

# Advancing Corporate Social Responsibility of Mining Enterprises at East Kalimantan to Attain Sustainable Environment

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**Abstract.** Industrialized economic activities have been the foremost ground of exaggerating sustainable environment disturbances at East Kalimantan. Their position is based upon scientific, economic, and ethical arguments. Regarding to mineral extracting industries at East Kalimantan, there are multifarious mining enterprises must have responsibilities to preserve sustainable environment towards Corporate Social Responsibility practices. This paper proposes corporate social responsibility financial of mining enterprises at East Kalimantan that can counteract sustainable environment interferences at East Kalimantan based on Indonesian company regulations and Indonesian Mining Law.

Keywords: Corporate Social Responsibility, Mining Company, Sustainable Environment

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## I. INTRODUCTION

Environmental protection has been recognized to be “in the public interest” and external to private life. However, the roles of sectors have been swifited, with the private sector becoming an active role in environmental protection. Many governments and businesses have realized that environmental protection and economic growth are always in line.

Since World Commission on Environment published the Brundtland Report in 1987, business and management scholars have been grappling with the question of how and why corporations should assimilate environmental concerns into their business management. It has been accepted by many companies that they must not do harm to the environment. The environmental aspect of CSR results in the duty to cover the environmental implications of the company’s operations, products and facilities; eradicate pollutants and emissions; enlarge the efficiency and productivity of its resources; and minimize practices that

might adversely affect the enjoyment of the country’s resources by future generations. In the emerging global economy and revolution of technology information and media, company business practices can be easily recognised based their environmental stewardship. Partners in business and consumers want to know what is inside a company. This transparency of business practices means that for many companies, CSR, is no longer a luxury but a requirement.

It has been recognised concept of sustainable development. The global purposes of sustainable development cover the reduction of poverty level, providing health facilities for all, social equality and meeting the needs of society while living within the Earth’s ecological capacity and without undermining the needs for future generations. The concept of sustainable development in the business level results in corporate sustainability applying the necessity of a corporate’s direct and indirect stakeholders with no compromise of its ability to meet the necessity of future stakeholders (Dyllick and Hockerts, 2002). Both Corporate sustainability and corporate social responsibility (CSR) as

non obligatory activities demonstrates the inclusion of social and environmental concerns in business management and in connections with stakeholders (van Marrewijk, 2003). Meanwhile both concepts have divergent meaning. The concept of corporate sustainability was often connected with the environmental responsibility concern of business and CSR with the social responsibility focus. However, common research explains that these two concepts related to their shared environmental and social involved (Montiel, 2008).

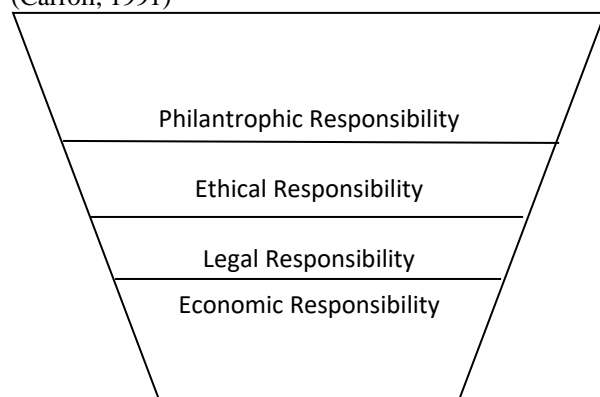
There are many attentions for the implementation of The Corporate Social Responsibility (CSR) (Hill, R.P., Ainscough, T., Shank, T. and Manullang, D., 2007). An increasing number of studies, both in the practitioner and academic press, show that firms are becoming more conscientious of the effects of their socially responsible behaviour. Educated owners understand the importance of CSR. Increasingly, investors seek socially responsible firms and not just the highest current financial returns. There must be a long-term purpose of any corporations to ensure sustainable economic benefit due to the positive implications of CSR (Smith, A.D., 2007). The primary objective of the study is to assess the perspective and concerns of local mining companies at East Kalimantan related to environmental aspects of CSR activities.

The purpose of this thesis is to explore how the extractive industry in general and companies in the metals and mining industry in particular practise CSR and how this management practice can be developed for sustainable environment.

