

# Corporate Social Responsibility in Indonesia

## *Quixotic Dream or Confident Expectation?*

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# Contents

<b>Acronyms</b>	<b>ii</b>
<b>Acknowledgements</b>	<b>iii</b>
<b>Summary/Résumé/Resumen</b>	<b>v</b>
Summary	v
Résumé	vii
Resumen	ix
<b>Introduction</b>	<b>1</b>
<b>Historical Precursors to Today's Business Landscape</b>	<b>1</b>
<b>Indonesian Culture and Corporate Social Responsibility</b>	<b>6</b>
<b>Corporate Social Responsibility and Codes of Conduct</b>	<b>9</b>
Replicating corporate social responsibility	9
Who drives corporate social responsibility?	11
Codes of conduct and other "fig leaves"	14
Codes of conduct: The TNC view	18
Inside codes of conduct	21
<b>Corporate Responsibility and the Environment</b>	<b>23</b>
Tentative steps toward corporate environmental responsibility	27
<b>Conclusion</b>	<b>33</b>
<b>Bibliography</b>	<b>38</b>
UNRISD Programme Papers on <b>Technology, Business and Society</b>	<b>41</b>

## Acronyms

<b>ACILS</b>	American Center for International Labor Solidarity
<b>ADB</b>	Asian Development Bank
<b>AFLI CIO</b>	American Free Labor Institute Congress of Industrial Organizations
<b>AFP</b>	Agence France-Presse
<b>ANDAL</b>	Environmental Impact Assessment
<b>APINDO</b>	Indonesian Employers Association
<b>ASEAN</b>	Association of Southeast Asian Nations
<b>ASRIA</b>	Association for Sustainable and Responsible Investment in Asia
<b>BAPEDAL or BAPEDALDA</b>	Environmental Impact and Management Agency Regional Environmental Agency
<b>BBC</b>	British Broadcasting Company
<b>BHP</b>	The Broken Hill Proprietary Company Limited
<b>BP</b>	British Petroleum
<b>BPS</b>	Biro Pusat Statistik
<b>CLA</b>	collective labour agreements
<b>CRA</b>	Conzinc Rio Tinto of Australia
<b>CSR</b>	corporate social responsibility
<b>DEPNAKER</b>	Departemen Tenaga Kerja (Ministry of Manpower)
<b>EPZ</b>	export processing zone
<b>EU</b>	European Union
<b>FDI</b>	foreign direct investment
<b>FLA</b>	Fair Labor Association
<b>FTZ</b>	free trade zone
<b>GAM</b>	Gerakan Aceh Merdeka (Acehnese Liberation Movement)
<b>GDP</b>	gross domestic product
<b>HIPERKES</b>	Industrial Hygiene Wing of the Ministry of Manpower
<b>IBL</b>	Indonesia Business Links
<b>IBRA</b>	Indonesian Banking Restructuring Agency
<b>ICFTU</b>	International Confederation of Trade Unions
<b>IMF</b>	International Monetary Fund
<b>INFACT</b>	(national grassroots corporate watchdog organization)
<b>IRRC</b>	Investor Responsibility Research Centre
<b>ISO</b>	International Standards Organization
<b>KPC</b>	Kaltim Prima Coal
<b>MSDS</b>	Material Safety Data Sheets
<b>NGOs</b>	non-governmental organizations
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>OHS</b>	occupational health and safety
<b>PBHI</b>	Perhimpunan Bantuan Hukum Indonesia (Indonesian Association of Legal Aid)
<b>PR</b>	public relations
<b>PT</b>	Perseroan Terbatas (limited companies)
<b>PWC</b>	PricewaterhouseCoopers
<b>RTZ</b>	Rio Tinto-Zinc Corporation
<b>SA</b>	social accountability
<b>SBSI</b>	Serikat Bebas Sejahtera Indonesia (Indonesian Prosperous Workers Union)
<b>SOE</b>	State Owned Enterprise
<b>SOS</b>	international medical service
<b>SPSI</b>	Serikat Pekerja Seluruh Indonesia (The All Indonesian Workers Union)

<b>STD</b>	sexually transmitted disease
<b>TNC</b>	transnational corporation
<b>US</b>	United States
<b>USAID</b>	United States Agency for International Development

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## **Summary/Résumé/Resumen**

### ***Summary***

During the past decade there has emerged, in North America and Western Europe in particular, a fairly powerful movement to improve the social and environmental performance of large corporations and their affiliates and suppliers in developing countries. By examining the case of Indonesia, this paper looks at how effective this approach has been. Two central questions are addressed. First, do corporate social responsibility (CSR) and accompanying voluntary initiatives have the capacity to change the day-to-day behaviour of TNCs? Second, at this stage of its development, and in the context of crisis, is corporate social responsibility relevant to Indonesia?

The discussion proceeds in four main sections. The first refers to historic and cultural factors, which inhibit significant changes in corporate social and environmental performance. The second section examines codes of conduct and how they are viewed in Indonesia. The third section refers to the environmental impact of large business, with particular reference to the mining and palm oil industries. The conclusion sums up the main points of the paper and reflects on the relevance of corporate social and responsibility for Indonesia.

The discussion on codes of conduct presents both civil society and TNC perspectives on the implementation, achievements and limitations of such initiatives. According to the author's assessment, codes are fundamentally flawed for several reasons: they may serve to place corporations outside of the national regulatory system and bypass the tripartite negotiation system that was one of the major labour reforms of recent years; the process and outcomes of monitoring are usually confidential; monitors usually only see one or two plants chosen by the client; monitoring is often done by accounting firms that have insufficient technical knowledge to deal with the often complex health and safety problems in production plants; sanctions for non-compliance are weak or non-existent; codes are usually designed in the head office, and rarely in consultation with trade unions or others; codes with lower technical specificity are often found in enterprises that are female dominated; codes only apply to a small proportion of a nation's workers; and corporations often insist that affiliates and sub-contractors improve conditions but provide limited if any resources to support such change.

Some tentative steps have been taken by both the government and some TNCs to improve their environmental performance, but such initiatives tend to be restricted to a few companies. Some government-led voluntary initiatives related to pollution control have attempted to motivate change by naming, praising and shaming corporations. Some successes have been achieved, but consumer activism remains relatively weak, government and company resources for environmental initiatives have been stretched by economic crisis, and only a minority of participating firms have taken significant measures to improve their environmental management systems. Company participation in international certification schemes like ISO14000 remains very limited. Those corporations that appear to have adopted the language of

corporate responsibility are generally those, such as mining companies, that have been put in the spotlight by international civil society activism.

When viewed in the context of culture, economic and political development, and turmoil in Indonesia, the author concludes that CSR remains an ideal. The current transformation is bringing instability, fear and violence. In such a context, it is hard to consider something as abstract as CSR. It is timely, however, to begin to put into place the institutions, educational foundations and management training which are needed for business and political reform, and from which CSR may be a spin-off. Any broader application of CSR needs to stem from an indigenous belief in the necessity of such an institution and not represent a mere shrug to another Western fashion. There is clearly a tension between those in the developing countries who see this as yet another imposition of Western values, no matter how attractive, and those in the developed nations who, put cynically perhaps, wish to consume with a conscience.

At this point in Indonesian history, CSR itself can only remain an image projected onto a screen—an outline with little depth. While concepts such as governance and CSR are fashionable, generating a new language and teams of experts, Indonesia's difficulties are perhaps more basic and to do with simple national survival. Management is a new and emerging skill in Indonesia. The type of process-oriented cultural change within an organization, which CSR requires, infers high levels of skill and an active consultative process between equals—which are not in keeping with the patriarchal top-down leadership that characterizes Indonesian business and management structures in both TNCs and domestically owned firms.

While it is fair to say that CSR makes a positive contribution to the human rights of those working in TNCs, it is also fair to say that it only makes a difference to those few corporations targeted by consumers or who are already thinking ethically and responsibly. Other industries are not so well inclined. Such anomalies, and the somewhat piecemeal approach of the CSR movement, should alert global citizens to the need for a more systematic approach.

That being said, the after-shock of the Indonesian economic crisis has required a re-evaluation of both economic and investment policy, and the way business is run in Indonesia. The previous short-term thinking may have to make way for the type of longer-term pragmatic and visionary thinking required by genuine CSR and supported by Islamic business principles. A lot will depend on how deep the reform process goes. There is a danger, however, that CSR and voluntary initiatives may be a diversion from the real issues of law reform and multilevel political and social development. While CSR may benefit a small minority of Indonesia's workers and those whose lives intersect with TNCs, the development of and adherence to a fair system of law and institutional reform would benefit all. Without such changes, CSR is likely to remain cosmetic.

Indonesia's recent history is littered with examples of agencies advocating the latest international trend and congratulating Indonesia for illusory change. It is pertinent to ask

whether CSR has anything more to offer Indonesia at this time than what could be offered by overall structural reform. While some would argue that CSR paves the way for political development, the author contends that any effective implementation of CSR requires the machinery of an effective democratic government and civil society. The reverse would have corporations leading the process rather than the other way around.

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### ***Résumé***

Durant les dix dernières années, un mouvement relativement puissant a vu le jour, notamment en Amérique du Nord et en Europe occidentale, destiné à améliorer la performance sociale et environnementale des grandes entreprises, de leurs filiales et de leurs fournisseurs dans les pays en développement. En examinant le cas de l'Indonésie, cet exposé évalue l'efficacité de cette approche. Deux questions centrales se posent. Premièrement, la responsabilité sociale des entreprises et les initiatives volontaires qui l'accompagnent ont-elles la capacité de changer réellement la manière dont les sociétés transnationales (STN) se comportent au jour le jour? Deuxièmement, à ce stade de son développement et dans un contexte de crise, la responsabilité sociale des entreprises peut-elle s'appliquer à l'Indonésie?

L'étude est divisée en quatre sections principales. La première renvoie aux facteurs historiques et culturels qui entravent les changements significatifs dans les performances sociales et environnementales des entreprises. La deuxième examine les codes de conduite et la manière dont ils sont perçus en Indonésie. La troisième fait référence à l'impact des grandes entreprises sur l'environnement, en accordant une place particulière aux industries minière et de l'huile de palme. La conclusion aborde la pertinence de la responsabilité sociale des entreprises pour l'Indonésie.

La discussion portant sur les codes de conduite offre, tant à la société civile qu'aux STN, des perspectives quant à la mise en œuvre, aux succès et aux limitations de telles initiatives. D'après l'auteur, les codes sont fondamentalement défectueux pour plusieurs raisons: ils peuvent contribuer à mettre les sociétés hors du système de réglementation national et à court-circuiter le régime de négociation tripartite, ce dernier étant une des réformes majeures du travail ces dernières années; les processus et les résultats de la surveillance sont généralement confidentiels; les surveillants ne voient normalement qu'une ou deux usines choisies par le client; la surveillance est souvent effectuée par des cabinets comptables qui n'ont pas les connaissances techniques requises pour gérer les problèmes souvent complexes de la santé et de la sécurité dans les usines de production; les sanctions en matière d'inobservation sont faibles, voire non-existantes; les codes sont habituellement conçus dans le bureau central, rarement en consultation avec les syndicats ou autres; on trouve souvent des codes avec une spécificité technique plus faible dans les entreprises dominées par des femmes; les codes ne s'appliquent

qu'à une infime proportion de travailleurs du pays; et les sociétés insistent souvent pour que les filiales et les sous-traitants améliorent les conditions, sans fournir les ressources en vue d'appuyer de tels changements.

Des mesures provisoires ont été adoptées à la fois par le gouvernement indonésien et par certaines STN pour améliorer leur performance environnementale, mais de telles démarches se limitent généralement à quelques sociétés. Certaines initiatives volontaires lancées par le gouvernement et liées au contrôle de la pollution ont tenté d'inciter au changement en désignant nommément les sociétés, en les couvrant de louanges ou au contraire d'opprobre. Les efforts ont quelque peu porté, mais l'activisme des consommateurs demeure relativement faible, les ressources du gouvernement et des sociétés en vue d'initiatives environnementales se sont raréfiées suite à la crise économique, et seule une minorité de firmes participantes a adopté des mesures significatives pour améliorer les systèmes de gestion de l'environnement. La participation des firmes aux programmes internationaux de certification tels que les ISO14000 demeure minime. Les entreprises qui semblent avoir adopté le langage de la responsabilité des entreprises sont généralement celles qui, telles les sociétés minières, ont été mises sous la lumière des projecteurs, en raison de l'activisme de la société civile internationale.

Dans le contexte de la culture, du développement économique et politique et de la crise en Indonésie, l'auteur conclut que la responsabilité sociale des entreprises demeure un idéal. La transformation actuelle apporte l'instabilité, la crainte et la violence. Dans un tel contexte, il est difficile d'envisager quelque chose d'aussi abstrait que la responsabilité sociale des entreprises. Il est opportun, toutefois, de commencer à mettre en place les institutions, les fondations pour l'enseignement et la formation à la gestion qui sont nécessaires à une réforme politique et commerciale desquelles la responsabilité sociale des entreprises pourrait découler. Toute application plus large de la responsabilité sociale des entreprises doit dériver d'une croyance indigène dans sa nécessité, et non pas représenter un mouvement de résignation face à une nouvelle mode occidentale. Il existe de toute évidence une tension entre ceux qui, dans les pays en développement, perçoivent cela comme une nouvelle imposition des valeurs occidentales, aussi attrayante soit-elle, et ceux qui, dans les pays développés, peut-être cyniquement, souhaitent consommer avec une conscience.

À ce stade de l'histoire indonésienne, la responsabilité sociale des entreprises elle-même ne peut demeurer qu'une image projetée sur un écran: une ébauche sommaire. Tandis que des concepts comme la gouvernance et la responsabilité sociale des entreprises sont en vogue, engendrant un nouveau langage et des équipes d'experts, les difficultés de l'Indonésie sont peut-être plus fondamentales et concernent tout simplement la survie de la nation. La gestion est une compétence nouvelle qui vient d'apparaître en Indonésie. Le type de changement culturel, axé sur la poursuite d'un processus au sein d'une organisation, nécessité par la responsabilité sociale des entreprises, implique des compétences de haut niveau et un processus consultatif actif entre des pairs, qui se distinguent de la direction patriarcale descendante qui caractérise les affaires et les structures de gestion en Indonésie, tant dans les sociétés transnationales que dans les firmes appartenant à des autochtones.

Alors qu'il est équitable de dire que la responsabilité sociale des entreprises apporte une contribution positive aux droits de l'homme pour ceux qui travaillent dans les sociétés transnationales, il est également équitable de dire que cela ne fait de différence que pour les rares firmes ciblées par les consommateurs ou celles qui pensent déjà d'un point de vue éthique et responsable. D'autres industries ne sont pas si favorablement disposées. Ce sont ces anomalies et l'approche quelque peu parcellaire du mouvement de la responsabilité sociale des entreprises qui devraient alerter les citoyens du monde quant à la nécessité d'adopter une approche plus systématique.

Cela dit, la conséquence de la crise économique indonésienne a entraîné une réévaluation de la politique économique et d'investissement, ainsi que de la manière dont les affaires sont gérées en Indonésie. La mentalité précédente à court terme pourrait devoir céder la place au type de réflexion pragmatique et visionnaire à long terme nécessité par une véritable responsabilité sociale des entreprises et soutenu par les principes islamiques régissant les affaires. Cela dépendra énormément du fait de savoir dans quelle mesure le processus de réforme sera approfondi. Il existe un danger, cependant, que la responsabilité civile des entreprises et les initiatives volontaires ne détournent l'attention des vraies questions de réforme juridique et de développement politique et social à plusieurs niveaux. Tandis que la responsabilité sociale des entreprises pourrait profiter à une petite minorité de travailleurs indonésiens et à ceux dont les vies croisent le chemin des STN, le développement et l'adhésion à un système juridique équitable et une réforme institutionnelle seraient bénéfiques pour tous. Sans changements de ce type, la responsabilité sociale des entreprises restera probablement symbolique.

L'histoire récente de l'Indonésie abonde d'exemples d'organismes préconisant les dernières tendances internationales et félicitant l'Indonésie pour un changement illusoire. Il est pertinent de demander si la responsabilité sociale des entreprises a, cette fois, quelque chose de plus à offrir à l'Indonésie que l'équivalent d'une réforme structurelle globale. Tandis que certains font valoir que la responsabilité sociale des entreprises prépare le terrain au développement politique, l'auteur maintient que toute mise en œuvre effective de la responsabilité sociale des entreprises nécessite les rouages d'un gouvernement démocratique efficace et d'une société civile, pour éviter que les entreprises soient à la tête du processus, au lieu du contraire.

