issued in Indonesia. The motive of WIKa in running CSR programs is to safeguard its projects from distractions of surrounding communities. In operating areas of WIKa, in which WIKa does construction activities, there are some demonstrations of people who protest the activities of WIKa. WIKa is aware that its business operation activities will disturb the lives of people around the area of its operations. The

demonstrations will also impact to the delayed completion of work on construction contracts. Thus, WIKA takes efforts to reduce the impacts and mitigation of the risks through implementing CSR initiative. WIKA is also aware that business does not only pursuit economic profit, but there is a responsibility of business to share with the community. The CSR programs are conducted by WIKA to comply with Triple Bottom Line concept of profit, people, and planet. As a state-owned enterprise (SOE), WIKA must comply with CSR initiative through partnership program and community development (Program Kemitraan dan Bina Lingkungan = PKBL) based on the latest Regulation of Minister of State-Owned Enterprises, No. PER-09/MBU/07/2015. Then WIKA has three programs regarding CSR initiative, i.e. partnership program (PK), and community development (BL), and CSR itself.

### 4.3. Process

Adopting definition of management expressed by Terry (1972) in which management is regarded as a process that consists of four management functions, namely planning, organizing, actuating, and controlling. Thus, the process of CSR implementation conducted by WIKA is as follow:

#### a. Planning

According to WIKA Sustainability Report 2014, it is written in the section of company characteristics that WIKA has eight types of stakeholders, i.e. shareholders, creditors, project owners, end users, employees, partners, community, and regulator. The challenges that will be potentially faced by WIKA in running its business are: (1) managing social and environmental risks those are different each other in every project; (2) adjusting to the various requirements and needs of project owners; (3) employing local workforce. It shows that WIKA has initially conducted identifications of stakeholders and the risks that need to be mitigated as the parts of planning function of management system. The mitigation can be done through implementing PKBL and CSR programs in well-organized structures and actuating the working plans and budget into the real useful activities. Needs assessments are necessarily done through Focus Group Discussion (FGD) for the sustainable programs those are meant to be in long term. It is a big challenge for WIKA to select the most feasible programs prudentially as it also has consequences in legal aspects.

Partnership program (Program Kemitraan = PK) is a program of giving loans to small medium enterprises (SME) which includes: (1) loans for working capital and/or the purchase of fixed assets to increase productions and sales; (2) additional loans to finance short-term needs in order to meet orders from business partners. To run PK, the SMEs are given the opportunity to submit proposals to WIKA. Then WIKA will select them based on criteria written on Regulation of Minister of State-Owned Enterprises, No. PER-09/MBU/07/2015. WIKA also conducts feasibility studies of the submitters' business, and surveys the SMEs to check whether their businesses are continuing and deserve to be granted the loan. The kinds of community development (Bina Lingkungan = BL) programs have been strictly determined by the regulation to cover 8 activities: (1) donation for victims of natural disasters; (2) education and / or training; (3) health promotion; (4) development of infrastructure and / or public facilities; (5) places of worship; (6) conservation; (7) social assistance in order to alleviate poverty; (8) educational assistance, training, apprenticeship, marketing, promotion, and other forms of assistance related to efforts of increasing the capacity of partners of PK. As well as PK, BL program also needs submitted proposals from community, and WIKA will also do feasibility studies and surveys to consider whether the proposed program is urgent and eligible to be realized. However, the conditions are not always mandatory for BL. For some sudden events,

such as natural disasters, the assistance for the victims will be provided directly and immediately based on initiative from WIKA without proposals from community.

WIKA has a selection mechanism for proposals of both BL and CSR programs. The criteria are: (1) the program must be held in the “first ring” zone of WIKA operations; (2) the program must be in alignment with the four focuses of WIKA CSR programs; (3) the program must be sustainable and the benefit of the program can be felt by community in the long run, rather than a philanthropy that is only in a short-term program; (4) the fund which has been allocated by WIKA is sufficient to finance the program.

The goals of each program is set according to WIKA long-term plan which is called as Long-Term Plan (Rencana Jangka Panjang = RJP). RJP includes some targets of every program. RJP is arranged for five years. RJP is reviewed and then derived into Corporate Work Plan & Budget (Rencana Kerja Anggaran Perusahaan = RKAP). RKAP is more detail and includes annual working plan and budget. It is arranged based on the review of RJP and the results of evaluation of the last-year report. In this term, it is shown that the outputs of the last term can be the inputs of the current term. In running its PKBL and CSR programs, WIKA strives to comply with RKAP for the routine programs. However, in fact it requires some adjustments to implement the programs due to the changes of regulations and economic conditions. For example, there was an amendment of the Regulation of Minister of State-Owned Enterprises in the mid of this year. The previously applicable regulation was No. PER-08/MBU/2013 in which the budget of PKBL and CSR program is regarded as corporate expenses, but now in the current regulation No. PER-09/MBU/07/2015, it must be allocated from appropriation of net profit of the last year. The goal setting is also done by determining CSR blueprint through FGD in management level and periodical monitoring in management review. Time schedule of programs is arranged monthly and based on time frame until the programs are finished completely.