## II. METHODS

This study is correlation descriptive and literature research which accurately describes the facts and regulations and relation among studied issues. Carroll (1979), who was the first to introduce the concept of CSR, made a synthesis of the basic principle of social responsibility, the concrete issues for which social responsibility exists and the specific philosophy of response to social issues. Carroll suggested that the obligations that business has to society must embody economic, legal, ethical and philanthropic categories. He included these aspects in a “pyramid of corporate social responsibility” (Carroll, 1991), see Figure 1.

Figure 1. The pyramid of corporate social responsibility (Carroll, 1991)



## III. RESULT AND DISCUSSION

### A. DEFINITION OF CSR

The concept of Corporate social responsibility is commonly used to describe the obligations and responsibilities that a company should have for its stakeholders. There are much attentions toward the social responsibility concerns (Pedersen, E.R.G., 2011) but there is no precise definition of CSR mainly because the concept is doubtful (Lantos, G.P., 2001) and has been defined in many perspectives (Dahlsrud, A., 2006).

Herzig and Moon (Herzig, C. and Moon, J., 2013), discusses that CSR is usually connected with: business obligation for society (remunerate for negative outermost, provide contribution to welfare) and responsibility to society (accountability); reliable business practice (to secure market strength and integrity); and the management of the corporation-society interface. Meanwhile opposite opinion Hill et al. (Hilson, G. and Murck, B., 2000) explains that corporate social responsibility is the economic, legal, moral, and philanthropic corporate actions results in the quality of life of relevant stakeholders. Each of these constituencies, both individually and collectively, forms opinions about organizations through perceptions of firms' corporate social performance, which is characterized as summary judgments about CSR activities used by investors to make economical considerations.

The European Union described corporate social responsibility as a concept based on voluntary actions whereby companies collaborate social and environmental concerns in their business practices and in their mutual actions with their stakeholders. Legal expectations fulfillment and going beyond compliance and investing “more” into human resources, the environment and the relations with stakeholders results in socially responsible corporate (European Commission, 2001).

The World Business Council for Sustainable Development outlined the concept of “CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families, as well as of the local community and society at large...”. Finally, the European Union defines CSR as “... the concept that an enterprise is accountable for its impact on all relevant stakeholders. It is the continuing commitment by business to behave fairly and responsibly and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large...”. Such definitions are welcome for multiperspective arguments, regarding on the culture in which they are to apply.

Utting (2003) emphasized that it is important to consider the wider implications of CSR development, instead of making

estimation of the outcome, purpose and implementation of specific CSR policies and institutional adjustments. There are two major challenges regarding on implementing CSR to create more significant contribution to development. First, it requires better integration of voluntary approaches and legal requirements as well as government regulation, rather than the present situation where voluntary adjustments are often considered as an alternative to legal instruments. Second, the CSR agenda needs to become more “south-centered”.

Slack (Slack, K., 2012), concluded that there is no commonly accepted definition for CSR in the extractive sector. Generally, corporates use the term or related ones such as “sustainability” to refer to involvement in favour of environmental and human rights basis. Providing benefits to the local environment and local communities also tends to be part of extractive industries companies’ definition of CSR. Recently, some mining companies published annual CSR or “sustainable” reports that emphasize these benefits and steps taken to protect the environment.

There are common preference of private sector for the flexibility of self-designed voluntary basis (UNCTAD, 1999). However Porter (Porter, 2000) suggested that active innovations to reduce the total cost of a product or improving its value should be provided in many cases of properly designed legal environmental standards.

Since the 1980s, there has been a considerable shift considerations regarding on improving corporate performance on social and environmental concerns (UNRISD, 2002). An initial emphasis on strict governmental regulations has ceded ground to corporate self-regulation and voluntary initiatives.

CSR is often defined as the integration of social and environmental concerns in a company’s business operations and its interactions with stakeholders on a voluntary basis (Dahlsrud, 2008). CSR has a long and wide-ranging history. The Industrial Revolution, and the concern of emerging businesses to care for their employees and help them to become more productive, can be seen as the starting point. The 1950s known as the ‘philanthropic’ era in which companies donated to charities. The period 1953-67 was classified as the ‘awareness’ era, because it was in this period that businesses became much more aware of their overall responsibilities and involvement in community affairs. The period 1968-73 was termed the ‘issue’ era, because here companies began to focus on specific environmental issues, such as urban decay, racial discrimination and pollution problems. Finally, in the ‘responsiveness’ era, companies began to address CSR issues in a much more serious way (Carroll, 2008).