Melody Kemp est spécialiste en sécurité et en hygiène industrielle et a travaillé en tant que surveillante indépendante du travail. Elle a vécu en Indonésie durant dix ans et est aujourd'hui consultante indépendante, basée en Australie.

### ***Resumen***

En el último decenio ha surgido, particularmente en América del Norte y Europa Occidental, un movimiento bastante influyente para mejorar la acción social y ambiental de las grandes empresas, sus filiales y proveedores en los países en desarrollo. Al estudiar el caso de Indonesia,

en estas páginas se evalúa la eficiencia demostrada por este planteamiento. Se abordan dos cuestiones fundamentales. En primer lugar, ¿pueden la responsabilidad social empresarial (RSE) y las iniciativas voluntarias concomitantes cambiar realmente el comportamiento de las empresas transnacionales en la vida cotidiana? En segundo lugar, en esta fase de su desarrollo y en el contexto de la crisis, es importante para Indonesia la responsabilidad social empresarial?

El debate se desarrolla en cuatro secciones principales. En la primera se hace referencia a factores históricos y culturales, que impiden cambios importantes en la acción social y ambiental de las empresas. En la segunda sección se examinan los códigos de conducta y su consideración en Indonesia. La tercera parte se refiere a las consecuencias ambientales de las grandes empresas, poniendo particular énfasis en la industria minera y del aceite de palma. En la conclusión se analiza la importancia de la responsabilidad social empresarial para Indonesia.

El debate acerca de los códigos de conducta expone el punto de vista tanto de la sociedad civil como de las empresas transnacionales en lo concerniente a la aplicación, logros y limitaciones de dichas iniciativas. Según la evaluación de la autora, los códigos son esencialmente defectuosos por diversos motivos: pueden servir para excluir a las empresas del sistema de reglamentación nacional y para evitar el sistema de negociación tripartita que constituyó una de las principales reformas del trabajo de los últimos años; el proceso y los resultados de la supervisión suelen ser confidenciales; por lo general, los inspectores sólo acceden a una o dos plantas elegidas por el cliente; la supervisión a menudo se lleva a cabo a través de empresas de contabilidad, cuyos conocimientos técnicos no bastan para abordar los problemas a menudo complejos de salud e higiene en las plantas de producción; las sanciones por inobservancia de las normas son mínimas o inexistentes; los códigos suelen elaborarse en la sede central y raramente en consulta con los sindicatos o terceros; los códigos de escasa especificidad técnica son frecuentes en empresas donde predominan las mujeres; los códigos sólo conciernen a un pequeño porcentaje de los trabajadores del país; y las empresas insisten a menudo en que las filiales y subcontratistas mejoren las condiciones, pero pocas facilitan recursos para apoyar dicho cambio.

El gobierno de Indonesia y algunas empresas transnacionales han tratado de mejorar la acción ambiental, pero dichas iniciativas por lo general se limitan a un número reducido de empresas. Algunas iniciativas estatales relativas al control de la contaminación atmosférica estaban encaminadas a motivar el cambio, mencionando, elogiando y avergonzando a las empresas. Se han logrado algunos resultados merced a los esfuerzos desplegados, pero el activismo del consumidor sigue siendo relativamente débil, la crisis económica ha conducido a la limitación de los recursos estatales y empresariales destinados a las iniciativas ambientales, y sólo una minoría de empresas participantes ha adoptado medidas importantes para mejorar los sistemas de gestión ambiental. La participación empresarial en los sistemas de certificación internacional, como ISO14000, sigue siendo mínima. Las empresas que aparentemente han adoptado el lenguaje de la responsabilidad empresarial (como las empresas mineras) suelen ser aquellas que han sido objeto del activismo internacional de la sociedad civil.

Al examinar la RSE en el marco del desarrollo cultural, económico y social, y considerando la agitación en Indonesia, la autora concluye que dicha responsabilidad sigue siendo un ideal. La transformación actual está provocando inestabilidad, miedo y violencia. En este contexto difícilmente puede considerarse una noción tan abstracta como la RSE. Sin embargo, este es el momento oportuno para empezar a establecer las instituciones, los fundamentos educativos y la capacitación en materia de gestión necesarios para llevar a cabo una reforma empresarial y política, y de los que puede derivarse la responsabilidad social empresarial. Es preciso que cualquier aplicación más amplia de las necesidades de la RSE se deba a la creencia de la población nacional en su necesidad, y que no se ignore como una moda más del mundo occidental. Es evidente la tensión que existe entre las personas de los países en desarrollo que consideran la RSE una imposición más de los valores occidentales, independientemente de su atractivo, y las personas de los países desarrollados que, quizá cínicamente, desean consumir conscientemente.

En estos momentos de la historia de Indonesia, la RSE propiamente dicha sólo puede ser una imagen proyectada en una pantalla – un esbozo sin apenas profundidad. Si bien están de moda conceptos como el buen gobierno y la responsabilidad social empresarial, y están provocando la aparición de un nuevo lenguaje y equipos de expertos, Indonesia se enfrenta actualmente a dificultades quizá más básicas, relativas a la simple supervivencia nacional. La gestión es una capacidad nueva y emergente en Indonesia. El tipo de cambio cultural orientado a un proceso en una organización que exige la RSE supone capacidades de alto nivel, así como un proceso consultivo activo horizontal, que se opone al liderazgo patriarcal vertical propio de las estructuras comerciales y administrativas en Indonesia, tanto en las empresas nacionales como transnacionales.

Si bien es justo declarar que la RSE contribuye positivamente a los derechos humanos de las personas que trabajan en empresas transnacionales, debe señalarse igualmente que esto afecta solamente al reducido número de empresas en que se centran los consumidores o a aquellas que piensan de un modo ético y responsable. Otras empresas no se muestran tan favorables. Estas anomalías y el enfoque poco sistemático propio del movimiento de la RSE deberían alertar a los ciudadanos de todo el mundo sobre la necesidad de un planteamiento más sistemático.

Habida cuenta de estos hechos, las consecuencias de la crisis económica de Indonesia han exigido evaluar nuevamente la política económica y de inversión, así como la gestión empresarial en el país. La filosofía previa a corto plazo deberá abandonarse y sustituirse por el tipo de visión pragmática y de futuro a largo plazo que exige la auténtica responsabilidad social empresarial y que apoyan los principios comerciales islámicos. Esto dependerá en gran parte de la profundidad del proceso de reforma. Sin embargo, existe el riesgo de que la RSE y las iniciativas voluntarias se desvíen de los problemas reales de la reforma jurídica y el desarrollo social y político a varios niveles. Si bien la RSE beneficiará a un pequeño porcentaje de trabajadores de Indonesia y a aquellos cuyas vidas se cruzan con las empresas transnacionales, el desarrollo y la adhesión a un ordenamiento jurídico justo y a una reforma institucional

redundarán en beneficio de toda la población. Sin la introducción de estos cambios, la RSE probablemente siga siendo superficial.

La historia reciente de Indonesia está llena de ejemplos de organismos que defienden la última tendencia internacional y que felicitan a Indonesia por un cambio ilusorio. Cabe preguntarse si la RSE puede representar actualmente para Indonesia algo más que una reforma estructural general. Si bien hay quienes defienden que la RSE prepara el terreno para el desarrollo político, la autora defiende que toda aplicación eficiente de la RSE exige el mecanismo de un gobierno democrático y una sociedad civil eficientes. En el caso inverso, las empresas dirigirían el proceso, y no lo contrario.

Melody Kemp es especialista en seguridad e higiene en el trabajo, y ha ejercido como inspector independiente del trabajo. Vivió diez años en Indonesia y actualmente trabaja como consultor autónomo con base en Australia.

## **Introduction**

The current global discourse on corporate social responsibility (CSR) emphasizes its cultural universality and benefits (Darley and Johnson 1993; Quazi and O'Brien, 2000). In practice, there are numerous obstacles to achieving corporate responsibility, particularly in many developing countries where the institutions, standards and appeals systems, which give some life to CSR in North America and Europe, are relatively weak. This paper examines the experience of promoting CSR in Indonesia and its relevance to that economy and society. Particular attention is focused on codes of conduct and environmental stewardship.

When discussing the scope or socioeconomic impact of CSR in the Indonesian context, it is important to know a little of the history of contemporary economic culture. While transnational corporations (TNCs) have been in Indonesia for many years, CSR is a relatively new concept and practice. Having been generated in Europe and the United States as an answer to the perceived excesses of corporate power, CSR standards and initiatives are based on loosely defined social norms and stakeholder values that stem from Western cultural values. As a result, foreign investors and multilateral donors are increasingly demanding that developing countries provide some degree of national as well as corporate transparency and accountability.<sup>1</sup>

Much of the analysis contained in this paper is based on interviews, in addition to media reports and published works. Given the lack of systematic research in Indonesia on this topic, the paper is intended to constitute a preliminary analysis of corporate responsibility issues and concerns. The discussion proceeds in three main sections. The first refers to historic and cultural factors that are the present-day legacy with which the government and the people of Indonesia have to cope and which inhibit significant changes in corporate social and environmental performance. The second section examines codes of conduct and how they are viewed in Indonesia. The third section considers the environmental impact of large business, with particular reference to the mining and palm oil industries. The conclusion sums up the main points to emerge from the paper and reflects on the difficulties of promoting CSR in a nation that has no underpinning of the rule of law or effective way of mobilizing or legitimizing watch-dog bodies such as trade unions and consumer groups.

## **Historical Precursors to Today's Business Landscape**

An increasingly globalized manufacturing industry does not make allowances for the nuances of culture or the foibles of history, and the Asian economic crisis has raised the level of international scepticism about the integrity of Asian business. In an address to the Indonesian Chamber of Commerce, US Ambassador Gelbard went so far as to say that "lax corporate governance was a contributing factor to the Asian financial crisis", and he affirmed that

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<sup>1</sup> The Asian Development Bank (ADB), for example, is chairing and supporting the newly formed Association for Sustainable and Responsible Investment in Asia (ASRIA), which attempts to guide fund managers and other investors (ABC Radio National, interview with the Director of the Australian Office of ASRIA, 26 February 2001).

Indonesia would have to “change from the old ways of doing business”.<sup>2</sup> So what are the old ways and where did they come from, and will CSR make any substantial difference? This section briefly discusses the economic and business climate in Indonesia, focusing on recent history, in particular the impact of President Soeharto’s New Order regime on the Indonesian business scene and culture.

For around 250 years the majority of what is now Indonesia was ruled by one of the biggest, most long lasting and least socially responsible of the colonial trading companies. Such companies were in their own way prototypes of the modern TNC. The legacy left by the colonial regime and the Dutch East India Company in Indonesia was a complex *mélange* of patronage, monopolies (the so-called conglomerates)<sup>3</sup> and the commensurate concentration of wealth and power. Wibisono (1991) reports that, as a result of that early history, capitalism is inextricably linked with colonialism and imperialism in the Indonesian consciousness. Subsequently, capital has been concentrated in the hands of President Soeharto, his family and selected clients and cronies.

Large business in Indonesia is marked by the presence of what have been labelled “conglomerates”—that is, well-connected groups of businesses linked to Indonesian political elites—and large State Owned Enterprises (SOEs), which are bureaucratic corporations protected by the power of government and patronage. Increasingly they operate as limited companies (PT) and possess the same flexibility as private enterprises. The Indonesian military runs what has been labelled a “parallel economy” through SOEs. In his comprehensive thesis on the nature of Indonesian capitalism, Yoon writes that the military formed PT companies to support the economies of their military commands and to provide retirement benefits for ex-military personnel (Yoon, 1989:125). While it is not clear just how much of the military budget is met by its PT based activities, Yoon reports that General Rudini (also the former Minister for Home Affairs) declared in 1985 that the army would not be seeking an increase in its budget allocation for at least 10 years, insinuating that at that stage, the Indonesian military had access to considerable sources of non-state funding. The implications for social and political accountability and responsibility are clear, as is the threat to anyone or any company that challenged the military’s interests in those sectors.<sup>4</sup> The military was also insulated from the usual regulatory sanctions by way of seconded military officers who occupied most of the senior positions in the Ministry of Labour (DEPNAKER).

Many SOEs are managed by civilians of Chinese descent. This has the effect of deflecting public ire from the real owners to the Chinese, who in Indonesia are very much the *kambing hitam* (scapegoats) and targets of sporadic violence. For instance, despite the fact that its ultimate control lay with the Department of Defence, Sofyan Wanadi, a well-known Chinese tycoon, was the front person for the military-owned Tri Usaha Bakti group. Yala Trading (logging) and

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<sup>2</sup> From a speech given by Ambassador Gelbard to the Indonesian Chamber of Commerce, “Improving investor confidence through the implementation of good corporate governance” (Shangri La Hotel, Jakarta, 25 July 2000).

<sup>3</sup> In the past, these also included Soeharto family-owned monopolies such as those for oranges, cloves and handcrafts, as well as the military’s monopoly on East Timorese-grown coffee.

<sup>4</sup> The military has interests in a wide variety of activities: transport, tourism, hotels, handcrafts, mining, logging, plantations, chemicals and other manufacturing sectors.

Admiral Shipping (transport) are both owned by the navy, while Mandala Airlines, which was made bankrupt by the Indonesian economic crisis, was owned by Kostrad—the Strategic Reserve Command of the army, along with Presidents Soeharto's youngest son, popularly known as Tommy. As Yoon points out, these bureaucratic companies have resisted any attempts to put them under government control or make them publicly accountable (Yoon, 1989:129).

Between 1958 and 1965, Soekarno's Indonesia was positively hostile to foreign investment (Hill, 1991). Trade and investment policies at that time were influenced by the overt nationalism that led to the founding of the Non-Aligned Movement in repudiation of Western colonialism. In essence, virtually no foreign direct investment (FDI) was allowed between the end of the colonial era and 1966. By 1966 any remaining Dutch capital had either been repatriated or expropriated (Hill, 1996).

In later years, FDI was led and dominated (and continues to be so) by Japan, a nation that had occupied Indonesia during the Second World War. The strengthening of economic ties with Japan and other Asian economies, such as Taiwan Province of China and the Republic of Korea, has continued until the present. Between 1998 and 1999, for example, exports to Japan rose by 14 per cent (BPS, 2000). The Republic of Korea increased its exports by 29 per cent over the same period. This domination by East Asian nations is important, as it shapes the pattern of corporate responsibility in the manufacturing sector in Indonesia. Both Taiwan Province of China and the Republic of Korea are reported to have poor records in relation to labour rights.<sup>5</sup> Even Japanese companies, usually examples of good practice, are now regarded by the trade unionists and labour activists interviewed by the author as having become more ruthless in industrial relations.<sup>6</sup> In one Indonesian export processing zone (EPZ), of the 104 companies registered 27 were from the Republic of Korea, 12 were from Taiwan Province of China, two from Hong Kong, one was Indian and three were cryptically called "foreign". The remaining 57 firms in the EPZ were Indonesian (SBSI and WCL, 1999). The majority of their goods were exported to the United States and Europe. The Asian-owned companies admitted to having production facilities in several other low-wage nations such as Bangladesh and Viet Nam.

A team of researchers from the Serikat Buruh Sejahtera Indonesia (SBSI—Indonesian Prosperous Workers Union) assisted by World Confederation of Labour representatives (WCL) interviewed many workers from Taiwanese, Korean and Indonesian companies in the Cakung—the largest Export Processing Zone in North Jakarta. Most were women with minimal

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<sup>5</sup> See report on Taiwan by Committee on Foreign Relations, US Senate, and Committee on International Relations, US House of Representatives, **Country Report on Human Rights Practices for 1999**, [www.tahr.org.tw/english/taiwan1999.html](http://www.tahr.org.tw/english/taiwan1999.html), [www.decheros.org/human-rights/nasia/skorea.html](http://www.decheros.org/human-rights/nasia/skorea.html) and Amnesty International AI-Index: ASA 25/018/1999 22/04 1999, "Trade unionists under threat of arrest".