Implementing an Environmental Management System (EMS) on every project and running a good, strategic, and targeted CSR programs are two of seven points of WIKA strategy. WIKA then determines what kinds of social responsibilities should be delivered to meet the interests of stakeholders. As written on WIKA Sustainability Report 2014, there are social responsibilities towards stakeholders that should be carried out by WIKA in running its operational businesses, i.e. (1) generating profits; (2) conducting responsibility towards occupational health and safety; (3) increasing public welfare; (4) creating quality projects.

Budget for all PKBL and CSR programs of WIKA is allocated 2% of net profit of the last year. It is in accordance with Regulation of Minister of State-Owned Enterprises, No. PER-09/MBU/07/2015, budget of PKBL at SOE must be allocated from: (1) appropriation of the net profit after tax that is decided by the general meeting of shareholders / ratification of the annual report by the state-owned enterprises minister, a maximum of 4% of the previous year's profit after tax; (2) administrative fee of loan/margin/profit sharing of the partnership program; (3) interest revenue from deposits and/or current accounts of allocated fund of partnership program and community development program (PKBL); (4) other legal resources.

#### *b. Organizing*

CSR Bureau at WIKA is formed under Corporate Secretary Department. It is a functional structure which consists of department and bureaus. There are three bureaus under Corporate Secretary Department, i.e. CSR, GCG, and General Affair & Investor Relations. There are five persons who

work in CSR Bureau. The structural hierarchy of CSR Bureau is the same as structural hierarchy of other bureaus in WIKA functional structure. CSR activities of WIKA, which are under CSR Bureau, currently more concern with external orientations. While the internal orientations are under other functions, such as Human Capital Department and Safety Health Environment (SHE) Department. WIKA needs more commitment and improvements to be a strategic function in linking both internal and external orientations.

### *c. Actuating*

WIKA has three major programs regarding CSR initiative, i.e. PK, BL, and CSR itself. PK and BL are strictly regulated by the regulation. Since PK and BL programs have been fixed and are strictly categorized in the Regulation of Minister of State-Owned Enterprises, No. PER-09/MBU/07/2015, then social activities of WIKA which cannot be accommodated by PK and BL are covered by WIKA's CSR program. WIKA has determined the focus of its CSR programs that is stated on its blue print of CSR which consists of WIKA Sehat (health), WIKA Pintar (education and training), WIKA Hijau (conservation of natural environment), and WIKA Peduli (social care). WIKA runs its CSR initiatives in equal proportions to the three aspects of triple bottom line, namely profit (economy), people (social), and planet (environment). WIKA has currently determined to conduct multidimensional programs that can cover all aspects. WIKA incorporates eight activities of BL program into the four categories of CSR focus. Health promotion goes into WIKA Sehat, education goes into WIKA Pintar, conservation goes to WIKA Hijau, natural disaster and community empowerment go into WIKA Peduli. Almost all activities of BL programs can be done by CSR, but not vice-versa. CSR programs are sustainable and for a long term, while some programs of BL are philanthropy.

In terms of health, WIKA uses its core competence in building construction to provide clean water and public sanitation for communities in sixteen locations. The maintenance of these facilities will be done by the communities. WIKA has a certification for green building construction. WIKA also supports government program of planting a billion trees by having a program of cultivating a million trees. This program also generates other useful programs. Initially, WIKA just cultivated Sengon trees only for reforestation to preserve the environment, but the community in Bogor, near the location of the plantation, has initiatives to plant red ginger crops between the Sengon trees, and now they get additional income from selling the red ginger as the result of planting the sideline crops. The red ginger is now also exported abroad. The community under WIKA partnership has signed a contract to supply red ginger to Vietnam. Goat farming program is also initiated by WIKA for the surrounding community in order to get additional income. It is shown that the programs will result the independence of community in terms of their economic welfare. WIKA also establishes good cooperation with many parties in running its CSR programs. In the cultivating programs, WIKA is supported by Institut Pertanian Bogor (IPB) and Mitra Insan Berdikari (MIB) as the consultants of the projects. WIKA also has good relationships with other SOEs, such as PGN in terms of constructing school buildings, PGN has resource of fund while WIKA has its competence in constructing building. WIKA also provides assistance to the business of making lightweight bricks in Gorontalo through empowerment of inmates in prisons. This program is conducted to provide expertise to them, so that if they come out of prison later they will be able to be economically independent. They result good products of bricks which are precisely suitable with the specification of construction, and the products are supplied to WIKA to support materials for WIKA projects.

