**Integrating Corporate Social Responsibility (CSR) into Business Process: Best Practice of CSR in Mining Industry through Local Contractor Management and Development**

Anton Sudarisman

Email: anton.sudarisman@valeinco.com

**Introduction: CSR in Mining Industry in Indonesia**

Mining industry all over the world is one of several sectors marked by much-publicised corporate social responsibility (CSR) activities, both due to its the nature of operations as an extractive industry as well as its impact on local community (most of them operate in remote areas with limited public facilities available). Under such circumstances, mining companies and other extractive industries have been expected to become the main anchor for local economic development (Frynas, 2008; Edoho, 2008).

Mining companies in Indonesia have also come under close scrutiny by the society for their CSR-related activities in the past two decades. Building harmonious relations with the community is expected to contribute positively to the short and long term operational strategies. In fact, many mining companies in Indonesia currently list CSR as one of their main corporate strategies, in particular, a strategy to gain ‘social license to operate’ (community approval to operate that extends beyond formal legal approvals). By engaging and contributing to the community, it is expected that they can operate with minimal social risk, both in short or long run (Kemp, 2009).

Currently, the CSR initiatives are practised in many forms. Based on annual reports of several mining companies in Indonesia released in the past three years, the main CSR programs run by this sector – although claimed to be ‘sustainable’ in these reports – focused on charity or philanthropic approaches. These programs encompass education, health, micro-finance, and physical/infrastructural contributions to the community. While addressing the critical needs of local stakeholders, in many
instances, such approach may not be sustainable, and may even further foster the local community’s dependence on the company.

**Keywords:** corporate social responsibility, measures development, sustainable development, qualitative data and analysis.

**New Approach to CSR**

One of the CSR approaches considered sustainable is integrating CSR into business process. As Porter and Kramer (2006) posit, “The fact is, the prevailing approaches to CSR are so fragmented and so disconnected from business and strategy as to obscure many of the greatest opportunities for companies to benefit society. If, instead, corporations were to analyze their prospects for social responsibility using the same frameworks that guide their core business choices, they would discover that CSR can be much more than a cost, a constraint, or a charitable deed — it can be a source of opportunity, innovation, and competitive advantage.”

This article attempts to describe the best practice of CSR program executed by one of large mining companies operating in Indonesia, which have successfully integrated CSR program into its operational strategy through better contractor management strategy. It has been proven that such approach in CSR calls for greater efforts on the part of company and internal resources (employees, management), but results in more sustainable outcomes, namely in improving the operational efficiency and effectiveness of company’s operations, whilst building system that can develop long-term local capacity. In other words, such program can provide operational, commercial, and social benefits. (Hancock, 2005).

The program presented in this article is named as Integrated Contractor Strategy Framework (ICSF). It focuses on improving effectiveness of managing the contracted work executed by local contractors, through improvement of contracting system and building capability of contractors. The
program includes building internal system, tools and procedures that help the company to identify appropriate work for local contractors, while also helping local contractors to build their capability to enter into and perform company’s contracted work.

The presentation of this article has its purpose of disseminating best practice in CSR implementation that may be replicated or adapted in similar environments, or may inspire similar programs in various industries.

**About the Company**

The company under our study is a large multinational nickel company operating in South Sulawesi. It currently produces about 160 million pounds of nickel matte, with a workforce of 3,500 people, and about 5000 contractors. Of the 400 contractors, about 150 are locals. The company spends about 450 million dollars for contracted work, which goes to local, national and overseas contractors.

**The problem of efficiency and quality of contracted work performed by local contractors**

Many companies rely on their local partners to do the job. By engaging local contractors, the company expects cheaper goods and services, compared to those offered by national or international contractors. The preference to use local contractors has also served as community engagement for operational supports (related to ‘license to operate’ objective mentioned above).

Whilst engaging local contractors exerts strong community engagement, one of the critical issues identified by the company under this study is the low quality of input and output of various works performed by these contractors. This has resulted in high cost and inefficient operations due to rework and delay of project completion, which have not only tarnished quality, but also resulted in financial loss on the part of the company and contractors alike. Rework due to ‘off-specs’ problems were common, and projects were delayed due to poor planning, execution and contractor capability. In
addressing the above problems related to engaging the local community, the company launched a program named Integrated Contractor Strategy Framework (ICSF). The mandate of the project is to improve internal processes so that every contracted work is planned and managed properly to meet the budget, specifications and schedule. At the same time, as part of its Corporate Social Responsibility, ICSF also aims at improving the capability of local contractors to deliver goods and services to the company. By improving the capability of local people and local contractors, the company believes that more work can be done by local contractors and support for company’s operations from local community can be obtained.