#### *The Role of Mining In The Economy of East Kalimantan*

Kalimantan (also known as Borneo) is the largest island in Indonesia, and the 3rd largest in the world, with a total land area of 743,330 sqkm. The trademark of the island is extensive rainforest cover, although deforestation and exploitation is rapidly shrinking the “green” area. East Kalimantan province is the 3rd largest province in Indonesia by area, with 127,265.52 sqkm of land and 25,656 sqkm of marine area. Demographically, East Kalimantan is not densely populated, with only 19 people per sqkm (ranked 30 out of 33 provinces in Indonesia). This is mainly because of the lack of basic infrastructure and other essentials. As a comparison, the capital city Jakarta has the highest density with 15000 people per sqkm.

East Kalimantan is the third largest province in Indonesia by area, and has the second highest per capita GDP in Indonesia after Jakarta. This commodity -rich province (with a relatively small population) is also the sixth largest contributor to national GDP.

East Kalimantan produces more than 55% of Indonesia’s thermal coal output. Mining and minerals account for 50% of East Kalimantan’s GDP, and hence, the weak coal and oil prices is having a significant impact on its economy; 1Q15 GDP contracted by 1.32% y-o-y.

East Kalimantan is a microcosm for many of the world’s development dilemmas, with its leaders grappling with the challenge of how to bring millions of people out of poverty without destroying the natural resources that local people and the local economy depend upon. It is a province on the frontline of sustainable development – rich in forests, as well as huge coal, oil and gas reserves, and home to hundreds of thousands of village communities and endangered species such as orangutans.

East Kalimantan’s economy is highly dependent on its natural resources, particularly coal, oil and natural gas. Besides being the sixth largest contributor to national GDP, this commodity rich province (and relatively small population) has the second highest GDP per capita in Indonesia after Jakarta.

#### *CSR Practices of Mining Companies at East Kalimantan to Attain Sustainable Development*

The environmental sustainability has been important part of the eight Millennium Development Goals (MDGs). The objectives are to a) unify the principles of sustainable development into country regulations and programmes; converse environmental resources casualties, b) improve sustainable access to safe drinking water by half the proportion of global population and c) achieve significant enhancement in lives of at least 100 million slum dwellers, by 2020. Governments sector must have commitment of long term national programmes in promoting CSR initiatives as a complement to their ongoing environmental and social conducts (Mazurkiewicz, 2004).

Governance assistances can be integrated into national environmental program. There are three-part approach of governments plans related with the problem: (i) inform and engage business in dialogue and negotiations concerning voluntary initiatives, and institutionalize this process; (ii) embrace more environmentally responsible business models by providing incentives for and assistance to corporates; and (iii) enlarge monitoring of environmental conditions and enforce sanctions. More precisely providing financial support for research, leading campaigns, information gathering and scattering, training, and improving awareness, to stimulate the private sectors (Mazurkiewicz 2003).

The numerous high-profile corporate scandals and criticism of multinational companies around the world illustrate the necessity for CSR (Asif et al., 2013, Grafström et al., 2008). In the mid-1990s, criticism was directed against western corporations and their production in developing countries. The sportswear company Nike was strongly criticized for the sweatshop conditions at its overseas suppliers (Zadek, 2004). Another well-known case is the conflict between Shell and Greenpeace, when Shell decided to dump the Brent Spar oil storage platform in the North-East Atlantic (Grolin, 1998). A more recent example is the increased interest in ethical standards and CSR following the British Petroleum Deepwater Horizon oil catastrophe in the Gulf of Mexico in 2010 (Balmer et al., 2011). New demands from the civil society urge companies to address and shoulder more responsibilities (Grolin, 1998), which has led to CSR becoming a high profile issue in industries in different parts of the world (Hamann, 2003). Major international organizations, such as the United Nations (UN), the International Labour Organization (ILO), the World Bank and the Organization for Economic Co-operation and Development (OECD) promote and monitor CSR initiatives (Benn and Bolton, 2011). Here, reporting guidelines and standards have often been adopted (Hamann, 2003, Jenkins and Yakovleva, 2006, Perez and Sanchez, 2009, VINTRÓ and Comajuncosa, 2010).

