Identification of factors that promote CSR activities by Indonesian palm oil companies

Since 1977, the Indonesian Government has been implementing the oil palm estate development program called the Nucleus Estate Smallholders (NES), whose major objective is to promote benefit-sharing between estate companies and rural communities. The NES is a kind of land allocation agreement between small-scale farmers and estate companies. When companies develop new oil palm estates, they are obliged to allocate a part of the estate to small scale farmers, called "plasma farmers." In addition to the NES program, palm oil companies have also taken an increased interest in Corporate Social Responsibility (CSR). Although the primary objective of NES is profit making, it is believed that NES also promotes CSR activities by estate companies because collaborations with local communities under the NES program lead to a better understanding of rural societies by the companies. This study aimed to identify the factors that promote CSR activities by Indonesian palm oil companies through an analysis of questionnaire survey results answered by 132 member companies of the Indonesian Palm Oil Association (GAPKI), which is the sole association of Indonesian palm oil producers.

The results of the questionnaire survey showed that all but two respondents were aware that their companies have been implementing CSR activities. Out of 16 CSR activities that were listed, "Infrastructure development" was the most common, followed by "Education support", "Having CSR staff" and "Environment conservation" (Fig. 1). According to the basic procedures of the NES scheme as stipulated by the Indonesian Ministry of Agriculture, estate companies are required to provide support activities such as "Technical support for crop production", "Purchasing products at a guaranteed price", and "Infrastructure development" to plasma farmers. However, among companies that implemented the NES scheme, only around 70% answered that they already provide these three support programs to plasma farmers (Fig. 2). The results of regression analysis performed on data from the questionnaire survey concluded that the performance of the NES scheme, the size of the company, and the perception of relationships with local communities are major driving forces that stimulate participation in CSR activities (Table 1). A previous study found that the NES scheme can improve the fresh fruit bunch yield of plasma farmers by promoting appropriate fertilizer use and providing high quality seedlings (JIRCAS Research Highlights in 2014). The results of the present study indicated that the NES scheme can also promote CSR activities by palm oil companies.

When the NES scheme was launched in 1977, the government strongly supported it with subsidies. However, recent policies have resulted in decreased direct support for the scheme. The findings of this study can be used as evidence for the government to create a more supportive environment to promote the NES scheme.

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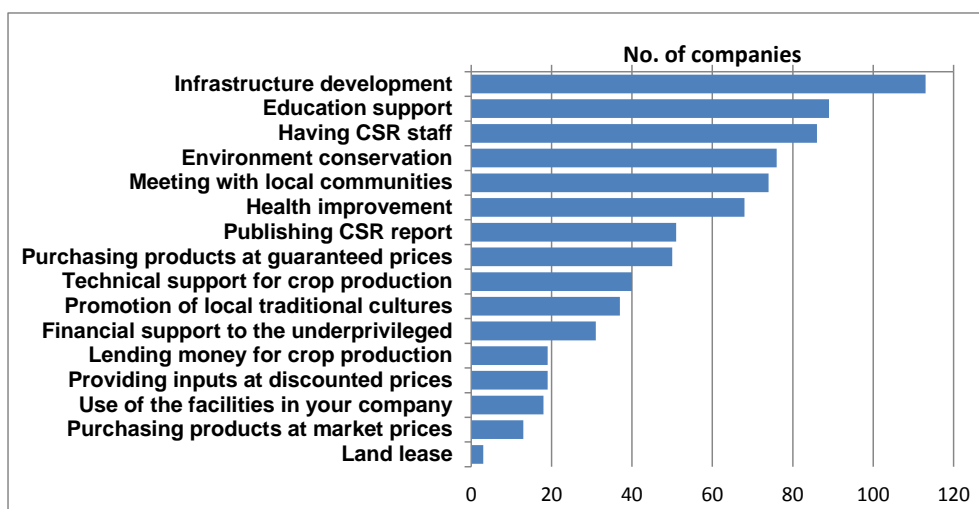
Fig. 1. Number of companies devoted to CSR activities (n=132, Multiple answers allowed)
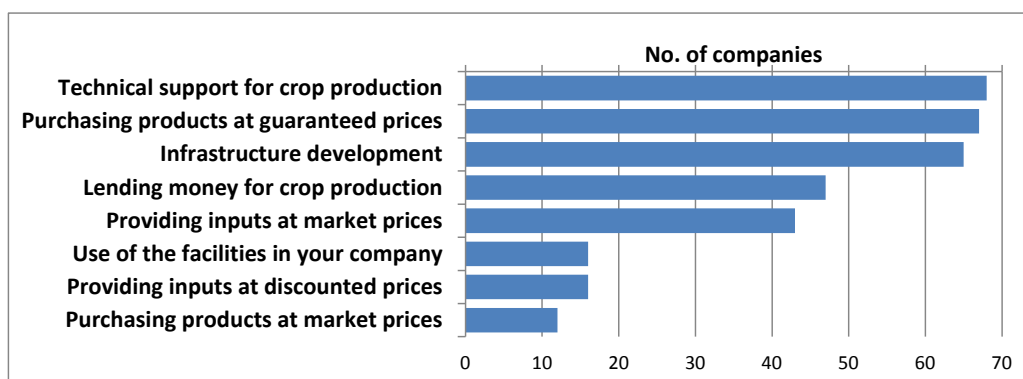

Fig. 2. Implementation of eight programs in the NES scheme (n=91, Multiple answers allowed)

Table 1. Summary results of regression analysis (n=115)

	Standardized partial regression coefficient (P value)
X_1	0.2973 ***
	(0.0001)
X_2	0.4653 ***
	(0.0000)
X_3	0.2896 ***
	(0.0001)
PS	0.0744
	(0.3113)
RF	-0.0615
	(0.4551)
PD	-0.1235
	(0.1363)
RG	-0.0906
	(0.2494)
Constant	6.9594
Adjusted R^2	0.4341
P value	(0.0000) ***
AIC	229.4

$Y = f(X_1, X_2, X_3, PS, RF, PD, RG)$

where

Y: The degree of CSR activities

X_1: The size of the company evaluated by FFB production in metric tons

X_2: A composite variable representing the company's efforts in the NES scheme [a]

X_3: A composite variable representing the extent to which the company thinks each activity/concept will be effective in establishing better relationships with local communities [b]

PS: The share of plasma farmers in terms of farmland area in the company

RF: Annual rainfall (mm)

PD: Population density in the province

RG: Regional Gross Domestic Product per capita in the province

a) The score of each sample on the first principal component of Primary Component Analysis (PCA) about variables of the programs in the NES scheme

b) The score of each sample on the first principal component of PCA about variables of component regarding the activities/concepts of the companies for contributing to establish better relationships with local communities

***: (P<0.01)