WIKA ensures the safety and quality of its products by emphasizing on precision. The construction business is highly dependent on precision. If it is done without the precision it will effect fatal accidents. For example, a bridge can be split into two parts if it is not built with good precision. Several years ago, state-owned construction enterprises divided their businesses in particular areas of expertise, to build civil construction, to build housing, to build office buildings, and so on. But nowadays, all of those companies are competing in the same business, without specificity of the fields. WIKA is then facing a very tight competition with other state-owned construction firms. Facing such competition, WIKA implement risk management and strict corporate governance policies to avoid violations of legal rules. WIKA expressly provides guidance on good corporate governance, every violation will be given a strict sanction.

#### *d. Controlling*

Monitoring is carried out throughout the program. For an example, in cultivating program WIKA conducts monitoring system by forming communities of the farmers. Those farmers must submit reports through the communities in which WIKA can assess their performance. WIKA's performance regarding the partnership program is also considered in the KPI. There are two components of assessment, namely effectiveness and accountability. Effectiveness is to assess the distribution of funds, while accountability is to assess the loan repayment rates. Regarding reporting system, WIKA should prepare reports for PKBL activities and CSR activities. According to Regulation of Minister of State-Owned Enterprises, No. PER-09/MBU/07/2015, PKBL Report must be submitted quarterly and annually. PKBL Report must be integrated with SOE Quarterly Report and SOE Annual Report. CSR Report must be audited in conjunction with the audit of the SOE financial statements. Endorsement of CSR Report is an integral part of the ratification of SOE Annual Report. While CSR activities are reported in annual Sustainability Report based on Global Reporting Initiative (GRI) 4.0. CSR activities report are also included in one chapter of SOE Annual Report.

#### **4.4. Outputs**

WIKA does not set a target of obtaining financial advantage in running PKBL and CSR programs. However, WIKA also gets indirect benefits from those activities, such as in the form of cost efficiency as it can avoid the penalty for late completion of work that is caused by demonstrations of community who denies the existence of WIKA projects. Thus, social security is one of benefits that WIKA gets from implementing PKBL and CSR programs. Moreover, WIKA also obtains quality assurance of products through "foreman program" which is conducted in collaboration with local communities. Cultivating program of ginger plant as intercroops between the Sengon trees brings positive impact to surrounding community in terms of additional income. Thus, the community can survive independently to alleviate poverty. Empowerment program of inmates in a prison in Gorontalo in which the inmates are given skills to make the lightweight bricks also provides benefits for WIKA. WIKA gets the ease and security of obtaining good materials which are appropriate with the specifications in its construction projects.

WIKA publishes its CSR activities through various mass media, such as newspapers, magazines, and press releases, as well as in internal media, such as internal magazine, LCD display, email, etc. WIKA also feels that PKBL and CSR activities are very helpful to boost company image as well as social engagement with communities. WIKA has also received numerous awards regarding its PKBL and CSR activities, such as The First Runner Up of Services Category in Indonesia Sustainability Reporting Award (ISRA) 2011, Commendation for The First Time Sustainability Perception Index