The potential for CSR is considerable, although hitherto there has been a very limited focus on CSR practice and how it can benefit a company's core business operations. Also, very little research has been conducted on the interface between more visionary statements and the actual reporting of CSR performance. If CSR practice is to be studied internally, an industry that practices CSR, such as the extractive industry, needs to be the research object. Many CSR initiatives, guidelines, standards and conceptual frameworks are available, but the question is whether and how these initiatives are practised and whether there is room for improvement in the sense of creating more sustainable business.

CSR is especially important in the mining sector. Population growth, the speed of urbanization in Asia and the more

sophisticated requirements of the developed world have led to an increased demand for minerals and metals (ICMM, 2013). Although these activities may be good for the local economy, mining can have a very negative impact on the local environment. When it comes to the safety of workers (Jenkins, 2004), the accident and ill-health record of the mining industry makes it one of the most hazardous sectors, particularly with regard to the dust and noise associated with rock blasting, artificial air and light supplies, harmful gases, ergonomic hazards and so on (Hermanus, 2007). In addition, local communities often experience social problems as a result of the mining activities. One example of this is the exploitation of indigenous people (Peck and Sinding, 2003).

Although CSR is on the global agenda, the importance that is attached to it differs from country to country (Idowu and Leal Filho, 2009). For example, an international organization might be faced with different aspects of CSR in its countries of operation. What is included in the concept of CSR in one country may have little or no significance in another. Matten and Moon (2008) compared the United States with Europe and identified differences such as the power of the state, governments' engagement in economic and social activities, financial sources, education and labour systems.

Carrying out social responsibilities normatively is a moral obligation for any type of company. When companies as a new community intervene in local communities, it is imperative to adapt and contribute, because its existence has had both positive and negative impacts.

Not only focusing on the normative aspect, CSR has now been regulated in several binding regulations in order that 'certain companies' are required to carry out their social responsibilities. There is a long process in relation to the history of the emergence of regulations relating to CSR or programs that were originally identical to the term Community Development (CD), Partnership and Community Development Program (PKBL).

Currently, based on author's records, there are 7 (seven) regulations related to corporate social responsibility both in the form of laws, government regulations, and ministerial regulations. Beyond that, local governments also publish a variety of products similar to CSR regulations. At least more than 50 districts / municipalities in Indonesia have issued Province Regulations of CSR. Some regions are capable of implementing local regulations, and only a small proportion of the regions have an impact on the existence of CSR regulations.

To make it easier to understand CSR regulations and be able to apply them according to the type, scope, and needs of the company. The author describes 5 (five) regulations of CSR at Indonesia, if it is understood, the company is expected to refer to which rules are binding, as well as a control for

others who will make CSR as a tool of interest among certain stakeholders. For the central and local governments, by understanding the existing rules, it is not expected to create new regulations that are potentially contrary to the above regulation, or divert the responsibility of government development to the company.

The seven regulations related to corporate social responsibility in Indonesia as follows:

1. Law number 40 year 2007 regarding Limited Liability Company ("Company Law ") and Government Regulation number 47 year 2012 regarding Corporate Social and Environmental Responsibility of Limited Liability Company (**"PP 47/2012"**)

Regarding the Social and Environmental Responsibility, stipulated in Article 74 UUPM and its explanation. This arrangement applies to the company. Based on Article 1 number 1 of Indonesian Company Law, Limited Liability Company is a legal entity which has capital alliance, established based on the agreement, engages in business activities with the authorized capital wholly divided into shares and meets the requirements stipulated in this Law and its implementing regulations.

According to Article 1 Sub-Article 3 of Indonesian Company Law, Social and Environmental Responsibility is the corporate's commitment to participate in sustainable economic development in order to improve the quality of life and the beneficial environment, both for the company itself, the local community, and the community at large.

Article 74 of the Indonesian Company Law basically stipulates the following matters:

- a. This Social and Environmental Responsibility is required for a company that carries out its business activities in the field and / or related to natural resources.

Referred to as "a company that carries out its business activities in the field of natural resources" means a company whose business activities are managing and utilizing natural resources.

Whereas "a company that carries out its business activities related to natural resources" is a company that does not manage and does not utilize natural resources, but its business activities have an effect on the function of natural resource capability.

- b. This Social and Environmental Responsibility is a corporate liability that is budgeted and calculated as the cost of the company whose implementation is carried out with due attention to decency and fairness.

- c. Regarding sanctions, it is said that the company that does not perform the obligations of Social and Environmental Responsibility will be subject to sanctions in accordance with the provisions of the relevant legislation.