<sup>6</sup> Sony, for example, was visited by this author in 1990 as part of a training exercise for safety inspectors, at a time when it was known for the positive aspects of Japanese management practices. In recent times, however, it has suffered crippling strikes over workers' demands for increased wages and an end to unreasonable working hours. In response the company locked out workers and then threatened to leave Indonesia (*Jakarta Post* and *Tempo*, various reports in April and May 2001).

education. In a Taiwanese factory, 64 per cent reported that they had been sexually harassed.<sup>7</sup> Sexual harassment was also a significant problem in the Korean factory, where 70 per cent of the sample group reported unwanted sexual attention. Such complaints were slightly lower in the Indonesian factory (56 per cent).

Most of the Korean factory workers (88 per cent) reported that relationships with management were not harmonious. 78 per cent of workers in the Taiwanese factory and 60 per cent of workers in the Indonesian factory also expressed such complaints. Most workers were not unionized but felt that, because they were not aware of their rights, trade unions were needed. In the Korean and Indonesian factories, such concerns were voiced by 86 per cent and 90 per cent of the workers, respectively, and by 56 per cent of the Taiwanese factory workers. Most workers also felt that they could not express their needs to management without intimidation (66 per cent in the Korean-owned factory and 82 per cent in both the Indonesian and Taiwanese factories) (SBSI and WCL, 1999). The trade union also reported that PT Indosox, a Taiwanese producer of garments, forced 64 per cent of women workers to work excessive hours without extra pay. It was also claimed that these factories were known to have high industrial accident rates.

Indonesia has a *mélange* of labour laws, some of which go back to Dutch colonial times. Minimum wage regulations are in place, although the Department of Manpower has admitted at each revision that the wage is designed to cover approximately 70 per cent of daily subsistence needs of a single male. The 1970 Safety Act, while a good measure for its time, is not underpinned by comprehensive technical codes of practice, although those that do exist are up-to-date. Recently, revisions to the law have included a regulation relating to occupational health and safety management systems. Professional and seemingly effective audit services are available on request via a State Owned Enterprise, Suconfindo, which is partner to SGS Société Générale de Surveillance. The new Manpower Protection and Development Act (2000) is thought to provide the beginnings of a fairer labour management and industrial relations system, which, it is hoped, will be cemented by a current project of the International Labour Organization (ILO) aimed at providing a more "trustworthy system for workers and employers alike".<sup>8</sup> But law is one thing and enforcement another. Indonesia's enforcement systems have been viewed with caution and scepticism by those inside and outside the country. Political changes, however, may bring greater veracity to the system.<sup>9</sup>

Most Asian nations currently lack the powerful, well-orchestrated consumer lobbies that have sparked the CSR initiatives in the West (Ishiwitari, 1998). Nor do there appear to be any codes of conduct regulating Japanese TNCs operating in Indonesia.<sup>10</sup> On the environmental front,

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<sup>7</sup> The definition of what really happened is hard to translate culturally as, due to shame, many women use "harass" when they actually mean rape or sexually assault. The word used in the report, *pelecehan*, means insulted or assaulted.

<sup>8</sup> Personal communication, C. Noriel, CTA on ILO project INS/00/51M/USA.

<sup>9</sup> The author has just completed a review of occupational health and safety in Indonesia as part of the ILO Infocus Program on Socioeconomic Security.

<sup>10</sup> Workers from the American Center for International Labor Solidarity (ACILS), who have been collaborating with Japanese trade unions and consumer groups, offered this opinion. While the Japanese participated in the CAUX Round Table Principles for Business meeting, there are no Japanese or Asian Codes of Conduct listed by the ILO or

ASEAN-based transnational logging and palm oil companies, in joint ventures with Indonesian business and political figures, are responsible for the worst irreversible forest and biodiversity losses in the archipelago. Timber from Indonesia's primary forest also goes to feed the pulp and paper industries, which along with timber products find major markets in China, Europe, the United States and Australia.

The fall of Soeharto in 1998 punctuated, but did not change, a system that was based on systematic and pervasive "rent-seeking".<sup>11</sup> According to McLeod and others, Soeharto used the system of rents not only to gain financially, but also to remain in a position of unchallenged power (McLeod, 2000; Backman, 1999; Robinson, 1986; Khan and Jomo, 2000). Crouch (2000) called this system "patrimonialism". Soeharto's system of rent-seeking could be characterized as saprophytic—in that it was careful not to kill the organism on which it fed. In fact, the organism that is Indonesia appeared to outside observers to flourish under Soeharto's rule and, despite being named as one of the most corrupt countries on earth (Transparency International, 1999) and recently the most uncompetitive in a group of 49 countries,<sup>12</sup> Indonesia earned the plaudits of Western nations for its ostensible capitalism and carefully managed markets. Over a decade ago, Kunio (1987) pointed out that capitalism in Indonesia was actually "ersatz" (sham) in nature, by virtue of its reliance on patronage and corruption. He was one of the first authors to elucidate the personal nature of the relationships Soeharto enjoyed with some of his major clients: "In one way or another the private corporate sector provided the primary medium through which Soeharto generated his family's enormous wealth and maintained his own power" (McLeod, 2000:17). The franchises granted by Soeharto came at a cost:

...there had to be benefits to both franchiser (Soeharto) and franchisee. The payback could be in a multitude of forms...a flow of information to the top regarding individuals or organizations that might threaten the existence of the system; a willingness to act against such individuals and organizations in order to protect it...and clear loyalty to the head of the franchise whenever there might be a public outcry about the way the country was governed (McLeod, 2000:19).

The implications in terms of business ethics and governance are clear: after 35 years of this sort of business culture, it is difficult to expect that things will change overnight. The endemic nature of corruption was cemented by the fact that many of those in enforcement agencies—such as police, Manpower and Public Works officials—also held franchises or were too afraid to act.<sup>13</sup> Senior executives of TNCs were granted the same "flexibility" if they played the game.

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the Asia Monitor Resource Center ([www.itcilo.it/english/actrav/telearn/global/ilo/code/main.htm](http://www.itcilo.it/english/actrav/telearn/global/ilo/code/main.htm) and [www.amrc.org.hk/arch](http://www.amrc.org.hk/arch)).

While US-based firms are more likely to have Codes of Conduct than those originating in Europe, the Conference Board Surveys of 1987 and 1991 indicated that European firms were more likely to place emphasis on workplace safety (**Corporate Ethics Practice Report**, 1992, [www.itcilo.it/englsih/actrav.telearn/global/ilo/code/main.htm](http://www.itcilo.it/englsih/actrav.telearn/global/ilo/code/main.htm)).

<sup>11</sup> Originally defined by Krueger as "the proliferation of economic controls following independence" (Krueger, 1974:293), in relation to Indonesia, the term "rent-seeking" was turned on its head to imply deliberate intervention in order to generate rents through licenses and franchises.

<sup>12</sup> Institute of Management Development (<http://www.imd.ch/wcy/criteria/criteria.cfm>, posted April 2001).

<sup>13</sup> "Just as judges could enrich themselves by selling their judicial decisions, so Soeharto and his other franchisees could do so by making determinations outside the courts that put an end to all kind of matters in dispute" (McLeod, 2000:19).

Low wages, subordinated trade unions and a “culture of getting away with it” gave a certain inevitability to their collusion.

According to the World Bank, Indonesian manufacturing output doubled in volume every six or seven years during the 1970s and 1980s (World Bank, 1994). By 1990 the estimated manufacturing value-added was approximately eight times the 1970 level and was, according to the Bank, set to expand another 13-fold by the year 2020—a figure that would make the expansion greater than the size of the existing economy as a whole. These estimates were made in 1994 before anyone dreamed of the fall of Soeharto, or of the serious economic woes that befell Indonesia in 1998, and which continue to plague the nation. The World Bank projected that manufacturing, which contributed only 13 per cent of GDP in the 1970s, would be expected to contribute 33 per cent in the 1990s and 45 per cent in the following decade. Post-economic crisis, these figures appear to be fanciful. However, the picture painted was a reassuring one of growth and solidity.

While Indonesia is emerging from years of dictatorship, it appears to be emerging into further chaos, as various forces vie for power. Jusuf Wanandi, Director of the Center for International and Strategic Studies (CSIS), explained that “Today’s anarchy is a result of 50 years of dictatorship” (*Newsweek*, 9 July 2001). Some would argue that in essence Indonesia has moved from organized crime to disorganized crime. Levels of poverty, extortion, theft, unemployment, summary justice and sectarian violence are escalating. At the time of writing, the International Monetary Fund (IMF) and World Bank were in direct conflict with the Indonesian government about inaction on initiatives that would give Bank Indonesia<sup>14</sup> more independence. In addition, Indonesia had stalled on the sale of some of the assets previously linked to the Soeharto family, most notably Bank Central Asia and Bank Niaga. Both of these banks had been taken over by the Indonesian Banking Restructuring Agency (IBRA). Indonesia claimed interference in its national sovereignty; the multilaterals claimed that economic sustainability is impossible without such gestures.

Indonesia is in dire financial straits. Its total public debt is \$152 billion (99 per cent of GDP). Total private debt is \$110 billion (72 per cent of GDP). Furthermore, Agence France-Presse reported (23 February 2001) that the Indonesian Supreme Audit Board had found that in 2000, various Indonesian Government departments had misused \$838 million. The worst offenders were said to be the Office of the President and the Defence Forces.

## **Indonesian Culture and Corporate Social Responsibility**

In a well-worn but apt metaphor, Indonesian shadow puppet play (*wayang kulit*)<sup>15</sup> represents the juxtaposition of life, business and art in the country. In no area is this more striking than in relation to CSR. If CSR has any intrinsic value it should not represent awards, glossy reports or audits—in short, artifice—but instead an ethical society, one based on a consistent respect for

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<sup>14</sup> Bank Indonesia is the equivalent of a reserve or central bank.

<sup>15</sup> *Wayang kulit* refers to the classic Javanese puppets made of leather, articulated with sticks made of buffalo horn.

the value of its people and their rights, as well as their environment, and adherence to and respect for the rule of law. These factors, of course, have to run in parallel with the pursuit of profit.

If the process of improving corporate social and environmental performance is undoubtedly a reflection of broader cultural and societal change, it remains to be seen if, and to what degree, the political and corporate *dalangs* (puppet masters) will allow the CSR screenplay to control the characters. When watching a *wayang*, one not only notices the action portrayed on the oil lamp-illuminated screen, but the artistry of the *dalang*, the person behind the screen, manipulating the image. The images are ephemeral, but real at the time, and it is the *dalang* who determines what we see. What follows is a description of how CSR in Indonesia is merely an image presented to a public audience by those working behind the screen.

Some observers consider Indonesia one of the most complex cultures to understand and penetrate. While it embraces modernity (the trappings of which are easily seen in the cities), its business, political and community culture continues to be flavoured by tradition, which is overlaid with the strictures of endemically corrupt authoritarianism.<sup>16</sup> All of these factors affect the acceptance and utility of CSR in the Indonesian context.

The Dutch colonial government formed a seamless blend with the aristocratic Javanese culture during the reign of the Dutch East India Company. This original aristocratic court culture (*priyayi*) derived from the large sultanates of Java. Over time *priyayi* reflected the *halus*<sup>17</sup> nature of the Javanese courts: a refined, unostentatious and self-controlled culture. When Soeharto, himself a commoner, became President in 1965 he took on the mantle of *priyayi* culture and this model became the ideal (Goodfellow, 1997). Indonesia is a widely diverse culture, however, and *priyayi* is an exclusive rather than inclusive social class. The divide that continues to exist between the masses and the ruling elite is at odds with the social concern implicit in CSR.

CSR requires commitment, long-term thinking and vision from business managers. Faulkner reports that there are still too few trained managers (Faulkner, 1995:9), adding that promotions and appointments are often accorded to those with political or family connections. The decisions made are those that reflect self or family interest and, in general, are not informed by wider commercial, social or environmental concerns, or regulatory strictures. Despite formal agreements between the government and the World Bank stipulating that the renewal of licenses to practice business was to be contingent on firms presenting alternative plans and changing work practices, the Indonesian Bank Restructuring Agency (IBRA) granted a further

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<sup>16</sup> See ABC Television's 7:30 Report, 29 January 2001; for interviews with various specialist Indonesian commentators, see *Newsweek*, July 9 2001. Ron Moreau's *Indonesia Broken by Iron Fist* provides a summary of the influence of past leaders and military. Another excellent source is Jeffrey Winters, Professor of Political Economy at Northwest University, in particular his speech given at the Indonesia Next Conference held in Jakarta in May 2001. His address, "Leadership in Indonesian politics", is reported in *Indocrisis Digest*, No. 198, 5 July 2001.

<sup>17</sup> *Halus* is often used in Indonesia to describe objects or people. It can best be interpreted as meaning "refined", and precludes behaviour that is ostentatious or demonstrative. Javanese aspire to be *halus* as the peak representation of their culture.

operating license to Barito Pacific.<sup>18</sup> This company is a locally owned logging conglomerate, infamous in Indonesia for its destructive logging, unsafe working conditions, non-compliance with minimum wage requirements and openly polluting practices.<sup>19</sup> As a World Bank official admitted, there is no evidence to show that Barito Pacific, and by implication other big companies, will pursue anything other than business as usual.

The endemic culture of corruption has had the effect of causing widespread cynicism and complicity in a culture used to official dishonesty (Alatas, 1999:65-66). This does not bode well for CSR, which requires a high level of monitoring and disclosure. A World Bank official explained, for example, that companies awarded ISO certification for environmental and quality control inevitably reverted to the same old practices while trading on the certification—the certification rewarding planning, not performance.<sup>20</sup> Similarly, timber coming from primary forests in Kalimantan is openly labelled and sold as “Made from sustainable plantation forest in Australia”.<sup>21</sup> This serves to trivialize and compromise voluntary initiatives that aim to promote corporate environmental responsibility, and to deepen the distrust of citizens and investors in the processes of law.

On the labour side, some cultural factors, in particular the acceptance of one’s *nasib* (fate) and great dependence on income in the absence of any social welfare system, mean that substandard working conditions and a degraded environment are grudgingly accepted by all except the vocal activist minorities. In fact, most are simply pleased to have any form of income and would happily work harder if it meant more income (personal communication, workers in several factories).

While a spirit of *reformasi* continues to pervade the urban industrial zones, it has not yet reached a sufficient level to bring lasting change to what is, in essence, a feudal industrial relations system reflecting *priyayi* ideals.<sup>22</sup> In a society such as Indonesia where corruption is endemic, a tendency to kleptocracy, fed by contemporary insecurity, also exists (Rossouw, 1998).

The growing influence of Islam, which emphasizes honesty and integrity in business, constitutes a ray of hope that CSR may gain a foothold in Indonesia. Mohammed himself, who was a successful trader, put a lot of store on the place of honour in trade to the point that Islam in effect invented cheques in recognition of the trust that should be integral to business.<sup>23</sup>

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<sup>18</sup> In the wake of the Indonesian economic crisis, companies, in particular banks, which were under financed or which had been declared bankrupt, were passed to IBRA for management. Many were associated in some way with the Soeharto family or their cronies.

<sup>19</sup> Under a scheme designed by Soeharto’s oldest daughter Ms. Siti Rukmana, young East Timorese males were offered work at high salaries off the island of Timor. Many ended up working for less than the minimum wage with Barito Pacific in Kalimantan and other enterprises owned by Soeharto family members and cronies. It was thought the move was an attempt to reduce the potential for an East Timorese *intafada* (personal communication, East Timorese workers, Jakarta 1995).

<sup>20</sup> Personal communication, World Bank staffer.

<sup>21</sup> Personal communication, Management Consultant with Kaltim Prima Coal, working at the time on the other side of the river.

<sup>22</sup> In Indonesia, Pancasila Industrial Relations is the prevailing model. Pancasila is Sanskrit for five principles, which include belief in one God, humanism and deliberation leading to consensus. While being an ideal it has been used as the basis for mass indoctrination and social control.

<sup>23</sup> BBC Islam, **Empire of Faith**, ABC, 11 February 2001.