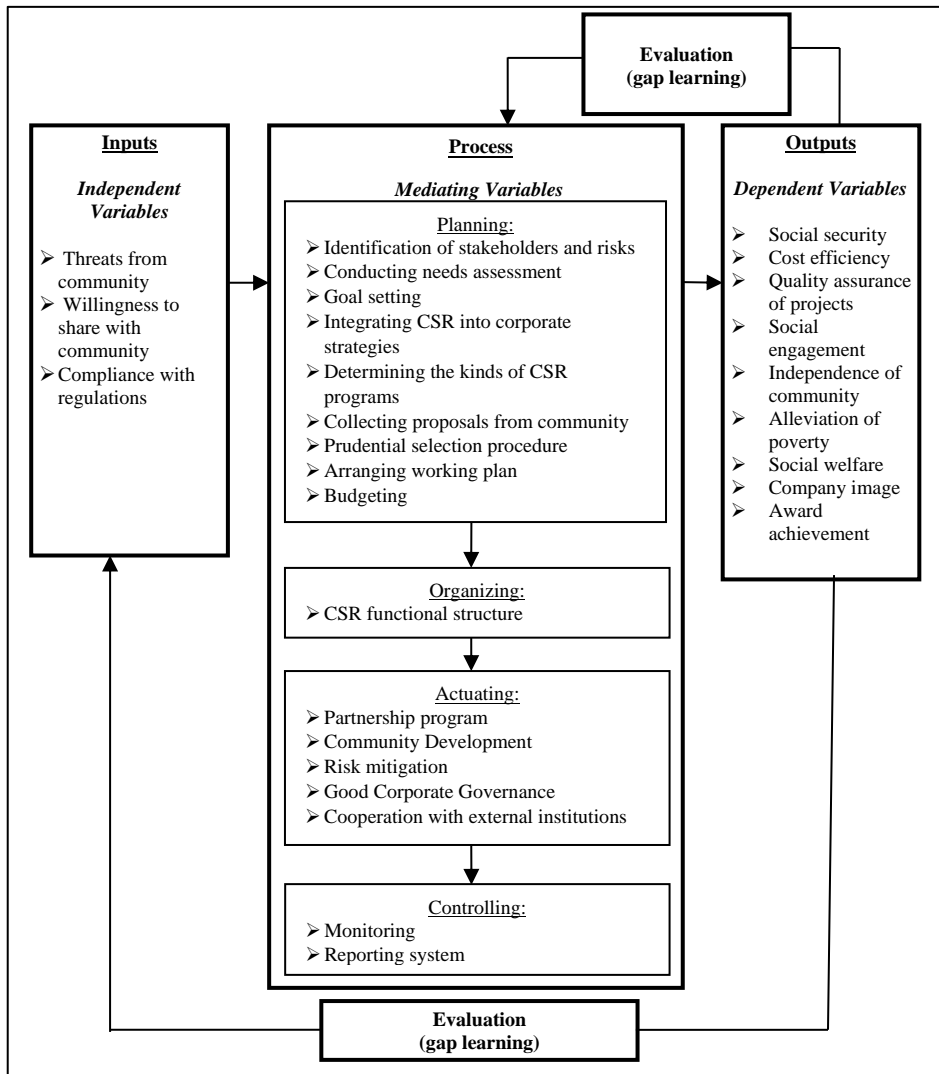


Award 2010 Reporting in Indonesia Sustainability Reporting Awards (ISRA) 2011, Runner Up for The Best Sustainability Report 2013 in Indonesia Sustainability Reporting Awards (ISRA) 2014, and Social Business Innovation Award 2015 for category of Building Construction from Warta Ekonomi. The award achievement is one of performance measurement for WIKA to evaluate to what extent the PKBL and CSR activities of WIKA are appreciated by communities. WIKA is also selected for three consecutive terms to be constituent of SRI-KEHATI Index at Indonesia Stock Exchange. It is also an achievement for WIKA as it shows that WIKA is a company that complies with socially-responsible investment.

## **5. THE PROPOSED MODEL**

After identifying the constructs and categorizing them into variables of inputs; process which consists of planning, organizing, actuating, controlling; and output, then relationships among the variables can be formulated to propose a model of effective CSR of WIKA, as shown by Figure 1.

**Figure 1:** The Effective CSR Model of WIKA



The proposed framework is further elaborated into four propositions to give clear directions of relationships among variables within the model. The propositions of this research are formulated as follow:

*Proposition 1: Inputs will give influence towards process of CSR.*

*Proposition 2: Process will influence the relationship between inputs towards outputs of CSR.*

*Proposition 3: Outputs of a certain period will give influence towards inputs of CSR in the next period as a feedback mechanism.*

*Proposition 4: Outputs of a certain period will give influence towards process of CSR in the next period as a feedback mechanism.*

The propositions that build The Effective CSR Model of WIKA are explained further into the following sub-sections.

### **5.1. *Inputs towards Process***

Threats from community that impair the implementation of projects, willingness to share with community, and compliance with regulations are the inputs that encourage WIKA to conduct CSR initiative. The inputs stimulate WIKA to formulate and carry out a set of process in running CSR programs. WIKA then responds the inputs with some activities in the phase of process. Aligning with management functions, processes of CSR those are conducted by WIKA consist of four steps, namely planning, organizing, actuating, and controlling. Planning function includes identification of stakeholders, conducting needs assessment, goal setting, integrating CSR into corporate strategies, determining the kinds of CSR programs, collecting proposals from community, prudential selection procedure, arranging working plan, and budgeting. Organizing function is about arranging and delegating works within CSR functional structure. Actuating function includes partnership program, community development, risk mitigation, good corporate governance, cooperation with external institutions. Controlling function consists of monitoring and reporting system. The inputs of threats from community encourage WIKA to know more about the surrounding community as its stakeholders and to get understanding of what needed by the community, so that WIKA does identification of stakeholders and conducts needs assessment. Its willingness to share with community also stimulates to set the goals and integrates CSR into WIKA corporate strategies. Compliance with regulations, in this case WIKA complies with Regulation of Minister of State-Owned Enterprises, No. PER-09/MBU/07/2015 that requires WIKA to conduct partnership program and community development and also the monitoring and reporting system based on that regulation.

### **5.2. *Process towards Outputs***

The proposed model shows the relationship between inputs towards outputs through process. As a mediating variable, process will influence the relationship between inputs towards outputs of CSR. The inputs will successfully stimulate WIKA to generate the outputs if only WIKA conducts a set of process in running CSR programs. Good process of CSR which consists of good planning functions, good organizing functions, good actuating functions, and good controlling functions will enable WIKA to manage the existing inputs to result good outputs in the form of social security, cost efficiency, quality assurance of projects, social engagement, independence of community, alleviation of poverty, social welfare, company image, and the achieved awards.

### **5.3. *Feedback Mechanism***

Feedback mechanism shows the relationships of outputs towards inputs and outputs towards process. Feedback mechanism is done through evaluations of CSR implementation. The performance evaluation of PKBL is included in the Key Performance Indicator (KPI). It was also associated with

the health level of the company. The main subject of assessment in the partnership program consists of two things, i.e. the effectiveness of fund distribution and the accountability of loan repayment. In this case, WIKA is required to take priority on the principle of prudence.

Evaluation is highly related with goal setting. The goal setting is also done by determining CSR blueprint through FGD in management level and periodical monitoring in management review. Goal setting is done quantitatively and qualitatively based on the nature of the programs. For example, WIKA has a program of “planting a million trees” in its RJP. WIKA splits the goal of this program within five years until 2020. It means the goal of each year since 2015 is to plant 200.000 trees to achieve the target of RJP. Qualitatively, WIKA also should make sure that the trees are alive and growing well in a long run. Another relevant activity within this program is cultivating ginger as intercrops between the Sengon trees. It brings positive impact to surrounding community in terms of additional income. Thus, the community can survive independently to alleviate poverty. Another instance, WIKA has a program of clean water supply. The quantitative evaluation is the number of point of clean water resource, while the qualitative goal is to make sure whether the clean water still exists and the benefit can be felt by community within the long term.

The review of evaluation is conducted in every three months (quarterly) and in every year (annually). There are three evaluation tools applicable at WIKA. The first one is management review which is conducted every three months, the second one is an evaluation of Corporate Work Plan & Budget (Rencana Kerja Anggaran Perusahaan = RKAP) which is conducted every year, and the third one is an evaluation of the Long-Term Plan (Rencana Jangka Panjang = RJP) which is conducted every five years. The evaluations are conducted through gap learning to compare between the goal setting and the goal achievement. The results of evaluation in a particular period can influence the input and process in the next period. The feedback mechanism makes the effective model of CSR move in a cyclical order.

## 6. CONCLUSION

Inputs that encourage WIKA to conduct CSR initiative are threats from community, willingness to share with community, and compliance with regulations. The inputs stimulates WIKA to conduct CSR initiative in order to generate outputs in the form of social security, cost efficiency, quality assurance of projects, social engagement, independence of community, alleviation of poverty, social welfare, company image, and award achievements. The inputs will successfully stimulate WIKA to generate the outputs if only WIKA conducts a set of process in running CSR programs. WIKA then responds the inputs with some activities in the phase of process. Process of CSR conducted by WIKA are identification of stakeholders, conducting needs assessment, goal setting, integrating CSR into corporate strategies, determining the kinds of CSR programs, collecting proposals from community, prudential selection procedure, arranging working plan, budgeting, CSR functional structure, partnership program, community development, good corporate governance, cooperation with external institutions, monitoring, and reporting system. The activities within the process are categorized into planning, organizing, actuating, and controlling functions. Evaluation and gap learning between the set goals and the achieved goals are the feedback mechanisms that allow the reverse relationships from outputs towards process and from outputs towards inputs. The results of evaluation and gap learning will show to what extent that the goals of CSR have been achieved by WIKA in the phase of outputs. The outputs of a respective term will influence the process as well as the inputs in the next period. Relationships among the variables within the model move in a cyclical

order, thus the effective model of CSR is regarded as a cyclical system. A future research is needed to improve and enhance the result of this study by conducting a quantitative research to measure the influence and relationships between variables within the model.

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