In Article 4 of Regulation 47 year 2012, it is said that the Social and Environmental Responsibility is executed by the Board of Directors based on the company's annual work plan after obtaining approval from the Board of Commissioners or General Meeting of Shareholders ("GMS") in accordance with the articles of association of the company. The company's annual work plan contains the activities and budget plans required for the implementation of Social and Environmental Responsibility.

The implementation of the Social and Environmental Responsibility is contained in the company's annual report and accountable to the GMS (Article 6 of Regulation 47 of 2012).

2. Law number 25 Year 2007 regarding Investment ("Indonesian Investment Law")

Article 15 letter b of Indonesian Investment Law stipulates that every investor is required to implement Social and Environmental Responsibility. The meaning of Social and Environmental Responsibility pursuant to the Elucidation of Article 15 Sub-Article b Indonesian Investment Law is the responsibility attached to each investment company to keep creating a harmonious, balanced, and appropriate relationship with the environment, values, norms and culture of the local community.

While the meaning of investors is individuals or business entities that make investments that may be domestic investors and foreign investors (Article 1 number 4 of Indonesian Investment Law).

In addition, Article 16 of Indonesian Investment Law also provides that every investor is responsible for preserving the environment. It is also a part of Social and Environmental Responsibility.

If the investor does not perform its obligations to implement the Social and Environmental Responsibility, then based on Article 34 of Indonesian Investment Law, investors may be subject to administrative sanctions in the form of:

- a. written warning;
- b. restrictions on business activities;
- c. freezing of business activities and/or investment facilities; or
- d. revocation of business activities and/or investment facilities.

In addition to being subject to administrative sanctions, investors may also be subject to other sanctions in

accordance with the provisions of legislation (Article 34 paragraph (3) of Indonesian Investment Law).

3. Law number 32 year 2009 regarding Environmental Protection and Management (“Environmental Law”)

Regarding on Article 68 of Indonesian Environmental Law, every person conducting business and / or activity is obliged to:

- a. provide information related to the protection and management of the environment properly, accurately, openly and in a timely manner;
- b. maintaining the sustainability of environmental functions; and
- c. comply with the provisions on environmental quality standards and / or standard criteria for environmental damage.

4. Regulation of the State Minister for State-Owned Enterprises number PER-05 / MBU / 2007 Year 2007 regarding State-Owned Enterprises Partnership Program with Small Business and Community Development Program as lastly amended by Regulation of the Minister of State-Owned Enterprises. PER-08 / MBU / 2013 Year 2013 regarding on The Fourth Amendment to The Regulation of The Minister of State Owned Enterprises Number PER-05 / MBU / 2007 concerning Partnership Program of State-Owned Enterprises with Small Business and Community Development Program (“Permen BUMN 5/2007”).

The regulation stipulates the obligations of the Company (“Persero”), Public Corporation (“Perum”), and Limited Public Company (“Persero Terbuka”).

Based on Article 2 of Permen BUMN 5/2007, “Persero” and “Perum” are required to implement BUMN Partnership Program with Small Business and Community Development Program. Meanwhile the Public Persero can implement BUMN Partnership Program with Small Business and Environmental Development Program based on the Minister of Permen BUMN 5/2007 stipulated based on the resolutions of the GMS.

BUMN Partnership Program with Small Business is a program to improve the ability of small-scale enterprises to become strong and independent through the utilization of state-owned funds (Article 1 number 6 BUMN 5/2007). While the Community Development Program is a program of community social empowerment by state-owned enterprises through the utilization of state-owned funds (Article 1 point 7 BUMN 5/2007).

5. Law number 22 year 2001 regarding on Oil and Natural Gas (“Indonesia Oil and Natural Gas Law”)

Upstream business activities carried out by a Business Entity or Permanent Establishment based on Cooperation Contract with the Implementing Body shall contain the main provisions of which one of the provisions concerning the development of the surrounding community and the guarantee of the rights of indigenous peoples (Article 11 paragraph (3) letter (p) Indonesin Oil and Natural Gas Law).

In addition, Article 40 paragraph (5) of Indonesia Oil and Natural Gas Law also states that Business Entities or Permanent Establishments conducting Oil and Gas business activities (upstream business activities and downstream business activities) are responsible for developing the environment and local communities.