Indonesia is the world's most populous Islamic country and, while they are not citizens of an Islamic state, some notable Indonesians have used Islamic principles to criticize facets of the New Order regime.<sup>24</sup> *Sharia* law, for instance, stipulates that property should not be acquired by acts of bribery, looting or deception, which are considered *haram* (prohibited). However, this has been honoured largely in the breach by the powerful figures that dominated the New Order regime, even those that frequently complete the *hajj*. *Sharia* specifies that the fruits of productivity should benefit the community and that Muslims as individuals cannot own publicly used utilities such as roads, schools or hospitals, or production facilities where the cost of the good far exceeds the cost of production—some have argued that this includes gold mines and oil producing or refining (Adnan and Goodfellow, 1997:57).

While large Chinese-owned businesses, which comprise an important part of the Indonesian economy at all levels,<sup>25</sup> are changing their management systems in line with modern, accountable management practice, the patriarchal structure still exists (Sawarjuwono and Goodfellow, 1997:77).<sup>26</sup> Most Chinese-owned businesses are set up as limited companies, to minimize outside interference. Their insular style of management is highly personal, enfolding only family members or those known to the family. While CSR aims to incorporate the needs of multi-stakeholder interests, Indonesian/Chinese management styles preclude any interests external to those of the core management group.

## Corporate Social Responsibility and Codes of Conduct

This section deals with obstacles to the broader acceptance of business ethics and CSR, and explores some recent initiatives related to this subject. It also discusses codes of conduct and their application in Indonesia.

### ***Replicating corporate social responsibility***

There are several contentious issues and debates surrounding the replication of CSR in developing countries. Key questions are: how appropriate and transferable are the tenets of CSR; and how quickly and comprehensively are they being taken up to make a significant difference to the overall status of workers and environmental preservation?

Threats of trade boycotts in the West, and insistence on monitoring and codes of conduct, have led to tensions between the developed and the developing worlds. After years of interviewing workers in Asia, Kristoff and Wu Dunn argue that sweatshops can play a positive role in wealth creation (*New York Times Magazine*, 24 September 2000). They argue that workers view reformist pressure from the West as dangerous because it threatens the viability of their

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<sup>24</sup> The New Order (*Order Baru*) was the name coined by Soeharto to indicate his hold on power in the Javanese sense. That is with the emphasis on "order" following the supposed chaos of the Soekarno years.

<sup>25</sup> Chinese businesses in Indonesia own 74.5 per cent of national assets despite the Chinese constituting only 3.5 per cent of the population ([www.unc.edu/depts/diplomat/AD\\_issues/amdipl\\_15/palmer\\_reform1.html](http://www.unc.edu/depts/diplomat/AD_issues/amdipl_15/palmer_reform1.html)).

<sup>26</sup> This is not a pejorative term but a word used proudly by Indonesians to describe their country. Chinese businesses are managed mainly by the senior male members of the family. Business dynasties are founded on male industrial empires. While Chinese women work in their family businesses, they do not share the same inheritance rights as men.

employment. They have an unlikely ally in Paul Krugman, who points out that “A country like Indonesia is still so poor that progress can be measured in terms of how much the average person gets to eat” (Krugman, 1999:83).

The improvement in calorific intake since 1975 has not been due, he claims, to benign government intervention; rather, it has been the unintended result of the actions of soulless multinationals and rapacious local entrepreneurs whose only concern has been to take advantage of the profit opportunities offered by cheap labour. It is not an edifying spectacle; but no matter how base the motives of those involved, the result has been to move hundreds of millions of people from abject poverty to something still awful but nonetheless better. Krugman insists that international pressure for improved standards in TNCs risks creating a labour elite, with little or no benefit for the greater numbers of poor farmers, day labourers, household help and other informal sector workers.

Certainly workers in TNCs interviewed by this author believe themselves to be fortunate. TNC wages are usually (marginally) above the national minimum, conditions are better than those in domestically owned companies, and workers enjoy the social prestige of making a globally known product. I would contend, however, that the very profitability of TNCs should enable them to pay more and not only take a lead in labour reform but also work toward halting the “race to the bottom”.

While most would argue that business ethics are integral to political democracy and economic stability, considerable inertia can prevent anything more than token change. If one uses Quazi and O’Brien’s two-dimensional model of corporate responsibility,<sup>27</sup> Indonesia could be placed at the extreme right of the axis, which defines responsibility in the narrowest sense of profit maximization, reducing short-term costs and ignoring longer-term benefits (Quazi and O’Brien, 2000). In essence, this axis starts with the Milton Friedman axiom that the social responsibility of a business is to increase its profits (Friedman, 1970). In addition, it is expected that all organizations function as they do (or should) in the West, with rational and logical processes underpinning decisions. Whitfield reminds us that Indonesians and Westerners do not share the same worldview, values, educational background, approach to management methodology or, we can conclude, CSR.<sup>28</sup>

The Indonesian economy has always been buoyant, with massive oil reserves and valuable natural resources, such as timber and minerals, in addition to its manufacturing industry. Even during the current period of instability, Indonesia’s economy has been growing by 3 to 5 per cent per annum. In addition, Indonesia has had the patronage of wealthy foreign governments who rewarded Indonesia’s crushing of communism by assisting with defence, trade and

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<sup>27</sup> The model has two axes, the horizontal axis has two extremes: narrow and wide responsibility, the right hand of which represents the narrow view of corporate responsibility, that is, to maximise profit in the short term. The extreme left considers corporate responsibility in a broader context encompassing environmental protection, community development and philanthropy. The vertical axis is concerned with the costs and benefits of these horizontal measures. At one extreme, attention focuses on short-term costs of social commitment, while the other extreme recognizes the longer-term benefits and the fact that they outweigh the short-term costs.

<sup>28</sup> [www.expat.or.id/business/harmony.html](http://www.expat.or.id/business/harmony.html)

investment. Thus, until recently, ethical reform was never a condition of foreign support. The result was complacency, particularly among domestically owned firms producing for the huge local market rather than for export. However, recent and growing political instability, coupled with economic downturn, has provided at least some impetus for broader changes which, when coupled with Islam, may give rise to some positive change in terms of CSR. But the existing groundswell for political change has to some degree subsumed economic or business reform.

There is evidence that the social anarchy referred to by Jusuf Wanandi has infected both domestic and transnational corporations. A Canadian engineer and longtime resident in Indonesia has pointed to the increasingly degraded environmental, health and safety conditions in overseas-owned oil and gas plants and mines. His impressions were supported by more recent interviews with senior Ministry of Manpower officials.<sup>29</sup> These sectors previously adhered to international performance standards, but there are growing signs of cynical disregard for the rule of law. Social breakdown may corrode the socially progressive steps taken by some TNCs.

Many Indonesian managers believe that good working conditions and environmental care are only available to rich foreign companies and do not bring them any immediate financial gain.<sup>30</sup> The recent revelation by the owner of a factory that produces shoes for Reebok was a rare exception. He told reporters that the \$2 million he had to spend to meet compliance standards after an independent monitoring team had made its recommendations would be repaid in productivity and efficiency gains over three years (**Business Week**, 6 November 2000).

Even if companies were interested, there are few existing avenues or forums (for example, trade unions) through which to share information, methods or models. The major Indonesian employers' group, APINDO, was founded as a conduit for patronage by one of Soeharto's sons, and is not regarded by all Indonesian business people, particularly women, as representative of their interests.<sup>31</sup> When interviewed, APINDO officials indicated little knowledge of CSR, and only a cursory interest in further exploration of the subject. In recent years, seminars and conferences have been held by multilateral agencies on corporate governance, but the subject matter tends to favour the banks rather than the population and business at large.

### ***Who drives corporate social responsibility?***

It is clear that the driving force for social responsibility comes from outside Indonesia. The first major campaign to have an effect in Indonesia started in 1992/93 when the then head of the AFLI CIO<sup>32</sup> office in Jakarta, working with the Jakarta Urban Mission, made contact with Nike workers. The subsequent campaign pointed out that while Nike's profit rose to over \$180 million per year, and their advertising budget for Michael Jordan alone was \$20 million, a Nike worker in Indonesia earned less than \$.90 cents per day – \$270 per year (Suziani, 1999:3).

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<sup>29</sup> Personal communication, Mr. Gultom, Director Labour Standards, Ministry of Manpower, April 2001.

<sup>30</sup> Personal communication, Mr. Nursalim, labour inspector, June 2000.

<sup>31</sup> Personal communication, representatives of CSIS and Aku Wanita, an Indonesian women entrepreneurs group.

<sup>32</sup> American Free Labor Institute and Council of Industrial Organizations – now superseded by ACILS – American Center for International Labor Solidarity.

In 1992, the Levi Strauss manufacturing plant in Indonesia was the subject of a human rights report, which alleged that workers had been slapped and abused if their pace did not meet production targets. Adverse publicity caused Levi Strauss to take stern measures to ensure compliance to the company's Terms of Engagement.<sup>33</sup> Since then the international consumer and anti-sweatshop movements have orchestrated continuing campaigns.

While the politics of the global anti-sweatshop movement are complex, and seemingly based on shifting alliances, several groups have emerged as having most influence in Indonesia. The US-based Global Exchange is involved, as are the Fair Labor Association and the Students Against Sweatshops movement with their allies, the more radical Workers Rights Campaign. The Global Alliance, which represents World Bank and corporate interests, has just set up an office in Indonesia.<sup>34</sup> In recent times the Fair Labor Association, with funding from the MacArthur Foundation, has begun to develop training for indigenous labour monitors, so that they can monitor codes of conduct. While most Indonesian labour groups care little about codes of conduct, the training was useful in a wider context, as it made some progress toward compensating a widening gap in technical assistance to Indonesia. Recently, several of the major TNCs operating in Indonesia (Ericsson, Nike, Unilever, BP, Deutsche Bank) agreed to become part of the United Nations-sponsored Global Compact, the aim of which is to promote labour, human rights and environmental principles. At the time of writing, however, no activities had been initiated in Indonesia as a result of this.

Indonesia Business Links (IBL), sponsored by the Prince's Trust, represents a British-led informal group of 50 foreign businesses interested in "generating a new era in Indonesian private enterprise". Their activities to date have been oriented toward social safety net activities and assisting with small business development, but they are becoming increasingly active in the identification of specific activities to support CSR, such as social accounting and monitoring. Lately they have offered workshops on business ethics. Client companies are required to commit funds, but most importantly they are required to commit the time of their senior managers. IBL has a code of conduct with which all members and subscribers must comply. This code is very general and, while the environment is mentioned, working conditions are not. Nor is there any mention of monitoring procedures or sanctions for non-compliance.

According to IBL's Executive Officer, if corporate ethics are to take root in Indonesia, trade unions need to become more professional and proactive. Years of state control, he believes, have deprived companies of valuable input from workers and the ability to change in a climate of co-operation.

Government officials and trade unionists, however, seem to remain disinterested or unaware. Senior Ministry of Manpower officials responsible for labour standards had not heard of codes

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<sup>33</sup> Levi Strauss was one of the first companies to institute a Code of Conduct in 1991, which they called Terms of Engagement – after complaints of violence against workers were lodged. Dusty Kidd of Nike claims that it was these Terms of Engagement that gave rise to the Nike Code of Conduct.

<sup>34</sup> They were approached for comments but did not respond.

of conduct and mistook them for Collective Labour Agreements (CLA), which are the basis of labour negotiations in Indonesia. Nor were the industrial hygiene and occupational health officials familiar with codes of conduct when they participated in both workplace monitoring<sup>35</sup> and workers' education programmes. The relative powerlessness of workers' representation, has meant that useful reforms to improve worker safety in TNCs—for instance, the everyday use of Material Safety Data Sheets (MSDS)<sup>36</sup>—have not been widely replicated in Indonesian-owned firms. Even labour inspectors seem unaware of the significance of this reform, or its transferability to local enterprises.<sup>37</sup>

To support the process of business transparency and “to kick-start social responsibility”, the World Bank<sup>38</sup> has overseen the establishment of a body called the National Committee on Corporate Governance, made up of former Ministers of Finance, the Securities Commissioner and various state enterprise leaders. Yet for many years the World Bank overlooked systematic corruption in both the public and private sectors. It now hopes that this initiative will provide the groundwork for corporate ethics and CSR. The national committee has the imprimatur of legislation (KepMekuin, 31 June 2000).<sup>39</sup> Their task is to compose and recommend a national policy that includes:

- a Code for Good Corporate Governance as a frame of reference for the Indonesian business world, including a programme for its promulgation;
- detailed improvement of legislative structures to support the Code; and
- attention to institutional structures that support the application of the Code.

The development of the Code has been driven by the IMF's insistence on the privatization of SOEs, and the need to attract foreign investment to prop up the ailing Indonesian economy. The Code includes the following stated objectives:

...[to ensure that] the corporations take into account the varying interests of diverse stakeholders...the company shall minimize the burden of the cost of mediating the differing interests of the stakeholders; this must be achieved through rational and fair means to strengthen the company's competitiveness....for the corporation's long-term development and benefit, its shareholders should make every effort to decide and otherwise act upon corporate matters with a strict sense of morality and under principles of good corporate citizenship and social responsibility.

While providing a good start, insofar as CSR is concerned, this Code is imprecise and conservative, reflecting the concerns of bankers and economists. It did little to influence IMD's rating of Indonesia as the least competitive nation out of the 49 surveyed.<sup>40</sup> Issues of working

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<sup>35</sup> The author asked officers from HIPERKES, which is the industrial hygiene wing of the Ministry of Manpower, to assist with noise monitoring in factories producing Reebok shoes.

<sup>36</sup> Material safety data sheets contain a wealth of toxicological and management data on most chemicals, including advice on handling acute poisoning, ventilation requirements, fire fighting, storage and the use of protective clothing and equipment.

<sup>37</sup> Based on author's experience and comments from shoe company staff.

<sup>38</sup> Personal communication, Bernard Drum, Economist, World Bank Resident Mission in Jakarta, August 2000.

<sup>39</sup> This is a Ministerial Decree issued by the Minister for Economy, Finance and Industry and called the Establishment of the National Committee on Corporate Governance.

<sup>40</sup> Institute of Management Development (<http://www.imd.ch.wcy/criteria/criteria.cfm>, posted April 2001).

conditions and environmental responsibility are almost entirely neglected and are listed by the IMD as being partially responsible for Indonesia's performance. The Code's references to social responsibility amount to directors and managers "acting as a good citizen in the countries where it does business". However, the Code does stipulate personal responsibility for misconduct or negligence. It also specifies that companies should instigate full disclosure of accounts and other matters as required by law. Despite this, there is no description of monitoring and auditing procedures or sanctions to be applied if business practices do not comply with the Code, or are thought to be corrupt.

### ***Codes of conduct and other "fig leaves"***

This section describes some of the concerns about CSR and codes of conduct that were evoked by NGOs and labour organizations during interviews conducted by the author, for this paper.

The Vice Chairperson of the Indonesian Association of Legal Aid (*Perhimpunan Bantuan Hukum Indonesia*—PBHI) was of the opinion that the scope for improving labour standards had not changed substantially with *reformasi* (the post-Soeharto political reform process). Existing national laws, in particular the 1966 labour law, still supported the power elites and capital, especially foreign capital. This law did not grant any rights to labour or the community. The ideology of industrial development in Indonesia still relied heavily on cheap, submissive and obedient workers. The industries coming to Indonesia were mostly labour intensive, relying on women workers. The so-called "*Politik Korporatisme Order Baru*",<sup>41</sup> still practised today, involved what he called "*jaringan korup*" (corrupt networks)—a coalition between Depnaker (*Departemen Tenaga Kerja*—Ministry of Manpower), SPSI (*Serikat Pekerja Seluruh Indonesia*—The All Indonesian Workers Union), APINDO (Indonesian Employers Association) and the military. Employers still worked very closely with the bureaucracy to improve their advantage. Despite early optimism, the contemporary situation of workers was no different from that of the Soeharto era. The institutions as well as the agents were still the same.

Some interviewees from the Women's and Children's Section of SPSI did not agree, saying that sections of the trade unions were achieving significant gains. They did, however, agree with the previous informant's insistence that law enforcement—not "corporate jargon"—was desperately needed to reduce flagrant breaches and injustice.

A researcher with Econit, an NGO in Jakarta focusing on issues of economic development, argued that TNCs were a boon to Indonesia. Workers had greater choices of companies with which to work, and increased manufacturing output had lowered the cost of consumer goods for the Indonesian people. TNCs had made inroads into improving working conditions, and rectifying environmental damage, whether they had codes of conduct or not. On the whole, Asian companies did not care or were apathetic about the environment when compared to TNCs of Europe or the United States. Corporate conservation programmes demonstrated the problem of lax regulatory standards, although such programmes could benefit Indonesia, as investors demand better environmental standards. TNCs and the government should be

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<sup>41</sup> New Order Corporate Politics.

spending more on environmental campaigns, but codes of conduct would have little impact if local management were not motivated or driven by economic imperatives.

Labour activists and members of the second-largest trade union, the Indonesian Prosperous Workers Union (SBSI) raised other issues. SBSI was concerned about how anyone could know if subcontractors did not adhere to the code of conduct of the clothing retailer, Gap. Subcontractors tend to adopt a “lowest common denominator” compromise in most cases. On the whole, they said, exporters only enforce codes when the public relations heat is on. They felt that if Gap had a code of conduct, they could at least consult with trade unions about its implementation. Two labour groups called *Aksam* and *Sisbikum* also criticized Gap for not involving workers’ groups in the implementation of the code. They also denied that there had been any collaboration between the company and workers to establish reporting mechanisms if subcontractors failed to implement the code. On the whole, interviewees considered codes of conduct largely irrelevant for both workers and the workers’ movement. Instead of expending their limited resources on TNCs and the few companies that had codes of conduct, the trade unions insisted that attention should be focused on overall reform of existing labour administration, in particular enforcement, appeal procedures and “criminalization”<sup>42</sup> of labour relations that allowed the existence of poor working conditions and worker exploitation throughout Indonesia. They viewed codes of conduct as a Western imperative, not a local one.

A prominent Indonesian labour activist from the Workers Information Foundation (*Lembaga Informasi Pekerja*) pointed out that subcontractors generally received no training or economic assistance from TNCs, and yet were required to make and pay for all workplaces changes. The majority of workers in companies with a code were unfamiliar with the content of the code, or how to respond if they believed the company was in breach.<sup>43</sup> Codes had made little difference to workers’ conditions or income, nor did they appear to have a spillover effect to other industries, either foreign or locally owned. He felt that TNCs tended to off-load responsibility for workers’ rights and conditions onto subcontractors, when instead they should shoulder more of the burden. When asked which companies had codes, he was aware of only those promulgated by Gap, Reebok, Nike and Levi Strauss.

Staff of the American Center for International Labor Solidarity (ACILS) told the author that 3M “might have” a code of conduct, which raised the question of how such codes could be monitored if organizations with the longevity and experience of this one did not know they exist.

The US representative of ACILS believed that the push for corporate codes came mainly from the United States and Europe and rarely from Indonesia. Indonesian trade unions usually found

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<sup>42</sup> This is a word (*kriminalisasi*) coined by Indonesians to explain the involvement of police and military in industrial relations, sometimes with dire results. It had its origins with Admiral Sudomo who, in the late 1980s, instituted the “security approach” to labour when he was Minister of Manpower. Labour disputes were regarded as anti-development—and to be anti-development was a crime under the New Order Regime of President Soeharto. The remnants of this thinking still exist.

<sup>43</sup> This is in contradiction to McClain from Ernst & Young, whose monitoring of Nike’s code of conduct indicated that at least half the employees knew about the content of the code (Varley, 1998:270).

out about codes via the AFLI or ICFTU networks.<sup>44</sup> Further, their opinion of codes tended to be largely negative or cynical. He suggested that employment security was more important in a country where the estimated number of unemployed could be as high as 37 million (**Jakarta Post**, 3 February 2001). In general, Indonesian unions have other priorities. In addition to employment security, they have been lobbying the international finance agencies (World Bank, IMF) to lower demands for restructuring of the economy and for legislation granting trade unions more wide-ranging rights. Technical staff in the oil and gas sectors were more concerned with issues of corporate responsibility, as they have always entertained higher standards in relation to working conditions, safety and environment. But such concerns had little chance of spilling over to blue-collar workers, who were more concerned with raising wages. While workers and trade union officials may know of codes of conduct, they often lacked knowledge of their content, what the codes meant or how to take action against breaches. The management of Gap, for example, had recently held a meeting with representatives of the workplace trade unions. The staff reported that they had told the subcontractors to comply with Gap's code of conduct. He told me that, according to the Gap's compliance officer, the company has had a code since 1990 but had only just initiated activities in Indonesia, no doubt after increasing pressure from the United States.<sup>45</sup> It was clear that the local unions either did not know, or did not care, that Gap had a code of conduct, much less use it to press for improvements in wages or working conditions.

ACILS conceded that in a country such as Indonesia, which has relatively few free trade zones (FTZs), codes were of little value. In FTZs, codes of conduct could be used like wedges to enlarge small points of opportunity by, for instance, guaranteeing freedom of association. But some TNCs with codes, such as Sarah Lee, were known to support a trade-union-free working environment. Furthermore, the implementation of codes in Indonesia was sometimes undermined by the simple fact that many were written in English.

The Asia Monitor Resource Center (AMRC) recently released a report by an Indonesian organizer for the Textile and Garment Workers Union, who concurred that codes have little relevance to workers' needs and have been singularly unsuccessful in improving workers' conditions or wages. The report reiterated that trade unions had to be involved in formulating and monitoring codes, if the latter were to be anything more than a public relations exercise. The AMRC itself is dismissive of codes, saying that they disguise the existence of poor labour standards (or at least labour standards that are much lower than those which would be acceptable in the West).<sup>46</sup>

To obtain another perspective on CSR, the author met with two occupational physicians working with the international oil and gas industry. They believed that TNCs "play a clever game in specifying in their codes of conduct that local legislative standards are those to be

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<sup>44</sup> American Free Labor Institute, International Confederation of Free Trade Unions.

<sup>45</sup> The Gap's Compliance Officer herself did not respond to any of my invitations to discuss this issue.

<sup>46</sup> See [www.amrc.org.hk/Arch.ALU](http://www.amrc.org.hk/Arch.ALU). Number 37 is dedicated to a review of codes of conduct.

adhered to, knowing that such rules are more lax or not enforced in the host country”.<sup>47</sup> Some companies enjoyed the political patronage of well-connected elites, with the result that inspectors either got paid off or were warned off. Another problem was that codes of conduct were often enforced by foreign experts. Industrial hygienists, for example, had been flown in to conduct safety audits and had departed without training local counterparts. Such training is crucial to enable local staff to conduct ongoing monitoring and evaluation, or to immediately correct workplace deficiencies. Hazards do not wait for visiting experts before claiming victims.

According to these interviewees, overseas oil and gas companies often ignored issues of local culture and the need to take a social or community development approach. The tensions between communities and mining companies could not be resolved by a code of conduct unless there was a genuine intent to respect local cultural values. Instead, mining companies “tend to have a low cost-high impact” mentality; that is, they want instant results but are reluctant to commit resources. Companies believed that money and codes of conduct (or their equivalent) could achieve good community relations. Few, it seemed, were prepared to devote the time and systematic research needed. In addition, the Soeharto years had created an ethic of patronage which even foreign companies had adopted. The errors of that time were now emerging. Foreign mining companies were facing increasing pressure from communities for land compensation.<sup>48</sup> Oil TNCs were facing other pressures. Mobil was negotiating with members of the *Gerakan Aceh Merdeka* (GAM),<sup>49</sup> presumably to avoid attacks on their installations, and Exxon recently had to close down a major installation due to security threats. More financial support should have been provided by these companies for the facilities and education needed by local communities. While there was some risk in allowing companies to take on the roles of government, it was legitimate to work with communities to achieve community goals or raise the standards of existing services. The development of professional skills in technical areas, like occupational health and safety,<sup>50</sup> as well as in management and industrial relations, was badly needed. Existing Indonesian laboratories were poorly equipped and staffed, so workplace monitoring was ineffective. Additionally, pressure for workplace reform came only when workers and managers appreciated risk minimization. With wages so low, however, workers continued to live from day to day and could not turn their attention to possible future risk.

<sup>47</sup> This is not necessarily true in the case of chemical regulations. Indonesian chemical standards are, on paper, more stringent than those in the United States, which are based on Threshold Limit Values (TLVs) set in 1977 – Indonesia’s being based on 1997 exposure standards (personal communication, G. Brown, US Government Hygienist). Exposure standards are those that allow an *average* worker to be exposed over an *average* eight-hour day without suffering ill effect. However the adoption of TLVs is often more political, being a compromise between what is scientifically desirable, and what is economically feasible or desirable. However, it really does not matter how stringent the standards are if they are not enforced.

<sup>48</sup> Newmont’s office in Lombok, for example, had twice been the target of grenade attacks (*Jakarta Post*, 11 October and 28 October 2001).

<sup>49</sup> *Gerakan Aceh Merdeka* is the Acehese Liberation Movement. Under the leadership of Hasan Di Tiro, GAM has been fighting for secession from Indonesia. Along with the Indonesian army, GAM has been accused of acts of violence against the population. Despite producing much of the nation’s oil wealth and a considerable proportion of Mobil’s global income, 70 per cent of Acehese villages remain classified as *desa tertinggal* (poverty stricken/underdeveloped). Aceh Province is reputed to have contributed Rp. 33 trillion per year to the government’s coffers (Kamaruzzaman, “Women and the war in Aceh”, *Inside Indonesia*, No.64, October-December 2000, page 23). It is worth noting that Aceh was a once prosperous and independent trading Sultanate and the oldest Islamic kingdom in the world. After it was absorbed into Indonesia, its port was closed to international trade and rail connections with Indonesia were severed to force it into dependency.

<sup>50</sup> They told the author that Indonesia, with its huge workforce, has only four industrial hygienists – only one of which is practising!

Codes of conduct could not change that way of being and thinking unless workers had a more certain future, or a more comprehensive social safety net. In the meantime, people's organizations and trade unions needed to monitor environmental and working conditions to maintain pressure on both local firms and TNCs. They concurred with other interviewees that what Indonesia needed—more than codes of conduct—were independent, honest and effective institutions supported by coherent and just laws. Even senior labour officials told me that they were there to support capital and not to be impartial.<sup>51</sup>

### ***Codes of conduct: The TNC view***

The debate on codes of conduct is complex and multifaceted, and the TNC perspectives on codes, reported in this section, differ significantly from those reported above.

Nike, which has been under constant pressure to improve its standards, concedes that their system is not perfect but believes it has taken care to ensure that the system is as fair as it can be. The attention focused on Nike may have less to do with the gravity of their abuses than with their high profile and large market share (Varley, 1998:251). The following text gives Dusty Kidd's account of the development of Nike's code of conduct.<sup>52</sup>

The first sentence [of the code of conduct] was really, in a sense, an apology. Nike's relationship with factories in those days, was strongly predicated on the idea that we will act honourably toward one another, and that a handshake and a man or woman's word was [like a] bond. Our biggest debates, therefore, were not about whether we should have standards, but more specifically, what would requiring factory partners to affirm these things in writing, say to them about our trust? That's a hard thing for many outside the culture to grasp. But the bonds of trust between Nike and factory people were incredibly strong...

The first public notice that Nike was to be criticized about labour issues appeared in the summer of 1992. It was...[the] very clever use of a worker's pay-stub, annotated also to include a hypothetical Michael Jordan pay-stub. It was a simple two pages...in Harper's magazine; with a short acknowledgement that Jeff [Ballinger] was a veteran trade unionist and Indonesia expert.

I think it fair to say this about Jeff and others who have been responsible for a steady stream of criticism about Nike: where they have had impact has been primarily on transparency...From the first country-wide monitoring by auditors in 1994 to establishment of systematic inspections in 1997, to worker education programmes in '97 and onward, and focus group monitoring in '98 and so forth, and especially in initiatives to make the workplace safer and solvent-free...in '94, we did this...because we thought it would make these places better workplaces, and before those specific steps were connected to focused criticism. In fact, the stream of criticism was so broad, deep and fast in 1997 that everything we did was said to be in response some critic's statement, story or step—when in fact we were at that point simply trying to get a department off the ground, and getting processes in place...

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<sup>51</sup> Personal communication, Head of the West Java Provincial Manpower office, Bandung, April 2001.

<sup>52</sup> Edited excerpts from an e-mail forwarded by Ms. Rodriguez, Compliance Officer, Jakarta, in answer to questions sent by the author to Nike. Dusty Kidd is Nike's Vice President of Corporate Responsibility.

When interviewed for this paper, the Compliance Officer of Nike Indonesia explained that responsibility for environmental and working conditions and occupational health and safety issues lay with a fully integrated and cross-trained team in each factory. While sanctions were not explicitly written into the Nike Code of Conduct, Nike insists they have a zero tolerance policy on any forms of harassment, whether sexual, verbal or physical. However, that is contested by a report of the Clean Clothes Campaign that details intimidation.<sup>53</sup> Furthermore, Hancock, who had listed rights abuses in Nike plants while completing doctoral research in West Java (Hancock, 1996:34–36) returned to Banjaran early in 2000. What he found is documented in *Inside Indonesia* (Hancock, 2000:21–22), where he reveals ongoing problems of harassment of workers and inordinately long working hours.

A report released in February 2001 by the Global Alliance, to which Nike and the World Bank are major contributors, was also critical of Nike. After interviewing more than 4,000 of the 54,000 Nike workers, the Global Alliance found considerable dissatisfaction with health facilities, permission to take sick leave, the treatment of pregnant women and labour relations.<sup>54</sup>

Nike's response was market-sensitively contrite. But there were significant differences between the press coverage outside and inside Indonesia. In Indonesia, a foreign Nike manager and his local counterpart told a reporter—in what was interpreted as a veiled threat—that Nike could simply close up and move their operations to Viet Nam (*Indonesian Observer*, 24 February 2001). In international forums (including the Global Alliance Web site, [www.theglobalalliance.org](http://www.theglobalalliance.org)), Dusty Kidd announced that Nike would respond by allowing monitors accredited to the US Fair Labor Association (FLA) to perform further monitoring activities. Moreover, they would respond to health and safety concerns by calling in SOS (an international medical service used largely by expatriates).

Several interesting issues are raised by these events. First, the Global Alliance had been dismissed by much of the international consumer movement as being a front for corporate values, given its links with Nike, Gap and the World Bank, among others. In fact, it turned out to be an effective critic of Nike, as its work was done by trained social scientists using empirical research methods and a large sample. Prior to the Global Alliance report, the outcry against Nike had been led by a few individuals with fairly piecemeal evidence.

Second, Nike has been the target of the most intense pressure not only to formulate a code of conduct, but also to have its compliance monitored. PricewaterhouseCoopers and Ernst &

<sup>53</sup> Clean Clothes Campaign, Newsletter No. 13, November 2000, pages 12–13

<sup>54</sup> Workers reported actually collapsing before they were allowed to seek medical attention. Thirty per cent experienced verbal abuse, 8 per cent some form of unwanted sexual comments and 2.5 per cent actual sexual contacts. Between 1 and 14 per cent, depending on location, experienced supervisors pushing, hitting and hurling objects at workers, as well as other forms of physical abuse. Many women hid their pregnancies until they were well advanced because of the economic disincentives. (Pregnant women are not allowed to work overtime and are shifted to lighter duties in which there are fewer opportunities for bonuses.) While workers admitted receiving above minimum wages, they agreed that the wage still did not meet daily needs in light of Indonesia's rapidly increasing cost of living and inflation. Despite laws to the contrary, women received marginally less money than men, because men are automatically regarded as heads of household and thus eligible for tax deductions. Men also receive more money for spurious differences in degree of difficulty in work content. See [www.theglobalalliance.com](http://www.theglobalalliance.com) for a printable version of the Indonesian Needs Assessment report.

Young are among the internationally recognized companies that monitored Nike establishments. Despite all the media and monitoring attention, some serious problems remain. Reports on working conditions like those of the Global Alliance, and my own observations, indicate that CSR swings on more than codes of conduct.<sup>55</sup>

Finally, the steps taken by Nike exclude any Indonesian legal or enforcement body. Even the monitors have to be approved by a US-based body (the Fair Labor Association), not one based in Indonesia. While the FLA has sponsored training for indigenous monitors, a four-day programme in occupational health and safety issues would not enable them to monitor effectively or recommend solutions. Nike at no stage stated that they would call in the safety or labour standards inspectors from the Indonesian Ministry of Labour. This approach exemplifies the capacity of TNCs to isolate themselves from the local regulatory systems and public. In this case it seems Nike is keener to appease international critics than to be a good employer.