Project Delivery of ICSF

Project Team

One of the success factors that determine the success of a project, including those in CSR, is the commitment from top management. For this reason, ICSF is directly owned and monitored by top management. After defining the objectives as mentioned above, Chief Operations Officer (COO) will appoint a task force to execute the project within the agreed timeline, which is 2 years. High level involvement of top management within the task force was considered necessary to ensure that all stakeholders support the project. A corporate project director was appointed as the project leader, supported by stream leaders and team leaders taken from various departments (see Figure 1).
Engagement from various departments within the company is very critical for the success of ICSF. In fact, contractor management involves different parties: sponsors who own the project, project managers who are accountable for the execution, engineers who help the technical planning and define the work breakdown structures (WBS), contract administrators who manage the tender and contract processes, and external and communication officers who manage communications with local contractors. For this reason, ICSF also assigns senior staffs as Team Members. Most of the team members are project managers who deal with local contractors so that they understand the know-how and process of interacting with local contractors.

**Project Phases**

A successful program needs to be planned effectively, following a sequence of well-conceived procedure. In this case, ICSF uses the business process improvement steps as described below (see Figure 2). This process has been considered effective to achieve the mandated objectives, while taking into account the involvement of various internal and external stakeholders.
Define project objective from company’s strategic imperatives.

Identify main stakeholders, their concerns and requirements

Map the as-is process

Develop desired process, systems, tools and procedures

Install the system

Sustain the process

**Figure 2: Phases of ICSF**

This article attempts to describe each process so that readers can learn and evaluate from this project.

**Define Project Objective**

Any particular endeavor by the company must be linked to the strategic objective of corporation (Porter & Kramer, 2006). To ensure alignment of ICSF with the strategic objective, a panel discussion with senior management was conducted. The framework for objective formulation is as follows (see Figure 3).

**Company Vision:**

To develop the Indonesian Resources with which we have been entrusted to their full potential for the benefit of all our stakeholders.
The first step taken in this process is by conducting a focus group discussion to identify key stakeholders and their key critical concerns and needs. To be able to gain a high-level of commitment, the facilitator for this process was chosen from the top management (Director Position). Various internal stakeholders from almost all departments who engaged with local contractors were invited to the workshop. Various issues commonly encountered by sponsors and project managers in the engagement of local contractors as well as issues commonly raised by local contractors were mapped and then ranked based on participatory approach. The following issues both from internal and external stakeholders were identified as the top five concerns:

(i) Limited contractor capability and capacity compared to national and international contractors.

(ii) Contracting and tendering process are disorganized.

(iii) Scope of work defined by project owners are vague and cannot be easily understood by local contractors.
(iv) Contract executions are not monitored properly (no assessment instrument for monitoring contract executions).

(v) Transparency of contract tendering administration is required.

The above concerns were supported by another focus group discussion conducted with external stakeholders (contractors and community leaders). It was realized that the discussion with external parties had be managed carefully to manage expectations, for instance: the process should not be perceived as a promise to give local contractors a chance to participate in deciding the contract process, or giving them more work in the near future. From the above focus group discussions, it was then decided that the ICSF must address the following specific areas:

(i) How to effectively identify and plan contracted work that can be executed by local contractors?

(ii) How to employ simple tendering and contract admin process that reflect transparency and objectivity?

(iii) How to progressively monitor project execution to identify gaps and allow coaching for effective and efficient execution of work by local contractors?

(iv) How to improve contractor’s capability?

Mapping the As-Is Process

After the main concerns were discussed, the next step of the program was for ICSF team to map out the current condition of contractor management and improvement opportunities required. The process utilizes various ways, including interviews with stakeholders, data gathering from departments, and intensive field observations on the projects undertaken. It was found out that several processes need to be improved (see Table 1).
Table 1: common problems at different stages

<table>
<thead>
<tr>
<th>Stage</th>
<th>Common Problems encountered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning a contracted work</td>
<td>• Outsourcing decision sheet does not include criterion of assessment that can identify suitable projects for local or national and international contractors</td>
</tr>
<tr>
<td></td>
<td>• Critical procedures that may cause delay and variation in different contracted tasks were not outlined in detail</td>
</tr>
<tr>
<td>Tender process</td>
<td>• Tender opportunities are not easily accessed by local contractors</td>
</tr>
<tr>
<td>Performing the contracted work</td>
<td>• No standardized system to monitor and evaluate the progress of contract completion by local contractors</td>
</tr>
<tr>
<td>Contractor’s capability</td>
<td>• Inadequate supervision and managerial skills from local contractors, practically shifting the burden to internal project managers</td>
</tr>
</tbody>
</table>

Developing the desired process and tool

After the ‘as-is’ process is defined, the next step is to define the process that help both company and local contractors to be able to execute contracted work better. This was achieved through a series of intensive workshops which produces new process mappings, policies, procedures, guidelines, checklists and forms that help the processes. To ensure effectiveness, the newly-developed instruments (policies, procedures, guidelines, etc.) were then pilot-tested in a number of projects before signed-off by the Management. The areas of change that address the above concerns include:

(i) Introduction of Scope of Work Assessment (SoWA) checklist, which can define whether a work package can be executed by local contractors, or it must go to national contractors. These criteria’s are based on resource availability, organizational capability, risks, etc.

(ii) Introduction of on-going Contractor Performance Review (CPR) that evaluate the progress of a contracted work. This performance review is conducted weekly, biweekly or monthly, depending on the nature of work.
(iii) Contractor Capability Audit. This process uses simple checklist to measure effectiveness of supervisors. The competency gaps observed during project audit and contractor performance review is addressed through Contractor Capability program/training.