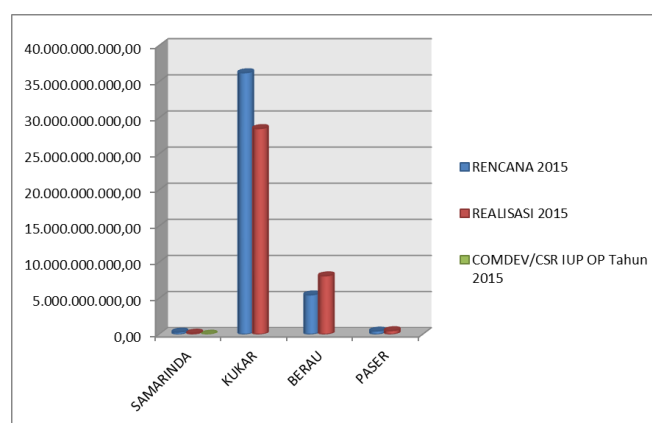
Based on existing regulations, financial contribution of CSR implementation by mining companies in East Kalimantan to address sustainable environment as shown in Table 1 and Chart 1.

Table 1. Financial contribution of CSR of Mining Companies.

No	District / City	Budget Plan (year 2015)	Budget Realization (year 2015)
1	City Samarinda	Rp.300.000.000	Rp. 151.900.000
2	District Kutai Kartanegara	Rp.36.209.479.821	Rp. 28.478.501.792
3	District Berau	Rp.5.451.400.000	Rp. 8.087.033.946
4	District Paser	Rp.440.040.555	Rp.493.219.000
<b>COMDEV</b>		<b>Rp.42.400.920.376</b>	<b>Rp.37.058.754.738</b>

Source: Annual Report of Department of Mineral and Coal Mining of East Kalimantan year 2015.

Chart 1. Financial contribution of CSR of Mining Companies.



Source: Annual Report of Department of Mineral and Coal Mining of East Kalimantan year 2015.

Whatever the nature of the commitment, most companies follow a similar series of steps when addressing their impact on the environment:

1. Corporate Environmental Policy: Companies committed to reducing their environmental impact usually create a set of environmental principles and standards, often including formal goals. At minimum, most such statements express a company's intentions to respect the environment in the design, production and distribution of its products and services; to commit the company to be in full compliance with all laws and go beyond compliance whenever possible; and establish an open-book policy whereby employees, community members and others can be informed of any potentially adverse effects the company might have on the environment.

2. Environmental Audit: Before a company attempts to reduce its impact on the environment, it is essential that it first gains a full understanding of it. For most companies, this usually involves some kind of environmental audit. The goal of audits is to understand the type and amount of resources used by a company, product line or facility, and the types of waste and emissions generated. Some companies also try to quantify this data in monetary terms to understand the bottom-line impact. This also helps to set priorities as to how a company can get the greatest return on its efforts.

3. Employee Involvement: Leadership companies recognize that to be effective, an environmental policy needs to be embraced by employees throughout the organization, not just those whose work is related to the environment. To do that, companies engage in a variety of activities, especially education, to help employees understand the environmental impact of their jobs and to support their efforts to make positive changes. Some companies go further, helping employees become more environmentally responsible throughout their daily lives, helping them build a true.

4. Green Procurement: To help ensure that their products and processes are environmentally responsible, many companies seek to buy greener products and materials from their suppliers. Some companies participate in buyers' groups in which they leverage their collective buying clout to push suppliers to consider alternative products or processes.

5. Green Products: Products themselves may be made more environmentally friendly, with regard to, for example, the control of emissions, noise, reduced health and safety risks, and reduced energy requirements.

#### IV. CONCLUSIONS

The community within which mining companies operate is one of the essential stakeholders of the company and for that matter mining companies must be sure to understand very well the community's views and concerns of the CSR activities that companies offer to their communities. It is

recommended that mining firms should occasionally, but frequently move forward to implement programmes of CSR to preserve environment in relation with the operations of the company.

Although the coal mining activities give benefits on economy and social sector, there should be a sustainable strategy and management to countermeasure the negative impact of the coal mining activities on the environment sustainability. Thus, further environment study and sustainable mining management should be done. Mining companies must come out with clear guidelines on CSR, so that it takes care of the critical needs of the sustainable environment. Investment in CSR benefits the company in the long run.

#### ACKNOWLEDGMENT

The author would like to thanks Department of Mineral and Coal Mining of East Kalimantan for providing the data need for the study.

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