A spokesperson from PricewaterhouseCoopers in Indonesia—where the company audits 10 factories—agreed that monitoring was likely to be ineffective when it was not supported by “suitable watchdog bodies such as strong NGOs or suitably concerned shareholders...These are not in place in Indonesia...[and to that end] stronger regulations would be more effective than voluntary initiatives”. PricewaterhouseCoopers normally sets the schedule for monitoring and compliance activities with senior executives in the head office, providing no opportunity for participation from trade unions or local stakeholders. Similarly, major breaches found by monitoring teams are usually resolved at head office without the involvement of local stakeholders.

While first-level contractors producing shoes are on the whole dedicated to one brand, as many as five brands of garments may be made under one roof in the case of other contractors. As an example, clothing for Nike, Reebok, Gap and several other companies is made in one factory in East Jakarta. Some of those TNCs have codes of conduct, while others do not. The workers for each group have to be housed separately because they all receive different wage rates, work different hours and are bound by varying codes of conduct which specify different standards of working conditions. Reebok and Nike compliance officers interviewed for this paper agreed that this is a “nightmare” for the exporter and the various producers to administer and monitor. Exporters “should sit together and gain a common vision and standard” because, inevitably, contracted producers do not, or cannot, adhere to a number of differing demands.<sup>56</sup> They and other buyers without a code of conduct tend to “*num pang*” (travel on) one code of conduct that is easy to comply with. Garment buyers have a lot less leverage, as subcontractors tend to be more cynical about the relevance of codes of conduct. Buying systems and quotas vary so widely that subcontractors often take a jaded view of compliance and monitors, resulting in

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<sup>55</sup> During a training exercise on occupational health and safety at one of Nike’s model plants, one of the trainees, a Nike worker, laughingly observed that the sparkling clean safety shoes had been given out that morning. The recommendation to give certain workers protective footwear had been made 12 months previously in a confidential occupational hygiene report seen by the author.

<sup>56</sup> Personal communication, Indonesian Compliance Officer, Reebok, Jakarta.

subcontractors preferring to produce brands (both Asian and European) that do not have a code.

Reebok thought it desirable that trade unions participate more fully in workplace compliance activities, in particular occupational health and safety and education. Being Indonesian herself, the Reebok representative recognized that industrial relations suffer the legacy of the New Order era – what she called “institutionalized stupidity” – where initiative and protest were not valued, but punished. She believed it would take another generation for things to change, that monitoring should be an ongoing process, and that the process should include education of in-house staff in order to reduce dependence on external monitoring. The progress made by Reebok was largely due to the enthusiasm and professionalism of a few dedicated staff. As Eddington (2000) has rightly pointed out, unless the whole organization supports CSR initiatives, they are not sustainable.

The head of the firm that monitored Reebok explained that the presence of dedicated local staff such as the company doctor – conducting research at a factory producing for Reebok – gave the change process more depth and credibility. A local “Hawthorn Effect” was evident in that workers “felt better” in all sorts of ways after the monitoring. She reported one worker as saying “It’s like they care”. While productivity gains were only meaningful for management, such gains should be evaluated as an incentive to others. But, like many of the commentators, she agreed that corporate responsibility in Indonesia, despite being pushed from the outside, is still a vulnerable process and one that is extremely difficult to reproduce. What she termed the “China Factor” was the biggest obstacle to CSR in developing countries: China’s growth, based on extremely poor labour standards, could trigger another “race to the bottom”, where wages and working conditions are sacrificed.

### ***Inside codes of conduct***

Clearly, there are sharp differences of opinion between NGOs, labour groups and TNCs regarding the appropriateness of codes of conduct and their means of implementation. My own views on this issue have been formed through many years of work in areas of occupational health and safety. In 1999, I was an independent labour monitor for Reebok.<sup>57</sup> While the majority of changes recommended by the monitoring staff were accepted and acted on by Reebok and their subcontractors, any system that is dependent on codes and monitoring is fundamentally flawed for the reasons outlined below:

- Codes of conduct that do not make direct reference to the supremacy of local laws may be interpreted as implying that TNCs are exempt from regulation by the indigenous legal system. Some corporations operating in the developing world argue that codes of conduct are a substitute for legal regulation (Ranald, 2000). While the indigenous system may be inefficient or ineffective, TNCs should not be able to compete or set themselves up as separate systems, particularly in view of the fact that codes of conduct completely bypass the tripartite negotiation system that was one of the major labour reforms of recent years.
- Codes of conduct are political, not technical, documents. Issues of working conditions, in particular occupational health and safety, need to be supported by

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<sup>57</sup> The results of this monitoring were published in a public report titled **Peduli Hak** (Caring for Rights).

approved standards and codes of practice which are determined by technical risk assessment and the country's ability to measure and evaluate that risk. Codes of conduct, because they are not standardized, can refer to unattainable international standards, local standards or none at all.

- The process and outcomes of monitoring are usually confidential (Reebok was unusual in that it made its final report public). The monitoring is usually done by a for-profit organization that has no ability to sanction the client in case of breach. The only possible sanction is public reaction but, if a report is confidential, even that recourse is lost.
- Codes are usually designed in the head office, and rarely in consultation with trade unions or others. They tend to represent management's list of important issues. In the case of Reebok, their code did not address key health and safety elements of production line work, or the rights of "back room" workers (welders, boiler attendants, metal workers, cleaners and office staff). In addition, issues of particular importance to women (such as menstruation and pregnancy at work) were not raised, despite the workforce being predominantly female. Despite its much publicized code of conduct, as recently as November 2000 Nike subcontractors were accused of intimidating women and instituting humiliating practices in regard to legally mandated menstrual leave (Clean Clothes Campaign, 2000).<sup>58</sup>
- Codes with lower technical specificity are often found in enterprises that are female dominated. The male-dominated oil and gas industries, for instance, tend to have higher performance standards for working conditions and occupational health and safety. Even in companies such as Mattel, where working conditions for US employees are ranked as some of the best in the world, conditions for women workers in their off-shore production facilities are reported to be poor.<sup>59</sup>
- Monitors usually only see one or two plants chosen by the client, and the company's overall performance has to be extrapolated from these "model" workplaces. Companies having mixed functions, i.e., producing both shoes and garments, admit that codes are hard to apply in non-dedicated operations.
- Codes only apply to a small proportion of a nation's workers. They do nothing to address overall national deficiencies in working conditions or labour rights, and there appears to be no transfer of technology to the broader industrial sector.
- There exists an imbalance in financial responsibility for working conditions and the generation of profits. Following the Reebok monitoring, two plants had to outlay \$2 million each over five months to retrofit to standards that would allow them to maintain their production contracts. Reebok itself paid only the costs of monitoring and reporting in both factories. While the subcontractors may reap the profits of increased orders resulting from any good publicity, the returns to labour remain fixed and Reebok's share of profits increases overall. Subcontractors report feeling under more pressure on grounds of efficiency than they do about the codes of conduct. Their margins are so narrow that any large expenditure may result in wage reductions. Subcontractors have no guarantees of continuity and live under the continual threat that the exporter will cancel their contracts.<sup>60</sup>
- Monitoring is usually done by accounting firms having insufficient technical knowledge to deal with the often complex health and safety problems in production plants. For instance O'Rourke found that the well-documented carcinogen, benzene, was still in use in a plant that had been monitored by PricewaterhouseCoopers.<sup>61</sup>
- The code of conduct system, with its use of monitors, threatens to bypass trade unions. Even the use of indigenous monitors may fail to address this risk if the monitors are not linked to trade unions. Indigenous monitors are economically and personally vulnerable unless they have alternative sources of income, or are

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<sup>58</sup> By law, Indonesian women workers are accorded two days per month menstrual leave. Women more than men suffer severe anaemia as a result of poor nutrition and repeated infections.

<sup>59</sup> All of the above reports are to be found at [www.amrc.org.hk/Arch](http://www.amrc.org.hk/Arch). ALU Number 37 is dedicated to a review of codes of conduct.

<sup>60</sup> Personal communication, ACILS staff member after he had surveyed subcontractors.

<sup>61</sup> Personal communication, D. O'Rourke, Professor of Environmental Science at the Massachusetts Institute of Technology. See also Ranald, 2000.

supported by ethical organizations. Nor do they have rights of entry unless specifically invited, at which point their independence may be compromised. The other weakness is that the expertise needed to recommend technical solutions to OHS issues is usually not found in trade unions or NGOs. While completing OHS checklists might be relatively easy, prescribing air flow rates for ventilation systems and ergonomic solutions for workers requires a degree of technical training.

- Workers often think that monitors represent the company and are thus reluctant to express grievances.
- Codes of conduct tend to be found in industries susceptible to public and consumer pressure. So far little commensurate attention has been given to the TNCs producing food, chemicals and cigarettes, which are hazardous processes and are reported to have contravened workers rights. The international hotel industry is responsible for high rates of occupational fatalities in Indonesia – codes do not protect workers during the dangerous construction phase of TNC-owned or -contracted workplaces.
- Codes of conduct are most commonly found in what can loosely be called “Western” firms; the various types of orchestrated public pressure that motivate their development is lacking in Asian nations.

## Corporate Responsibility and the Environment

It is now understood that the biodiversity of the Indonesian archipelago comes close to that of the Amazon Basin (Barber, 1998). And like that of the Amazon Basin, Indonesia’s biodiversity and ecological balance is being threatened by rapacious mining, palm oil and forestry activities. Under Indonesian law, any land not being used for agriculture, housing or industry is automatically owned by the state, nullifying traditional claims over land use (*adat* rights). This means that natural resources can be exploited without any sharing of profit with local communities.

Warhurst (undated) has characterized the facets of CSR in mining as being related to:

- The **biophysical sphere**, which includes the effects of mining on the health of the ecosystem, biodiversity, conservation, air and water; and the physical base of the community’s other livelihoods, such as preservation of marine resources, minerals, forests and agricultural soils.
- The **economic sphere**, which includes economic benefits to communities, wages, and distribution of natural resource based commodity rents (taxes, royalties, etc.) between state and national agencies.
- The **social sphere**, which encompasses the rights of individuals and groups, their capacity to organize, health and working conditions, respect for cultural and religious heritage, and the attitudes of the community to its environment and education.

These parameters should be applicable to any natural resource-based project, yet worsening relations with communities indicate that they are not applied.

Indonesia is a major world producer of tin, coal and copper. It has extraordinary reserves of iron sands, bauxite and phosphates. Its main revenue earner is gold, and it appears that alluvial diamonds will be profitable. The forests are abundant with hardwoods and cabinet timbers, such as teak. While this is essentially good news for a poor economy, in the absence of social or

business ethics and in the presence of crony and military-led capitalism, the temptation for environmental devastation has always been present.

Military economic interests and their support for Soeharto added a particularly ruthless element to ecological management in Indonesia. Recent evidence suggests that the military is still a leading player in the post-Soeharto era. After an Australian gold mine in North Sulawesi was taken over by local miners, for example, the area became badly polluted by the mercury used to separate the gold from the ore. The practice threatens fragile reefs in Manado and the area's tourist industry that relies on the reefs, as well as the health of the miners and their families. Many of the miners work for senior military officials who prosper from the gold and diamonds that are smuggled out of the country. These generals reportedly threatened officers of the regional environmental agency, BAPEDALDA, when they attempted a clean-up (*The Age*, 1 July 2000).

Desperate for foreign investment, the new government recently agreed to allow mining in two of the most densely populated islands of the archipelago: Java and Bali. Not only are these two islands redolent with sites of great cultural and religious significance, they are already suffering environmental problems caused by large populations (Digest 121, *Indocrisis*, 8 February 2001).<sup>62</sup>

Despite international campaigns against Australian and American transnational companies in the main mines, the worst environmental damage is being done by regionally owned and Indonesian natural resource-based companies, some of them connected to the Indonesian military, with or without links to the Soeharto clan; others linked to Malaysian and Singaporean TNCs.<sup>63</sup> The forest fires that annually send health-threatening smoke across the straits of Malacca into Singapore, Malaysia and Thailand are a mark of just how arrogantly negligent Indonesian (and Malaysian) corporations can be. They have proved to be largely immune to international and local pressures for some degree of social and environmental responsibility.

In collaboration with Indonesian elites, Malaysian and Singaporean transnational logging and oil palm companies have caused some of the worst environmental damage seen so far in Asia. An unpublished World Bank report warns that Sumatra's lowland forest will be extinct before 2005, thus reducing habitat for the Sumatran tiger and other indigenous species.<sup>64</sup> Millions of hectares of forest in Sumatra and Kalimantan have been destroyed by fire in order to grow the oil palm. It is estimated that the destruction of one million hectares of peat swamp forest in Kalimantan, and the subsequent fires in peat seams, have set back by 10 years the carbon fixing capacity of pristine peat bogs and added 0.5 parts per million of carbon dioxide to the global atmosphere (Reiley, 2001:3). Furthermore, the suspended particulates and smoke from the fires have led to deaths and untold health problems among the peoples of Malaysia, Singapore and

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<sup>62</sup> Indocrisis is a subscription service (joyo@aol.com).

<sup>63</sup> Malaysian logging companies have come under scrutiny for unsustainable activities in Suriname, Central and South America and the various Pacific Islands (Glen Barry, [www.forest.com](http://www.forest.com)).

<sup>64</sup> The report by Derek Holmes, a well-regarded geographer in Indonesia, uses satellite imagery to calculate relative forest loss.

Indonesia. These acts of social irresponsibility threaten biodiversity, destroying sensitive habitats and robbing tribal peoples of their land.

International and local protest initially met with silence or, at best, inept attempts to control the fires, but the new government has made some moves to mollify the rage. The United Kingdom threatened to boycott palm oil produced in Indonesia unless some attempts were made to stop the burning (Bloomberg News, 4 August 2000).<sup>65</sup> But the governments of both Malaysia and Singapore were surprisingly quiet despite the rise in respiratory and cardiac complaints and drops in tourism numbers resulting from the haze and smoke pollution. Malaysian Prime Minister Mahatir went so far as to suggest that the international press was conspiring to exaggerate the scale of the disaster in order to scare tourists from Malaysia (Aditjondro, 2001:15). Although, by July 2000, the smog had drifted along the Malay Peninsula into Thailand, ASEAN government leaders did not initiate any concrete steps to ameliorate the situation. The 10-member ASEAN foreign minister's summit in Bangkok failed to deal with the "transnational haze" in its final communiqué. By July 2001, yet more fires had engulfed the region. Visibility in Kuala Lumpur, according to ABC news reports, was reduced to a half-kilometre. This repeat of the conflagrations of previous years shows the lack of environmental or community responsibility and the inability to take perpetrators to task.

Unfortunately, it also illustrates what Environics International found in its Millennium Poll of community attitudes to CSR.<sup>66</sup> While most Indonesians were in favour of CSR (including 35 per cent who said that companies should "set higher ethical standards and help build a better society"), Asian opinion leaders as a group were less likely to punish those who are not socially responsible. Out of 38 interviewed, 14 said they had taken steps to punish irresponsible companies, while 24 said they had only thought about it (compared to 51 and 16 in North America/Oceania and 39 and 14 in Northern Europe).

It has been argued that little will be done as long as fires continue to directly benefit the region's mercantile political families (Reiley, 2001; Aditjondro, 2001).<sup>67</sup> There are powerful interests in Indonesia (and in Malaysia and Singapore) that do not separate private gain from public despoliation. Malaysia is hardly likely to criticize Indonesia, as it needs access to Indonesian land and considerably cheaper labour to further its own economic interests (Aditjondro, 2001). Further, the three political clans headed by Soeharto, Mahatir and Lee Kuan Yew, are entrenching their own or their children's interests in this scenario.<sup>68</sup> Aditjondro argues that the IMF's and World Bank's country-based attempts at economic reforms will do little to change the behaviour of the "corporate arsonists" and "intra-ASEAN oligarchs". In such a context, there is

<sup>65</sup> See [www.forests.org/archive/indomalay/inmayfac.html](http://www.forests.org/archive/indomalay/inmayfac.html)

<sup>66</sup> Report summary is to be found at <http://www.environics.net/eil>

<sup>67</sup> A recent **Sydney Morning Herald** (July 2001) article reports that despite an Indonesian MP, Mr. Abdul Raysid, being named as responsible for harvesting a very rare tree from a proclaimed national park, no action against him has been taken. The villagers to whom he gave jobs protect him and intimidate any inspectors coming to investigate.

<sup>68</sup> For instance, Prime Minister Mahatir's son, Mokhzani, through Tongah Holdings, is reported to have recently acquired a stake in Hospital Pantai, which, in turn, became a substantial shareholder in the Singapore-listed Asia Matrix Ltd., which has Soeharto's daughter in law Ratnawati Harjojudanto listed as its chairperson (Aditjondro, 2001, p. 15. Aditjondro is Senior Lecturer in the sociology of corruption at the University of Newcastle).

little prospect for promoting corporate responsibility. These groups are too big and too powerful to be influenced by anything less than global boycotts.

In addition, oil has been poured on the environmental fire by international investors seeking quick profits in Indonesia's burgeoning but destructive pulp and paper, and logging industries. The Center for International Forestry Research (CIFOR) reports that more than \$15 billion of international investment has enabled Indonesian pulp and paper companies to take their place in the global market by using primary forest. Of the 100 million cubic meters of wood estimated to be used to manufacture paper and pulp, only 8 per cent was derived from plantations. The recent failure of Asia Pulp and Paper (APP) revealed the flaws of the attempts of the international finance system to preserve environmental sustainability. CIFOR reports that financial institutions "queued up to invest in the Indonesian pulp and paper companies because they perceived that they had a competitive advantage due to their access to cheap raw materials".<sup>69</sup> These raw materials may turn out to be expensive in national and environmental terms.

However, it is not only the loss of forest cover that is in question. Another company, PT Indorayon, has attracted massive community displeasure for many years. A Department of Environment review found that the company had violated pollution and toxic waste edicts, and had not implemented its environmental management plans. Community health had suffered from both the direct effects of contaminated water and air (high levels of acid rain, asthma and other respiratory ailments plague the community) and violent clashes with police and military, which have claimed over a dozen lives and injured hundreds of others. A Friends of the Earth report asserts that the Wahid government was loathe "to let Indorayon go to the wall. The closure of the company once listed on the Jakarta and New York stock exchanges sends out all the wrong signals to the investment community...companies are riding roughshod over local communities' interests" knowing the government is desperate for the cash from taxation and other fees. PT Indorayon did indeed close down, due to unceasing community rage and sabotage of its plant—but on 10 May 2001 the central government, under the threat of investor pressure, ordered PT Indorayon to re-open its doors.<sup>70</sup>

This example illustrates that the international community cannot simply place all the blame on Indonesia. Given the terms of the IMF rescue package, Wahid's government could not afford to close down export-oriented industries, no matter how irresponsible and damaging, nor could it force them to change. The well-connected Indorayon is managed through a Singapore-based holding company, representing itself as APRIL (Asia Pacific Resources International Limited). This company is under the current control of the IMF-funded Indonesia Bank Restructuring

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<sup>69</sup> **The Guardian** reported the Friends of the Earth report on CIFOR's findings. The executive summary is to be found at [www.guardian.co.uk/paper/story/0,10581,512632,00.html](http://www.guardian.co.uk/paper/story/0,10581,512632,00.html)

<sup>70</sup> An eyewitness told me that elderly village women pushed their way to the front of the demonstrating groups and bared their breasts to the guns of the military that attended the re-opening ceremony, in a moving display of courage and contempt. Despite this, the Trade and Industry Minister, whose homeland is the area in which the plant is built, attended the ceremony and in his address said that "If the community still refuses to accept the reopening of the plant) we must convince them otherwise" (Suara Pembaruan, 9 January 2001).

Agency (IBRA), which has allowed APRIL to forestall its repayments. In essence APRIL's private debt has now become Indonesia's public debt.

Thus the anomalous situation arises where CSR, a creation of the Western corporate and civil culture, is undermined in Indonesia by greed and social anarchy, amply supported by push-pull factors emanating from Western financial machinery, including the IMF. This occurs despite ostensible proof that good environmental management may actually improve a company's stock prices (Feldman, Soyka and Ameer, 1997).<sup>71</sup> Indonesian NGOs have been arguing for financial responsibility from export finance agencies for some time. Maybe they have selected a more worthy target for the CSR laser beam. It could be argued that without economic backing from mobile and speculative capital, Indonesia's forests may have survived.

### ***Tentative steps toward corporate environmental responsibility***

Certain institutions in Indonesia have taken some tentative steps to promote corporate environmental responsibility. Perhaps the best-known voluntary initiatives of the 1990s were the PROKASIH programme and its successor, PROPER. Initiated by the Indonesian government with support from several donors, these programmes aimed to reduce water pollution from manufacturing industries. The programmes relied on the voluntary involvement of firms, regular collection and analysis of samples of liquid discharges, and monitoring by staff from BAPEDAL (the Environmental Impact and Management Agency) and provincial environmental offices. Analysis of discharge data prior to these programmes showed that the great majority (75 per cent) of liquid pollution was being discharged by just 20 per cent of the factories surveyed (Afsah and Vincent, 1997). Aware of the weak to non-existent pollution monitoring and enforcement capacity, the programmes targeted the industries that were known to be the main causes of water pollution. One of the declared aims was to apply pressure on firms to reduce pollution discharges by engaging other stakeholders, such as local communities directly affected by pollution as well as the wider market.

PROKASIH (the Clean River Program) was initiated in June 1989 in eight provinces. By 1994 it had expanded to 13 out of the 27 provinces, and the number of factories involved rose from 381 to 1,275 over the same period. Many were large businesses producing significant amounts of toxic products, such as chlorine. The programme's objective was to monitor the biological oxygen demand (BOD) levels in liquid pollution discharged into adjacent rivers and water bodies. Analysis of the results of the programme conducted in 1994 showed that declines in BOD levels, some of which were significant, were the result of pollution control efforts in only 25 per cent of factories. Overall, however, it was thought that the programme did not lead to an important change in pollution discharges from most factories.<sup>72</sup>

PROPER (Program for Pollution Control, Evaluation and Rating) began in June 1995 as a joint initiative between BAPEDAL and the World Bank, and was a follow-on activity to PROKASIH. This programme introduced a colour-coded rating system for grading the environmental

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<sup>71</sup> [www.icfconsulting.com/home.nsf/pages/resp\\_pays.htm](http://www.icfconsulting.com/home.nsf/pages/resp_pays.htm)

<sup>72</sup> Internal memorandum, World Bank, 1995.00.

performance of firms, the results of which were publicly disclosed. The objectives were to: (i) promote compliance with existing environmental regulations; and (ii) reward firms whose performance exceeded regulatory standards. Initially BAPEDAL monitored liquid waste discharges from some 187 factories that voluntarily participated in the programme. Factories that met or exceeded regulatory standards—as monitored by teams from BAPEDAL—received favourable media publicity, while those that failed to meet standards received negative publicity. This relied on the Asian concept of “face”—through public praise or shame—and while some consumer groups staged boycotts, the activism was not consistent. Firms that received bad publicity were often large domestic companies that were too big to care; at best they made token modifications. As noted above, almost all of the reductions in pollution discharges in this programme resulted from the actions of a minority of firms (Afsah and Vincent, 1997).

There are some indications that the impact of government efforts to control pollution may have declined in recent years in the context of financial and political crises. Afsah (1998) reports that there has been an increased tendency of companies to dump their waste without treatment as they adjust their abatement effort in response to lower regulatory inspection and enforcement and higher pollution control costs.

Under Indonesian law, new companies are supposed to complete an ANDAL (Environmental Impact Assessment) with the assistance of a private consultant.<sup>73</sup> In 1994, however, the World Bank admitted that the results were disappointing (World Bank, 1994:270–273). Private consultants now have a booming business in preparing what are often reassuring and inaccurate AMDALs. A World Bank official interviewed for this paper believed that TNCs have to work to realistic standards that can be measured by the local authorities, or at least develop feedback systems with government agencies in order to foster transfer of technology. Most existing voluntary initiatives emphasize end-of-pipe technology rather than point source control, which makes it cheaper and easier to monitor when inspectors come—companies can simply fit the device for inspection. The World Bank representative recognized that business ethics and CSR have to be recast in ways that economists and bankers understand, as they are in control of Indonesia’s economic and trade recovery.

Robert Cribb (1994) argues that Indonesian concern with environmental issues, which was marked by the passing of several pieces of legislation, stemmed from three fundamental concerns, none of which relates to ethics or broad community concern for a desirable or “sustainable” future:

- government sensitivity to World Bank and international pressure;
- concern over sea pollution that might damage the national interest; and
- the negative impact of pollution on the lifestyles of the influential Jakarta elite.

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<sup>73</sup> ANDAL stands for *Analysia Dampak Lingkungan*, which is the term given to the process of auditing and the ensuing report. Sometimes the report itself is known as an AMDAL, which in Indonesian is *Analysia Mengenai Dampak Lingkungan*: an analysis *about* the environmental impact.

The World Bank (1994) implies that Indonesian environmental stewardship is not yet supported by political will or by practical resources. BAPEDAL does not yet enjoy the status of a line ministry, and its links with other relevant agencies such as Public Works, Forestry and Planning are poor, which weakens any systematic attempt at environmental protection. But more importantly, the agency still bows to the will of those traditionally in a position of power.

Despite considerable technical assistance, BAPEDAL and associated agencies continue to experience difficulties in relation to their regulatory and monitoring activities. For example, for the past nine years radioactive waste has been buried in inappropriate areas, including football pitches in the densely populated region of Tangerang, one of the satellite cities of Jakarta. The authorities are now aware that thorium nitrate is used by around 200 factories in Indonesia (*Tempo*, 1 October 2000) but cannot enforce existing regulations (it should be sealed within concrete prior to disposal) in the absence of sufficient trained personnel or management co-operation. Further, although they have a new inspectorate and comprehensive legislation,<sup>74</sup> they have been unable to stop breaches of the national zoning laws in places like Bali.<sup>75</sup> The author has spoken to young and enthusiastic inspectors who have been warned away from cases where powerful interests are involved.

One World Bank official reported that what Indonesia needs is not codes of conduct, but to jail intransigent businessmen and women who continue to cause environmental devastation. If the TNCs were really concerned about environmental sustainability, they could use their economic clout to lobby the government for improved standards and enforcement, or at least contribute directly to the training of inspectors, and equipping of government facilities such as laboratories.

Despite the many voluntary codes and standards that exist globally, containing specific recommendations in regard to environmental safeguards,<sup>76</sup> only the ISO standards, particularly 9000 and 14000, have a wide currency in Indonesian companies as guidelines on waste minimization and management.<sup>77</sup> However some trade unions, regulators and officials in funding agencies such as the World Bank have expressed concern that that in Indonesia there is little evidence that having ISO certification changes or reforms longer-term business practice vis à vis the environment. Once granted, there is little follow-up monitoring or sanctions for breaches of compliance.

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<sup>74</sup> The major law is the Government Regulation Number 19 (1994) Regarding Hazardous and Toxic waste and supporting guidelines.

<sup>75</sup> One example is that a national regulation forbids construction of anything but temporary shelters within 100 meters of major rivers; these areas instead should be retained as green belts. The Four Seasons hotel chain constructed its Sayan hotel right on the Ayung River—the biggest river in Bali—in contravention of this regulation. Powerful figures associated with the hotel enabled it to flout the law. By all accounts they are about to expand the hotel further along the river in the coming year.

<sup>76</sup> These include, for example, Social Accountability 8000 (SA 8000) promulgated by Social Accountability International, the Corporate Social Responsibility Initiative from Canada and the British Sustainability Integrated Guidelines for Management, and Accountability 1000 (AA1000).

<sup>77</sup> Despite ISO14001 being the most widely accepted form of international environmental certification, and despite Asia being one of the most highly certified regions, only 77 certificates had been awarded to Indonesian companies by the end of 2000. This represents a miniscule proportion of the enterprises located there (see [www.iso.ch](http://www.iso.ch)).

Recently, the OECD revised its **Guidelines for Multinational Enterprises**, which Ranald contends are the only internationally recognized set of standards (Ranald, 2000:2). Ranald, however, writes that these standard have been considerably watered down since 1972 and, as such, have met with widespread opposition. At the time of writing the author could not find anyone who knew of these Guidelines in Indonesia outside of the OECD's representative body. The international mining industry has developed guidelines on environmental and social responsibility. As indicated below, some companies are apparently trying to adhere to these standards.<sup>78</sup>

Some firms have taken a lead in environmentally responsible initiatives. Ciba Geigy, for example, which owns a large dye fabrication plant on the outskirts of Jakarta, was concerned about contaminated water being discharged into the Candra River. The same properties that gave the dye its intense colour made it resistant to normal biological breakdown processes. A team of local and expatriate engineers devised a system by which wastewater was held in specific colour coded tanks, to enable a recycling process. By using previously colour-saturated water, they saved on production costs, as less dye was needed. Their production meets the most stringent European standard and at the same time has been the product of a joint approach to problem solving. Ciba Geigy argued that TNCs could benefit from pursuing the same environmental objectives at all their plants regardless of local regulatory requirements (Schmidheiny, 1992: 278-280). It is unfortunate that up until now a mechanism to transfer this type of approach more widely and systematically does not exist.

The international cement company, Semex, recently took over Indonesia's PT Gresik's interests and immediately began to ameliorate the worst of the environmental problems—such as dust fallout—created by the Indonesian company. At the time of writing, they had instituted a community development programme, working with local village members to identify priority issues in health and education.

The oil and mining industry has come under considerable pressure to improve its environmental management systems. Some of the world's largest transnational oil and mining corporations operate in Indonesia: Caltex, Mobil, BP, Freeport-McMoRan, Agip, Newmont, Shell, Rio Tinto, Oppenheimer, Sun Oil, Total, Petromer and Conoco. All oil and gas operations have to enter into partnership with Pertamina, the state-owned corporation possessing the monopoly for national fuel supply and sales.<sup>79</sup>

The battle for huge profits has brought both environmental and human damage to some areas.<sup>80</sup> West Papua in particular has seen its people relocated, its rivers polluted, its holy places destroyed, and the rise of sexually transmitted and other diseases among the indigenous

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<sup>78</sup> Personal communication, mining engineer.

<sup>79</sup> This monopoly, though, has not stopped Pertamina getting into deep financial trouble. An audit performed by PricewaterhouseCoopers early in 2000 was reported to have shown an unaccounted-for loss of \$16 million (**Jakarta Post**, 24 June 2000). The company had previously been audited by the National Audit Agency, which had found no irregularity.

<sup>80</sup> Petromer and Conoco each produced 300 million barrels of oil from the field at Sele, near Sorong in West Papua, valued at \$4.5 billion ([www.cs.utexas.edu/users/cline/papua/mines.html](http://www.cs.utexas.edu/users/cline/papua/mines.html)).

populations as a result of the influx of mine workers. Protests have been brutally suppressed by the Indonesian military, and visits by journalist and researchers have been tightly controlled.<sup>81</sup>

Freeport-McMoRan is the best-known mining operation in Indonesia, and one particularly noted for its negative environmental and social impacts. The Mt. Ertsberg mine is the second largest copper mine in the world, while gold deposits there are thought to be worth \$40 billion. The Mt. Grasberg lode is thought to be larger and is projected to yield for at least 30 years. Freeport-McMoRan now has concessions totalling 3.6 million hectares in West Papua, following the granting of additional land four years ago. It has been heavily criticized for having polluted rivers and relocated local populations.

The company's operations and the granting of the additional concession have caused great consternation among environmental and human rights groups.<sup>82</sup> Freeport-McMoRan has come under considerable pressure to upgrade its technology to reduce toxic waste. It has also put in place a malaria eradication scheme, although the doctor associated with this initiative recently left due to continuing violent demonstrations against the company. Freeport-McMoRan also has a programme to prevent sexually transmitted diseases that includes condom distribution.<sup>83</sup> Since taking over 18 per cent of the company, and a larger share of the extension to Freeport-McMoRan lease, Rio Tinto has insisted on more vigorous standards of environmental care.

A World Bank official and former mining engineer interviewed for this paper believed that the country of origin of a TNC is an important determinant of CSR in the mining industry and of how a mining company approaches social and environmental issues. US companies were less sensitive to local cultures, trade union structures and environmental imperatives,<sup>84</sup> and tended to foster and enjoy political patronage that gave them immunity from regulatory interference.<sup>85</sup> He used Kaltim Prima Coal (an Australian company) and Newmont mines (US-owned) as examples. While Kaltim rigorously observed safety issues and permitted trade unions, Newmont tended to ride roughshod over local cultures and was intolerant of trade unions. The newly commissioned Newmont mine had been closed for special education programmes conducted by the Division of Mine Safety after several workers were killed.

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<sup>81</sup> See [www.utexas.edu/users/cline/papua/mines.html](http://www.utexas.edu/users/cline/papua/mines.html)

<sup>82</sup> In mid-2000, the US government responded to the tirade of local NGO criticism of US mining operations in Indonesia, not with calls for CSR in US companies, but by reducing the amount of aid money available to the NGO sector. According to one USAID official, this rather petulant act was prompted by the fact that Indonesian green groups "harm US economic goals" (International Press Service, 16 May 2000).

<sup>83</sup> Personal communication, Ms. Ruddick, health educator.

<sup>84</sup> When locals living around the US-owned Unilocal oil and gas terminal north of Samarinda blockaded a supply route, the company called in the military, which dispersed the protesters using rubber bullets. Twenty-three people were hospitalized (rubber bullets are only designed to be non-lethal at more than 50 metres). The protesters were complaining about water and air pollution. The company had recently won a prestigious Indonesian environmental award for the construction of a greenbelt. Shares in the company were held by Soeharto family members, through their Nusamba company. In another example, Newmont's large copper and gold mine in Sumbawa has been in the sights of the major Indonesian environmental NGOs (WALHI and Jatam, [www.jatam.org](http://www.jatam.org)) after its tailings pipe burst late in 1999. It has been pumping 120,000 tonnes of sludge and tailings waste into the ocean each day. The mine has experienced violence and the locals complain that they do not even benefit from employment opportunities. As reported elsewhere, their offices in Lombok have twice been bombed.

<sup>85</sup> All sorts of rumours used to circulate about the amount of gold given by Freeport directly to Soeharto when he was president, in return for military protection against the West Papuan people. In 1999 Ginanjar Karamasita, Soeharto's Minister for Finance, was accused of accepting bribes from Freeport, and he was jailed in 2001 for a short period. The charges were dismissed. Ginanjar now sits on the National Committee on Corporate Governance.

That being said, Australian mines are not immune from charges of impropriety. Most of the metalliferous mining companies are Australian-owned. Despite Shell saying that it is inevitable, simply for pragmatic reasons, that oil and mining companies respond to green realities (Simpson, 2000), it appears that some of the mining companies operating in Indonesia have been less than scrupulous with environmental and community care.<sup>86</sup> The Minerals Council of Australia has developed a Code for Environmental Management to which some 40 major mining companies are signatory. Like all codes of conduct, however, it is voluntary and the precepts are vague and general. While it refers to environmental management, it makes no reference to social or economic impacts. While there is no monitoring of compliance, signatory companies have to prepare annual reports on their own performance. There are no sanctions for non-compliance, and while the larger companies have signed, most of the smaller outfits have not (Atkinson, 2001:5).

Atkinson proposes that codes cannot take the place of legislation and suggests that the Australian government should set standards for companies operating overseas. Further, a complaints mechanism should be established to enable those affected by the activities of Australian companies to put forward their grievances. His call has apparently been taken up by the national opposition party, which proposes “to review environmental practices and standards implemented by Australian mining companies overseas” (Atkinson, 2001).

While health and safety provisions tend to be consistently monitored in Indonesia, the same cannot be said of environmental monitoring. Mining companies have to prepare Environmental Impact Assessments as part of their development application. According to a World Bank source, this investigation can be quite thorough. Provisions for the management and regulation of sex workers, bars and the like, are included under a section called “social hygiene”. The first three years of operations are intensely monitored by the Department of Environment and Forestry, but after that monitoring drops off, leaving companies with little incentive to keep up their own water, air, and sewerage effluent monitoring, as well as revegetation programmes. Those that do these things well, tend to use international staff and consultants.

Two Indonesian and Australian researchers spent considerable time trying to understand the place Kaltim Prima Coal had in local politics and community in Kalimantan. They found that local people still tend to be excluded from decision making that affects their lives, and commented that “the ways in which TNCs operate are not suited to collective or community based problem solving”. This may be because those who have to sign off on expenditure or

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<sup>86</sup> The BHP-Utah owned mine PT Arutmin is the second largest private coal mine after Kaltim Prima. It is known that military-backed illegal miners divert about \$50 million worth of coal each year for private sale. Following complaints from the local people about dust, river pollution and river-bank erosion due to heavy boat and road traffic, WALHI, the largest of Indonesia’s environmental NGOs, threatened to sue Arutmin. In mid-1998 a barge carrying 319 tonnes of ammonium nitrate explosive sank, polluting the river and creating a major hazard. The Australian-owned Barisan Tropical mine in South Sumatra was charged with allowing lime, cyanide, lead nitrate borax and sulphuric acid to leak into the river. The mine denied the charge but erected a sign saying that locals could not bathe, drink or swim in the river, forcing them instead to walk hours to the nearest alternative water sources. The mine later installed tanks in the affected villages.

decisions are geographically distant from the site, or they prefer to negotiate with the few familiar representatives.

They work well for individual needs amongst those who have the right connections or who can play the system. The dilemma is that environmental issues are communal and thus throw into relief the inability of the current Indonesian system to mediate between companies and communities.

On the other hand, the people depended on the mine for mediation in disputes and for many of the services such as health, water supply, sanitation and education, normally the domain of governments. Kaltim Prima even supplied the local police with office equipment and cars (Kunanyagam and Young, 1998).

## Conclusion

Two questions have been considered in this paper. First, do CSR and accompanying voluntary initiatives have the capacity to change how TNCs really behave in their day-to-day operations? Second, at this stage of its development, and in the context of the latest crisis, is CSR relevant to Indonesia? While the notion of CSR is not under question, its application and relevance are. It brings to mind Marie Antoinette's aphorism, suggesting that in our enthusiasm the West may be trying to distribute cake, when what is truly needed is bread.

When viewed in an overall cultural, economic and political context CSR remains an ideal in Indonesia. During the economic crisis economists repeatedly asserted that Indonesia's economic fundamentals were sound. The crisis, however, was certainly deepened by the fact that the social, legal and factors crucial to CSR were not sound.<sup>87</sup> The current transformation is bringing instability, fear and violence. In such a context, it is hard to consider something as abstract as CSR. It is time, however, to begin to put into place the institutions, educational foundations and management training which are needed for business and political reform, and from which CSR may be a spin-off. Any broader application of CSR needs to stem from an indigenous belief in the necessity of such an institution, and not represent a mere shrug to another Western fashion. In her new book, *The Silent Takeover* (2001), Hertz reports how the drive for corporate social responsibility, like many political movements, represents the aspirations of the well educated and well informed. What she does not include is the division between those in the developing countries, who see this as yet another imposition of Western values, no matter how attractive, and those in the developed nations who, put cynically perhaps, wish to consume with a conscience. At a time when Indonesians want to take more control over their politics and government, it is perhaps not appropriate that more power be given to corporations and delegated away from public institutions.

Indonesia has its own indigenous movement that targets TNCs. The Urban Christian Mission, for example, has provided a focus for labour education and foreign networking. This has

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<sup>87</sup> There were, of course, other causes of the crisis. Some commentators, for example, stress the fact that economic pressures on Japan, by the United States and others, resulted in massive Japanese investment in Southeast Asia, producing market distortions (Bello, 1998).

largely been ignored by the foreign activists concerned with issues of corporate responsibility in Indonesia.<sup>88</sup> This might perhaps reflect the propensity of CSR to stimulate a form of industrial colonialism.

At this point in Indonesian history, CSR itself can only remain an image projected onto a screen—an outline with little depth. While concepts such as governance and CSR are fashionable, generating a new language and teams of experts, Indonesia's difficulties are perhaps more basic and to do with simple national survival. As Faulkner (1995) points out, management is a newly emerging skill in Indonesia. The type of process-oriented cultural change within an organization, which CSR requires, infers high levels of skill and an active consultative process between equals—not in keeping with the patriarchal top-down leadership that characterizes Indonesian business and management structures in both TNCs and domestically owned firms.

While it is fair to say that CSR makes a positive contribution to the human rights of those working in TNCs, it is also fair to say that it only makes a difference to those few corporations targeted by consumers or who are already thinking ethically and responsibly. Other industries are not under such pressure. INFACT's efforts to draw attention to the global cigarette industries is to be admired, as not only does its product kill those who consume it, it is also a very hazardous industry—nicotine and other chemicals being notable toxicants (INFACT 1998, Kemp, 2000).<sup>89</sup> Workers die and people lose their land to construct international hotels,<sup>90</sup> yet Nike still dominates the selective “consumer outrage index”. Such anomalies and the somewhat piecemeal approach of the CSR movement should alert global citizens to the need for a more systematic approach. Some would advocate industry-specific global standards. But it is highly unlikely that nation states like Indonesia, Malaysia and Singapore, for instance, would succumb to such regulations.

That being said, the after-shock of the Indonesian economic crisis has required a re-evaluation of economic and investment policy and the way business is run in Indonesia. The previous short-term thinking may have to make way for the type of longer-term pragmatic and visionary thinking required by genuine CSR and supported by Islamic business principles. A lot will depend on how deep the reform process goes. The “natural capitalist” approach taken by Ciba Geigy in its Indonesian dye plants also holds considerable promise as an adjunct and motivator for CSR, and illustrates Eddington's point, that there is no “one-size-fits-all” methodology (Eddington, 2000). Codes of conduct may in fact be regarded as a “one-size-fits-all solution”.

In arguing for or against codes of conduct for companies, it is easy to forget that while a company itself might profess to social and environmental responsibility in its immediate surroundings, many continue to make products that can cause immense destruction globally.

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<sup>88</sup> The Mission provided local assistance to John Pilger during the making of his recent documentary on globalization (Australian Broadcasting Commission, **Cutting Edge: The New Rulers of the World**, 21 March 2001).

<sup>89</sup> 43,000 women and 2,500 men are employed in *one* Indonesian cigarette factory *alone*.

<sup>90</sup> It is known, for example, that at least 16 workers were killed during the construction of the Jakarta Grand Hyatt (personal communication with construction engineer, Jakarta, 1992).

The “greenwash” tactics of TNCs include the creation of codes of conduct or adherence to industry-crafted standards that draw attention away from the fact that they are contributing to global environmental problems such as ozone depletion, global climate destabilization and residual chemical pollution. Many of the companies mentioned in Greer and Bruno’s book, *Greenwash*, operate in Indonesia.

It is pertinent to ask whether CSR and voluntary initiatives, which are largely Western led, comprise a diversion from the real issues of legislative reform and multilevel political and social development. Despite the ostensible modernity of its cities, Indonesia remains a non-industrialized culture—the majority of Indonesians (64 per cent, according to SUPSENAS national data) are employed in agriculture, fishing and/or the vast urban informal sector. Most industrial workers are employed by small and medium domestically owned enterprises that do not, as whole, echo their international colleagues’ new-found concern for human and workers’ rights or the environment. TNCs employ around 20 per cent of the Indonesian labour force (Kolodner, 1994). While CSR may benefit some of these workers and those whose lives intersect with TNCs, the development of and adherence to a fair system of law and institutional reform would benefit all. As de Soto states: “When you step into an airplane in New York to fly to Jakarta, what you’re leaving behind is not the high-tech world of fax machines and ice makers, televisions and antibiotics; many people in the Third World also have those. What you are leaving behind is the world of enforceable legal representation”.<sup>91</sup> This is not to say that change cannot occur, but that the incremental reform of more fundamental factors—the rule of law, reform of education, the development of community and political ethics, the replacement of feudal structures—should take precedence. It is important here to reinforce the definition of rule of law as stated by Walker and Kolodner (undated): one in which governments themselves comply with law and there is public participation in law making. So far, Indonesia can be defined as having rule *by* law, that is, having a lot of law but no enforcement or participation.

Indonesia may be able to benefit from CSR, but it cannot rely on CSR to solve issues of exploitation, environmental devastation and poor labour standards, particularly when Western finance corporations are impervious to environmental or labour rights lobbying and community outrage. Furthermore, Indonesia cannot rely on codes of conduct and monitoring to maintain labour standards in all TNC-owned or co-opted plants. When companies such as Nike have their backs to the wall, they appeal not to their host nation or to the law, but to bodies such as the Fair Labor Association in the United States, that is, to monitors whose recommendations can be ignored or applied only in the premises evaluated. In the end, this can be regarded as simply an extension of industrial colonialism. When the fuss dies down, what is to stop companies turning a blind eye to monitoring? Besides, the increasing numbers of people prepared to buy brands in the Third World are beginning to compensate for lost consumers in the industrialized countries. While well-intentioned managers exist in many TNCs, they are often overruled by boards with have other priorities, not least the need to keep shareholders happy.

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<sup>91</sup> Hernando de Soto, a Peruvian economist, has recently written *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. This comment was recorded in the *International Herald Tribune*, 5 January 2001.

At this juncture in its development, it appears that Indonesia can indeed “accommodate” the tenets of Western CSR, as it has accommodated the tenets of human rights.<sup>92</sup> But in reality, the inherent conflicts between CSR and, in particular, political culture may ensure that in Indonesia implementation of CSR is merely cosmetic. Indonesia’s recent history is littered with examples of agencies advocating the latest trend and congratulating Indonesia for illusory change. It is pertinent to ask whether CSR has anything more to offer Indonesia at this time than what could be offered by overall structural reform. While some would argue that CSR paves the way for political development (Rossouw, 1998), I contend that any effective implementation of CSR requires the machinery of an effective democratic government and civil society. The reverse would have corporations leading the process rather than the other way around.

It is also premature to speak of CSR in Indonesia when the tools of civil society are structurally and legislatively weak. With assistance from the ILO, Indonesia is beginning to put in place legislation that will enable more equitable collective bargaining, but this will take some time to establish and assumes that industrial bodies already have the skills to use the law to seek labour justice and that they are, in essence, free to act. This is not the case.<sup>93</sup> The machinery of government is still captured by corporate interests and the indications are that corporate interests will strengthen their influence through established lines of political and business connections. Such interests are already lobbying, with IMF support, to reduce the benefits granted to workers by reformist elements.<sup>94</sup> In the short term, trade unions in Indonesia should be actively supported and strengthened. It should no longer be acceptable to covertly or overtly undermine the rights of one of the cornerstones of the industrial partnership, particularly when their role in economic prosperity has been so adequately demonstrated (Standing, 1999).<sup>95</sup>

Attention needs to shift to the longer-term goal of developing an international reporting mechanism that can refer a case back to the local legal system and monitor the follow-up. While national governments should play a key role in regulating business practices, it is also necessary to recognize that there exist major disincentives to asserting the rule of law in labour and environmental jurisdictions in many developing countries. While such an international institution should not have direct policing powers within nations, it could provide legal and investigative support, training and monitoring to ensure that cases do not disappear. Publicly available annual reports, which detail abuses and follow-up actions, could provide a valuable resource for those who wish to take more direct lobbying or civil action, and may provide an antidote to the current tendency of selective outrage. This is not going to happen overnight,

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<sup>92</sup> The author has clear memories of A.B. Nasution, father of the Indonesian legal aid system and movement for the rule of law and human rights, commenting that Indonesia was chameleon-like in its ability to accommodate most demands impressed on it by the West without changing the intrinsic nature of what went on. To illustrate his point, he went on to defend the Armed Forces against charges of human rights violations and ex-President Habibie against charges of cronyism.

<sup>93</sup> As recently as March 2001, three workers at an export plywood factory were killed when their protest about working conditions was broken up by thugs hired by the military, according to the media, who were called in by management (**Kompas**, 2 April 2001 and **Media Indonesia**, 29 March 2001).

<sup>94</sup> In particular they are targeting the regulation granting separation pay to sacked workers. The regulation proposed that the amount of money given should reflect the number of years the worker was with the company.

<sup>95</sup> Or at: <http://bostonreview.mit.edu/BR26.1/standing.html>

however. In the meantime, international networks of unions, environmental groups and consumer bodies will have to keep up the pressure. It is important, too, that the task of promoting CSR should not rely excessively on such groups. Too often it is assumed that local legal structures are incompetent and will remain so. Clearly, local structures need to be supported if CSR is to become a reality.

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