**Installation of ICSF**

After the process, systems and procedures were confirmed, the next step is to install ICSF. The method chosen was partial implementation through pilot projects prior to company-wide installation. Three pilot projects that involved local contractors were selected to utilize new process and tools defined by ICSF, to assess the effectiveness of the new process and tools. Improvements both on the process and tools were made based on feedback by project leaders, contractors involved and other stakeholders (such as contract administration officers).

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

Meanwhile, implementation on Contractor Capability involved training programs for Project Managers within the company and local contractors to ensure alignment to the new system. Contractor Capability team also trains local supervisors on critical skills such as basic supervision skills (8 Behaviors of Effective Supervisors) and Communication Skills. An interactive multimedia was also produced to enhance various parties involved in Contractor Management.

**Communication**

Effective communication is another key success factor for any CSR program such as ICSF, as it provides means of engagement on the part of internal stakeholders as well as external ones. During the
development and implementation of ICSF, internal stakeholders such as management, employees, project managers were engaged through regular updates and socialization workshop. Meanwhile, communication with external parties must be managed with care to avoid inappropriate expectations and misinterpretations. Most communication activities were in the forms of meetings with specific groups (such as owners, project managers, supervisors, community leaders depending much on the content of communication).

Measurement

Measuring the success of activities in the form of key performance indicators (KPI) as well as benefit realization (e.g. Return in Investment (ROI)) for CSR programs have become a major topic among CSR practitioners. The concerns arise particularly due to difficulty in identifying immediate outcomes and complexity of external factors that can influence CSR programs (socio-political, etc.) (Hennigfeld, 2006). Likewise, ICSF tries to define its key success factors for the programs using KPIs for process and ROI calculations for benefit realization. The KPIs measured in the process include the following (see Table 2):

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Tools</th>
<th>Measures</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>To measure contractors’ supervisory competency</td>
<td><em>Eight Behavior of Effective Supervisors</em> Audit</td>
<td>Average scores of supervisors on 8 behaviors</td>
<td>Supervisors have an average of 3 (‘fully competent’ level) in each behaviors.</td>
</tr>
<tr>
<td>To measure the return on Calculations on</td>
<td>Elements of benefit relations:</td>
<td>USD (target)</td>
<td></td>
</tr>
</tbody>
</table>
Local contractor capability

One of the main concerns of ICSF as CSR initiative is how to improve the capability of local contractors, both in technical skills and managerial skills, so that they can perform the contracted work more effectively and efficiently. Better skills will also enhance their opportunities to extend their business to other areas.

The focus of the improvement programs can be divided into two areas: technical and managerial. Although improvement in technical skills (mainly for blue collar workers such as carpenters, technician, electrician, mason, etc.) is critical, ICSF project focused on helping local contractors to improve the quality of supervision and project management skills. Meanwhile, improvement for technical skills is channeled through other CSR initiatives which focus on technical education and training run by the company. The following Table 1 shows descriptions of the training programs available for local contractors under ICSF project:
Table 1: training programs available for local contractors under ICSF project

<table>
<thead>
<tr>
<th>Modules</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Management</td>
<td>To ensure that project managers of contractors understand the basic concept of project management, align to PM process within the company, and get necessary skills in managing projects</td>
</tr>
<tr>
<td>Basics</td>
<td></td>
</tr>
<tr>
<td>Managing Contracted Work</td>
<td>To equip contractors on how to follow through tender process and manage the work entrusted to them by the company</td>
</tr>
<tr>
<td>8 Behaviors of Effective Supervisors</td>
<td>To ensure that supervisors of local contractors can perform effectively in supervising the contracted work. This module is the standard module for the company’s supervisors</td>
</tr>
<tr>
<td>Effective Coaching</td>
<td>To ensure that project managers and supervisors of local contractors can effectively coach their subordinates for better performance</td>
</tr>
</tbody>
</table>

The training and modules are provided for free by the company for about 150 local project managers and supervisors. This program has gained very positive feedback from the local contractors.

**Sustainability**

The sustainability issue has become a major concern for CSR projects across the world. The fundamental question is, “How can we make a CSR program sustainable?” ICSF addresses sustainability by ensuring that the system, procedures, and tools are continuously used by internal and external stakeholders (by embedding them into the business process). Before the project was completed, all the systems and tools were made known to internal and external parties, based on their day-to-day roles in contractor management. Regular audits to system implementation were also conducted by internal audit section.
Conclusion

Managing a CSR program which contributes directly to company’s core business process can be challenging. Although it requires considerable efforts and participation from internal and external stakeholders, the social as well as economic returns are significant.

The regular audit for ICSF implementation shows that there have been improvements in overall project deliveries in terms of costs, time and quality for projects run by local contractors. The plan-award-perform process is now being sustained by integrating the process into the day-to-day contracting. Financially, cost savings has been achieved through reduction in number of delayed projects and inconsistent contract output (through better planning), and on-time delivery (through better on-job coaching to local contractors).
References:


